

# Town Budget Primer

General Budget Item Overview in the Context of the  
Proposed FY 2015 Budget for the Town of Groton

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# Outline

- Key Terms
- Town Budget: Revenue and Expenses
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  - School
- Proposition 2 ½
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- Levy Limit
- Proposition 2 ½ Overrides
  - General
  - Debt Exclusion
- Tax Impact Graph
- Groton's Estimated Budget and Tax Impact
- Overrides in a Regional School District
- FAQ
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# Key Terms

- Fiscal Year (FY): July 1 to June 30
- Assessed Value: Est. worth of real property
- Levy: Tax
- Proposition 2 ½: Limit on tax increases
- Levy Limit: Limit on yearly tax hike
- Debt Exclusion: Temporary override to pay debt
- Override : Exceeding the limit
- PILOT: Payment In Lieu Of Taxes

# Town Budget\_Revenue & Expenses



Personal  
Property



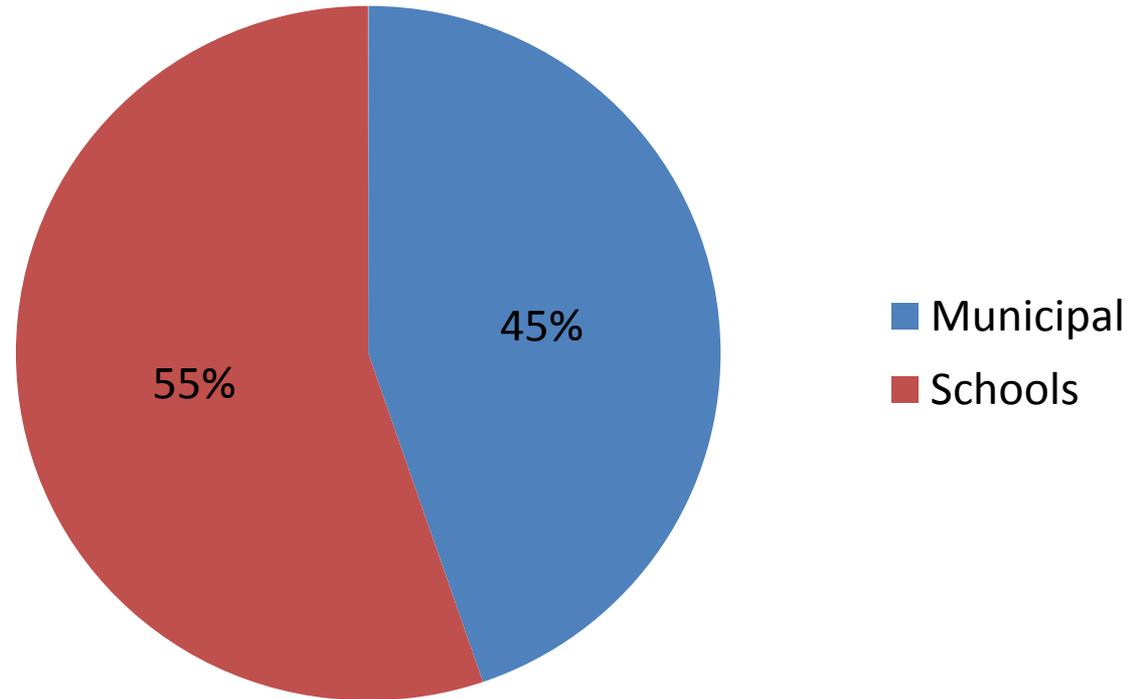
Fees,  
Licenses  
etc



State  
Funding



**FY 2014 Groton Budget \$30.4M**



# Proposition 2 1/2

- Effective 1982
- Sets an absolute limit on how much can be taxed ( aka: Tax Levy Ceiling)
- Sets a yearly guidance on the rate and means by which taxes can be raised (aka: 2.5% Annual Tax Levy Limit)
- Challenge is that if expenses grow more quickly than 2 ½%, revenue has difficulty keeping up with spending
- An ‘Override’ allows the Levy Limit to be exceeded

