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# City & Town

Supporting a Commonwealth of Communities

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## How Close is Your Ceiling?

Tony Rassias - Bureau of Accounts Deputy Director, Anthonia Bakare - DLS Municipal Databank

How close are you to your ceiling? Of course, we're not referring to the one in your room, but rather your community's levy ceiling.

[Proposition 2 1/2](#) mandates a levy ceiling equal to 2.5 percent of the current fiscal year's total assessed full and fair cash value for real and personal property. The levy limit is incremental; it allows permanent but controlled annual increases to the tax levy equal to 2.5 percent of the prior year's levy plus credit for new growth.

[Local Officials Directory](#)

[Municipal Calendar](#)

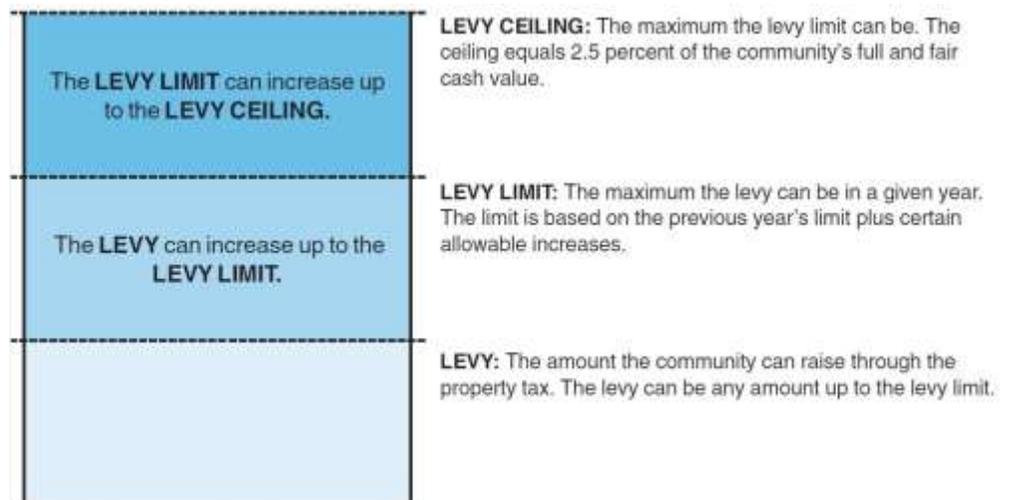
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*City & Town* is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.

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Editorial Board: Sean Cronin, Anthonia Bakare, Robert Bliss, Linda Bradley, Nate Cramer, Patricia Hunt, Tara Lynch, and Tony Rassias



Source: [A Primer on Proposition 2 1/2](#)

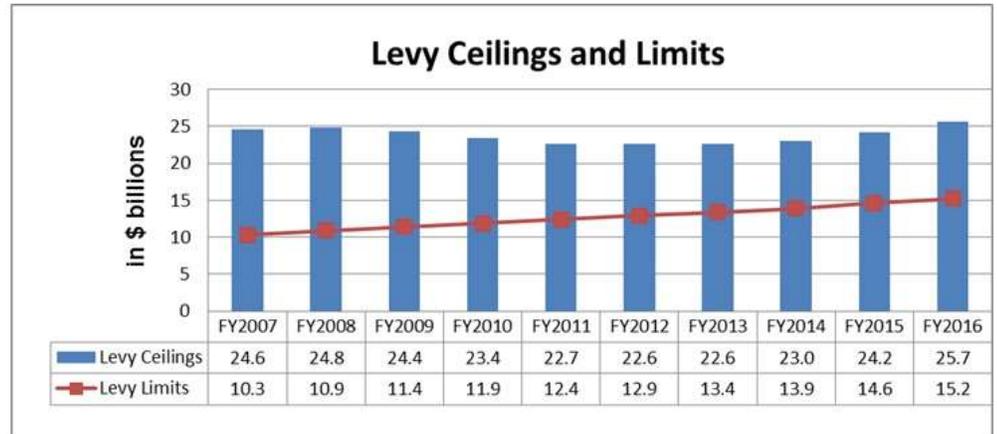
From FY2008 to FY2013, total statewide levy ceilings dropped due to a sluggish real estate market while levy limits increased due to the year-over-year Prop 2 1/2 formula increments. A concern was whether cities and towns would reach points at which their annual increasing levy limits would equal their annual levy ceilings and thereby "hit the ceiling."

A July 17, 2014 *City & Town* article ([Part 2: Prop 2 1/2's Levy Limit Components and a Statistical Review over the Last Decade - Has Your Levy Limit "Hit the Ceiling?"](#)) reported that from FY2007 to FY2013, an increasing number of communities had reached or were approaching

their levy ceilings. The article also noted that without an immediate, positive change in the real estate market, more collisions between levy limits and ceilings could occur.

