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A Fact Book on Proposition 2 1/2

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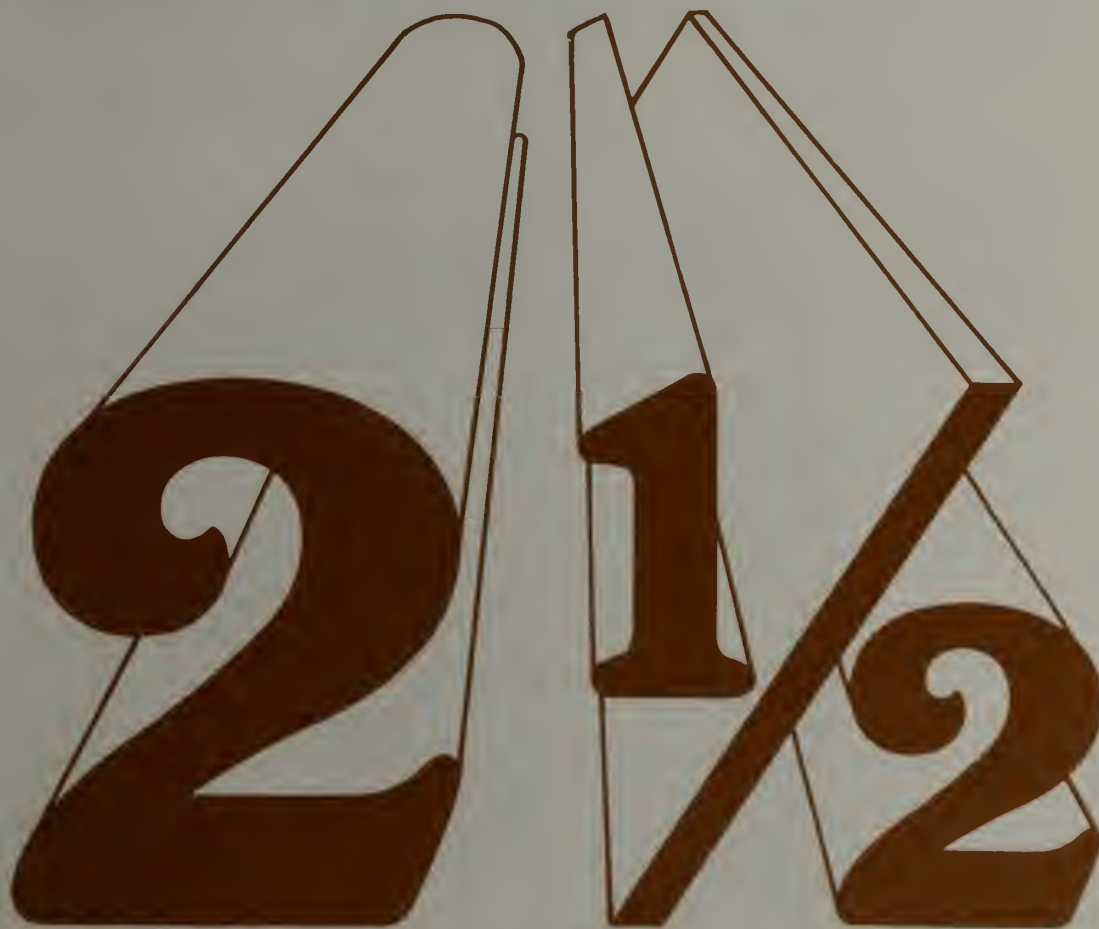
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Cooperative Extension Service, University of Massachusetts
United States Department of Agriculture and County Extension Services cooperating

**A
Fact Book
on
Proposition**



Preface

As a public institution of higher education, research, and service, the University of Massachusetts has a deep commitment to the advancement of knowledge in many fields. Knowledge which will assist citizens of the Commonwealth in considering complex issues of public policy is a rightful part of this commitment, and the present *Fact Book* is an example of the University's continuing effort to provide information and other tools which will help citizens think about such issues effectively. The University's Center for Studies in Policy and the Public Interest and the Cooperative Extension Service have been pleased to work together in developing this booklet as part of a larger statewide effort to support local citizen study and discussion of public issues.

This *Fact Book* is largely the work of Pdraig O'Malley, Economist and Senior Research Specialist with the University Center for Studies in Policy and the Public Interest, who was given valuable assistance by Catherine Flynn, Public Finance Specialist with the Cooperative Extension Service. Raymond G. Torto, University of Massachusetts Economist and Specialist in Public Finance, provided substantive review and criticism as the booklet went through earlier drafts. Content and technical detail were helpfully reviewed by Wilson Pile of the Center and by others, and meticulous help in preparation of the manuscript was given by Elizabeth Bird.

It is our hope that the present booklet will provide citizens in the cities and towns of the Commonwealth with helpful information and methods of analysis of assistance to them as they reach their own decisions about Proposition 2 ½, which will be considered on the ballot in November, 1980. If the University of Massachusetts, through this joint effort of the Center and the Cooperative Extension Service, can thereby contribute to more effective citizen participation in considering this important matter, we will be pleased. We hope you will find that this concise summary and the tools it outlines for analyzing a complex matter are helpful.