**Over 4000 Override Initiatives in MA Since 1982**

# Levy (aka Tax)

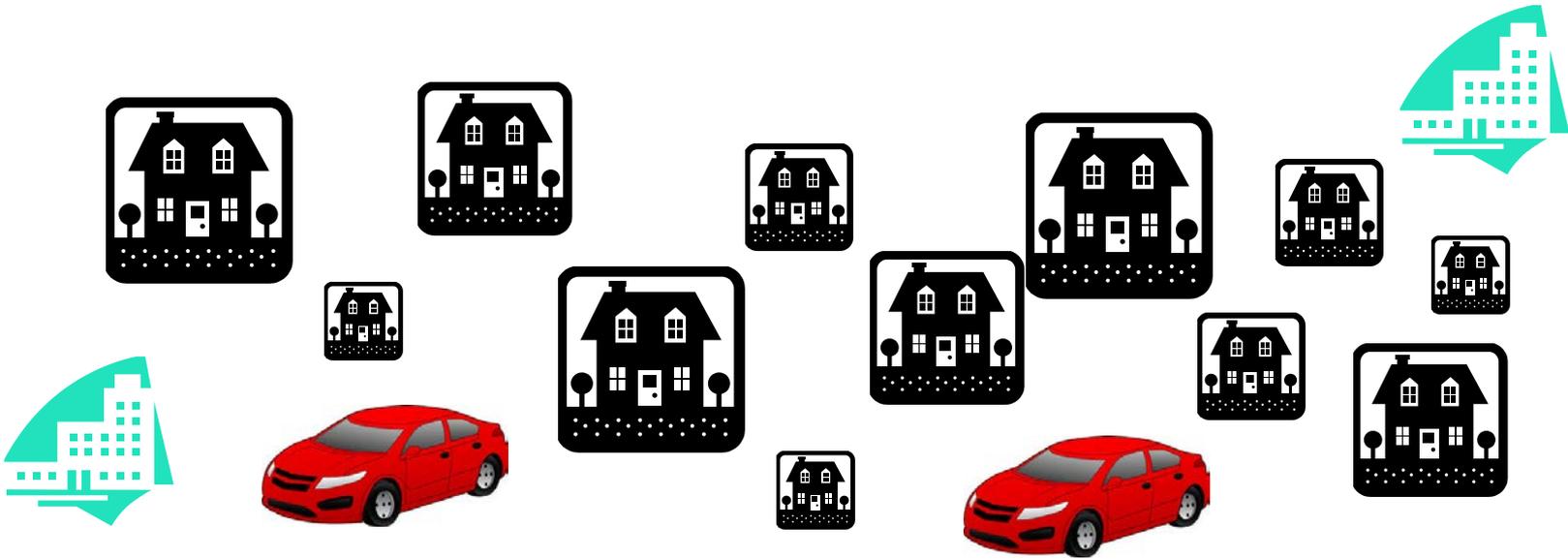
- The amount the town can raise through the property tax paid in a given year.
- The tax levy pays for Town services and Groton's **assessment** from the Regional School District.
- The Levy is always below the Levy Limit, unless an Override or Debt Exclusion is passed.

•Groton's Estimated FY 2015 tax levy is	<b>\$28,136,686.</b>
–Tax within Levy Limit:*	\$25,703,296
–Excluded Debt:**	\$ 2,433,390

\* This is \$74,780 under the estimated Levy Limit of \$25,778,078

\*\* Includes annual payment of \$488,000 for Fire Station Debt

# Levy



The amount of tax levied on taxable personal property in a given year.

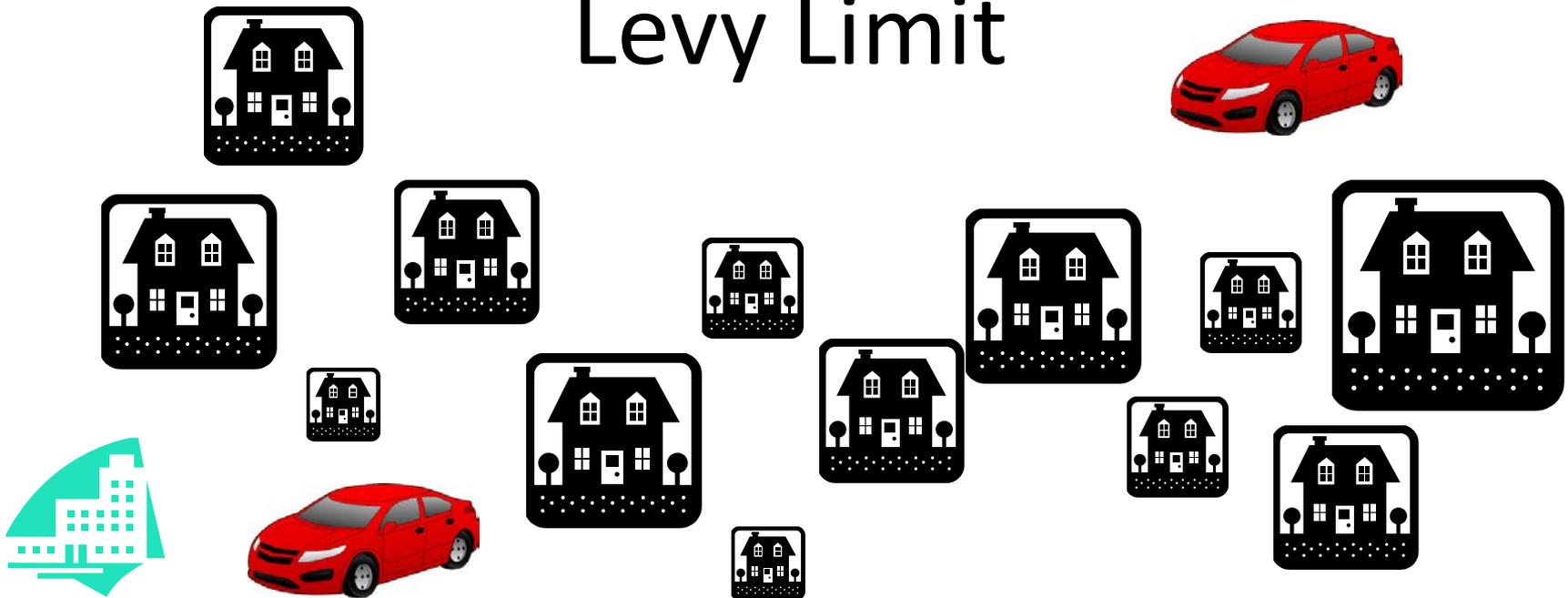
Taxable Personal Property times the mill rate

