The Commonwealth of Massachusetts

Department of Revenue

Leverett Saltonstall Building

100 Cambridge Street, Boston 02204

IRA A. JACKSON
COMMISSIONER

EDWARD J. COLLINS, JR.
DEPUTY COMMISSIONER

February 13, 1984

TO:	Mayors/Selectmen	Assessors
	Managers	Accountants/Auditors
	Supts. of Schools	Treasurers/Collectors
	Counsels/Solicitors	Finance Committee Chairmen
	Councillors	Finance Directors

FROM: Edward J. Collins, Jr., Deputy Commissioner

SUBJECT: GUIDELINES ON PROPOSITION 2½ AMENDMENTS

Enclosed is our Informational Guideline Release on the latest amendments to Proposition 2½ contained in Chapter 641 of the Acts of 1983. For each amendment, you will find a brief explanation of the major change, guidelines on how to implement that change, and, finally, more detailed discussion of the change with specific references to the law.

NOTE: If you have received a copy of this IGR at one of our Revenue Forecasting Seminars, there are a few revisions in this final version. Please dispose of the other copy.

NEW LEVY LIMITS

As you will see, one feature of the amendments is a change in the basis for calculating levy limits under Proposition 2½. The Division of Local Services is now calculating levy limits for FY85 for cities and towns which have FY84 tax rates. Those who have not set FY84 rates will receive FY84 levy limits.

REPORT OVERRIDES

If you have not already done so, please notify the Property Tax Bureau if your city or town has voted on an override for FY83 and/or FY84. Since that amount becomes part of the base for determining your new levy limit, the new figure will be inaccurate if we do not have that information.

A form to report overrides and debt exclusion was sent to each city and town. To submit the form or to request a new one, the address is: Property Tax Bureau, Rm. 607, 100 Cambridge St., Boston, MA 02204.

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF REVENUE
DIVISION OF LOCAL SERVICES

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PROPERTY TAX BUREAU
Informational Guideline
Release No. 84-201

Subject:
Chapter 641
Proposition 2½ Changes

2/14/84

CHANGES IN PROPOSITION 2½

Ch. 641 of the Acts of 1983
An Act Further Regulating The Assessment
of Taxes in Cities and Towns

	SEE SECTION:
The levy limit for a city or town in one year becomes the base for calculating the next year's limit.	I
By referendum, voters may choose to exclude past and future debt from the 2½ levy limit.	II
**Cities and towns which had been tied to a limit below 2.5 percent of their total valuations by low 1979 or 1981 tax rates may now go up to the 2½ limit -- by referendum vote.	III
Local override questions may be put on the ballot in the biennial November state elections.	IV
**Assessors must now notify other local officials of the free cash certified for their community.	V
Override votes passed prior to Feb. 1, 1984, will be taken into consideration in computing the new levy limits.	VI

**EFFECTIVE FY85.
THE OTHERS ARE EFFECTIVE IN FY84.

In Brief: The levy limit for a city or town in one year becomes the base for calculating the next year's limit (rather than the actual amount raised in taxes the year before). The change is retroactive to FY82. The new limit may be used in FY84 only by those who have not yet had FY84 rates approved.

GUIDELINES:

1. The levy limit will now be computed by multiplying the levy limit for the preceding fiscal year by 1.025 (rather than by multiplying the actual tax levy of the preceding year). The resulting levy limit may then be adjusted to reflect debt exclusions, override votes and growth.

2. The change in the method of calculation is retroactive to FY82.

3. The new limits will be calculated and certified to cities and towns by the Commissioner of Revenue.

4. No substantial change in the levy limit should be anticipated by those cities and towns which assessed maximum allowable levies in both FY82 and FY83.

5. Only those cities and towns which have not already had their FY84 tax rates approved may use the new limits provided for in this new law in FY84.

6. NOTE REGARDING OVERRIDES: While the levy limit base has been changed from the preceding year's actual tax levy to the preceding year's levy limit, the determination as to whether a majority or two-thirds vote is required to pass an override vote is still based upon the preceding year's actual levy. If an override vote would authorize an increase of more than 2½% of the preceding year's levy, a two-thirds vote is required, otherwise a majority suffices.

IN DETAIL:

Section 2 of Chapter 641 amends Ch. 59, Sec. 21C by substituting a new paragraph (f). This changes the base upon which the levy limit for the succeeding year is calculated.