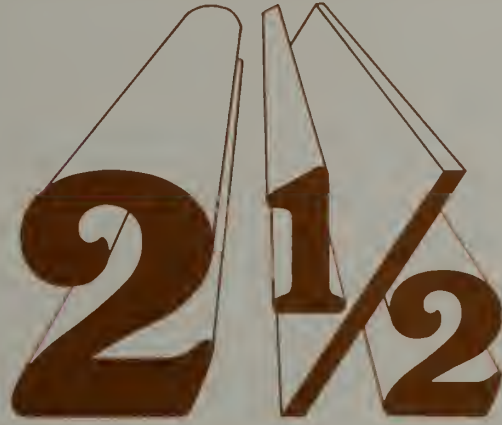
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A Fact Book on Proposition



Introduction

In this age of inflation many tax reduction plans have been proposed throughout the nation. This November Massachusetts voters will vote on Proposition 2 ½ – a tax reduction proposal sponsored by a coalition of citizens.

This booklet describes the costs and benefits of Proposition 2 ½ in an objective way, so that you can make an informed decision when you cast your vote. The University of Massachusetts' Center for Studies in Policy and the Public Interest and the Massachusetts Cooperative Extension Service believe that when you have access to unbiased information you will make better decisions and participate more fully in the democratic process. In this booklet we won't be telling you how to vote. Our sole purpose is to provide you with a way of understanding and evaluating the arguments that will be advanced by both opponents and proponents of Proposition 2 ½ so that you can come to your own conclusions about its consequences.

We will address four key issues:

- What would Proposition 2 ½ do?
- What would Proposition 2 ½ not do?
- What impact would Proposition 2 ½ have on what you pay in local taxes?
- What impact may Proposition 2 ½ have on local services in your community?

However, before we get into these questions we will define and explain the basic terms relating to property taxation you must have some familiarity with if you are to follow and participate in the debate on Proposition 2 ½, and make an informed decision about its impact on your community.

Some Definitions

There are three different ways of expressing the property tax rate, and three different terms are used to describe what each of these expressions stand for.* Thus we have:

- the actual tax rate
- the full value tax rate
- the effective tax rate.

The Actual Tax Rate

The actual tax rate is usually expressed as a certain amount per \$1,000 of assessed value. It is calculated by the following equation:

$$\frac{\text{The actual tax rate per \$1,000 assessed value}}{\text{assessed value}} = \frac{\text{the tax levy}}{\text{total assessed value divided by 1,000}}$$

Thus the lower the tax levy (the net amount to be raised by property taxation) in your city or town, the lower the property tax rate. On the one hand, if the total assessed value in your community increases because of newly constructed buildings, then the denominator of the formula will also increase, and if nothing else changes, the tax rate will decrease. On the other hand, if the cost of local government increases while there are no increased assessments, the tax rate will go up.

The assessed value of a piece of real property in your community is the estimated value put on it by the local board of assessors. Combining the assessed values of all properties gives the total assessed value.

The tax levy is the amount a city or town must raise through real and personal property taxes. First, the city council, board of aldermen or town meeting prepares a city or town budget. Any state or federal aid, any surplus from the previous year and all other revenues are subtracted from the total budget amount your city or town needs to operate during the coming year. The balance is the net amount to be raised by taxation on property, and it is called the tax levy.

Thus, over time, if the cost of local government is increasing more rapidly than the total assessed value of property in your community, the tax rate will increase.

Example:

If the total assessed value in a town is \$200,000,000, and if the tax levy (i.e. the net amount the town must raise by the local property tax to pay for local government) is \$10,000,000, then:

$$\begin{aligned} \text{The actual property tax rate} &= \frac{\$10,000,000}{\$200,000,000 \div 1,000} \\ &= \$50 \text{ per } \$1,000 \text{ of assessed value} \end{aligned}$$

A homeowner's *tax bill* is derived by multiplying the tax rate by the assessed value of his or her property.

*Some material in this section is drawn from "A Massachusetts Tax Primer," a publication by the Massachusetts Public Finance Project.

Example:

If a homeowner's property is assessed at \$20,000, and the tax rate is \$50 per \$1,000 of assessed value, the homeowner's property tax bill would come to:

$$\frac{50}{1,000} \times \$20,000 \text{ or } \$1,000$$

The Full Value Tax Rate

The *full value tax rate* is the property tax rate that would result if all property in a community was assessed at 100 percent of full value. Assessing property at "full and fair cash value" is called *100 percent valuation or full value assessment* and is required by Massachusetts law. However, many cities and towns have not yet implemented full value assessment and continue to assess property at much less than 100 percent of full value. Thus, the *assessment ratio* is the average level at which local assessors appraise property in relation to its full cash value. The *assessment ratio* for a community is then calculated as follows:

$$\text{assessment ratio} = \frac{\text{total assessed value}}{\text{the state's estimate of full cash value of property}}$$

The *full value tax rate* is then derived as:

$$\text{The full value tax rate} = \frac{\text{The actual tax rate}}{\text{the assessment ratio}}$$

You can see that if your community assesses property at full value then the actual tax rate and the full value tax rate are the same.