## Example:

- All Taxable Property Value = \$2B
- Mill Rate= \$20.00
- Revenue Raised through Levy= \$40M

Groton's Estimated FY 15 **Mill Rate** is \$18.40, **Property Tax Levy** is \$28,136,686

# Levy Limit



The maximum amount the tax levy limit can rise is 2.5% of the previous year's tax levy limit plus "new growth".

## Example:

- Year 1: Levy Limit of \$40M
- Year 2: \$40M x 2.5% → increase of \$1M → Total = \$41M
- Plus new growth of \$1M x 2.5% = \$25k M
- Levy Limit = \$40M + \$1M + \$25k = **\$41,025,000**

Groton's Estimated FY 2015 Tax Levy Limit is **\$25,778,076**

Groton's Estimated FY 2015 Tax Levy is **\$ \$28,136,686**

If the **Levy** comes in under **Levy Limit** limit it leaves "**Excess Levy Capacity**"

If the **Levy** comes in over the **Levy Limit** it requires an **Override**



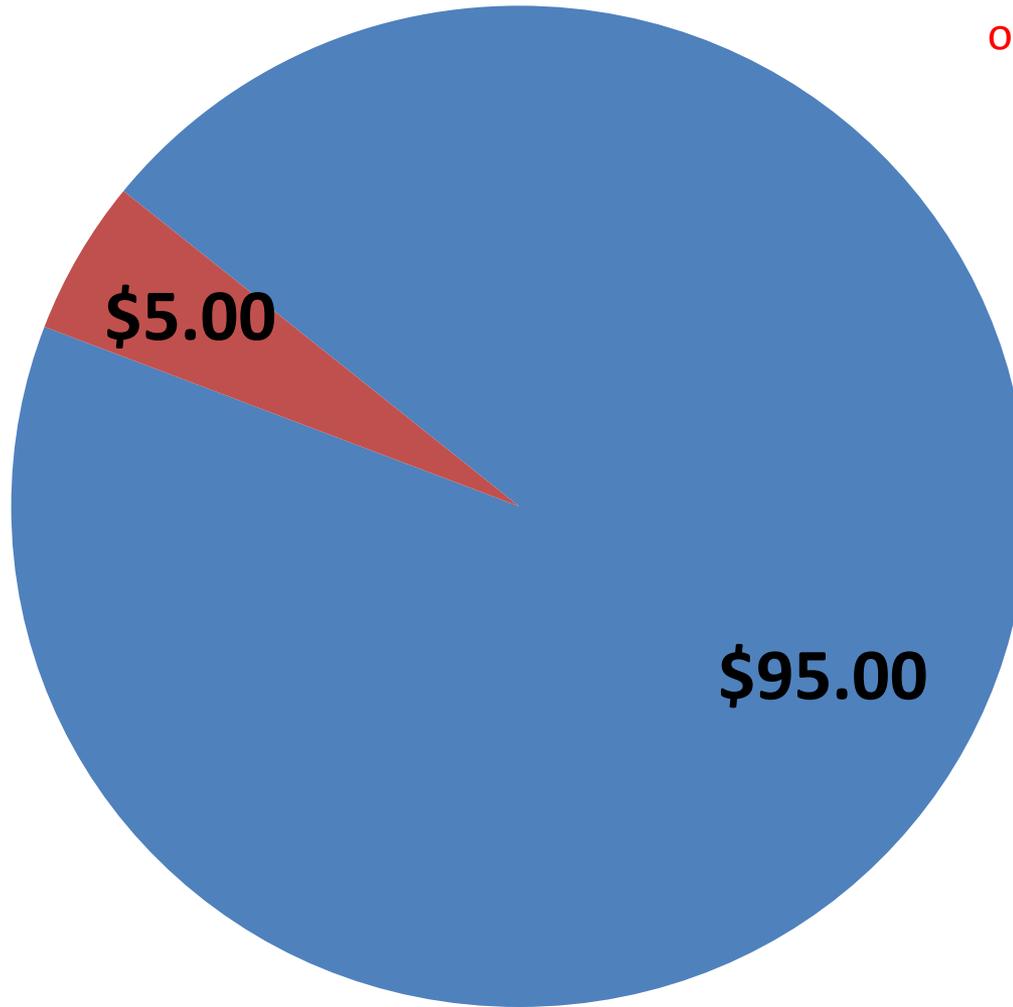
# Levy Example

Year 1 (Debt Included)

Property Tax = \$100

Year 1 Levy = \$100

Assume that this is also 1<sup>st</sup> year  
of Proposition 2 ½ so now:  
Levy Limit = \$100



