

SEEKONK BOARD OF ASSESSORS

Working with Proposition 2½, The Annual
Levy Limit, and Exclusions

WHAT IS PROPOSITION 2½

Proposition 2½ is a voter initiative law that limits the property tax levy of cities and towns enacted in the 1980 state election. It took effect in fiscal year 1982.

LEVY BUILDING BLOCKS

The Department of Revenue determines the annual Levy Limit and Levy Ceiling for each community.



DEFINITIONS: LEVY

The property tax levy is the revenue a community raises through real and personal property taxes each fiscal year when it sets its tax rate. The property tax levy is usually the largest source of revenue cities and towns have to fund their annual budgets.

DEFINITIONS: LEVY LIMIT

The levy limit is the maximum dollar amount a city or town can levy in a given fiscal year. It defines the maximum amount of property tax revenue a community will ordinarily have to support its annual budget and is the primary limitation established by Proposition 2½.

DEFINITIONS: LEVY CEILING

The levy ceiling is the maximum amount the levy limit may be in a given fiscal year. It is a constraint on the size of the annual levy limit and is a secondary limitation established by Proposition 2½.

PROPOSITION 2½ LIMITS

- The property tax levy cannot exceed the levy limit for the fiscal year.
- The levy limit cannot exceed the levy ceiling for the fiscal year.

ANNUAL LEVY LIMIT

The levy limit is the maximum dollar amount a city or town can ordinarily levy in any given fiscal year.

CALCULATE LEVY LIMIT

Levy Limit Base - The levy limit for any given fiscal year is based on the previous year's levy limit and therefore, is an historic figure. The prior year's limit, not the actual levy, is the base for calculating the levy limit.

Annual Increases - The previous year's levy limit increases annually by two factors:

- Automatic 2.5 percent
- New growth

Preliminary Levy Limit - The formula for calculating the preliminary levy limit for any given fiscal year is the prior year's levy limit, plus 2.5 percent of that limit, plus new growth.

ANNUAL LEVY LIMIT

LEVY
CEILING

SUBTOTAL Million	\$105
GROWTH Million	\$2.5
PROP 2.5% Million	\$2.5
LEVY LIMIT BASE Million	\$100

Previous
years levy
limit

NEW GROWTH FACTOR

Definition - New growth is a dollar increase in the annual levy limit that reflects additions to the community's tax base since last fiscal year. Proposition 2½ annually increases the levy limit so that cities and towns can raise additional taxes to meet service demands due to new development.

Calculation - The formula for calculating the new growth factor for any given fiscal year is the previous year's tax rate multiplied by allowable increases in the current year's assessed valuations of real estate parcels and personal property items over the prior year's assessed valuations.

ANNUAL LEVY CEILING

Definition - The levy ceiling is the maximum dollar amount the levy limit may be in any given fiscal year.

Calculation - The formula for calculating the levy ceiling in any given fiscal year is the total assessed valuation of the community's taxable real and personal property for the fiscal year multiplied by 2.5 percent.

Final Levy Limit Determination - The final step in determining the new levy limit is to compare the subtotal that results from increasing the prior year's levy limit by the annual 2.5 percent and new growth factors to the year's levy ceiling. The new levy limit is the lesser of the subtotal or ceiling.

EXAMPLE

Last year's levy limit was \$100 million. That \$100 million base is first increased by 2.5%, which equals \$2.5 million. The new growth factor is then added, which for illustration purposes is \$2.5 million. Adding the \$100 million prior year levy limit base + \$2.5 million automatic 2.5% increase + \$2.5 million new growth factor arrives at a subtotal of \$105 million.

The assessed valuation of the community this year is \$10 billion. Multiplying that amount by 2.5% equals a levy ceiling of \$250 million. The subtotal of \$105 million is below the levy ceiling and therefore, the community's levy limit is \$105 million for this year.

ANNUAL LEVY LIMIT

LEVY CEILING \$250 Million

SUBTOTAL Million	\$105
GROWTH Million	\$2.5
PROP 2.5% Million	\$2.5
LEVY LIMIT BASE Million	\$100

**Subtotal and
Levy Limit =
\$ 105 million**

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BUT WAIT A MINUTE! WHAT ABOUT
REFERENDA TYPES?

OVERVIEW

A city or town may levy above its annual levy limit or levy ceiling with the approval of voters in a referendum election.

REFERENDUM TYPES

Higher Levy - There are two types of Proposition 2½ referenda that allow a community to levy above the levy limit or ceiling. They are used for different purposes and have different impacts on the amount a community can levy in the year voted and future years. They are:

- Levy limit override.
- Exclusion.

Lower Levy - The Proposition 2½ referendum question that requires a community to reduce its annual levy limit is the **underride**.