Full value tax rates allow us to compare the tax rates in different communities because they eliminate differences in local assessment practices.

Examples:

If the actual tax rate is \$50 per \$1,000 of assessed value, and the community's assessment ratio is .50 then:

$$\begin{aligned} \text{The full value tax rate} &= \$50 \times .50 \\ &= \$25 \end{aligned}$$

The 1980 actual tax rate in Shirley is \$142.00, and in Rockland it is \$88.00. So, at first glance it appears that Shirley has a substantially higher tax rate than Rockland. However, such a conclusion would be incorrect. In Shirley the assessment ratio is 14 percent. This means that the full value tax rate is:

$$\frac{14}{100} \times \$142 \text{ or } \$19.88$$

On the other hand, in Rockland, property is, on the average, assessed at 46 percent of full value so that the full value tax rate is:

$$\frac{46}{100} \times \$88 \text{ or } \$40.48$$

Thus, in reality the full value tax rate in Rockland is twice as high as the full value tax rate in Shirley.

The Effective Tax Rate

The *effective tax rate* expresses the property tax rate in your community as a percentage of the full market value of all assessed property, i.e.

$$\text{the effective tax rate} = \frac{\text{the tax levy}}{\text{the state's estimate of full cash value of property}} \times 100\%$$

Example:

If a community's tax levy comes to \$10,000,000, and the full value of all property is \$100,000,000, then the effective tax rate is:

$$\frac{\$10,000,000}{\$100,000,000} \times 100\% = 1\%$$

In practice, the effective tax rate can be derived from the full value tax rate simply by moving the decimal point one place to the left and adding a percentage sign.

Example:

In Shirley the full value tax rate is \$19.88, and the corresponding effective tax rate is 1.988 percent. Similarly, in Rockland the full value tax rate is \$40.48, and the corresponding effective tax rate is 4.048 percent.

For our purposes this last figure — the effective tax rate — is the crucial figure. The impact of Proposition 2 ½ will vary from community to community depending on whether the effective tax rate is above or below 2.5 percent.

So, before you can start figuring out the impact of Proposition 2 ½ on your community you need to find out what the effective tax rate is.

There are four steps involved:

1. You must find out what the actual 1981 tax rate is for your community. You can get this information from your local Assessing Department.
2. You must find out whether property in your community is assessed at 100 percent of its value. On pages 8 through 14 of this booklet you will find assessment ratios for the Commonwealth's 351 cities and towns. A ratio of 1.00 for a community means it assesses property at 100 percent of full value.
3. You can now calculate your community's full value tax rate by multiplying the actual tax rate by the assessment ratio.
4. And finally, you can determine the effective tax rate by taking the full value tax rate, moving the decimal point one point to the left, and expressing the result as a percentage.

Example:

The city of Cambridge:

Step 1 . . . The actual 1980 tax rate was \$188.40.*

Step 2 . . . Property in Cambridge is not assessed at 100 percent of value. The current assessment ratio is 27 percent.

Step 3 . . . The full value tax rate is $\frac{27}{100} \times \$188.40 = \50.86 .

Step 4 . . . The effective tax rate is 5.1 percent.

*At the time of writing 1981 tax rates were not available.

What Would Proposition 2½ Do?

Proposition 2½ is a tax reduction plan. It would reduce two types of taxes:

- Local property taxes.
- Motor vehicle excise taxes.

The reduction of local property taxes:

- Communities with an effective tax rate above 2½ percent would have to cut their tax rates to 2½ percent. Communities in which the effective tax rate was below 2½ percent in 1979 would have their effective tax rates frozen at their 1979 levels.
- Communities with a rate above 2½ percent would have to cut their tax levies by 15 percent each year until their effective tax rates did not exceed the 2½ percent limit.
In other words, if in any given year:

$$\frac{\text{the tax levy}}{\text{total assessed value divided by 1000}} \times \text{the assessment ratio}$$

was greater than 2½ percent

then:

The tax levy (the net amount to be raised by property taxation) would be reduced by 15 percent.

Example:

If a community's tax levy is \$10,000,000, and the effective tax rate is above 2½ percent, then the tax levy must be reduced 15 percent to \$8,500,000. If this reduction does not bring the effective tax rate within the 2½ percent limit, then in the following year the tax levy of \$8,500,000 must be cut 15 percent to \$7,225,000. And if the tax limit of 2½ percent still had not been reached, in the following year the levy of \$7,225,000 would be cut by yet another 15 percent to \$6,141,250, etc.

- All communities that are not within the 2½ percent effective tax limit would have to make the first cut of 15 percent in their tax levies. However, thereafter, in the second and succeeding years, local referenda could be held in which the voters of each community would be given a choice between making a 15 percent cut in the tax levy or setting the effective tax rate at some known and predetermined level.
- The 15 percent reduction in the tax levy would be overridden when two-thirds of those voting in such a referendum agreed to forego the reduction and voted for whatever alternative arrangement had been proposed.