■ All Other

■ Debt

# Levy Limit Example

Year 2 (Debt Included)

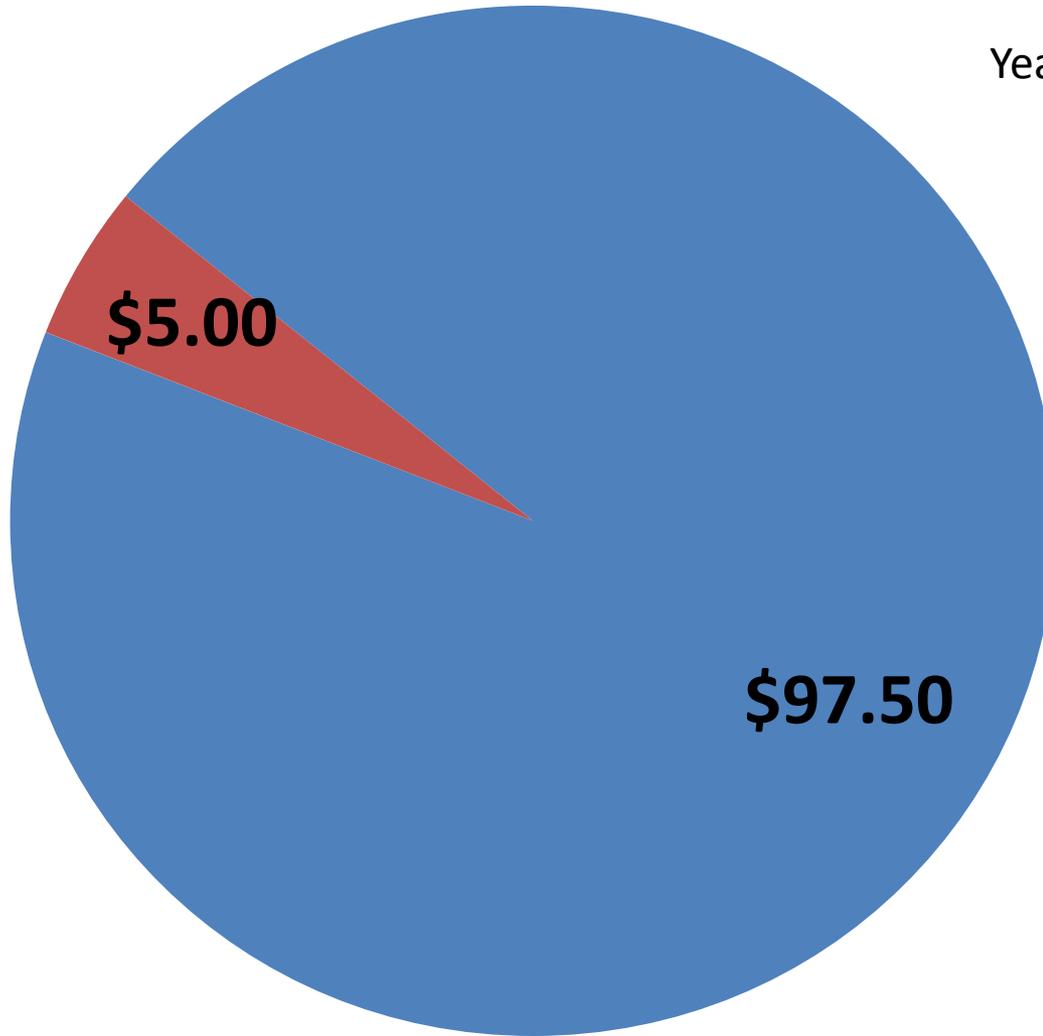
Property Tax = \$102.5

Year 1 Levy Limit = \$100

+ 2.5%

Year 2 Levy Limit = \$102.50

Year 2 Levy\* = \$102.50



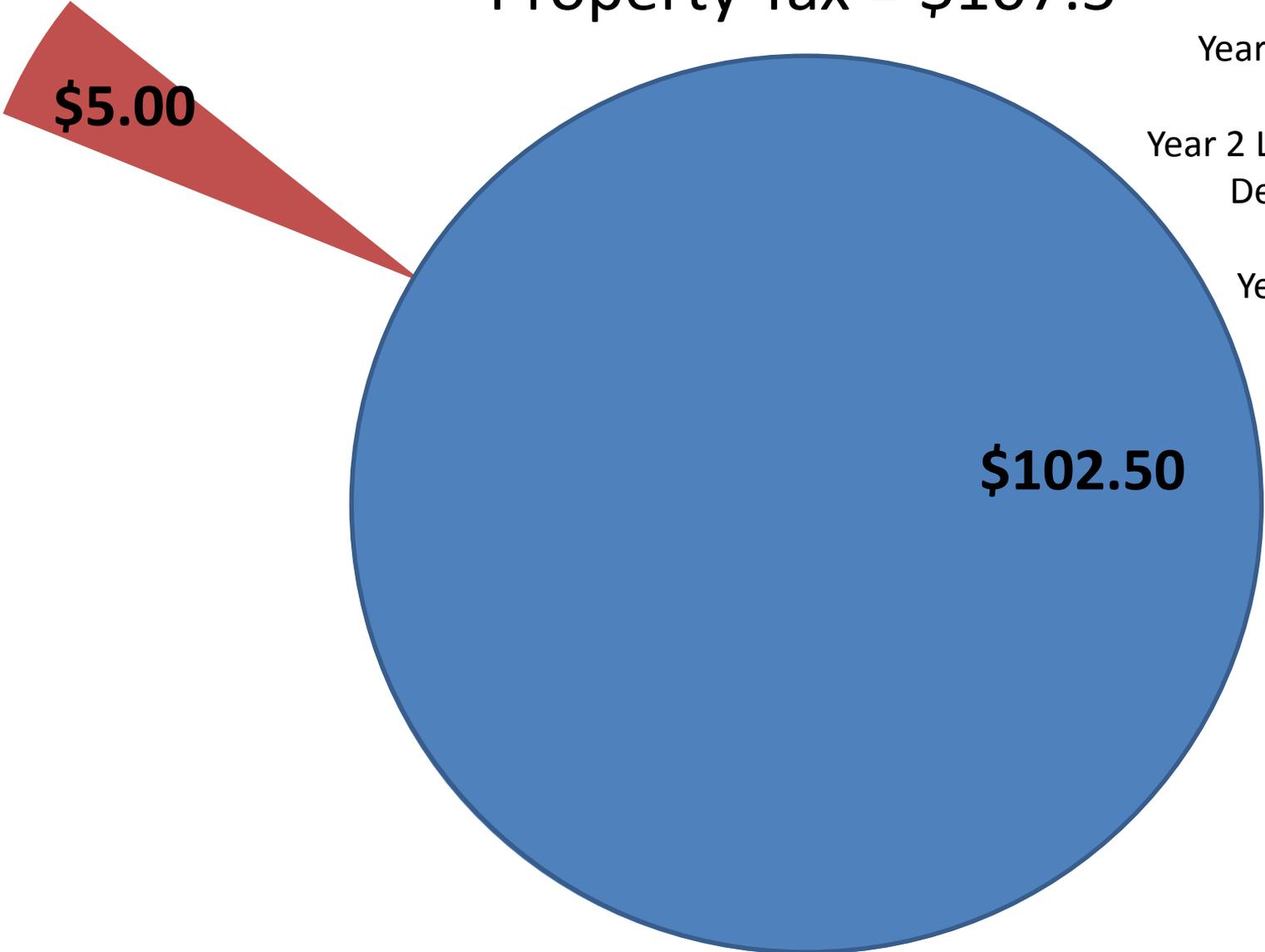
■ All Other

■ Debt

\* Assumes no excluded debt

# Debt Exclusion Example

Year 2\_Debt Excluded  
Property Tax = \$107.5



Year 1 Levy Limit = \$100  
+ 2.5%

Year 2 Levy Limit = \$102.50

Debt Exclusion Passed

Debt: + \$5.00

Year 2 Levy = \$107.50

■ All Other

■ Debt

# Proposition 2 ½ Override

- General Override: Allows the Levy Limit to be permanently raised by more than 2 1/2%. Requires a majority Town Meeting vote to approve the budget contingent on a subsequent override and then a majority ballot ratification of the override.
- Debt Exclusion: Specific to a defined debt. Allows a temporary override of Proposition 2 ½ until the debt is paid off. Allows but does not require that debt be paid for outside of the budget. Authorization is good for the term of the debt.

Key Difference: General Override ***permanently*** raises the levy limit. A Debt Exclusion only temporarily increases taxes and ***does not*** raise the levy limit.

# Debt Exclusion Ballot Question Example

The local appropriating authority\* of any city or town may, by two-thirds vote, seek voter approval at a regular or special election to assess taxes in excess of the amount allowed pursuant to this section for the payment of principal and interest on bonds, notes or certificates of indebtedness, excluding tax revenue anticipation notes, issued by the city or town and for the city's or town's apportioned share of the principal and interest on such bonds or notes issued by a regional governmental unit which were not outstanding as of November fourth, nineteen hundred and eighty; provided, however, that the question submitted shall be as follows:—

**“Shall the (city/town) of \_\_\_ be allowed to exempt from the provisions of proposition two and one-half, so-called, the amounts required to pay for the bond issued in order to (state the purpose or purposes for which the monies from the local issue will be used)?**

**YES \_\_\_\_\_ NO \_\_\_\_\_**

and provided, further, that said question shall be deemed approved if a majority of the persons voting thereon shall vote “yes”.