LEVY LIMIT OVERRIDE

Definition - A levy limit override is a dollar increase in the levy limit approved by the voters.

Municipal Purposes - A levy limit override can be used to generate additional monies for any municipal expenditure. It is generally intended and usually used to raise extra funds for annual operating and other recurring costs.

Permanent Increase - A levy limit override creates a permanent increase in the levy limit base. The impact is to increase the amount a community can levy for the fiscal year voted, and in future years.

EXAMPLE

The levy limit for this year is \$100 million. Voters approve an override of \$1 million. The community can now levy \$101 million dollars this year. In addition, the base for calculating next year's levy limit becomes \$101 million, rather than \$100 million.

Override Limit - A levy limit override cannot increase the levy limit beyond the levy ceiling. The annual levy limit as increased by an override must still fit within the levy ceiling.

Only an exclusion can increase beyond the levy ceiling

LEVY LIMIT OVERRIDE

THIS YEAR

The community can
now levy

\$101 Million

OVERRIDE

\$1 Million

GROWTH

\$2.5 Million

LEVY LIMIT BASE

\$100 Million

NEXT YEAR

PROP 2.5%

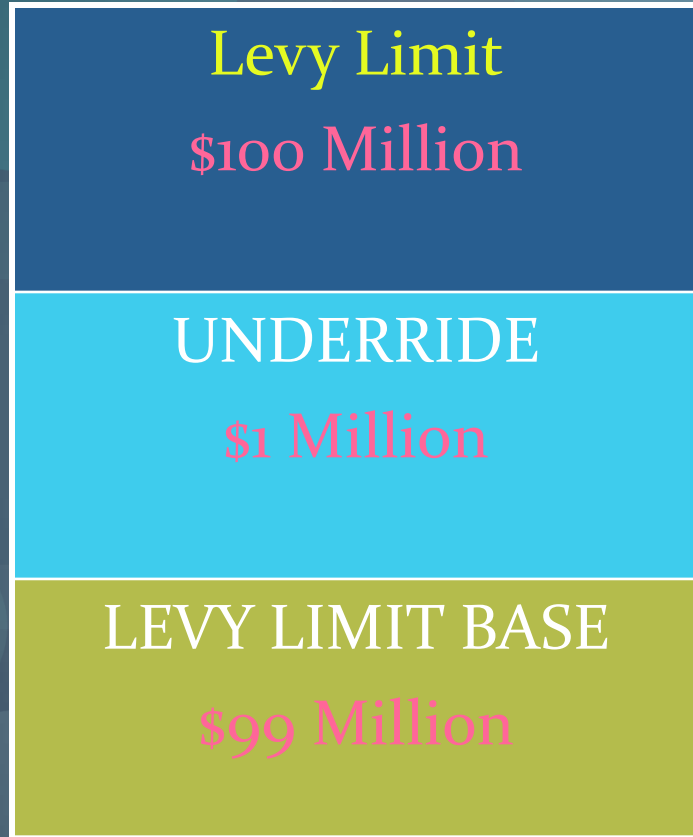
NEW GROWTH

LEVY LIMIT BASE

\$101 Million

LEVY LIMIT UNDERRIDE

THIS YEAR



NEXT YEAR



EXCLUSION

An exclusion is an amount the community can levy in addition to its levy limit approved by the voters to finance a capital expenditure.

EXCLUSION FEATURES

Capital Purposes

An exclusion can be used to generate additional monies for capital purposes only. Capital purposes are those for which a community can legally borrow money under Massachusetts law. A community may generally borrow only to construct or acquire its public infrastructure or other physical assets. For example, it may borrow to:

- Construct or renovate public buildings, such as schools.
- Construct public works, such as a new sewer treatment plant.
- Purchase land for public buildings, open space, conservation or other public purposes.
- Purchase equipment used to provide municipal services, such as police cruisers, fire trucks and computers.

EXCLUSION FEATURES

Temporary Increase

An exclusion increases the maximum amount the community can levy for a temporary period of time. It does not become part of the levy limit and therefore, does not increase the base for calculating future years' limits.

A community may present one of two types of exclusions to voters depending on how it finances the capital project or item:

- Debt exclusion.
- Capital exclusion.

DEBT EXCLUSION

A debt exclusion is used to obtain voter approval to increase the levy to pay for capital projects financed by borrowing. Major capital items, such as the construction of a new school or installation of a sewer system, are usually financed by borrowing and repaying that loan over a fixed number of years.

Approval of a single debt exclusion question creates a temporary increase in the amount the community can levy in order to cover its annual debt service costs on the borrowing. Each year while the debt is being repaid, the amount of that year's debt service payment is added to the levy limit to determine how much the community can levy. Once the debt is retired, the exclusion ends.