Example:

Assume a community's effective tax rate is 5 percent, and that the property tax levy is \$10,000,000:

In the first year, the tax levy would be reduced by 15 percent to \$8,500,000, and this would result in an effective tax rate of 4.25 percent. Thus, the second year would call for a 15 percent cut in the tax levy of \$8,500,000. However, the community could hold a local referendum and offer voters a choice between cutting the tax levy of \$8,500,000 by 15 percent to \$7,225,000, or setting the effective tax rate at 6 percent, thus increasing the property tax levy to \$12,000,000. If two-thirds of the voters agreed to this alternative arrangement, the effective tax rate would be set at 6 percent. In the third year, since the effective tax rate would be above 2½ percent, a cut of 15 percent in the tax levy of

\$12,000,000 would be called for. This cut would have to take place unless there was another local referendum with two-thirds of the voters agreeing to override the reduction in favor of some alternative arrangement.

- Once your community reached the 2 ½ percent limit it could increase its annual tax levy by no more than 2 ½ percent of the preceding year's tax levy.

Example:

If the tax levy (the net amount to be raised by property taxation) came to \$10,000,000 in the year in which the effective tax rate was 2 ½ percent or less, then the following year's tax levy could not exceed \$10,250,000 – a 2 ½ percent increase.

- Once a community came within the 2 ½ percent effective tax limit, it could only increase its annual tax levy by more than 2 ½ percent if two-thirds of those voting in a local referendum gave their approval.
- For a community that wished to limit the annual tax levy increase to less than 2 ½ percent, the process would be more simple – a majority approval by the city council or town meeting would be sufficient.

The reduction of motor vehicle excise taxes:

At present, if you own a motor vehicle you pay an annual excise tax of 6.6 percent of the vehicle's adjusted market value. These taxes become part of your community's local revenues. Proposition 2 ½ would reduce the motor vehicle excise tax to 2.5 percent.

Example:

If your automobile has a current book value of \$3,500, and you are paying taxes on 90 percent of its value according to the age-sliding scale which determines such things, then you will pay $\frac{90}{100} \times \$3,500 \times \frac{66}{100} = \207.90 in excise taxes. Under Proposition 2 ½ this would be reduced to $\frac{90}{100} \times \$3,500 \times \frac{25}{100} = \78.75 .

Other Provisions of Proposition 2 ½

- Renters who now pay property taxes indirectly through their rent would be able to deduct 50 percent of their rent from their taxable income for state taxes.

Example:

The state income tax is set at 5.375 percent on earned income. Thus, a renter paying \$2,400 in annual rent could deduct 50 percent of that rent – or \$1,200 – from his or her earned taxable income and thereby receive a reduction of $\$1,200 \times \frac{5.375}{100}$ or \$64.50 in his or her state income tax.

- The school budget, now set by the local school committees, would be set by the city council or the town meeting. At present, your local school committee has absolute control over the school budget. The school budget cannot be amended in any way by your city council or board of selectmen.* Proposition 2 ½ would change that. The school budget, like any other budget item, would come under the control of the city council or board of selectmen. These bodies would have the final say in determining what local school expenditures should be.
- Compulsory binding arbitration which is now used to settle some labor disputes involving police and fire departments would be abolished. At present under the compulsory binding arbitration system the terms of settlement of a labor dispute may be determined by a third party, and the parties to the dispute are required by law to accept these terms.

**Except in Boston where the City Council must approve a total school budget which is not less than the previous year's school budget.*

- Proposition 2 ½ would change that. There would be no imposed settlements. Both sides to a labor dispute would have to negotiate their way out of it, and the settlement they arrived at would reflect the give-and-take of that process.
- New local programs required by the state government would have to be funded by the state, or else approved for acceptance by the city council or town meeting.
- Fees charged by your community for services it provides could not exceed the actual cost of these services.

Example:

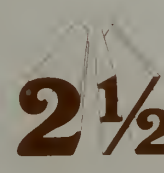
If your community were to charge a fee for garbage collection it could only charge you for the actual costs involved. It could not use the charge as a means of raising additional revenue to offset revenue losses under Proposition 2 ½ .

- Government entities such as the MBTA, regional school districts, and counties could increase their assessments and charges to cities and towns by no more than 4 percent of the previous year's assessments and charges.

Example:

Boston was assessed for \$31,000,000 by the MBTA in 1980, and for \$41,000,000 in 1981. Had Proposition 2 ½ been in effect, the increase in the assessment would have been limited to 4 percent of \$31,000,000 or \$1,240,000, which would have brought the 1981 assessment to \$32,240,000.

If Proposition 2 ½ were to go into effect today, 167 of the 351 cities and towns in the Commonwealth would not have to reduce their property tax levies because they are already at or below the designated effective tax rate limit. However, all 351 cities and towns would lose some revenue because of reduced revenues from the automobile excise tax levy.