\* For Groton the appropriating authority is the Board of Selectmen

# Estimated Taxation Impact on a \$400,000 Home (assumes taxation to the levy limit)

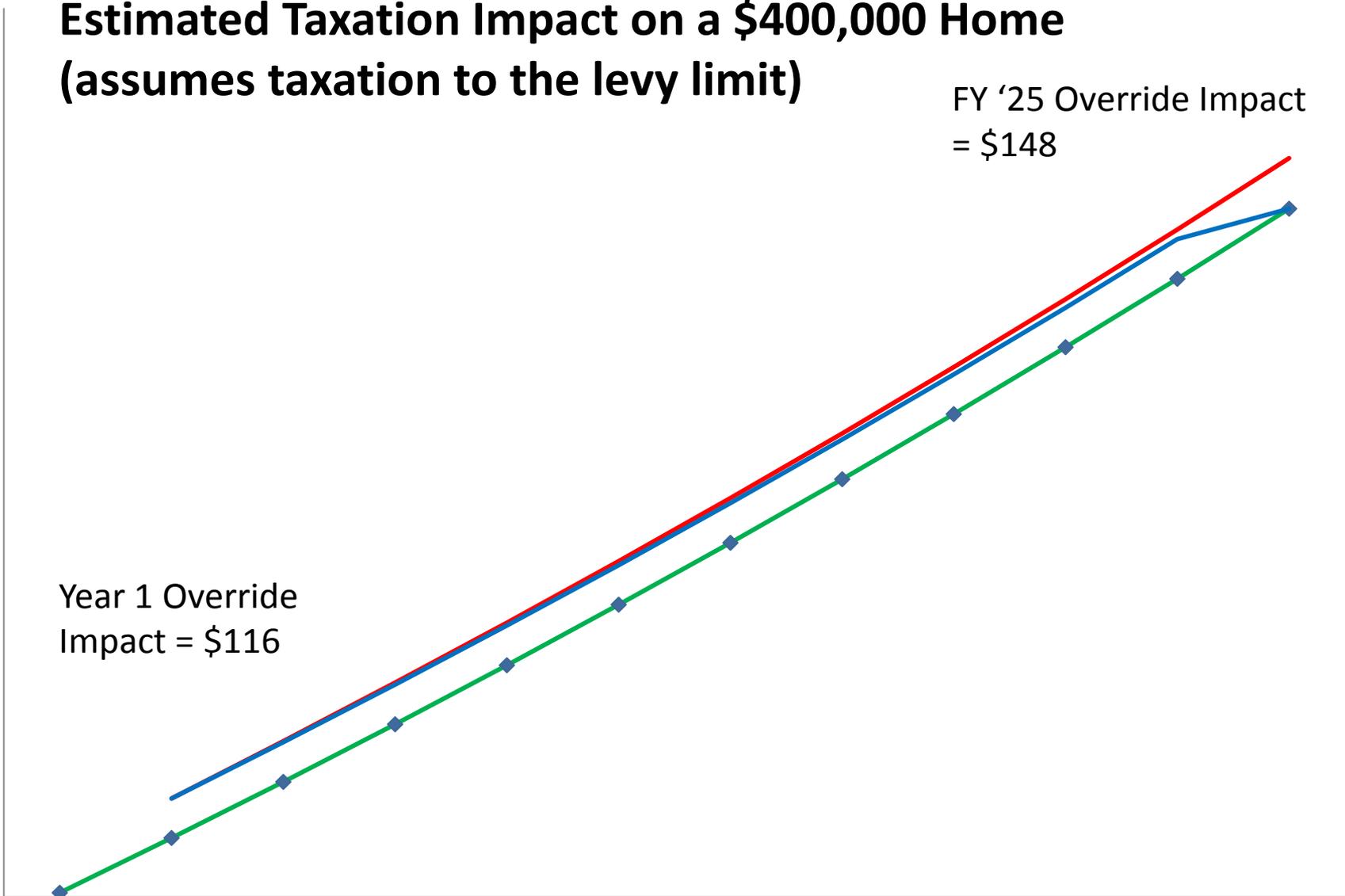
FY '25 Override Impact  
= \$148

Year 1 Override  
Impact = \$116

\$8,900  
\$8,400  
\$7,900  
\$7,400  
\$6,900  
\$6,400

2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025

◆ No Override    — With Override @ \$116    — Debt Exclusion: 10 yrs @ \$116



# Groton's 2015 Estimated Budget and Tax Impact

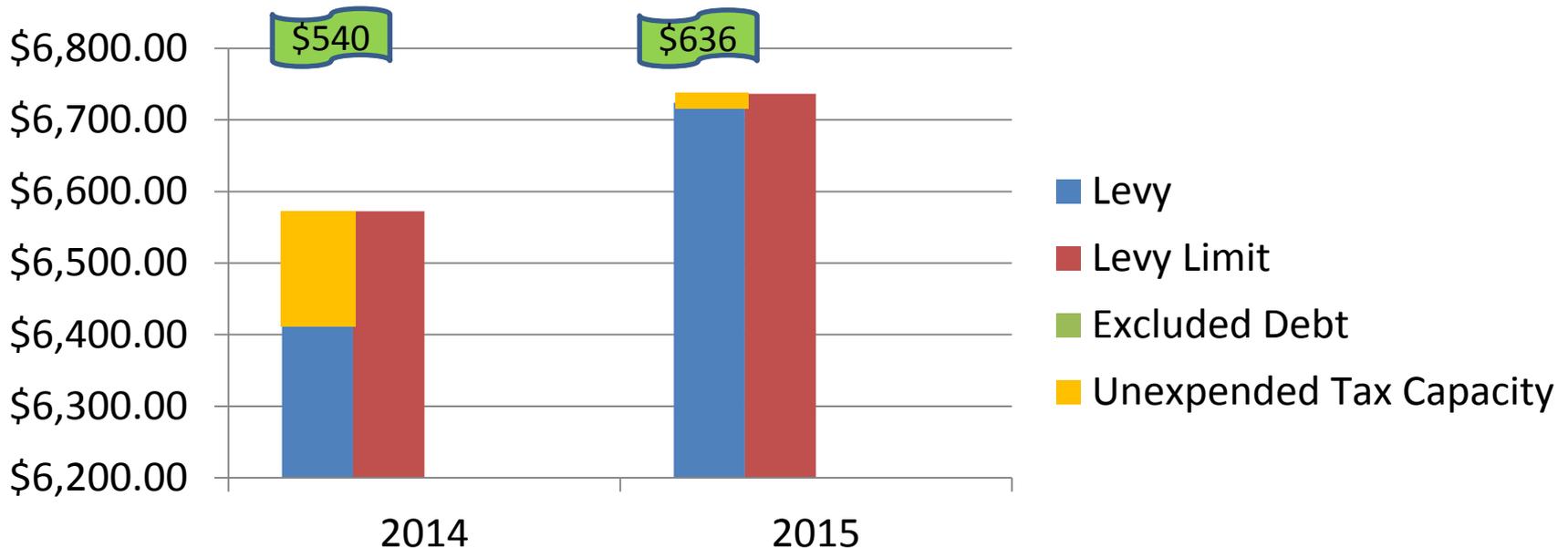
## Groton 2015 Budget Impact Summary

\*\* Estimated

	2014	2015**	Change	
Mill Rate	\$ 17.38	\$ 18.40	5.87%	
Municipal Budget	\$ 13,536,421	\$ 13,720,080	1.36%	
School Budget	<u>\$ 16,352,324</u>	<u>\$ 17,756,023</u>	<u>8.58%</u>	
<b>Total</b>	<b>\$ 29,888,745</b>	<b>\$ 31,476,103</b>	<b>5.31%</b>	
