

Addressing Westport's Structural Deficit

The Westport Finance Committee stated in its report to the June 5, 2021 Town Meeting that the Town has, and will continue to have, a structural deficit in its annual budget. This paper is intended to define that term, provide background about how it has occurred, and present some suggestions as to how to address that deficit.

What is a structural deficit? It is a recurring budget deficit that results from a fundamental imbalance between government receipts and the expenditures required to provide the level and quality of services our public officials believe is needed and our citizens agree is both desirable and worth paying for.

How does a structural deficit come about? It occurs when government receipts stop growing as rapidly as the needed or desired government expenditures. In some cases, this imbalance is due to decisions by the community not to raise more revenue or increase charges for public services. But in other cases, it can be due to legal restrictions on the authority of the community to increase revenue through taxation and fees by the normal process of budget approval by Town Meeting. For example, in 1980 Massachusetts citizens voted to enact a ballot initiative, known as Proposition 2 ½, that imposes limits on the growth of property tax revenues without the specific approval of both Town Meeting and a local public ballot. This has led to continuing structural deficits in many communities including in Westport.

What is Proposition 2 ½ and how does it work?

- It imposes a property tax cap or ceiling which requires the total property tax levied can never exceed 2 ½ % of the full cash value of all taxable property in the city or town. In other words, the tax rate cannot be higher than \$25.00 per \$1,000 of valuation.
- It imposes a property tax levy limit which limits to 2 ½ % the annual increase in the property tax revenue, plus an allowance for the value of new properties. The levy limit can only be exceeded by debt exclusions or overrides that must be approved by both Town Meeting and a public ballot.

How has Westport been affected by Proposition 2 ½? The 2 ½ % cap or ceiling on the property tax relative to the total value of assessed property has had no impact in Westport. In the current fiscal year, for example, the total assessed value of all property is \$4.015 billion. Based on that valuation, the 2 ½ % cap allows a property tax levy ceiling of \$100.4 million, three times more than the total amount of Westport's FY22 real estate tax bills of \$32.8 million. Put another way, the current property tax rate in Westport is 8.48 per \$1,000 or 33% of the cap which is 25.0 per thousand.

However, the 2 ½ % limit on the annual increases in property tax revenues has been a severe constraint in Westport. Town Meeting and the Town's electorate have granted override authority to exceed the 2 ½ % limit only twice: in 1994 and 1995. The purpose: \$160,000 for public safety equipment. 17 other attempts to override the 2 ½ % limit over a period of 30 years have failed.

How has this impacted Westport’s fiscal condition? Probably the most meaningful perspective on Westport’s fiscal condition is to compare, on the revenue side, the average property tax bill as a per cent of average per capita income, and on the expenditure side, the total government expenditure per capita. The tax ratio combines the average property tax bill and the average personal income level to provide a measure of the “property tax burden” for each of the towns. The expenditure ratio shows the amount of government spending on a per capita basis and is a measure of the “level of public services.” Such comparisons for Westport and 13 other nearby towns of roughly comparable size are presented in the following table.

Comparison of Population, Average Personal Income, Property Tax Rate and Burden and Government Spending in 14 Communities¹

Municipality	Population	Average personal income per capita	Residential Property tax rate FY 21	Average property tax as % of average personal income FY 22	Average general government expenditure per capita FY20
Acushnet	10,559	30,529	13.83	13.66	\$2,786
Berkley	6,764	37,159	14.28	14.61	\$3,453
Dartmouth	33,783	34,186	9.90	11.99	2,690
Fairhaven	15,924	28,440	11.29	12.27	3,364
Freetown	9,266	35,902	12.70	11.98	2,881
Lakeville	11,523	39,256	12.77	12.11	2,579
Marion	5,347	54,984	11.32	12.52	4,625
Mattapoisett	6,508	55,547	12.96	11.90	4,741
Middleborough	25,245	28,925	16.27	18.90	3,321
Rochester	5,717	42,177	13.37	13.10	3,942
Sandwich	20,259	39,187	13.37	14.41	4,255
Swansea	17,144	32,280	14.21	12.43	2,887
Wareham	23,303	23,840	11.16	13.67	3,029
Average for 13 towns	14,722	37,109	12.88	13.35	3,567
Westport	16,339	39,479	8.62	9.12	2,656
Westport as % of the average	110%	106%	67%	68%	74%

¹ These data are from the Massachusetts Department of Revenue, Division of Local Services, Data Analytics and Resources Bureau and are available at the following website https://dls.gateway.dor.state.ma.us/reports/rdPage.aspx?rdReport=Votes.Prop2_5.OverrideUnderride.