What Proposition **2 ½** Would Not Do

- Proposition 2 ½ would have no effect on state taxes other than the automobile excise tax levy. It would not reduce or limit state taxes such as the state income tax, the state sales tax, state business taxes, utility company excise taxes, the state gasoline tax, or taxes on cigarettes and liquor.
- Proposition 2 ½ would not put a limit on state spending. It would not limit expenditures for welfare or social services.
- Proposition 2 ½ would not put any controls on the state bureaucracy or state government.

The Impact of Proposition on your Local Tax Rate



We have divided the cities and towns of Massachusetts into four groups:

1. Cities and towns in which the effective tax rate is already at or under 2 ½ percent.
2. Cities and towns in which a single 15 percent cut in the tax levy would bring the tax rate within the 2 ½ percent limit.
3. Cities and towns in which the 2 ½ percent limit would be reached within two years—that is, the tax levy would be cut by 15 percent in each of two successive years.
4. Cities and towns which would take three or more years to reach the limit requiring at least three, and perhaps as many as six or seven successive cuts of 15 percent in the tax levy.

Note:

There are two interpretations of Proposition 2 ½. Under the first, a community would have to cut the tax levy a full 15 percent every year including the year in which the effective tax rate came within the 2 ½ percent limit. Under the second interpretation, the tax levy would be cut only by the percentage necessary to bring the effective tax rate down to 2 ½ percent. In the following pages we follow the first interpretation. Thus, the percentage reductions are the maximum likely reductions. Of course, for cities and towns which are already within the 2 ½ percent limit the differences in interpretation have no effect on the analysis.

And a final word of caution: The figures for the percentage reduction in the tax levy are not meant to project cuts in local budgets. At best they indicate the range of the likely reductions in your local tax levy.

CITIES AND TOWNS IN WHICH THE EFFECTIVE TAX RATE IS ALREADY WITHIN THE 2½% LIMIT

The figures in the first column show the percentage reduction in the total local levy (the property tax levy plus the motor vehicle excise tax levy) that would result from the reduction of the excise tax levy when the provisions of Proposition 2 ½ are applied to 1980 property tax levies and 1979 motor vehicle excise tax levies.

Source: Massachusetts Department of Education

The figures in the second column are assessment ratios.

Source: Calculated from data supplied by the Massachusetts Department of Revenue.

	percent reduction in tax levy	assessment ratio		percent reduction in tax levy	assessment ratio
Acton	6	.85	Ashfield	8	.95
Acushnet	9	.94	Athol	18	.19
Adams	9	.48	Ayer	15	.20
Alford	9	.64	Barnstable	6	.75
Ashburnham	7	.83	Barre	12	.89

	percent reduction in tax levy	assessment ratio		percent reduction in tax levy	assessment ratio
Becket	6	.90	Hadley	8	.99
Belchertown	8	.82	Halifax	10	.80
Berkley	8	.99	Hamilton	7	.78
Blandford	11	.93	Hancock	13	.88
Bolton	7	.92	Harvard	7	.99
Bourne	7	.92	Harwich	5	.36
Boxborough	8	.52	Hatfield	8	1.00
Boxford	7	.15	Hawley	11	.74
Brewster	5	.91	Heath	5	.76
Brimfield	7	.20	Hinsdale	7	.40
Carlisle	6	.84	Holden	9	.62
Charlemont	8	.76	Holland	6	.87
Charlton	18	.16	Hopkinton	7	.70
Chatham	6	.72	Hubbardston	9	.45
Cheshire	15	.93	Lakeville	7	.48
Chester	9	.69	Lancaster	8	.40
Chesterfield	6	.37	Leicester	11	.62
Chilmark	4	.19	Leverett	6	.22
Clarksburg	10	.84	Leyden	6	.63
Colrain	7	.50	Lincoln	6	.84
Conway	7	.23	Lynnfield	8	.81
Cummington	7	.99	Manchester	6	.72
Dartmouth	7	.68	Mansfield	7	.32
Deerfield	10	.87	Marblehead	6	.37
Dennis	7	.84	Marion	6	.31
Dighton	7	.16	Mashpee	5	.76
Douglas	7	.62	Mattapoisett	6	.37
Dover	6	.71	Mendon	9	.37
Dudley	13	.94	Middlefield	8	.50
Dunstable	8	.10	Millville	10	.53
East Brookfield	11	.43	Monroe	5	.29
Eastham	5	.85	Monson	8	.86
Edgartown	5	.31	Monterey	9	.84
Egremont	8	.41	Montgomery	8	.36
Erving	3	.46	Mt. Washington	5	.31
Essex	7	.45	Nahant	6	.20
Falmouth	6	.92	Nantucket	4	.07
Florida	3	.93	New Ashford	8	.68
Freetown	7	.13	Newbury	8	.87
Gay Head	4	.09	New Marlborough	8	.63
Goshen	7	.60	New Salem	10	.10
Gosnold	2	.32	North Andover	7	.12
Granville	7	.91	No. Brookfield	11	.89
Great Barrington	7	.48	Northfield	7	.59
Groton	8	.72	Oak Bluffs	4	.73
Groveland	8	.85	Orleans	5	.93