				<b>Impact per \$100k of assessed value</b>
<b>Within Levy Limit</b>				
Fire Station	\$ 120	\$ -	-100.00%	\$ (30)
Balance of Municipal Budget	\$ 2,296	\$ 2,400	4.53%	\$ 26
School Budget	<u>\$ 3,996</u>	<u>\$ 4,324</u>	<u>8.21%</u>	<u>\$ 82</u>
<b>Total Within Levy Limit Impact</b>	<b>\$ 6,412</b>	<b>\$ 6,724</b>	<b>4.87%</b>	<b>\$ 78</b>
<b>Excluded Debt</b>				
Prior Debt	\$ 540	\$ 520	-3.70%	\$ (5)
Fire Station	<u>\$ -</u>	<u>\$ 116</u>	<u>0.00%</u>	<u>\$ 29</u>
<b>Total Excluded Debt Impact</b>	<b>\$ 540</b>	<b>\$ 636</b>	<b>17.78%</b>	<b>\$ 24</b>
				<u>\$ -</u>
<b>Total Impact</b>	<b>\$ 6,952</b>	<b>\$ 7,360</b>	<b>5.87%</b>	<b>\$ 102</b>

# How Can Taxes Within Levy Limit Go Up More Than 2½%?

Example of effect of Unexpended Tax Capacity, Debt Exclusion and Levy Limit on a \$400k Homeowner *(illustrative purposes only)*



