

Massachusetts Proposition 2½

Simulating Overrides with Low-Income Elderly Exemptions

In 1980, Massachusetts instituted Proposition 2½, a law limiting increases in local property taxes. Nevertheless, municipalities facing revenue shortfalls have repeatedly sought overrides—votes by community residents to approve levy increases higher than 2.5 percent. Of the approximately 1,180 override attempts since 2000, nearly 51 percent have passed.¹

Now legislation has been introduced to exempt low-income elderly homeowners from property tax increases authorized by overrides. Three criteria must be met: The head of the household must be 65 years of age or older; the total household income must be \$60,000 or less; and the ratio of the household's property tax to income (the *property tax burden*) must be 10 percent or greater. In effect, seniors who own their homes

and have a fixed or moderate level of income are generally granted an exemption.

To study the implications, the New England Public Policy Center developed a *circuit-breaker* analysis. The analysis was based on publicly available data from the 2006 American Community Survey, published by the U.S. Census Bureau. With its up-to-date demographic and economic data, including total household income and total property taxes paid, the ACS enabled the NEPPC to analyze the number of households that could benefit from the exemption and the potential effect on the property tax burdens of nonexempt households.

A Simulation Tool

The ACS surveys one out of every 100 households. The smallest available geo-

graphic regions are Public Use Microdata Areas (PUMAs). Since a PUMA contains a minimum population of 100,000 while preserving the internal political boundaries, any given PUMA may contain more than one municipality. So for purposes of simulating potential override effects, the NEPPC chose three municipalities that lie within their own PUMA—Cambridge, Springfield, and Worcester. (Although these three are not among those that regularly propose or pass overrides, they are useful for demonstrating the simulation tool.)

To understand the simulation results, it is necessary to know the basic economic and demographic profiles of the municipalities. (See “Median Demographic and Economic Profiles of Residents in Owner-Occupied Homes, 2006.”)

Compared with Massachusetts overall, Cambridge owner-occupied households have a higher median income and a far lower property tax burden. Cambridge, with roughly 60 percent of its housing units occupied by renters, is below the Massachusetts owner-occupancy rate of 65 percent. Springfield and Worcester households have median property tax burdens similar to Massachusetts as a whole but a lower median income. They also have a lower percentage of housing units that are owner-occupied.

Communities' owner-occupied elderly households differ significantly in their property tax burdens and incomes. (See “Median

Median Demographic and Economic Profiles of Residents in Owner-Occupied Households, 2006

	Property tax burden	Property tax	Income	% Households owner-occupied
Massachusetts	4.0%	\$3,050	\$76,471	64.9%
Cambridge	3.2%	\$2,650	\$80,495	39.0%
Springfield	3.9%	\$2,150	\$50,732	51.6%
Worcester	3.8%	\$2,750	\$66,912	47.6%

Source: 2006 American Community Survey.

Property Tax Burdens of Owner-Occupier Householders 65 and Older.”)

In Cambridge, elderly owner-occupied households have a much larger median income, are less burdened by property taxes than their counterparts statewide, and have more than double the median property tax burden of the city’s median owner-occupied households. Cambridge also has a larger percentage of owner-occupied households headed by elderly residents.

In Springfield, elderly owner-occupied households have a lower median property tax burden, lower median income, and a slightly higher percentage of all owner-occupied houses. In Worcester, elderly owner-occupied households are more severely burdened than their statewide counterparts. Compared with the median owner-occupied household, the median elderly owner-occupied household in Worcester has exactly double the property tax burden.

A Circuit Breaker

To analyze the effects of a property tax increase with the proposed exemption for low-income elderly households, the override simulation froze the property tax bill of low-income elderly households currently paying more than 10 percent of their total income in property taxes at its current level. If any such household reached a 10 percent property tax burden as a result of the override, the property tax burden was capped at that level.

Clearly, since overrides increase the community’s total tax levy by a specified amount, taxes are higher on taxpayers not receiving the exemption. So NEPPC asked the question, What is the potential impact

Median Property Tax Burdens of Owner-Occupier Householders 65 and Older

	Property tax burden	Property tax	Income	Households headed by person age 65+
Massachusetts	7.1%	\$2,850	\$38,738	23.0%
Cambridge	6.6%	\$4,050	\$53,731	26.5%
Springfield	5.6%	\$2,050	\$31,091	24.4%
Worcester	7.6%	\$2,450	\$28,173	20.1%

Source: 2006 American Community Survey.

of a 6 percent property-tax increase for each municipality?²

According to the analysis, 9.6 percent of all owner-occupied households and 35.4 percent of elderly owner-occupied households in Cambridge would benefit from the exemption. That is, their taxes would be lower with the exemption than if the override passed without the exemption. (See “Simulation Results.”)

The median property tax burden of a qualifying household is 23.9 percent. The average nonexempt household in the lowest-income quintile would see its property tax burden increase by 1.06 percentage points, a \$170 increase.³ (See “Distributional Effects on Select Nonexempt Groups,” page 24.)

