

**MASSACHUSETTS LAW**

**Prop 2 ½ Tax Rate Cap**

**THE NEED FOR BUDGETARY CAUTION**

# HOW PROP. 2-1/2 WORKS

- Proposition 2 1/2 (MGL Chap 59, Sect 21C) includes a hard cap on the municipal property tax rate of \$25.00/\$1000.00 valuation
  - No provision for an over-ride
  - Rate cap is not indexed for inflation
- If a municipality exceeds \$25.00, taxes (and, hence, budgets) must be cut by up to 15% per year until the tax rate goes below \$25.00

# WHAT HAPPENS WHEN

- As a town gets close to \$25.00, taxes and budgets become driven by changes in the total valuation
  - For example: If the tax rate is \$24.00, a 5% drop in total valuation will raise the rate by \$1.20 and place the town over the limit
  - Over the last 10 years, the year-to-year change in Leverett total valuation has varied from an increase of 2.3% to a drop of 5.1%

## HISTORY OF TOTAL VALUATION (TAX BASE) 2002 - 2018

	total valuation	change in valuation	tax rate	
FY 2002	\$141,982,203		\$20.59	
FY 2003	\$164,586,201	\$22,603,998	\$18.49	revaluation year
FY 2004	\$167,113,190	\$2,526,989	\$18.76	
FY 2005	\$201,779,164	\$34,665,974	\$16.16	
FY 2006	\$245,547,548	\$43,768,384	\$13.50	revaluation year
FY 2007	\$249,276,696	\$3,729,148	\$14.45	
FY 2008	\$252,539,482	\$3,262,786	\$15.00	
FY 2009	\$258,578,089	\$6,038,607	\$15.40	revaluation year
FY 2010	\$260,983,979	\$2,405,890	\$15.80	
FY 2011	\$262,869,325	\$1,885,346	\$16.20	
FY 2012	\$250,016,571	-\$12,852,754	\$17.77	revaluation year
FY 2013	\$251,110,699	\$1,094,128	\$18.66	
FY 2014	\$251,806,382	\$695,683	\$19.20	
FY 2015	\$250,103,806	-\$1,702,576	\$19.88	revaluation year
FY 2016	\$251,571,490	\$1,467,684	\$20.41	
FY 2017	\$253,947,739	\$2,376,249	\$20.95	
FY 2018	\$252,509,818	-\$1,437,921	\$21.05	revaluation year???
total change in Valuation over 16 years		110,527,615		
average change over 16 years		6,907,976		
average change over last 10 years		-2,966		
average change over first 6 years		18,426,213		

# HOW THE TAX BASE WORKS

- The Leverett Town budget is about \$6,000,000
- A budget increase of 2% per year without increasing the tax rate requires a 5 to 6 million dollar increase in total valuation every year—the equivalent of building 10 to 12 \$500,000 homes each year.
- There are currently 103 buildable lots left in Leverett

# OTHER REVENUE

- Leverett's other sources of revenue are not large and do not change much year to year
- Local receipts and State aid are about \$900,000 and typically change by less than \$15,000 year to year.

# Most Municipalities Are Not Near The Cap

- 5 municipalities (1.4%) have composite tax rates over \$23.00
- 23 municipalities (6.5%) have composite tax rates over \$21.00
  - Leverett's current tax rate is 21.05
- 43 municipalities (12.3%) have composite tax rates over \$20.00
- The median residential tax rate for the 351 Municipalities in the Commonwealth is \$15.60
- **A broad-based political push for relief from the cap is unlikely**

# PLANNING AHEAD: Leverett Tax Rate Outlook

Leverett's current tax rate is \$21.05

Budget Increase, FY19 and following	Estimated Years Until Rate Hits \$25/\$1000
2.5%	5
2.0%	7
1.5%	9
1.0%	12

- **Some uncontrollable inflation is a fact of life: Leverett will eventually hit the rate limit.**
  - **However, we can postpone the inevitable and give ourselves time to arrive at a sustainable budget.**
- **The Finance Committee and Select Board recommend holding budget increases to less than 1.5% for the foreseeable future.**



# Leverett Budget Bar Chart - FY2018