Prior to the effective date of Ch. 641, the actual tax levy of the preceding year was multiplied by 1.025 to obtain the unadjusted levy limit for the succeeding year. Under this procedure, a city or town whose actual tax levy is less than its levy limit for the current year restricts its tax levying power for subsequent years. This situation caused many cities and towns to levy taxes in excess of the amount actually required solely for the purpose of protecting their levy limit base for future years.

The new paragraph (f) provides that the levy limit shall not exceed 102.5% of the maximum levy limit for the preceding fiscal year. Therefore, the unadjusted levy limit for fiscal years beginning with FY84 will be calculated by multiplying the levy limit for the preceding fiscal year by 1.025.

Section 5A of Ch. 641 requires that the new method of computing the levy increase limit be made retroactive to begin with the levy increase limit for FY82 as a base. Such revised limits are now being computed for FY84 and will be certified in the near future. The revised limits may be used by cities and towns which have not already had their FY84 tax rates approved. As a result of this change, cities and towns whose actual tax levies for FY82 and/or FY83 were less than the levy limits for those years will qualify for higher levy limits for FY84.

The difference between the levy limit and the actual levy will in effect be "saved" for future needs and can be considered an additional Tax Capacity.

ILLUSTRATION

Here is how the levy limits differ between the "pre-Ch. 641" and "post-Ch. 641" methods of calculating the next year's limit for a community which has been levying below its limit.

FACTS:	FY82 Levy Limit	$12,000,000
	FY82 Actual Levy	11,800,000
	FY83 Actual Levy	11,900,000

000's Omitted

Pre-Ch. 641 Using Actual		Post-Ch. 641 Using Limit		Additional Tax Capacity
TO SET THE FY83 LEVY LIMIT:				
FY82 Actual Levy	$11,800 X 1.025	FY82 Levy Limit	$12,000 X 1.025	
FY83 Levy Limit*	$12,095	FY83 Levy Limit*	$12,300	$205
TO SET THE FY84 LEVY LIMIT:				
FY83 Actual Levy	$11,900 X 1.025	FY83 Limit	$12,300 X 1.025	
FY84 Levy Limit*	$12,197.5	FY84 Limit*	$12,607.5	$410

* Prior to overrides and additional levy due to new growth.

IMPORTANT NOTES:

1. No override vote is required to use the additional capacity described in this section.

2. However, the overall limit for any given year still may not exceed 2.5 percent of the community's Full and Fair Cash Value. Note the difference in these two examples, using the post-Ch. 641 levy limit from above of $12,607.5.

Community A	Community B
FFCV = $510,000	FFCV = $500,000
X .025	X .025
Absolute Limit = $12,750	Absolute Limit = $12,500
The limit of $12,607.5 is legal.	The $12,607.5 exceeds the absolute limit: $12,500 (2.5% of FFCV) becomes the levy limit.

II

<u>In Brief</u>: By referendum, voters may choose to exclude past and future debt from the $2\frac{1}{2}$ levy limit. The provision which had rendered the pre-$2\frac{1}{2}$ debt exclusion of no value to most communities has been eliminated.

GUIDELINES:

1. Cities and towns may now have the full benefit of the exclusion of both pre- and post-Proposition $2\frac{1}{2}$ debt because of the elimination of the requirement that the principal and interest be subtracted from the base upon which the succeeding year's levy limit is calculated.

2. Only a majority vote by the people is required to approve the exemption of debt.

3. A two-thirds vote of the local appropriating authority is required to place a debt exemption question on the ballot.

4. The new debt exemption provisions are effective now and will apply to FY84.

IN DETAIL:

Section 1 of Chapter 641 amends paragraph (a) of Sec. 21C of Ch. 59 of the General Laws by changing the definition of "Total Taxes Assessed" so as to delete the requirement that the preceding year's levy be reduced by the amount included therein for the payment of principal and interest on exempted bonds, notes and certificates of indebtedness, and by eliminating the provisions relating to the voting procedure for exempting debt from the levy limit.

Sec. 4 of Ch. 641 further amends Sec. 21C by adding new paragraphs (j), (k), and (l).

Paragraphs (j) and (k) reinsert the voting procedure for exempting pre-November 4, 1980 debt and post-November 4, 1980 debt from the tax levy for levy limit purposes. In addition, paragraph (k) corrects the form of vote to exclude post-November 4, 1980 debt. The former form of vote did not indicate from what the amounts were to be exempted.

As in the past, a two-thirds vote of the local appropriating authority (board of selectmen*, city council with mayor's approval when required by law, or town council) is required to place a debt exemption question on the ballot. <u>Only a majority vote at the election is required for approval of the debt exemption</u>.