DEBT EXCLUSION

Maximum Allowable
Levy

Levy Limit

Debt / Capital

Exclusion

New Levy Limit

New Growth 2.5%

Levy Limit Base



DEBT EXCLUSION

Example:

A community borrows to build a new water treatment facility. The debt will be repaid over 20 years with level debt service payments of \$1 million. Voters approve a debt exclusion for the borrowing. The community can levy \$1 million above its levy limit in each of the next 20 fiscal years in order to cover its annual debt service appropriation. In the first year the exclusion applies, the levy limit is \$100 million. Due to the exclusion, the community can now levy \$101 million in that year.

However, the \$1 million exclusion is not added to the levy limit base used to calculate the second year's limit. In the second year, the new levy limit will be calculated using \$100 million as a base. Once again, the community can levy \$1 million above that new limit. Again, the \$1 million exclusion is not added to the levy limit base used to calculate the third year's limit. This continues each year until the debt is repaid.

IMPACT DEBT EXCLUSION

**Debt Exclusion approved
for 20 year loan with annual
debt service payment of
\$1,000,000**

This Year

**Levy Limit of
\$100 million**

**Community can
Levy \$101,000,000**

IMPACT DEBT EXCLUSION

This Year

Levy limit of a \$100 million

\$1 million Exclusion

Community can levy \$101,000,000

Year 2

Begin with year 1 Levy Limit
of \$100 million

Plus - - \$1,000,000 Exclusion

IMPACT DEBT EXCLUSION

This Year

Levy limit of a \$100 million

\$1 million Exclusion

Community can levy \$101,000,000

Year 2

Begin with Year 1 Levy Limit of \$100 million

Year 3

Begin with Year 2 Levy Limit

Plus - - \$1,000,000 Exclusion

CAPITAL EXCLUSION

A capital outlay expenditure exclusion (or capital expenditure or capital exclusion) is used to obtain voter approval to increase the levy to pay for capital projects financed by sources other than borrowing. Purchases of equipment, such as computers and vehicles with a shorter useful life, or other smaller projects are often funded within the budget.

Approval of a capital exclusion creates a temporary increase in the amount the community can levy to fund a budgeted capital project. The amount budgeted for the project or purpose is added to the levy limit to determine how much the community can levy in the fiscal year the item is budgeted. The exclusion lasts only for that one year.

CAPITAL EXCLUSION

Example:

A community appropriates \$100,000 from the tax levy to buy a new ambulance. Voters approve a capital exclusion for the purchase. The community can levy \$100,000 above its levy limit this year in order to cover that appropriation. If the levy limit is \$100 million, for example, the community can levy \$100,100,000 this year. However, the \$100,000 exclusion is not added to the levy limit base used to calculate the next year's limit and does not apply to next or any future year.

EXCLUSION

THIS YEAR ONLY

The Community can
now Levy

\$100,100,000

Levy Limit = \$100
Million

Voters Approve a Capital
Exclusion of \$100,000 to
purchase a new
ambulance

OVERRIDE AND EXCLUSION COMPARISON

Purposes:

- An override may be used to raise the levy to cover spending for any purpose.
- An exclusion may be used to raise the levy to cover capital spending only.

Duration:

- An override permanently increases the levy limit and permits an increase in the levy of the year voted and the levies of future years.
- An exclusion temporarily increases the amount the community may levy.
 - ❖ A debt exclusion lasts for the life of the related borrowing.
 - ❖ A capital exclusion lasts one year.

Limits:

- An override cannot increase the levy limit above the levy ceiling.
- An exclusion can result in a levy above the levy ceiling. There are no limits on the number or dollar amount of exclusions that may apply in any year.

COMPARISON OF REFERENDUMS

Overrides

Any Spending Purpose

Permanent

Amount Limited by
Ceiling

Exclusions

Only Capital Purchases

Temporary



Debt
(Life of Bond)

Capital
(1 Year)

No Limit on the number
Or Dollar Amount

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WHAT IS THE PROCEDURE TO IMPLEMENT
ALL OF THIS?

Referendum Decision

The decision to place a Proposition 2½ referendum question before the voters is made in town by the selectmen.

REFERENDUM PROCEDURE

Voting Quorum

- A majority vote of the selectmen is required to place an override or underride question on the ballot.
- A 2/3 vote is needed to place an exclusion question before the voters.

Alternative Procedure

A local initiative procedure may be used only to place an underride question on the ballot. A community must have a local initiative procedure in its charter for this alternative to apply.

Question Form

The form of each type of question is set out in the law and must be used to be properly presented. Override and exclusion questions state the purpose for which the additional dollars are being sought. Overrides, underrides and capital expenditure exclusions specify a dollar amount.

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THANK YOU

ANY QUESTIONS PLEASE CALL
THE OFFICE AT
(508) 336-2980