

# **A Discussion of Proposition 2.5**

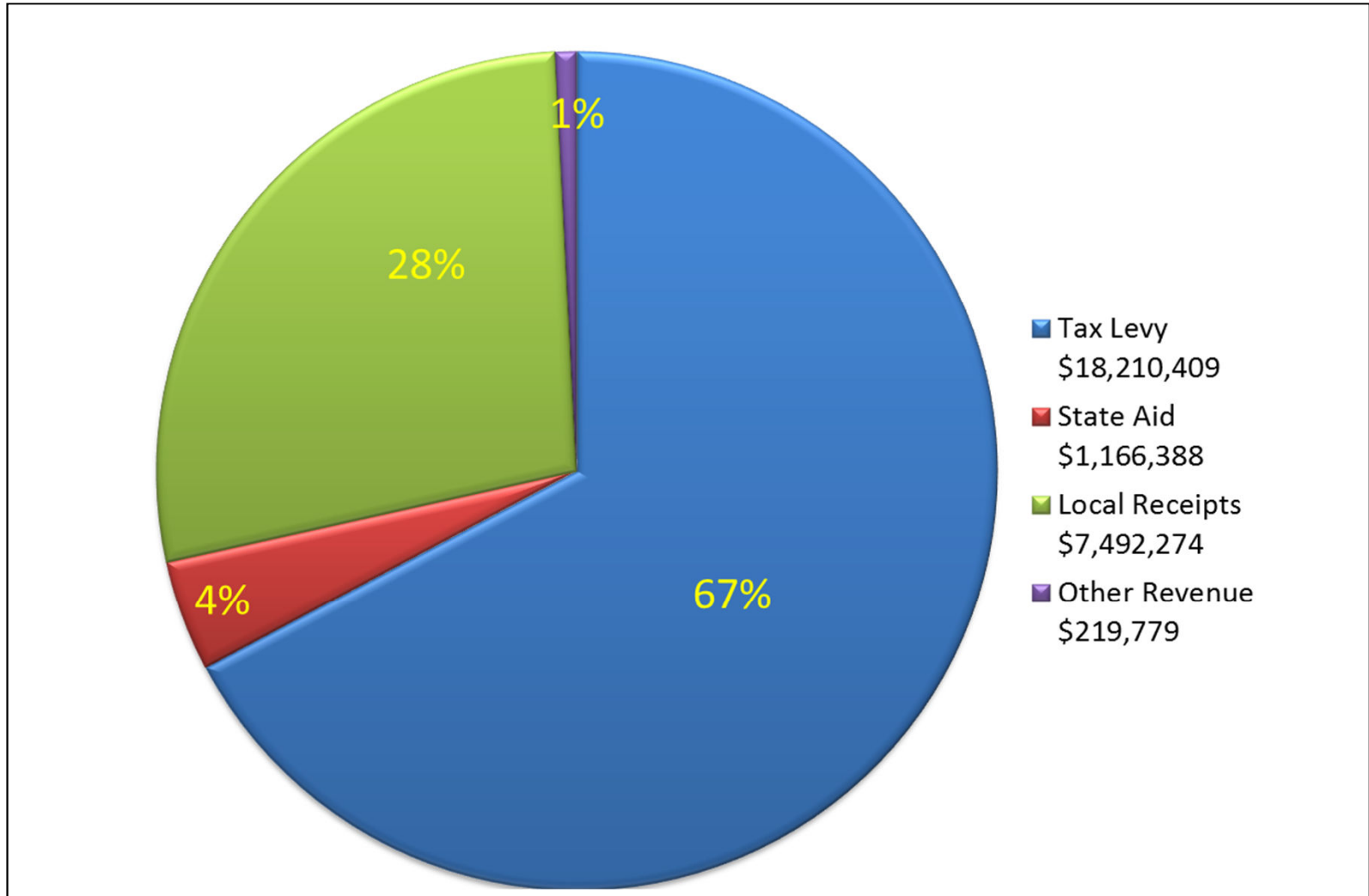
**Town of Ayer Finance Committee**

**May 22, 2013**

# What is Proposition 2.5?

- ❖ Proposition 2.5 is a voter initiative law that limits the property tax levy of cities and towns.
- ❖ It was enacted in the 1980 state election and took effect for fiscal year 1982.
- ❖ Proposition 2.5 has revolutionized property tax administration and is a fundamental feature of the Massachusetts municipal landscape.

# Town of Ayer - 2013 Revenues



# Major Points of Proposition 2.5

- ❖ It establishes an annual levy limit for every city & town.
- ❖ It establishes an annual levy ceiling for every city & town.
- ❖ It reduced the automobile excise rate from \$66 to \$25 per thousand dollars of valuation.

# What is a Levy Limit?

- ❖ The **tax levy** is the amount of revenue raised by a municipality through the real and personal property tax.
- ❖ The **levy limit** is the maximum dollar amount a city or town can raise through property taxes in a given fiscal year.
- ❖ The **annual levy limit** change is determined through a formula that includes a statutory 2.5% increase, an allowance for new growth, debt and capital expenditure exclusions, and general overrides.

# Ayer Levy Limit Calculation-2013

FY2012 Levy Limit	16,225,124
Increased 2.5%	405,628
FY2013 Growth	447,231
General Override	<u>0</u>
FY2013 Levy Limit	17,077,983
FY2013 Debt Exclusions	1,263,322
FY2013 Capital Exclusions	0
FY2013 Maximum Tax Levy	18,341,305
Actual 2013 Tax Levy	18,210,409
Excess Levy Capacity	130,896

# What is a Levy Ceiling?

- ❖ The **levy ceiling** is a secondary limitation established by proposition 2.5.
- ❖ The **levy ceiling** sets the maximum levy limit for a given fiscal year.
- ❖ The levy ceiling is calculated as 2.5% of the total taxable valuation of the municipality.
- ❖ The **levy ceiling** can be increased further by a capital outlay expenditure exclusion or debt exclusion.

# Ayer Levy Ceiling Calculation-2013

## 2013 Taxable Valuation

Residential	621,119,500	64%
Commercial	98,149,200	10%
Industrial	143,514,100	15%
Personal	<u>106,480,690</u>	<u>11%</u>
Total	969,263,490	100%
Multiplied by:	2.5%	
= 2013 Levy Ceiling	24,231,587	
Ayer 2013 Tax levy	18,210,409	
Maximum Additional levy Capacity	6,021,178	



# Common Misconceptions About Proposition 2.5

- ❖ Property taxes cannot increase more than 2.5%.
- ❖ Individual tax bill increases are limited to 2.5%.
- ❖ Individual property valuation increases are capped 2.5%.
- ❖ Changes in property values will impact the tax levy.

# Proposition 2.5 - 31 Years Later

- ❖ The assumption is that both property and automobile excise taxes are less today than they would be with no Proposition 2.5.
- ❖ The fiscal reality is that a tax cap does not cause government services to cost less.
- ❖ State aid has helped fill the gap but can fluctuate with economic cycles.
- ❖ The importance of New Growth levy dollars.