

# Technical Bulletin

## Tax-Related Initiative Petitions

As a result of initiative petition drives, two questions may appear on the November, 1980 ballot which deal with limiting local property tax levies. The purpose of this technical bulletin is to explain to local policy-making officials the provisions of each petition and to demonstrate the techniques for estimating each petition's impact on a given community.

One petition, commonly known as Proposition 2 1/2, is sponsored by the Citizens for Limited Taxation, Associated Industries of Massachusetts, and the High Technology Council. This initiative would limit property taxes to 2 1/2 percent of the full and fair cash value of property in a community on the effective date of the law. Communities over this limit would be required to roll back their tax levies 15 percent per fiscal year until the limit is reached. There are no exemptions from the levy limit. Proposition 2 1/2 also reduces the automobile excise rate by 62 percent.

The other initiative petition, sponsored by the Massachusetts Teachers Association (MTA), sets a state tax limit and local property tax limits. This initiative places separate property tax limits on school and municipal levies. Both the state tax limit and property tax limit are adjusted

annually by the growth in personal income in the state.

Both petitions are now under consideration in the Legislature. If the Legislature does not pass a petition by May 7, 1980, the sponsors, by obtaining an additional 9,811 signatures by July 2, 1980, may place the initiative on the November, 1980 ballot. If more than one of the initiative petitions passes, the one with the most votes becomes law. The provisions of either petition, if passed, would first be implemented in fiscal year 1982, which commences on July 1, 1981. The Legislature may also place an alternative proposal on the ballot. It must be a true alternative which retains the objectives and basic purposes of the original petition and would be grouped with the relevant petition on the ballot.

Proposition 2 1/2 differs significantly from the present tax cap and the MTA initiative. Proposition 2 1/2 requires property tax roll-backs to the 2 1/2 percent level, contains no exemptions, and limits future increases in the property tax levy to 2 1/2 percent per year. Both the present tax cap law and the MTA initiative limit future increases in the levy and each exempt certain items from the limit. They also grant the town meeting or city council power to override the limit.

Proposition 2 1/2's limit can only be overridden by a 2/3 vote in a local referendum during a statewide November election.

### **PROPOSITION 2 1/2**

Property Tax Levy Limit: The local property tax levy shall not exceed 2 1/2 percent of the total full and fair cash value in any fiscal year. If a municipality's levy is less than 2 1/2 percent of the total fair cash value in fiscal year 1979, then this lesser percentage is the new limit for that municipality. If a municipality's levy exceeds the limit of 2 1/2 percent on the effective date of enactment of this bill, the municipality must reduce the levy by at least 15 percent each fiscal year until it is, at most, 2 1/2 percent of fair cash value. Once this level is reached, the levy can be increased in any fiscal year by no more than 2 1/2 percent of the total property tax levy for the previous year.

Override Procedures: The levy limit may be overridden in two ways: (1) in any fiscal year, the levy, as a percentage of full and fair cash value, may be increased from 2 1/2 percent to another specified percentage; or (2) the levy may be increased from one year to the next by more than 2 1/2 percent. Either override is enacted by a 2/3 vote in a local referendum which can only take place during a biennial general election in November or an election called by the Legislature for this purpose in an intermediate year.

Exemptions: There are no exemptions from the property tax levy limit.

Municipal Control Over Cost Increases: State laws which impose costs on municipalities become effective in a municipality only after a vote by the local legislative body, unless the State Legislature has provided for state assumption of the local cost. State laws which increase exemptions from local taxation become effective

only if the State Legislature appropriates funds for the reimbursement of taxes lost from the exemption.

State administrative rules and regulations which result in cost increases on the local level are effective only when the Legislature appropriates the funds for the assumption of these costs.

Cities and towns and the Legislature may ensure that the Commonwealth has paid in full any costs imposed by new laws or regulations through a request for an audit to the Division of Local Mandates to determine the exact amounts owed to municipalities. A class action suit may then be filed with the Superior Court by any city or town if the funds necessary for reimbursement have not been appropriated for any specific year.

Division of Local Mandates: This Division, to be located in the State Auditor's Office, shall have the responsibility of determining the estimated and actual financial effects on each city and town of laws and administrative rules and regulations upon request by any city or town, legislative committee or either house of the Legislature.

Rescission of Acceptance Statutes: Any optional provision of the Massachusetts General Laws that has been accepted in any city or town may be revoked in the same manner as it was accepted three years after it was accepted. There are certain exceptions to this procedure.

School Fiscal Autonomy: A municipality is not required to appropriate more money for the support of the public schools than is appropriated by the legislative body of the city or town.

Motor Vehicle Excise Tax Limit: The motor vehicle tax is reduced from sixty-six dollars to twenty-five dollars per one thousand dollars of assessed value.

The Joint Labor-Management Committee:  
The statute that establishes the committee is repealed.

Renters' Exemptions: Fifty percent of a tenant's annual rental fee for a principal place of residence is exempted from the tenant's taxable state income.

Assessments: A governmental entity authorized to assess costs, charges or fees upon cities and towns may increase the assessment in any fiscal year by no more than 4 percent over the assessment of the previous fiscal year.