Paragraph (l) provides that the amounts exempted from the levy limit for the payment of debt shall not be included in calculating the "total taxes assessed" or in determining the levy limit for the succeeding year. This prevents a vote to exempt debt from causing a cumulative increase in the levy limit.

II

In Brief: By referendum, voters may choose to exclude past and future debt from the 2½ levy limit. The provision which had rendered the pre-2½ debt exclusion of no value to most communities has been eliminated.

GUIDELINES:

1. Cities and towns may now have the full benefit of the exclusion of both pre- and post-Proposition 2½ debt because of the elimination of the requirement that the principal and interest be subtracted from the base upon which the succeeding year's levy limit is calculated.

2. Only a majority vote by the people is required to approve the exemption of debt.

3. A two-thirds vote of the local appropriating authority is required to place a debt exemption question on the ballot.

4. The new debt exemption provisions are effective now and will apply to FY84.

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As in the past, a two-thirds vote of the local appropriating authority (board of selectmen*, city council with mayor's approval when required by law, or town council) is required to place a debt exemption question on the ballot. Only a majority vote at the election is required for approval of the debt exemption.

Paragraph (l) provides that the amounts exempted from the levy limit for the payment of debt shall not be included in calculating the "total taxes assessed" or in determining the levy limit for the succeeding year. This prevents a vote to exempt debt from causing a cumulative increase in the levy limit.

ILLUSTRATION

Here is an illustration of post-Ch. 641 calculations of the debt service exclusion for a community below the Proposition 2½ limit.*

The debt exclusion vote was taken before the FY84 tax rate had been set.

Each levy limit must be checked against the absolute maximum levy limit of 2.5% of total valuation. In the sample, the levy limits remain below that maximum.

COMMUNITY BELOW 2½:

FACTS	000's OMITTED
FY82 Levy Limit	$ 10,000
FY83 Override	100
FY84 Debt To Be Excluded	1,500
FY85 Debt To Be Excluded	1,000

TO SET THE FY84 LEVY LIMIT W/DEBT EXCLUSION

FY82 LEVY LIMIT	$10,000
+ 2½% Increase Allowable	250
+ FY83 Override	100
=FY83 LEVY LIMIT	10,350
+ 2½% Increase Allowable	259
=FY84 LEVY LIMIT	10,609
+FY84 Debt to be Excluded	1,500
=FY84 LEVY LIMIT WITH DEBT EXCLUSION	$12,109

TO SET THE FY85 LEVY LIMIT W/DEBT EXCLUSION

FY84 LEVY LIMIT	$10,609
+ 2½% Increase Allowable	265
=FY85 LEVY LIMIT	10,874
+ FY85 Debt to be Excluded	1,000
=FY85 LEVY LIMIT W/DEBT EXCLUSION	$11,874

*Communities still above 2½ may also choose to exclude debt from the levy limits under Ch. 641. Questions on the procedure may be directed to the Property Tax Bureau.

III

<u>In Brief</u>: Cities and towns which had been tied to a limitation percentage below 2.5% of their total valuations by low 1979 or 1981 tax rates may now go up to the 2½ limit -- by referendum vote. Similarly, those which had been required to roll back to a 1979 levy below 2.5% are no longer required to do so.

<u>GUIDELINES</u>:

1. Commencing with FY85 towns whose tax levy percentage for FY79 and/or FY81 was less than 2½% will no longer be required to use the lower percentage.

2. All cities and towns, including those which were required to reduce their levies by 15% annually to a percentage of less than 2½, will have a valuation levy limit of 2½%.

3. In many instances, in order to get up to a levy which is 2½% of full and fair cash value, an override vote will be required, but this law at least gives those communities a more realistic ceiling of 2½% of full and fair cash value, just like all other cities and towns.

<u>IN DETAIL</u>:

Section 1A of Chapter 641 strikes out paragraph (c) of Sec. 21C of Ch. 59 of the General Laws. The effect of this deletion is to eliminate the requirement that those cities and towns which had levy percentages of less than 2½% in FY79 and/or FY81 continue to use this lower levy percentage or elect to use the FY81 percentage if less than 2½%.

This requirement of using a lower levy percentage than 2½% was a safeguard measure to prevent cities and towns from increasing their tax levies during the time between the circulation of the initiative petition and the effective date of Proposition 2½ for the sole purpose of increasing their tax levy base for future years. Since all cities and towns are now subject to the tax levy controls of Proposition 2½ this restriction is no longer needed.