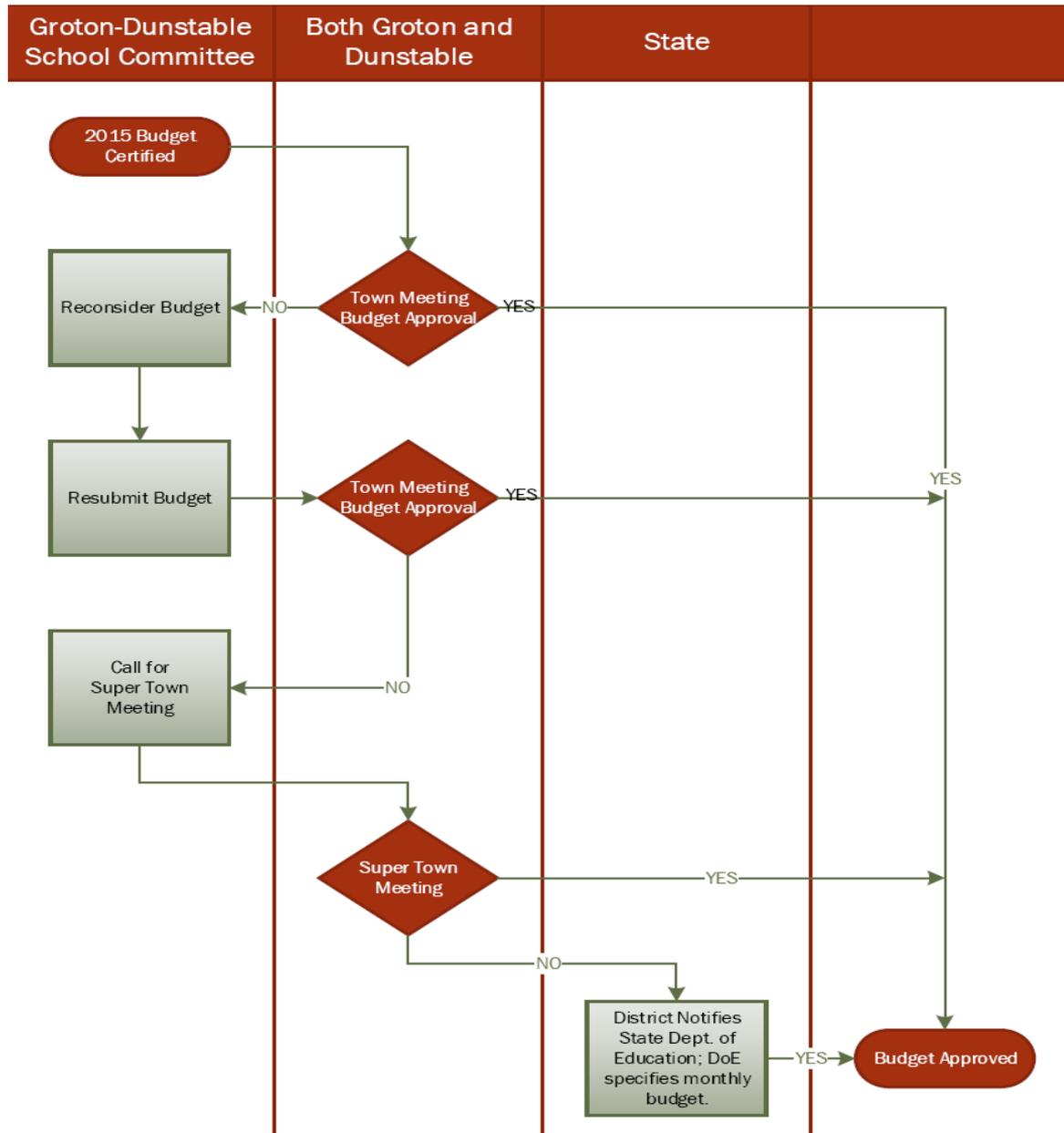
2014 Levy was 2.5%\* (\$160\*\*) below the Levy Limit

2015 Levy is projected to be 0.2%\* (\$13\*\*) below Levy Limit

\*Approximation

\*\*Converted to a sample household \$ amount. Example for illustrative purposes only

# Overrides in a Regional School District



# FAQ

- Does a Proposition 2 ½ Override mean something is wrong?
  - Not necessarily. It simply means that our expenses are rising at more than 2 ½ % per year.
- Why would I vote for or against a Debt Exclusion?
  - A yes vote free up revenue from our regular operating budget that is now used to pay for the Fire Station debt, and allow that money to be spent on operating costs such as the school budget. Taxes will be raised to pay for the debt but they will come back down when the debt is paid.
  - A no vote would require that the fire station debt be paid for without raising taxes. We would have to either reduce our other municipal and/or school spending, or pass a General Override to pay for those expenses.
- What happens if both towns do not agree? Can one town make extra \$ available?
  - The contribution of each town is set according to a ratio of approximately 3:1 (Groton : Dunstable). Neither town may contribute more or less than their share. A limitation by one town imposes a limitation on the other.
- If we pass a Debt Exclusion or an Override is the money guaranteed to go to schools?
  - A successful Debt exclusion simply pulls the debt out of the Levy Limit, allowing additional taxes to be levied.
  - A successful Override does ‘Earmark’ funds for a specific purpose in the first year but not in subsequent years
- On the “Groton’s 2015 Estimated Budget and Tax Impact” slide the debt for the fire station is at \$120 in 2014 and \$116 in 2015. Why is that?
  - The tax rate was set on the overall budget, for 2014, and line items were allocated based on our budget construction process. A conservative estimate on the bonding costs yielded a savings that will either be used to offset other expenses that exceeded expectations or certified as free cash in the Fall of 2014. The 2015 number shows the actual annual cost of the debt.
- How much will my taxes go up?
  - If all budget actions are approved and the debt exclusion is passed, FY 15 taxes for Groton residents will rise approximately \$100 for every \$100,000 of assessed property value
- How do I find out how much my property is assessed at?
  - Contact the Assessor’s office or see the data online at <http://gis.vgsi.com/grotonma/Search.aspx>

# Summary

- This is complicated. Ask Questions!
  - Reviewed Terms and Concepts
    - Budget: Municipal + Schools
    - Proposition 2 1/3
    - Levy
    - Levy Ceiling
    - Levy Limit
    - Overrides and Debt Exclusions
  - Other Budget Topics:
    - The 2015 Budget is still in play. Why?
    - What tools do we have?
      - Taxes
        - Excess Levy Capacity / Override / Debt Exclusion
      - Cuts