

PROPOSITION 2 1/2

THE CHOICES BEHIND THE CONSTRAINT

CAPE & ISLANDS MUNICIPAL LEADERS ASSOCIATION

SEPTEMBER 18, 2026

“Prop 2 1/2 isn’t simply a limitation on what a town can spend. It is a framework within which elected officials, and ultimately the community, have to make choices about services, and investments in the community.”

PROPOSITION 2 ½ - WHAT IT IS, WHAT ITS NOT.

It is NOT	It IS
An indication of poor management	A framework for making choices
Evidence that a town is fiscally irresponsible	A constraint on our major revenue source
A requirement to cut services	A requirement to prioritize services
A substitute for financial discipline	A reason to exercise financial discipline
A prohibition on increasing taxes	A process for deciding when and how to increase taxes
A measure of whether a community is affordable	A framework for balancing services, taxes, and community priorities.

Prop 2 ½ doesn't tell us what to choose, but it does require voter choices and approval, making clear communication essential to make sure they understand the choices.

Fiscal Discipline vs. Fiscal Capacity

THE FUNDAMENTAL PROBLEM

EVERYTHING COSTS MORE

But recurring revenue doesn't automatically keep pace - Property tax revenue does not grow at the same rate, and we need recurring revenues to fund recurring costs.

- ❖ Schools
- ❖ Public Safety
- ❖ Infrastructure
- ❖ Water/Wastewater
- ❖ Housing
- ❖ Labor & Benefits
- ❖ Climate Resilience

The question isn't whether there are needs.

The Question is: What do we choose to fund?

What choices does Proposition 2 ½ actually leave us?

PROP 2 ½ IS NOT A TAX-RATE CAP.

Levy Limit & Maximum Allowable Levy	Eastham's Levy Calculation	Levy Ceiling
Prior-year levy limit	30,487,331	2.5% of assessed value
+ 2.5% Growth – automatic annual growth	762,014	5,330,181,800 *.025 =
+ New Growth – New levy from new construction and development	270,400 (.88% of prior levy)	Levy Ceiling of \$133,254,545
+ Overrides – a permanent increase in levy	<u>3,035,000</u>	
Subtotal: Recurring operating levy	34,554,745	
+ Exclusions – Temporary increase in levy.	<u>9,406,398</u>	
= Maximum allowable levy or Levy Limit	43,961,143	

The property value trap – the levy is not affected by increase in values. Assessed values can increase 10% + but the levy still only increases 2.5% plus new growth. Increasing values does not equal revenue, it only changes how the levy being raised is paid by each taxpayer. **Property wealth does not equal municipal revenue.**

NEW GROWTH: AN UNDERAPPRECIATED LEVER

New Growth – provides for new additions to the tax base and provides for new recurring levy capacity. Excludes normal market appreciation.

New construction
Renovations
Redevelopment
Taxable improvements
(Docks, Outside Showers, Sheds)

BUT:

What's the net fiscal impact of this growth?
Does the additional development bring additional costs?

Cape Cod 2026 New Growth Rates		
<u>Town</u>	<u>\$ Amount</u>	<u>% of Levy</u>
Barnstable	1,343,313	0.9
Bourne	608,873	1.05
Brewster	356,015	0.86
Chatham	421,047	1.1
Dennis	372,960	0.73
Eastham	285,313	0.97
Falmouth	1,636,493	1.36
Harwich	361,716	0.67
Mashpee	553,564	0.92
Nantucket	1,561,111	1.39
Orleans	505,082	1.48
Provincetown	276,541	1.01
Sandwich	1,062,162	1.34
Truro	255,706	1.22
Wellfleet	168,738	0.72
Yarmouth	527,304	0.72

OVERRIDES - A PERMANENT INCREASE IN THE LEVY LIMIT WHEN SHOULD WE ASK VOTERS TO PAY MORE?

Is an override the appropriate tool or approach.

1. Is the expense recurring?
2. Is the problem structural?
3. Can we maintain services while reducing costs?
4. Can we clearly explain the need and the why?

