

## Property Tax Revenues During An Economic Slowdown

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### *Why the tax levy will grow by 5% in FY09*

Despite the current economic slowdown, Boston's property tax revenues will grow by \$65.7M or 5% in FY09. Although this may seem counterintuitive during this time, the cause is primarily the way in which Proposition 2½ works. The structure of Proposition 2½ enables the City to increase overall property tax revenues even when property values produce limited growth or decline. The annual changes in assessed values and tax rates combine to ensure that each year the tax levy increase does not exceed the limitations established in Proposition 2½.

Proposition 2½ places constraints on the total amount of the levy the City can raise from real and personal property as well as how much it can be increased from year to year. These limitations are established through a **levy ceiling** and a **levy limit**.

The **levy ceiling** is the primary limitation of Proposition 2½, which states that the property tax levy cannot exceed 2.5% of the total full and fair cash valuation of all taxable real and personal property. This is not parcel specific, but applies to the levy as a whole. Boston's total taxable value in FY09 is \$90.4B which establishes the levy ceiling at \$2.3B.

The **levy limit** prohibits the property tax levy from exceeding the previous year's levy limit by more than 2.5%, with increases allowed for additions to the tax base through new

construction (new growth) or major renovations. The levy limit must be below the levy ceiling. Even when taxable assessed values are flat or decrease the City is able to increase its annual tax levy by 2.5% as long as the levy limit is below the levy ceiling. The FY09 levy is \$1.4B which is approximately \$859.7M below the levy ceiling. The increase in the FY09 levy is evenly attributable to the 2.5% levy increase of \$32.9M and new growth of \$32.8M.

The annual changes in assessed values and tax rates combine to ensure that each year the tax levy increase does not exceed 2.5%. In years of strong property value appreciation, the tax rates will be reduced and in years of more moderate value growth or decline the tax rates will be increased to ensure the prior year levy does not exceed the 2.5% increase. Thus in a time of robust economic growth the City is not able to capture the full extent of the value increase in the tax levy. For Boston, what changes is how the burden is shifted from year to year between business and residential properties.

For more on the FY09 tax rate for Boston, [click here](#).