Since that article was written, data for three fiscal years has accumulated. What follows is a look at where those communities are today.

*Chart 1* below shows levy ceilings were static in FY2012 and FY2013 statewide and then began to trend upward through FY2016 as a result of the strengthening real estate market. The *Chart* also shows how levy limits have climbed steadily from FY2007 due to the annual incremental Prop 2 1/2 levy limit calculations.



Source: DLS Databank - Property Tax Related Reports. Data is current as of the publication date.

The difference between the levy limit and the levy ceiling is called "override capacity." *Chart 2* shows override capacity data for the past ten fiscal years. In it, override capacity decreased, reaching its lowest point in FY2014. Since then, the statewide trend has shifted upward, reflecting the rebound in the real estate market.

Override Capacity			
	Levy Ceilings (in \$ billions)	Levy Limits (in \$ billions)	Override Capacity (in \$ billions)
FY2007	24.6	10.3	14.3
FY2008	24.8	10.9	13.9
FY2009	24.4	11.4	13.0
FY2010	23.4	11.9	11.5
FY2011	22.7	12.4	10.3
FY2012	22.6	12.9	9.7
FY2013	22.6	13.4	9.2
FY2014	23.0	13.9	9.1
FY2015	24.2	14.6	9.6
FY2016	25.7	15.2	10.5

Source: DLS Databank - Property Tax Related Reports. Data is current as of the publication date.

The above trend begs the question, are individual cities and towns experiencing the same growth in override capacity as seen in the statewide totals?

Current data reveals that from FY2014 to FY2015, 227 municipalities (65%) experienced levy limit growth greater than the growth in their assessed values. In FY2016, however, the number of similar communities fell to 199 (57%) due to the stronger real estate market.

Despite the above, *Chart 3* indicates that the combined number of cities and towns hitting or approaching the ceiling is still increasing. (For purposes of this analysis, a municipality hits the ceiling when the levy limit equals the levy ceiling and "approaches" it when the levy limit is between 90% and 100% of the levy ceiling).

Fiscal Year	"Hit the Ceiling"	Ceiling is Approaching
FY2007	0	1
FY2008	0	1
FY2009	0	1
FY2010	0	2
FY2011	2	2
FY2012	1	5
FY2013	4	5
FY2014	7	4
FY2015	5	8
FY2016	6	12

Source: DLS Databank - Property Tax Related Reports. Data is current as of the publication date.

### **Why Are More Communities Hitting or Approaching the Ceiling?**

In most individual cases, approaching or hitting the ceiling occurs because the increases in total assessed values have not been keeping pace with the incremental increase in the levy limits. But this is not always the case. For two communities in FY2016, their total assessed values increased greater than their levy limits did in percentage terms but not enough to remove those communities from the "ceiling is approaching" category.

### **Hitting the Ceiling**

When a community's levy limit collides with or hits its levy ceiling, the community lacks the capability to realize levy growth, both from 2.5 percent increments and from new growth, until excess levy capacity is regained. For the six communities that hit the ceiling in FY2016:

- There were five cities and one town, and four of these had already hit the ceiling in FY2015.
- The aggregate loss of new growth credit due to the collisions was

\$10.8 million.

- The aggregate loss of levy capability besides the new growth loss was \$1.8 million.
- In no case was the levy limit increase due to a Prop 2 1/2 override.
- A geographic breakdown by county found that three of these cities are in Hampden county, one city is in Worcester county, one city is Berkshire county and one town in Bristol county.

For the Six Communities that Hit the Ceiling in FY2016		
	(A)	(B)
Community	% Levy Limit of Levy Ceiling	\$ Levy Under the Levy Limit
Holyoke	100	8,411
Springfield	100	14,179
Worcester	100	6,053,081
Pittsfield	100	6,793,669
West Springfield	100	8,437,348
Somerset	100	13,534,458

Note by the chart above that although the levy limit for each of the six communities reached the levy ceiling in FY2016 (column A), the FY2016 levy in four of them was less than the levy limit by significant dollar amounts (column B). For those four communities then, the amounts levied under the levy limit in column (B) represent an available FY2016 revenue source for FY2017 so long as the FY2017 total assessed values at least remain the same as in FY2016. If values decrease, however, the percentages in column (A) will remain the same, but their available FY2016 revenue source (column B) will decrease or could even disappear.

The situation for Holyoke and Springfield appears more severe than for the other four communities. Should their FY2017 total assessed values decrease, their FY2017 levy limits will be lower than their FY2016 levy limits. As a result, their FY2017 tax levy must be set below their FY2016 tax levy. Without a Prop 2 1/2 vote to exclude certain expenditures from the limit's calculation (see [Prop 2 1/2 tutorial](#)), to maintain service levels in each community, more support will be needed from revenue sources other than the property tax levy, if these are available.