Don't sell the tax. Sell the choice

EXCLUSIONS – TEMPORARY, FOR SPECIFIC PROJECT

- ❖ **Capital Exclusion** – a one-time increase in the tax levy to pay for the cost of a capital item that is not being funded by a bond issue. (typically, a small-scale capital purchase)

 - ❖ **Debt exclusion** – a multi-year increase to the tax levy to pay for the debt service created by a bond used to pay for a capital project.
 - Must be used to pay for the debt service only – if the debt service doesn't occur as planned, any savings needs to be returned to taxpayers. Does not become Free Cash.
 - Must be reduced if the debt service is funded from other revenues – no double dipping! Could provide a “fiscal cliff” trap.

 - ❖ **Special Legislation** – exempted reasons,
 - Cape Cod Commission Assessment
 - Eastham Resident Taxpayer Assistance Fund or Water Hook up fund – Special legislation
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OVERRIDES VS. EXCLUSIONS

Override	Exclusion
Permanent	Temporary
Becomes part of the levy-limit base	Does not become part of the base
Generally for recurring costs	Generally for capital or debt
Requires voter approval (Ballot Question)	Requires voter approval (Ballot Question)
Future 2 ½ growth applies to it	End when debt/project obligation ends
Could be “underwritten” via Underride	

EXCESS LEVY CAPACITY

The difference between what a town can levy vs. what it actually chooses to levy.

Maximum allowable levy – Actual Levy = Excess Levy Capacity

Eastham's Levy Limit	\$43,961,143
Eastham's Actual Levy	<u>\$43,296,949</u>
Excess Levy Capacity	\$664,949

BUT – is this excess levy capacity really available to us, or does it have a planned use?

Requires multi-year budget projections and levy planning.

2026 CAPE COD LEVY DATA

Town	Levy Limit w/o Excl.	Maximum Levy Limit	Actual Tax Levy	Excess Levy Capacity	% of Levy w/o Excl.	Levy Ceiling	Override Capacity
Barnstable	153,978,903	156,278,174	156,051,579	226,595	0.15%	656,894,004	502,915,101
Bourne	60,259,552	64,168,950	64,107,403	61,547	0.10%	209,501,317	149,241,765
Brewster	42,774,255	49,234,373	49,194,392	39,981	0.09%	181,663,192	138,888,937
Chatham	39,516,547	48,473,318	47,230,837	1,242,481	3.14%	321,735,945	282,219,398
Dennis	52,748,284	57,277,160	56,904,448	372,712	0.71%	331,611,004	278,862,720
Eastham	30,487,405	39,775,670	39,767,133	8,537	0.03%	129,803,053	99,315,648
Falmouth	124,618,386	134,508,667	133,083,864	1,424,803	1.14%	580,645,132	456,026,746
Harwich	55,986,369	61,747,501	61,599,561	147,940	0.26%	265,058,353	209,071,984
Mashpee	62,318,416	64,882,640	63,760,839	1,121,801	1.80%	264,264,666	201,946,250
Orleans	36,517,054	44,561,547	44,510,169	51,378	0.14%	182,120,166	145,603,112
Provincetown	29,624,642	34,092,677	33,963,480	129,197	0.44%	149,129,208	119,504,566
Sandwich	82,264,248	85,426,333	81,327,568	4,098,765	4.98%	199,527,890	117,263,642
Truro	21,737,099	22,823,539	22,795,655	27,884	0.13%	99,811,737	78,074,638
Wellfleet	24,089,064	28,719,506	28,373,738	345,768	1.44%	107,326,181	83,237,117
Yarmouth	76,223,896	81,142,407	81,070,070	72,337	0.09%	290,782,175	214,558,279

PROPOSITION 2 ½ & BUDGET CHALLENGES

- ❖ Regional School District Assessments
 - ❖ State Aid – Choice & Charter
 - ❖ How do you present an override
 - Unified Budget vs. Presenting a “Contingent Budget”
 - ❖ Town Meeting passage vs. Ballot defeat
 - ❖ Town Meeting levy reduction vs. Ballot approval
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THE CHOICE BEHIND THE CONSTRAINT

What kind of community do we want to be?

What services are important to us?

What can our community afford and/or support?

How do support those who cannot afford?

Prop. 2 ½ doesn't make those choices for us but it makes us have the conversation

Which ties into:

Property Tax Policy  A discussion for another day!
