

## **An overview of Proposition 2½**

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 most cities and towns.

Proposition 2½, approved by Massachusetts voters in 1980 and first implemented in fiscal 1982, limits the amount of revenue a city or town may raise, or levy, from local property taxes each year to fund municipal operations.

The law (M.G.L. Ch. 59, Sect. 21C) places two constraints on the amount of property taxes a city or town can levy:

1. A community cannot levy more than 2.5 percent of the total full cash value of all taxable property in the community (called the levy ceiling).
2. A community's allowable levy for a fiscal year (called the levy limit) cannot increase by more than 2.5 percent of the maximum allowable limit for the prior year, plus certain allowable increases such as new growth from property added to the tax rolls.

Proposition 2½ establishes two types of voter-approved increases in taxing authority:

**Overrides:** A levy limit override increases the amount of property tax revenue a community may raise in the year specified in the override question and in future years. The result is a permanent increase in taxing authority. The purpose of the override is to provide funding for municipal expenses likely to recur or continue into the future, such as annual operating and fixed costs.

**Exclusions:** An exclusion increases the amount of property tax revenue a community may raise for a limited or temporary period of time in order to fund specific projects. It does not increase the community's levy limit nor become part of the base for calculating future years' levy limits. The exclusion may be used to raise additional funds only for capital purposes, such as public building, public works projects, land and equipment acquisitions.

Proposition 2½ also allows voters to mandate a reduction in taxing authority. A levy limit underride decreases the amount of property tax revenue a community may raise in the year specified in the underride question and in future years. The result is a permanent decrease in taxing authority.