	percent reduction in tax levy	assessment ratio		percent reduction in tax levy	assessment ratio
Otis	6	.30	Stowe	7	.69
Paxton	9	.93	Sturbridge	7	.91
Peru	7	.47	Sunderland	11	.84
Petersham	6	.39	Sutton	9	.15
Phillipston	9	.86	Swansea	7	.49
Plymouth	7	.97	Templeton	16	.69
Plympton	7	.48	Tisbury	5	.52
Princeton	8	.53	Tolland	8	.07
Rehoboth	6	.79	Topsfield	8	.75
Richmond	8	.66	Townsend	9	.72
Rochester	7	.30	Truro	5	.71
Rockport	6	.89	Tyngsborough	8	.51
Rowe	2	.97	Tyringham	8	.91
Royalston	11	.16	Upton	9	.83
Russell	9	.94	Uxbridge	8	.11
Rutland	9	.91	Ware	10	.18
Salisbury	6	.54	Warwick	7	.69
Sandisfield	5	.68	Washington	10	.72
Sandwich	6	.93	Wellfleet	5	.96
Savoy	8	.27	Wendell	6	.87
Seekonk	7	.56	Wenham	7	.85
Sheffield	10	.33	Westborough	8	.59
Shirley	14	.13	West Brookfield	9	.65
Shrewsbury	9	.51	Westhampton	6	.71
Shutesbury	6	.42	Westminster	9	.84
Somerset	4	.89	Weston	6	.47
Southampton	8	.80	Westport	7	.98
Southborough	7	.83	West Stockbridge	9	.77
Southwick	8	.57	West Tisbury	6	.09
Spencer	11	.50	Whately	7	.85
Sterling	8	.65	Windsor	11	.92
Stockbridge	6	.30	Worthington	10	.89
			Yarmouth	7	.98

CITIES AND TOWNS IN WHICH A SINGLE 15% CUT IN THE TAX LEVY WILL ACHIEVE THE 2½% LIMIT

The figures in the first column show the percentage reduction in the total local levy (the property tax levy and the motor vehicle excise tax levy) to achieve the 2½ percent limit when the provisions of Proposition 2½ are applied to 1980 property tax levies and 1979 motor vehicle excise tax levies.

Source: Massachusetts Department of Education

The figures in the second column are assessment ratios.

Source: Calculated from data supplied by the Massachusetts Department of Revenue.

	percent reduction in tax levy	assessment ratio		percent reduction in tax levy	assessment ratio
Agawam	21	.57	Norfolk	20	.49
Amherst	21	.92	Northampton	20	.91
Andover	19	.44	No. Attleboro	20	.77
Ashby	21	.78	Northborough	21	.39
Auburn	21	.74	Northbridge	21	.58
Avon	21	.54	No. Reading	20	.35
Bedford	19	.27	Norwood	20	.62
Bellingham	21	.62	Oakham	20	.76
Bernardstown	21	.84	Orange	22	.43
Blackstone	21	.53	Palmer	21	.87
Boylston	22	.56	Pelham	19	.95
Brookfield	22	.91	Pembroke	20	.87
Buckland	20	.45	Pepperell	20	.76
Chelmsford	20	.53	Plainfield	19	.17
Cohasset	20	.56	Plainville	21	.83
Concord	19	.79	Provincetown	18	.49
Dracut	21	.14	Reading	20	.73
East Longmeadow	20	.74	Rowley	21	.45
Fairhaven	20	.15	Saugus	19	.52
Gardner	21	.59	Shelburne	21	.35
Georgetown	21	.92	Sherborn	19	.70
Gill	19	.80	Southbridge	22	.77
Grafton	22	.64	Sudbury	19	.49
Granby	21	.89	Wales	19	.81
Hampden	21	.84	Wareham	19	.57
Hardwick	22	.62	Warren	21	.81
Holyoke	21	.30	Wayland	19	.66
Huntington	21	.56	Webster	21	.21
Ipswich	20	.40	Wellesley	19	.83
Kingston	20	.91	West Boylston	21	.40
Lenox	20	.67	Westfield	21	.44
Leominster	21	.53	Westford	20	.41
Lexington	19	.30	West Newbury	20	.73
Littleton	20	.77	West Springfield	20	.61
Methuen	20	.13	Westwood	19	.43
Middleton	20	.82	Williamsburg	20	.76
Milford	20	.91	Williamstown	19	.62
Montague	20	.90	Winchendon	22	.54
Needham	20	.44	Wrentham	20	.79
New Braintree	20	.38			

**CITIES AND TOWNS IN WHICH THE 2½% LIMIT
WILL BE REACHED WITHIN TWO YEARS**

The figures in the first column show the percentage reduction in the total local levy (the property tax levy and the motor vehicle excise tax levy) to achieve the 2 ½ percent limit when the provisions of Proposition 2 ½ are applied to 1980 property tax levies and 1979 motor vehicle excise tax levies.