## **MASSACHUSETTS TEACHERS ASSOCIATION PETITION**

State Tax Limit: Total state taxes in any fiscal year can be no greater than the total state taxes for the previous fiscal year increased by the percentage increase in personal income in Massachusetts during the preceding calendar year. The following items are excluded from the limit: debt service, pension costs and retirement allowances, unemployment compensation, court-ordered expenditures, federal grant state-matching requirements.

The limit may be exceeded by increases in local aid in the previous year, local costs assumed by the Commonwealth in the current fiscal year, and by any other amounts approved by a 2/3 vote of the Legislature.

State Assumption of Local School Costs: Beginning in fiscal year 1984, and for all fiscal years thereafter, the Commonwealth shall bear 50 percent of total local Chapter 70 expenditures for municipal and regional schools, and independent vocational schools. (In fiscal year 1982, the state shall bear 40 percent of such costs, and 45 percent in fiscal year 1983.) School aid distributed in fiscal year 1982 shall be no less than 115 percent of school aid distributed in fiscal year 1980.

Local Aid: The total amount of local aid in any fiscal year (i.e., state funds distributed pursuant to Chapter 58) shall be no less than the total amount of local aid in the preceding fiscal year, increased by 50 percent of the growth in state taxes over the previous fiscal year.

Property Tax Limit: Separate limits are placed on the portions of the property tax levy required for (a) general municipal purposes and (b) school purposes. The limit applied to each of these two portions is the amount raised for that portion in the previous fiscal year increased by the percentage increase in the personal income of all residents in Massachusetts during the preceding calendar year. Each of these limits may be increased to offset decreases in local aid, and to cover overlay deficits and court-ordered expenditures. The following items are excluded from the limits: pension costs and retirement allowances; Cherry Sheet charges and assessments; overlays; charges and assessments made by another governmental unit; debt service; unemployment compensation; federal or state grant local matching requirements; special educational costs for children enrolled in special needs private day school or residential programs.

Policy of Property Tax Reduction: The state is directed to follow a policy of seeking to reduce property taxes to 40 percent of all state and local taxes.

Override Procedures: The municipal levy limit may be exceeded in any fiscal year by a 2/3 vote of the local legislative body. The school levy limit may be exceeded by a 2/3 vote of the school committee members, except a 4/5 vote is required when there are five school committee members.

Budget Limit: No regional school district or independent vocational school may approve a budget for any fiscal year which exceeds the budget for the previous year by a percentage

greater than the increase in total personal income in Massachusetts during the preceding calendar year. The regional school district school committee or board of trustees may exceed this limit by a 2/3 vote.

General Exclusion: Neither the school nor municipal levy limit shall apply to a city or town whose full value tax rate is less than thirty-five dollars per thousand dollars.

Effective Dates: This law shall be effective during fiscal years 1982, 1983, and 1984.

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## ESTIMATING THE EFFECTS ON YOUR COMMUNITY

### PROPOSITION 2 1/2

The first year revenue loss under Proposition 2 1/2 has two parts: the property tax levy loss and the motor vehicle excise tax loss. To determine the levy loss, multiply the 1980 Equalized Value\* (or other estimate of full and fair cash value) by 2 1/2 percent. This number is the property tax levy limit.

In fiscal year 1982, the first year, the fiscal year 1981 levy, if greater than the limit, must be reduced by 15 percent (or by that amount necessary to reduce the levy to 2 1/2 percent of full and fair cash value). The resulting number is the fiscal 1982 limit.

The motor vehicle excise tax loss is determined by reducing the anticipated motor vehicle tax revenues for fiscal year 1982 by 62 percent.

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### Sample Calculation (if in effect in fiscal year 1981): Medford

1980 Equalized Value (Proposed)	\$828,600,000
Levy Limit = Equalized Value x .025	20,715,000
FY80 Levy	28,621,000
<u>First Year Levy Loss =</u>	
15% x FY80 Levy	4,293,172
FY81 Maximum Levy =	
FY80 Levy - First Year Levy Loss	24,327,972
FY80 Excise Tax Revenues	
(at \$66 per \$1,000)	2,077,396
<u>First Year Excise Tax Loss =</u>	
62% x FY80 Excise Tax	1,287,986
<u>Total First Year Revenue Loss =</u>	
First Year Levy Loss	4,293,172
+ First Year Excise Tax Loss	+1,287,986
Total:	\$5,581,158

\* Proposed 1980 Equalized Values have been mailed to Boards of Assessors in each municipality by the Department of Revenue.

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### MTA PETITION

The limits for the school and municipal levies are calculated by increasing the levies for the previous fiscal year by the percentage increase in state personal income during the preceding calendar year. The figures for the school and municipal purpose levies are the same as those used when calculating the school tax rate and general municipal tax rate on a municipality's total property tax rate.

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### Sample Calculation (if in effect in fiscal year 1981)

School Levy Limit	= (School Levy, FY80) x (1 + 8.5%*)
General Municipal Levy Limit	= (Municipal Levy, FY80) x (1 + 8.5%)

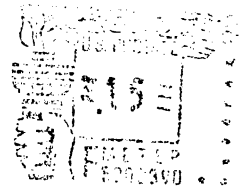
\* Estimated percentage increase in personal income during 1979.

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CAMBRIDGE, MASS.



President  
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# City of Cambridge

F-209

Comm. from Mayor Francis H. Duehay transmitting one from the Mass. Executive Office of Communities and Development regarding "Tax Related Initiative Petitions".

In City Council,

May 19, 1980

- *Placed on File.*