### Approaching the Ceiling

For the 12 communities approaching the ceiling in FY2016:

- There are five cities and seven towns, including one city that previously hit the ceiling in FY2015.
- Two cities and four towns were already approaching their ceilings in FY2015.
- In no situation was the levy limit increase due to a Prop 2 1/2 override.
- In one city and in two towns, the values decreased from FY2015 to FY2016.
- A geographic breakdown by county found that three towns were

in Franklin county, two cities and two towns were in Hampden county, two cities and one town were in Middlesex county, one town was in Norfolk county, and one city was in Worcester county.

For the 12 Communities where the Ceiling is Approaching in FY2016			
	(A)	(B)	(C)
Community	% Levy Limit of Levy Ceiling	\$ Levy Limit Under the Levy Ceiling	\$ Levy Under the Levy Limit
Marlborough	99	1,799,837	28,632,282
Heath	97	75,218	331,212
Wendell	97	63,990	454,120
Russell	95	174,582	306,238
Agawam	94	4,249,123	10,553,514
Framingham	93	13,451,116	8,708,115
Monroe	93	48,144	124,543
Avon	92	1,606,998	-1,558,242
Everett	92	8,326,389	5,889,590
Fitchburg	90	5,463,323	45,209
Longmeadow	90	4,933,813	-3,617,041
Westfield	90	7,859,066	648,422

The chart above shows the approaching levy ceiling for the 12 communities, both in terms of percentage (column A) and in raw dollars (column B). The amounts levied under the levy limit (column C) represent an available FY2016 revenue source for FY2017, so long as total assessed values at least remain the same as in FY2016. If values decrease, column A percentages will increase and column B and C dollar amounts will decrease or could even disappear.

\*In Avon and Longmeadow, although the levy exceeded the levy limit, the levy did not exceed the maximum allowable levy which included authorized exclusions. In these two instances, the maximum allowable levy exceeded the levy by \$129,994 (0.7%) and \$42,694 (0.09%) respectively.

### **Should Assessors and Budget Officers be Concerned?**

This question was addressed in the aforementioned *City & Town* article. The article stated that for most cities and towns, while the levy ceiling is not the immediate concern, the levy limit is. However, for communities where the levy ceiling is an immediate concern, several points were made that are still applicable today. To avoid levy limit anxiety, local officials should:

- Review the levy limit calculation.
- Set the tax levy comfortably below the levy limit and/or levy ceiling.
- Capture new taxable value and maintain a current and accurate database.

- Assess taxable real and personal property at 100% of full and fair value annually.
- Discuss contingency plans with the community's financial team.
- Build "rainy day" reserves.

If you would like to learn more about Prop 2 1/2 levy limits and levy ceilings, please see the DLS online [tutorial](#). Additional information on this topic is featured below in the *Data Highlight of the Month*.

As always, if you have any questions or concerns in these matters, please contact your Bureau of Accounts field representative and/or Bureau of Local Assessment certification field advisor.

## ***Data Highlight of the Month***

**Anthonia Bakare - DLS Municipal Databank**

The Division of Local Services (DLS) offers a wide variety of municipal, financial and socioeconomic information. This month's data highlight focuses on the tax levy and Proposition 2 1/2.

In Massachusetts, the tax levy is a primary source of income for most communities. However, what a community can levy is limited to 2 1/2 percent of a community's total assessed full and fair cash value for real and personal property, otherwise known as the levy ceiling ([MGL c. 59 sec. 21C](#)).

For more information on Proposition 2 1/2's levy limit components refer to the three part series, *Prop 2 1/2's Levy Limit Components and a Statistical Review over the Last Decade* [Part I](#), [Part II](#), and [Part III](#). In addition, [A Primer on Proposition 2 1/2](#) was created to assist municipalities with the basic concepts.

Tax levy and other Proposition 2 1/2 data are located in the Databank Reports under [Property Tax Related Reports](#). Information reports such as Excess Levy and Override Capacity, Levies by Class, New Growth Applied to the Levy Limit, and Overlay as a Percent of Tax Levy can be found in the drop down menu. This data comes from the annual Tax Rate Recapitulation, forms LA-4 and LA-13.

We hope you become better acquainted with the data the Division of Local Services has to offer through the *Data Highlight of the Month*. For more information, contact us directly at [databank@dor.state.ma.us](mailto:databank@dor.state.ma.us) or (617) 626-2384.

