Understanding Prop 2 ½

What is a Levy? The property tax is levied by the town to every property owner and is the revenue Plymouth can raise through real and personal property taxes. I refer to the property tax simply as the levy. In Massachusetts, municipal revenues to support local spending for schools, public safety and other public services are raised through the property tax levy, state aid, local receipts and other sources. The property tax levy is the largest source of revenue for Plymouth and for most cities and towns.

What is a Levy Ceiling? What is a Levy Limit? Proposition 2 1⁄2 places constraints on the amount of the levy raised by Plymouth and on how much the levy can be increased from year to year. A levy limit is a restriction on the amount of property taxes a community can levy. Proposition 2 1⁄2 established two types of levy limits: First, a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community. Second, a community's levy is also constrained in that it can only increase by a certain amount from year to year. The maximum amount a community can tax (levy) in a given year is the property tax or levy limit. The levy limit will always be below, or at most, equal to the levy ceiling. The levy limit may not exceed the levy ceiling.

How is a Levy Ceiling Calculated? The levy ceiling is determined by calculating 2.5 percent of the total full and fair cash value of taxable real and personal property in the community: Full and Fair Cash Value x 2.5% = LEVY CEILING

How is a Levy Ceiling Changed? The total full and fair cash value of taxable real and personal property in a community usually changes each year as properties are added or removed from the tax roll and market values increase or decrease. This also changes the levy ceiling

How is a Levy Limit Increased? The levy limit is increased from year to year as long as it remains below the levy ceiling. Each year, a community's levy limit automatically increases by 2.5 percent over the previous year's levy limit. This does not require any action on the part of local officials; the Department of Revenue calculates this increase automatically.

New Growth Plymouth is able to increase its levy limit each year to reflect new growth in the tax base. Assessors are required to submit information on growth in the tax base for approval by the Department of Revenue as part of the tax rate setting process.

Overrides A community can permanently increase its levy limit by successfully voting an override. The amount of the override becomes a permanent part of the levy limit base. Please note: Debt exclusions, capital outlay expenditure exclusions and overrides are all often referred to as “overrides” and enable a community either to permanently increase its levy limit or temporarily levy above its levy limit or levy ceiling. This primer makes a distinction between an override and a debt or capital outlay expenditure exclusion, because there is a significant difference in the impact of each on a community’s levy limit. An override enables a community to permanently increase its levy limit, while an exclusion only allows for a temporary increase in taxes over a community’s levy limit. In summary, the levy limit can increase from year to year in these ways: automatic 2.5 percent increase, new growth and overrides. Once the levy limit is increased in any of these ways, the increased levy limit amount becomes the base upon which levy limits are calculated for the next year.

How Can a Community Levy Taxes in Excess of its Levy Limit or Levy Ceiling? A community can assess taxes in excess of its levy limit or levy ceiling by successfully voting a debt exclusion or capital outlay expenditure exclusion. The amount of the **exclusion** does not become a permanent part of the levy limit base, but allows a community to assess taxes for a certain period of time in excess of its levy limit or levy ceiling for the payment of certain debt service costs or for the payment of certain capital outlay expenditures

What is New Growth? Proposition 2 1⁄2 allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is not the result of revaluation so as to recognize that new development results in additional municipal costs; for instance, the construction of a new housing development may result in increased school enrollment, public safety costs, and so on. New growth under this provision includes: • Properties that have increased in assessed valuation since the prior year because of development or other changes. • Exempt real property returned to the tax roll and new personal property. • New subdivision parcels and condominium conversions. New growth is calculated by multiplying the increase in the assessed valuation of qualifying property by the prior year's tax rate for the appropriate class of property. Any increase in property valuation due to revaluation is not included in the calculation. This is how new growth is calculated: Increases in Assessed Valuation x Prior Year's Tax Rate for Particular Class of Property = New Growth **addition** to Levy Limit

New growth becomes part of the levy limit base, and thus increases at the rate of 2.5 percent each year as the levy limit increases. Reporting of new growth provides a community with an opportunity to increase its levy limit, which can provide for added budget flexibility in the future. Assessors are required to report new growth each year as a part of setting the tax rate.

What is an Override? Proposition 2 1⁄2 allows a community to assess taxes in excess of the automatic annual 2.5 percent increase and any increase due to new growth by passing an override. A community may take this action as long as it is below its levy ceiling, or 2.5 percent of full and fair cash value. An override cannot increase a community's levy limit above the level of the community's levy ceiling. When an override is passed, the levy limit for the year is calculated by including the amount of the override. The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2.5 percent each year. A majority vote of Plymouth's Board of Selectmen (or town or city council (with the mayor's approval if required by law) allows an override question to be placed on the ballot. Override questions must be presented in dollar terms and must specify the purpose of the override. Overrides require a majority vote of approval by the electorate.

