



Public Fact Sheet – Override vs. Debt/Capital Exclusions and Their Impact on the Tax Levy and Tax Ceiling

Every year, Town Meeting raises revenue to pay for the town government. Half of these funds come from property taxes.ⁱ Some of the remaining funds come from state aid (22%); “local receipts,” such as excise taxes, hotel/restaurant taxes, permits, fees, and fines (12%); and other funds, such as SELCO and the ash repository (8%).ⁱⁱ While some of the revenue pays for capital items, including large equipment and building repairs (3%), the vast majority of the budget (90%) goes to the operating budget.ⁱⁱⁱ

Town Meeting must pass a balanced budget against available revenue.^{iv} Therefore, if the budget proposed by the Selectmen comes to the Town Meeting balanced, then any changes made by Town Meeting must be offset by a corresponding change elsewhere in the budget. The Selectmen may propose an unbalanced budget and ask the Town Meeting to set the town's priorities from among many competing options.

The Tax Levy

Like all Massachusetts cities and towns, Shrewsbury appropriates taxes as needed to balance its budget. The total amount of property taxes to be collected town-wide is the “tax levy.”^v The levy is then divided among property owners based on their property’s value, called an “assessment.” The tax levy divided by the total of all assessments is the “tax rate.”

Until 1982, there was no limit to the amount by which Massachusetts cities and towns could increase their taxes. Since 1982, Proposition 2½, a state law enacted by a ballot initiative in 1980, restricts municipalities in raising taxes.^{vi} The new law prohibits cities and towns from raising the tax levy more than 2.5% from the previous year.^{vii}

(Proposition 2½ also limits the tax levy to 2.5% of the town’s total value, sometimes called the “tax ceiling.”^{viii} In Shrewsbury, however, the tax levy has never come close to the tax ceiling.^{ix} Proposition 2½ also allows for the levy limit to be *reduced* through a ballot question initiated either by the Selectmen or by a citizen petition.)

There are three major exclusions to Proposition 2½:

- New growth. As the town grows, new buildings, construction, and improvements are all added to the new levy limit.^x
- Overrides. The voters may choose to increase the levy limit beyond 2.5%.^{xi}
- Debt/Capital exclusions. Voters may vote to raise taxes for certain capital or debt costs without including them in the levy limit.

What is an “Override?”

Sometimes the cost of running a town grows by more than the levy limit. In those cases, the town must either cut services, find new sources of revenue, or increase taxes by more than 2.5%. A town may raise the tax levy by more than 2.5% through an override. An override increases the tax levy in a single year by a specific amount. The 2.5% levy limit is then applied to the new amount for the following year.



For example:

- If the 2010 levy were \$1,000,000, then the 2011 limit would be \$1,025,000. If the 2011 levy were that full amount, then the 2012 limit would be \$1,050,625.^{xii}
- However, if a 2011 override raised the levy by 5% (not 2.5%), then the 2011 levy would be \$1,050,000 and the 2012 limit would be \$1,076,250 (2.5% greater than the new 2011 levy).^{xiii}

An override requires the approval of town voters, and the extra appropriation requires the approval of Town Meeting.^{xiv}

- Only the selectmen may put the question before both Town Meeting and the voters,
- The Town Meeting's vote must be a majority,
- The voters' approval must be a majority, and
- The ballot question must state the purpose(s) for which the extra taxes will be spent.

What is a "Debt or Capital Exclusion"?

Some expenses happen infrequently and are too large to be paid within the tax levy. Just as a family might not be able to afford to buy a house or a car with the funds in its bank account, a town might not be able to afford to build a public building such as a firehouse or school or to purchase equipment or vehicles with the funds in the budget. The town may raise taxes outside the levy limit to purchase capital items. The increased taxes do not become part of the calculation for raising the tax levy the following year.^{xv}

The process is the same as in an override, outlined in the bulleted list above.^{xvi}

Debt Exclusion votes are often confused with and called "overrides," but they do not override the tax levy increase limit.^{xvii} Once the capital expense or the debt is paid, the tax levy exclusion ends.

Sources/More Information

- [Citizen's Guide to the Budget](http://www.shrewsbury-ma.gov/egov/docs/1259604703_255584.pdf), prepared by the Shrewsbury Board of Selectmen, November 2009, http://www.shrewsbury-ma.gov/egov/docs/1259604703_255584.pdf
- [Levy Limits: A Primer on Proposition 2½](http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf), Massachusetts Department of Revenue, Division of Local Services, <http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf>
- [Proposition 2½ databank](http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/proposition-2-12.html): <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/proposition-2-12.html>
- [General By-Laws of the Town of Shrewsbury Together with Town Meeting Act \(Acts of 1953, Ch. 553\) and Town Manager Act \(Acts of 1953, Ch. 559\) and Acts of the Legislature Accepted By The Town](http://www.shrewsbury-ma.gov/egov/docs/1353962784_649658.pdf) (amendments through November 20, 2012), http://www.shrewsbury-ma.gov/egov/docs/1353962784_649658.pdf

- ⁱ Citizen's Guide to the Budget, page 3
- ⁱⁱ Citizen's Guide to the Budget, page 3
- ⁱⁱⁱ Citizen's Guide, page 4
- ^{iv} Citizen's Guide, page 2
- ^v Levy Limits: A Primer on Proposition 2½, page 4
- ^{vi} Mass. Gen. Laws, Ch. 59 § 21C
- ^{vii} Mass. Gen. Laws, Ch. 59 § 21C(f)
- ^{viii} Mass. Gen. Laws, Ch. 59 § 21C(b)
- ^{ix} Proposition 2½ databank: <http://www.mass.gov/dor/local-officials/municipal-data-and-financial-management/data-bank-reports/proposition-2-12.html>. In the 30 years since Proposition 2½'s enactment, the Town's total levy has averaged less than half of the maximum 2.5% tax ceiling.
- ^x Levy Limits: A Primer on Proposition 2½, page 8
- ^{xi} Levy Limits: A Primer on Proposition 2½, page 9
- ^{xii} Levy Limits: A Primer on Proposition 2½, page 9 (not including new growth)
- ^{xiii} Levy Limits: A Primer on Proposition 2½, page 9 (not including new growth)
- ^{xiv} Mass. Gen. Laws, Ch. 59 § 21C(g)
- ^{xv} Levy Limits: A Primer on Proposition 2½, pages 7, 10
- ^{xvi} Levy Limits: A Primer on Proposition 2½, page 10
- ^{xvii} Levy Limits: A Primer on Proposition 2½, page 6