## ***By the Numbers***

*City & Town* will provide updates on the progress of the tax rate and certification season in each edition through the rest of the calendar year. In addition to these helpful statistics, we're also pleased to announce that you can now follow the tax rate setting process in real time. Thanks to our Municipal Databank staff, this public information is available 24/7 by [clicking here](#).

Preliminary Certifications: 57 Communities Approved

Final Certification: 30 Communities (of 117 Total in Certification Year)

LA4: 136 Approved (157 Submitted)

LA13/ New Growth: 136 Approved (152 Submitted)

Tax Rates: 34 Approved

Balance Sheets: 147 Approved

Aggregate Free Cash Approved Total: \$625,787,074

## **DLS Highlights "What's New in Municipal Law"**

### **Bureau of Municipal Finance Law**

Over 600 local officials attended the 31st annual "What's New in Municipal Law" seminars held on September 29, 2016 at The Log Cabin Banquet & Meeting House in Holyoke and October 6, 2016 at The Lantana in Randolph.

In the general session in the morning, they heard Municipal Finance Law Bureau attorneys Kathleen Colleary, James Crowley, John Gannon, Donald Gorton and Patricia Hunt review new legislation and recent court and Appellate Tax Board cases. In the afternoon session, the attorneys led three workshops that focused on changes in municipal tax and finance laws under the Municipal Modernization Act related to: (1) local assessment administration; (2) remedies for collection of local taxes and charges, management of cash and issuance of debt; and (3) local revenues, special funds and financial management.

If you were not able to attend one of this year's seminars, all morning presentation and reference materials and afternoon workshop booklets are available on our [website](#).

We look forward to seeing you at the 32nd annual "What's New in Municipal Law" next fall. The dates to save are Thursday, September 28, 2017 at The Lantana in Randolph and Thursday, October 5, 2017 at The Log Cabin Banquet & Meeting House in Holyoke.

## **October Municipal Calendar**

**October 1**

**Taxpayer**

**Deadline for Submitting Forest Land Certification and Management Plan, MGL Ch. 61**

According to MGL Ch. 61,

		<p>Section 2, this is the deadline to submit to the Assessors the State Forester's certification and approved management plan in order to have the land valued as classified forest land in the next fiscal year.</p>
<b>October 1</b>	<b>Collector</b>	<p><b>Mail Semi-Annual Tax Bills</b></p> <p>For communities using the regular semi-annual payment system, actual tax bills or optional preliminary bills should be mailed by this date.</p>
<b>October 1</b>	<b>Taxpayer</b>	<p><b>Semi-Annual Preliminary Tax Bill - Deadline for Paying Without Interest</b></p> <p>According to MGL Ch. 59, Sec. 57C, this is the deadline for receipt of the preliminary tax payment without interest in communities using the annual preliminary tax billing system, unless the bills were mailed after August 1. If mailed after August 1, the payment is due November 1, or 30 days after the bills were mailed, whichever is later.</p>
<b>October 1</b>	<b>Taxpayer</b>	<p><b>Deadline for Applying to Have Land Classified as Agricultural/Horticultural Land or Recreational Land, MGL Ch. 61A and Ch. 61B</b></p> <p>According to MGL Ch. 61A, Sections 6 and 8, and Ch. 61B, Sections 3 and 5, this is the deadline to apply to Assessors to have land valued, taxed and classified as agricultural/horticultural or recreational land in the next fiscal year, unless a revaluation program is being conducted for that fiscal year. Under MGL Ch. 59, Section 38 and DOR guidelines, Assessors must review all property valuations and make adjustments to ensure current fair cash valuations every year. Because</p>

		a revaluation program is being conducted every year, taxpayers who do not submit their applications by October 1 have until 30 days after the actual tax bills for the fiscal year are mailed to apply.
<b>October 15</b>	<b>Superintendent</b>	<b>Submit School Foundation Enrollment Report to DESE</b>
<b>October 31</b>	<b>Selectmen</b>	<b>Begin Establishing Next Fiscal Year Budget Guidelines and Request Department Budgets</b>
<b>October 31</b>	<b>Assessors</b>	<p><b>Begin Work on Tax Rate Recapitulation Sheet (to set tax rate for annual preliminary tax bill communities)</b></p> <p>A community that uses the annual preliminary tax bill system (on a quarterly or semiannual basis) should begin gathering tax recap information in order to have enough time for the tax rate to be set and tax bills mailed by December 31. See August's Complete Tax Rate Recapitulation Sheet.</p>
<b>Final Day of Each Month</b>	<b>State Treasurer</b>	<p><b>Notification of Monthly Local Aid Distribution</b></p> <p>Click <a href="http://www.mass.gov/treasury/cash-management">www.mass.gov/treasury/cash-management</a> to view distribution breakdown.</p>

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