What is a Debt Exclusion? What is a Capital Outlay Expenditure Exclusion? Proposition 2 1⁄2 allows Plymouth to raise funds for certain purposes above the amount of its levy limit or levy ceiling. A community can assess taxes in excess of its levy limit or levy ceiling for the payment of certain capital projects and for the payment of specified debt service costs. An exclusion for the purpose of raising funds for debt service costs is referred to as a debt exclusion, and an exclusion for the purpose of raising funds for capital project costs is referred to as a capital outlay expenditure exclusion. Both exclusions require voter approval with very limited exceptions. The additional amount for the payment of debt service is added to the levy limit or levy ceiling for the life of the debt only. The additional amount for the payment of the capital project cost is added to the levy limit or levy ceiling only for the year in which the project is being undertaken. Unlike overrides, exclusions do not become part of the base upon which the levy limit is calculated for future years. Reimbursements such as state reimbursements for school building construction are subtracted from the amount of the exclusion. A capital outlay expenditure exclusion or debt exclusion is effective even in the rare case when the exclusion would bring the community's levy above its levy ceiling. Both of these exclusions require a two-thirds vote of Plymouth's Board of Selectmen in order to be presented to the voters. A majority vote of approval by the electorate is required for both types of exclusion

What is a Special Exclusion? For a few limited capital purposes, Plymouth may assess taxes above the amount of its levy limit or levy ceiling without voter approval. Otherwise, special debt and capital outlay expenditure exclusions are like voter approved exclusions. The amount of the special exclusion is only added to the levy limit or ceiling for a temporary period of time, and does not become part of the base upon which the levy limit is calculated for future years. One special debt exclusion allows a community to add water and sewer project debt service costs to its levy limit or levy ceiling for the life of the debt, as long as it reduces water and sewer rates by the same amount. ***The water and sewer debt exclusion is adopted by a majority vote of the Board of Selectmen or town or city council (with the mayor's approval if required by law) and may include all or part of existing and subsequently authorized water and sewer debt or just the residential share of that debt.*** Another special debt or capital outlay expenditure exclusion applies if a community has a program to assist homeowners to repair or replace faulty septic systems, remove underground fuel storage tanks or remove dangerous levels of lead paint in order to meet public health and safety code requirements. Under the program, the board of health and the homeowner agree that the board may contract with third parties to perform the work, and the homeowner will repay the community for all project costs. Homeowners may make the repayment by having a portion of the repair costs, with interest, added to their property tax bills for up to 20 years. The community may automatically add to its levy limit or levy ceiling the amount appropriated, or the amount of the debt service costs on any borrowing for the program.

What is an Underride? Proposition 2 1⁄2 allows Plymouth to reduce its levy limit by passing an underride. When an underride is passed, the levy limit for the year is calculated by subtracting the amount of the underride. The underride results in a permanent decrease in the levy limit of a community because it reduces the base upon which levy limits are calculated for future years. A majority vote of the Board of Selectmen allows an underride question to be placed on the ballot. An underride question may also be placed on the ballot at Plymouth's Town Meeting. Underride questions must state a dollar amount and require a majority vote of approval by the electorate.

Levy Increases Once Plymouth's levy limit is established for a particular year, the Board of Selectmen can determine what its levy will be. The community may set its levy at any amount up to the levy limit. ***It is important to note that as long as a community levies no more than its levy limit, there is no restriction on the dollar increase or percentage increase in its levy from year to year. Proposition 2 1⁄2 restricts increases in the levy limit, not the levy***. A community is permitted to tax up to its levy limit, even if it must raise its levy by a large percentage over the previous year's levy

Excess Levy Capacity Plymouth may choose to set its levy at any amount below or equal to its levy limit. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as excess levy capacity. This is an additional amount the community could, but chose not to, levy. Levy Limit – Levy = Excess Levy Capacity. The concept of excess levy capacity is not a part of the Proposition 2 1⁄2 law, as are the levy limit and levy ceiling. However, excess levy capacity is an important factor in municipal finance, and local officials should understand this concept. There are two common misconceptions about excess levy capacity. The first misconception is that if a community has excess ***levy capacity*** in one year, then its ability to ***levy up*** to its ***levy limit*** in succeeding years is negatively affected. This misconception is based on the fact that Proposition 2 1⁄2 limits the amount a community can increase its property taxes from year to year. Many think this means that a community cannot raise its levy all the way up to the levy limit to use all its excess capacity in just one year. This is not true***. Proposition 2 1⁄2 limits increases from year to year in the levy limit, not the levy.*** Before the tax rate is set, the full amount of the levy limit is always available to the community, regardless of how much of the limit Plymouth has chosen to levy in previous years***. It is within the law under Proposition 2 1⁄2 for Plymouth to have excess levy capacity in one year and, in the following year, to levy right up to the full amount of its new levy limit.*** This is true no matter what the percentage increase in the levy would be in order to achieve this result. The second misconception about excess ***levy capacity*** is that Plymouth is able to go back and "capture" excess levy capacity from a previous year. This is also not true. Once Plymouth sets its tax rate for a given year, any revenues foregone because of excess levy capacity in that year are lost forever. This is only a one-time loss, however. In the following year, Plymouth can levy up to its new levy limit, regardless of its levy in the previous year.