Sec. 1B of Ch. 641 amends paragraph (d) of Sec. 21C of Ch. 59 by deleting any reference therein to paragraph (c). This removes the requirement that cities and towns which had levy percentages of less than 2½% in FY79, but had higher levy percentages when Proposition 2½ became effective, reduce their levy percentages to the 1979 level. The reduction of levy percentages to less than 2½% is no longer required.

The Department will be providing new levy limits to each city and town which will reflect this change.

In Brief: Local override questions may now be put on the ballot in the biennial November state elections in addition to regular or special city or town elections.

GUIDELINES:

1. A two-thirds vote of the local appropriating authority (board of selectmen, city council with mayor's approval when required by law, or town council) is required to place a Proposition 2½ question upon the biennial state election ballot.

2. The local appropriating authority must file a copy of its vote attested by the city or town clerk with the Secretary of State not later than the first Wednesday of August preceding the biennial state election.

3. A limit of three questions applies to all Proposition 2½ questions including debt exemptions, override votes, votes to reduce the levy by less than the required 15%, and votes to reduce the levy limit for a particular year.

IN DETAIL:

Section 3 of Chapter 641 amends paragraph (i) of Sec. 21C of Ch. 59 by adding a sentence which authorizes the placing of not more than three Proposition 2½ questions upon the official ballots for use in the city or town at a biennial state election. Proposition 2½ questions may now appear on ballots for use in regular or special city or town elections as well as biennial state elections. A two-thirds vote of the appropriating authority to place the question or questions on the biennial state election ballot is required.

The appropriating authority must file a copy of its vote to place the question or questions on the biennial state election ballot with the Secretary of State not later than the first Wednesday of August preceding the election. The copy of the vote must be attested by the city or town clerk.

The use of the state ballot could save cities and towns the expense of calling special elections to decide Proposition 2½ questions.

V

In Brief: Assessors must now notify other local officials of the amount of free cash certified for that community.

GUIDELINES:

1. Upon receipt of the certification of free cash from the Director of Accounts, the assessors should transmit a copy of the certification to the board of selectmen, the town council or the city council.

2. The free cash certification as of July 1, 1984 will be the first certification which the assessors are required to report.

IN DETAIL:

Section 5 of Chapter 641 amends Sec. 23 of Ch. 59 by adding a requirement that the assessors report the amount of free cash certified by the Director of Accounts as available on the preceding July 1 to the board of selectmen, town council or city council as appropriate. This report is to be made as a part of the annual budget.

VI

In Brief: Previous Proposition 2½ ballot votes remain in effect.

GUIDELINES:

Override votes passed prior to February 1, 1984 will be taken into consideration in computing the new levy limits.

IN DETAIL:

Section 7 of Chapter 641 provides that nothing in the Act shall invalidate any ballot question voted on prior to February 1, 1984.

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Department of Revenue
Leverett Saltonstall Building
100 Cambridge Street, Boston 02204

IRA A. JACKSON
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DEPUTY COMMISSIONER

February 15, 1984

Memo to: Town and City Clerks

From: Edward J. Collins, Jr., Deputy Commissioner
Division of Local Services

Subject: IGR Distribution

Enclosed are copies of the Division of Local Services Informational Guideline Release (IGR) on the recent amendments to Proposition 2½ contained in Chapter 641 of the Acts of 1983.

We ask you to kindly distribute these to the appropriate officials in your community. A separate mailing is going to superintendents of schools.

We are including a number of copies, although depending on the structure of your local government, there may not be one copy for each individual in the categories named in the cover memo. It may be, for example, that one copy would go to the selectmen to be shared with the town counsel and manager, if any.

It is important to us to be able to count on your assistance in this distribution. As you can well imagine, this method saves the Commonwealth significant postage costs.

Within the next few weeks, we will be sending out new levy limits in the same manner. If you have any questions about the distribution, please contact Donna McDaniel, Coordinator of Community Services, at 727-9286.

Thank you so very much for your cooperation.

11. S-114

Comm. from Edward J. Collins, Jr., Deputy Commissioner of Revenue, Div. of Local Services Re: Division Informational Guideline Releases on recent amendments to Prop. 2½ as contained in Chapter 641 of the Acts of 1983.

FEB 22 3:05 PM '84
OFFICE OF THE CITY MANAGER

Copy sent to the City Manager
3/1/84 mk

In City Council,

February 27, 1984

2/27/1984
Placed on File
Copies to the
City Manager