In the top-income quintile, the median nonexempt household’s property taxes would go up \$280, increasing the property tax burden by only 0.15 percentage points. Nearly 11 percent of all nonelderly owner-occupied households in Cambridge have an annual income of less than \$60,000 and

would reach or exceed a 10 percent property tax burden after the override.

A Springfield override would exempt only 5.7 percent of all owner-occupied households and 23.6 percent of elderly owner-occupied households. The median property tax burden of an elderly household qualifying for the override exemption is 15.7 percent. The nonexempt households in the lowest-income quintile would experience the largest increase in their property tax burdens, 0.49 percentage points, an increase of \$118. The highest income quintile households in Springfield would experience a 0.1 percentage point increase, with property taxes increasing by \$181. Of the nonexempt owner-occupied households headed by individuals less than 65 years old, approximately 8.5 percent have incomes less than \$60,000 and would have a property tax burden of 10 percent or greater after the override.

An override exemption would benefit 8.3 percent of all owner-occupied households in Worcester and 41 percent of

Simulation Results

	Nonexempt*			Exempt prior to override			Exempt because of override		
	Property tax increase	% Point increase in property tax burden	Owner-occupied households	Property tax increase	% Point increase in property tax burden	Owner-occupied households	Property tax increase	%Point increase in property tax burden	Owner-occupied households
Cambridge	\$184	0.20	90.4%	\$0	0.00	8.3%	\$116	0.45	1.4%
Springfield	\$137	0.25	94.3%	\$0	0.00	4.5%	\$3	0.10	1.3%
Worcester	\$180	0.23	91.7%	\$0	0.00	7.8%	\$127	0.47	0.4%

Source: 2006 American Community Survey and authors calculations.

*Nonexempt groups are those that would receive no tax relief from an override’s higher rate.

Note: Calculations are representative of median households.

Proposals for exemptions protecting vulnerable groups may help municipalities successfully pass overrides. However, other groups vulnerable to overrides may be motivated to vote against such proposals.

elderly owner-occupied households. The median property tax burden of a qualifying owner-occupied household is 18.2 percent. Of all the households that would not qualify for the exemption, the largest increase in property tax burden—0.49 percentage points, an additional \$147—would occur for those in the lowest-income quintile. The burden of households in the highest-income quintile would increase by 0.12 percentage points, or \$200. Of the nonexempt nonelderly owner-occupied households, about 6.6 percent have incomes less than \$60,000 and would experience a property tax burden of 10 percent or higher in the event an override.

Tough Decisions Ahead

Proposition 2½ overrides offer a tempting solution for Massachusetts cities and towns searching for new revenues. When override ballot questions fail to pass, however, municipalities are left with budget shortfalls causing cuts in public services, school programs, public workers, and the like. Proposals for exemptions protecting vulnerable groups may help municipalities successfully pass overrides. However, other groups vulnerable to overrides—say, nonelderly low-income households with severe property tax burdens—may be motivated to vote against such proposals. The NEPPC's circuit breaker analysis provides a tool to under-

stand what happens when some people are exempted from the effect of override and how that affects property-tax distribution. This type of analysis can help communities decide how to move forward in funding municipal services.

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Endnotes

¹ See Massachusetts Department of Revenue's Municipal Databank, http://www.mass.gov/Ador/docs/dls/mdmstuf/Prop2_LevyCap_RefVotes/overrides.xls.

² The tool simulates a 6 percent increase in the property tax levy of each town over the 2.5 percent growth in the property tax levy. The selection of the 6 percent increase is arbitrary. The analysis is just meant to show what can be analyzed. For purposes of the simulation, property taxes are assumed to be stagnating.

³ Quintiles are constructed based on Massachusetts owner-occupied households for comparison across municipalities.

Distributional Effects on Select Nonexempt Groups*

Nonexempt	Cambridge			Springfield			Worcester		
	Property tax increase	% Point increase in property tax burden	Owner-occupied households	Property tax increase	% Point increase in property tax burden	Owner-occupied households	Property tax increase	% Point increase in property tax burden	Owner-occupied households
Elderly Households	\$246	0.26	17.5%	\$130	0.31	18.5%	\$154	0.36	11.9%
Nonelderly households < \$60,000 with property tax burden ≥ 10%	\$253	1.74	10.8%	\$149	0.99	8.5%	\$206	1.20	6.6%
Lowest income quintile (< \$ 37,230)	\$170	1.06	16.4%	\$118	0.49	28.9%	\$147	0.49	16.4%
Second income quintile (\$ 37,230 - \$ 63,200)	\$170	0.38	12.2%	\$130	0.27	28.3%	\$167	0.34	20.9%
Middle income quintile (\$ 63,200 - \$ 91,300)	\$114	0.15	12.8%	\$143	0.18	19.4%	\$173	0.23	21.4%
Fourth income quintile (\$ 91,300 - \$ 132,650)	\$211	0.18	12.9%	\$149	0.15	12.8%	\$200	0.18	18.8%
Highest income quintile (> \$ 132,650)	\$281	0.15	34.4%	\$181	0.10	4.9%	\$200	0.12	14.2%

Source: 2006 American Community Survey and author's calculations.

*Nonexempt groups are those that would receive no tax relief from an override's higher rate.

Note: Calculations are representative of median households.