Source: Massachusetts Department of Education

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Source: Calculated from data supplied by the Massachusetts Department of Revenue.

	percent reduction in tax levy	assessment ratio		percent reduction in tax levy	assessment ratio
Abington	32	.93	Lunenburg	32	.60
Ashland	31	.79	Marlborough	31	.16
Attleboro	31	.48	Marshfield	31	.38
Belmont	30	.44	Maynard	31	.36
Berlin	31	.39	Medfield	30	.42
Braintree	31	.74	Medford	31	.16
Bridgewater	31	.80	Medway	31	.45
Burlington	30	.48	Merrimac	32	.75
Canton	31	.53	Middleborough	31	.33
Carver	31	.12	Millbury	32	.14
Clinton	32	.13	Millis	32	.54
Dalton	31	.93	Milton	31	.18
Danvers	31	.42	North Adams	32	.56
Dedham	31	.54	Norwell	31	.62
Duxbury	31	.86	Oxford	32	.90
Easthampton	32	.88	Raynham	32	.61
Easton	31	.81	Sharon	31	.61
Everett	29	.24	South Hadley	32	.75
Foxborough	31	.41	Stoneham	31	.81
Framingham	31	.51	Stoughton	31	.55
Gloucester	31	.34	Swampscott	31	.41
Hanover	31	.92	Taunton	32	.93
Hanson	31	.51	Tewksbury	31	.66
Hingham	31	.40	Walpole	31	.46
Holliston	31	.83	Waltham	31	.53
Hopedale	31	.53	West Bridgewater	32	.74
Lanesborough	31	.84	Wilbraham	32	.89
Lawrence	31	.23	Wilmington	30	.41
Lee	31	.73	Winchester	30	.41
Longmeadow	31	.61	Winthrop	31	.88
Ludlow	31	.41	Woburn	31	.84

**CITIES AND TOWNS IN WHICH THE 2½% LIMIT
WILL BE REACHED AFTER THREE OR MORE YEARS**

The figures in the second column show the percentage reduction in the total local levy (the property tax levy and the motor vehicle excise tax levy) to achieve the 2 ½ percent limit when the provisions of Proposition 2 ½ are applied to 1980 property tax levies and 1979 motor vehicle excise tax levies.

Source: Massachusetts Department of Education

The figures in the third column are assessment ratios.

Source: Calculated from data supplied by the Massachusetts Department of Revenue.

	No. of Years to reach 2 ½ percent	percent reduction in tax levy	assessment ratio
Amesbury	3	41	.54
Arlington	3	40	.46
Beverly	3	41	.43
Billerica	3	41	.12
Boston	8	72	.35
Brockton	5	56	.82
Brookline	4	49	.47
Cambridge	5	56	.30
Chelsea	8	72	.38
Chicopee	3	41	.19
E. Bridgewater	3	41	.59
Fall River	5	56	.31
Fitchburg	4	49	.94
Franklin	3	41	.45
Greenfield	3	41	.98
Haverhill	3	41	.23
Holbrook	3	41	.45
Hudson	3	41	.60
Hull	5	56	.85
Lowell	4	49	.23
Lynn	6	62	.37
Malden	4	49	.23
Melrose	3	40	.57
Natick	3	40	.34
New Bedford	4	49	.30
Newburyport	3	41	.43
Newton	3	40	.21
Norton	3	41	.88
Peabody	3	41	.51
Pittsfield	3	41	.51
Quincy	5	56	.24
Randolph	3	41	.42
Revere	5	56	.22
Rockland	3	41	.46
Salem	3	40	.20

	No. of Years to reach 2 ½ percent	percent reduction in tax levy	assessment ratio
Scituate	3	41	.38
Somerville	5	56	.21
Springfield	4	49	.48
Wakefield	3	41	.20
Watertown	3	40	.16
Weymouth	3	41	.51
Whitman	3	41	.94
Worcester	5	56	.32

The Impact of Proposition **2½** on your Local Services

A Mini Lesson in Economics

Your city or town expenditures (E) can be broken down into two elements, the price of services (P), and the quantity of services (Q). Thus

$$E = P \times Q$$

Since Proposition 2 ½ will result in a loss of revenue and a cut in local expenditures, either P or Q, or both must fall.

Cutting P

- The belief that local spending can be cut without a cut in services is based on the assumption that when local revenues fall, P will fall but Q will stay the same.

$$\begin{array}{c}
 E = P \times Q \rightarrow \text{same} \\
 \downarrow \quad \downarrow \\
 \text{down} \quad \text{down}
 \end{array}$$

Cutting P can take place in three ways:

- eliminating waste and mismanagement.
- increasing productivity.
- cutting the actual prices of services.

However, there is practically nothing your local town or city can do about the actual prices of services. These prices are set by:

- Labor negotiations which set the wage rates for city or town employees. Although the abolition of binding arbitration may give your town or city more leeway in negotiations, other factors such as the rise in the cost of living are more likely to play a decisive role.
- The marketplace. Your community purchases goods and services in the open marketplace and must pay going market rates. Again, the rate of inflation is likely to be the decisive factor. Even the most optimistic economic forecasts predict that inflation will continue at the rate of at least 10 percent each year for the rest of the decade.

