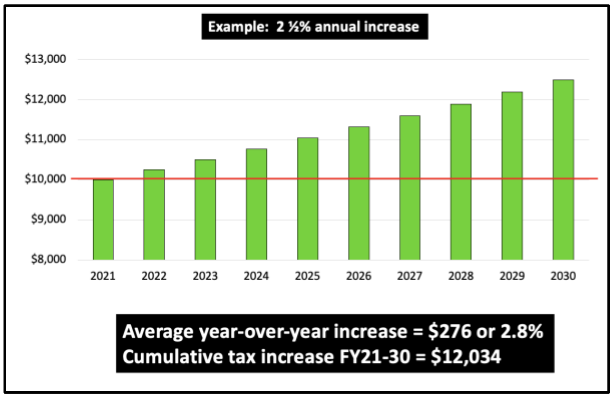
Inside Town Finances
Volume 5: Proposition 2 ½ and the Impact of Voter-Authorized Tax Increases

How does a 2 ½% increase affect property tax bills over time?

Under Proposition 2 ½, municipalities have the legal right to increase the levy by up to 2 ½% from the prior year.

The example to the right shows the impact of a 2 ½% annual increase in property taxes over a 10-year period for a property with an FY21 property tax bill totaling $10,000 (red line). As the example illustrates, a 2 ½% annual increase compounds over time. In this example, the average yearly tax increase is $276 or 2.8%, and the cumulative tax increase from FY21 to FY30 is $12,034.

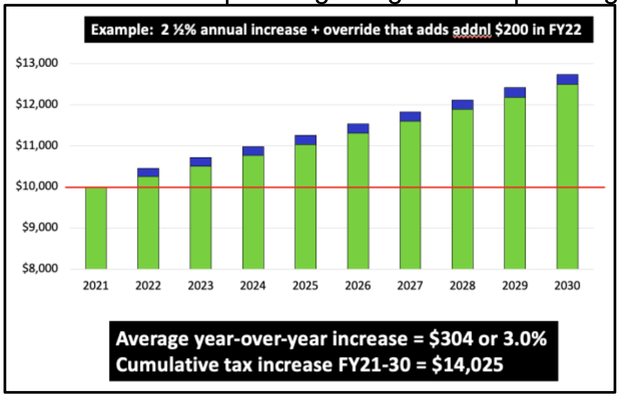
As described in *Volume 4*, individual property tax bills are calculated by applying the tax rate to a property's assessed value. Therefore, a change in assessed value could result in a tax increase for a specific property that is greater or less than 2 ½%.



What is the impact of an operating override?

An operating override is a ***permanent tax increase*** – incremental to the increase allowed under Proposition 2 ½ – ***that affects all property owners*** to address a permanent increase in the operating budget. An operating override requires a majority vote of Town Meeting and a majority ballot vote.

The example to the right shows the impact of an FY22 operating override that adds $200 to the property tax bill (blue bars). Once approved, an operating override becomes part of the base for calculation of future years' levy limits and, therefore, it compounds over time. In this example, the average yearly tax increase is $304 or 3.0%, and the cumulative tax increase from FY21 to FY30 is $14,025.



What is the impact of a debt exclusion?

A debt exclusion is a ***temporary tax increase that affects all property owners*** – 'excluded' from the limits of Proposition 2 ½ – that is used to pay debt service costs (principal plus interest) on money borrowed to finance a specific project. Hingham typically finances excluded debt with a 20-year term. A debt exclusion requires a 2/3 vote of Town Meeting and a majority ballot vote.

The example to the right shows the impact of a level-principal debt exclusion that adds $500 to the property tax bill (red bars) starting in FY22. Level-principal debt financing results in principal-plus-interest payments that decline over time until the debt is retired. In this example, the average yearly tax increase is $310 or 3.1%, and the cumulative tax increase from FY21 to FY30 is $15,634.