The Commonwealth of Massachusetts
House of Representatives
State House, Boston

GERALD M. COHEN
CHAIRMAN
COMMITTEE ON TAXATION
OFFICE PHONE
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PROPOSITION 2 1/2

House 5933, an initiative petition circulated by Citizens for Limited Taxation, gathered the necessary number of qualified signatures to bring their Proposition 2 1/2 proposal before the Legislature. The Committee on Taxation recommended that this proposal ought not to pass. The House of Representatives agreed with this recommendation; the vote was 146 opposed to Proposition 2 1/2 and 5 in favor of the proposal. The provisions of H.5933 are:

1. The total taxes assessed on real and personal property by any city or town is limited to 2 1/2% of "full and fair cash value". If it were below 2 1/2% in F.Y. 1979, then that lower percentage will become the limit. The term "full and fair cash value" is not defined in the legislation and this could lead to severe problems of interpretation.

   Based on current equalized valuations, this limitation could mean an overall loss of $798,000,000 to the cities and towns. Although many of the smaller communities would lose little or no revenue the loss of revenue in the larger cities and towns may be devastating. For example, Boston and Chelsea will lose 70% of their property tax revenues, Springfield will lose 39%, Worcester 52%, Lowell 38% and New Bedford will lose 40%.

2.a. When a municipality is over the 2 1/2%, the municipality must reduce its levy by at least 15% per year until its levy is 2 1/2% of full and fair cash value.

b. When a municipality was at or below 2 1/2% in F.Y. 1979, the municipality must reduce its levy by at least 15% per year until they reach the F.Y. 1979 percentage.

c. This phase in would account for a loss of $400,000,000 in revenue the first year.

3. Once the 2 1/2% limit is reached, the property tax levy may then be increased by no more than 2 1/2% annually, regardless of any growth of the full and fair cash value of the community. Additional growth in the tax base will not provide new revenue to municipalities for increased services due to any expanded development.

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4. There are no exemptions when determining the levy (e.g.: debt service, pensions, court ordered costs).

5. The motor vehicle excise tax rate is reduced from its present $66 per $1,000 of valuation to $25 per $1,000. There is no provision for a phase in of this reduction and this would account for an immediate loss of over $176,561,000 to local governments across the state.

6. No governmental unit may increase any assessment upon any municipality by more than 4% above the previous year's assessment. No new funding mechanism is provided to accomodate any such increases (e.g.: require increased state aid; new revenue sources; exemptions from the limit).

7. Municipalities can override the levy limit if the increase is approved by a 2/3 local vote at a biennial general election or at a general election called by the General Court. No local community may call its own special election for the purposes of this override.

8. Both legislative and administrative state mandates must be accepted locally or fully funded by the state. State mandates would be defined to include any law that grants an exemption from local taxes. A new Division of State Mandates will cost the state an additional $250,000.

9. Fiscal Autonomy for local school committees is abolished. The Joint Labor Management Committee is abolished (it appears that the sponsors had intended only to eliminate compulsory and binding arbitration rather than the Joint Labor Management Committee).

10. Renters would be allowed a deduction in their state income tax equal to one half of the rent paid for the taxpayer's principal residence. This provision would account for a revenue loss of $29,000,000 to the State.

In summary, the $400,000,000 reduction in the property tax combined with the reduction of $176,561,000 in motor vehicle excise amounts to a 17.5% loss in total statewide local revenues in F.Y. 1982. When coupled with an estimated 12% inflation rate, the effective loss of purchasing power for F.Y. 1982 equals <u>29.5%</u>!! Following this, the larger cities and towns will be subjected to another 15% cut in F.Y. 1983...which must also be coupled with the rate of inflation. Finally, upon achieving the 2 1/2 limit, revenue growth will be limited to 2 1/2% per year. During inflationary times such as these, such a strict growth limit results in a <u>further loss of purchasing power every year</u>.

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City of Cambridge
Dear Sir;

Proposition 2 1/2 will be appearing on the November ballot. If it passes, the amount of revenue that your community would lose is:

1. property tax revenue loss - $32,392,220
2. auto excise revenue tax loss -$$1,723,144
3. total loss -$34,115,364

If you have any questions, please do not hesitate to contact me at my office.

Sincerely,

GERALD M. COHEN, Chairman
Taxation Committee

GMC/ga

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Comm. from Gerald M. Cohen, Chairman, Taxation Committee, transmitting information on Proposition 2½.

In City Council,

August 4, 1980

Placed on File.