Proposition 2 ½ takes no account of inflation. All inflationary increases would be absorbed by communities within the 2 ½ percent framework.

If your community is already within the 2 ½ percent limit, the tax levy can only be increased by 2 ½ percent yearly even though inflation may increase by 10 percent annually.

Your community may, however, override the 2 ½ percent limit with the approval of two-thirds of those voting in a local referendum.

If your community is not within the 2 ½ percent limit, then it must simultaneously:

- cut the tax levy by 15 percent annually.
- deal with the impact of inflation.

Example:

- For a town such as Shelburne which would come within the 2½ percent cap with a single 15 percent cut in its tax levy, the combined motor vehicle and property tax reduction of 21 percent must also be coupled with a further likely 10 percent reduction in the purchasing power of the reduced levy, as a result of inflation.

For towns and cities in which it would take two or more years to reach the 2 ½ percent cap, the impact of inflation would be much more severe.

- Current estimates indicate that Swampscott could reach the 2 ½ percent cap in two years with a 31 percent reduction in revenues. However, the purchasing power of the reduced tax levy could be cut another 20 percent by inflation.
- For a city like Boston the combination of a stream of 15 percent cuts in the levy coupled with rising inflation could prove to be overwhelming. To reach the 2 ½ percent cap local property and excise tax revenues would have to be cut by 72 percent. The purchasing power of the remaining tax levy could be reduced by another 60 percent to 80 percent due to inflation.

Cutting Q

Property taxes are levied and collected to buy government services for the whole community. These services are of two kinds:

- services and obligations that are outside the control of local officials and cannot be reduced (fixed services).
- Services and obligations that are within local control and can be reduced (non-fixed services).

Services of the first kind — those that cannot be reduced at the discretion of your local government, include:

- the principal and interest payments on the municipal debt.
- pension and retirement obligations.
- state and county assessments for services provided for by the state and county.
- local contributions to unemployment compensation.

These items come to approximately 25 percent of local budgets and they must be met by your local government before it can spend money on other services.

The remaining services that make up Q are:

- education
- health and hospitals
- police
- fire
- library
- parks and recreation
- street and highway maintenance
- administration

Schools are the largest item and make up about 60 percent of the average municipal budget.

Since, as we have seen, the price of services (P) is largely outside the control of local officials, the burden of adjusting to reduced tax levies would fall on Q.

$$\begin{array}{l} \text{If} \\ \text{Then if} \end{array} \quad \begin{array}{c} E = P \times Q \\ \uparrow \\ E = P \times Q \\ \downarrow \quad \downarrow \end{array}$$

The reduced public expenditures (E) which reflect reduced tax levies can be achieved in the face of a rising P only by reducing the non-fixed services. However, the level of non-fixed services could be maintained if alternative sources of revenue to compensate for the reduced local tax levies become available.

How are You to Judge?

Proposition 2½ would bring with it costs and benefits.

The Benefits:

The benefits would accrue to the homeowner and landlord primarily in the form of reduced tax bills; and to the renter in the form of a state income tax deduction.

If you are a homeowner, you can, by following the steps outlined in this booklet, determine what your final tax bill would be under Proposition 2½. Proposition 2½ would also limit the annual increase in your tax bill (once the 2½ percent cap has been reached) to 2½ percent.

The Costs:

The costs would come in the form of the possible cuts in services that may take place to accommodate a decreasing tax levy. You must consider what services may be cut, how much they may be cut, and how important they are to you and your community.

The impact would depend on how many successive cuts of 15 percent would be required in the tax levy, and how important the motor vehicle excise tax levy is in your community. You can answer both of these questions by looking at the tables on pages 8–14 in this booklet. The more cuts of 15 percent required, the greater the overall reduction in the tax levy, and the larger the possible cuts in services.

You must also take inflation into account. You must consider:

- the impact of inflation while your community was cutting its tax rates by 15 percent each year.
- the impact of inflation after the 2½ percent limit was reached and subsequent increases in the tax levy were limited to 2½ percent each year.

And finally, you must weigh the merits of the override provisions. These provisions for local referenda can be invoked to set aside the 15 percent annual cuts in the tax levy Proposition 2½ calls for in communities where the effective tax rate is above 2½ percent, and to set aside the limit of a 2½ percent increase in the annual tax levy in communities where the effective tax rate is at or below 2½ percent.

However, two-thirds of those voting must approve of such arrangements, and even then they are binding only on a year to year basis.

Single copies of this publication available without charge. Bulk copies available at 20 cents per copy. A set which includes Proposition 2½ Fact Book, Discussion Guide and Impact Statement is available for 30 cents per set. Contact the Cooperative Extension Service Bulletin Center, Thatcher Way, University of Massachusetts Amherst, Telephone (413) 545-2717.

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