The data show that while Westport has slightly above the average population and average per capita income, it has a much lower property tax rate and tax burden than the average of the other communities. The level of local government expenditures exhibits a similar, albeit less extreme pattern. Essentially Westport's property tax rate and tax burden are two-thirds and government expenditures per capita is three-fourths those of the other communities. Some of these communities, such as Marion and Mattapoisett are more affluent towns and have much higher public expenditure levels per capita. No other town has a tax rate anywhere near Westport's rate, and the only town that has a lower level of per capita government expenditure is Lakeville. The consequence has been a significantly lower level of government services in both quantity and quality in Westport relative to the levels provided in other nearby communities.²

How can a structural deficit be reduced? The most direct way to relieve the deficit is to increase revenues. Addition of new taxable real estate to the tax rolls, such as new residences or businesses, is one option, but the FY 22 impact (2.4%) of such additions, is modest and probably brings with it a need for more government services. The primary way in which the Town can raise significant amounts of additional revenue is by authorizing an override of the 2 ½ % limit.

What is an override? A local property tax override is an action approved first by a simple majority vote of Town Meeting and then by a majority vote of Town Referendum on whether to increase a town's property tax levy limit by a specified amount. The ostensible purpose for which the additional funds are to be used can be specified as either a particular type of expenditure such as teachers' salaries or public safety equipment, or for general government expenditures. Such specification is often helpful in gaining support for an override but does not actually determine how the increase in revenues must be spent in the fiscal year in which the override is approved or in subsequent years. An override will increase the amount of property tax revenue that can be collected in the year for which it is approved, but it also adds that same amount to the tax levy limit for all future years. Determination of how those revenues will be used in the current and future years will actually be made through the normal budgeting procedures that are finally reviewed and approved at Town Meetings.

Do other towns approve overrides? Of the approximately 4,441 override attempts by all the municipalities in Massachusetts between 1990 and 2020, 1,818, or 41%, were approved. The total dollar value of approved overrides for this period was \$720,305,778, adding \$720 million to the property tax levy limits for towns that approved them.³ In the most recent five-year period, 2016-2020, a total of 106 override proposals was approved in 62 towns with a total value of \$100,599,036 thereby adding that amount to the tax levy limits of those 62 towns.

² There are many studies that have criticized the constraining effects of property tax caps. An authoritative recent one is: Langley, Adam H. and Joan Youngman, *Property Tax Relief for Homeowners*. Cambridge, MA, The Lincoln Institute, 2021. Also see: Oliff, Phil and Iris J. Lav. "Hidden Consequences: Lessons from Massachusetts for States Considering a Property Tax Cap." Center on Budget and Policy Priorities. Washington, D.C. 2010.

³ These data are from the Massachusetts Department of Revenue, Division of Local Services, Data Analytics and Resources Bureau.

Which nearby towns have approved overrides? In addition to the two small overrides approved by Westport voters in 1994-95, four other nearby towns have approved overrides and the amounts have been substantial. Marion attempted 59 overrides of which 39 were approved. Mattapoisett attempted 58 overrides of which 23 were approved. The Marion overrides added \$2.3 million to the tax levy limit while the Mattapoisett overrides added \$1.9 million. Lakeville has attempted 10 overrides and approved 3 with a total value of \$2.8 million. Dartmouth has attempted 8 and approved 3 with a value of \$2.1 million.

Why have Westport voters rejected overrides? People clearly don't like to vote for higher taxes, and this is especially true if they cannot see any clear benefits that they will derive from the higher taxes. It is doubly painful when people are asked to vote for a specific and permanent increase in a particular tax that impacts almost everybody but is not directly linked to any specific benefits. And that is what a property tax override is – a vote to increase taxes on nearly everybody to pay for unspecified expenditures on into the future.

It has proven much easier to get approval for increases in the property tax for a specific type of expenditure such as a new school or police station through what is termed a debt exclusion. That involves approving borrowing for a known expenditure that carries with it an increase in property taxes until the debt is paid off and the tax is then reduced accordingly. Over the past 22 years Westport voters have approved 12 debt exclusion measures while rejecting 10.

But a regular Prop 2 ½ override is an authorization for a higher level of taxation indefinitely. Some voters may feel that they are approving a permanent tax increase but losing control over how the additional revenues will be spent. They need to have confidence in the Town's budgetary process and in the role of Town Meeting in reviewing and giving final approval to that budget. They also need to remember that Town Meeting can vote to remove or reduce expenditure items in the proposed budget as well as vote for increases.

A vote for an override is also fundamentally a vote of confidence in the Town Government – a belief that the responsible officials – the Select Board, the Town Administrator, the Finance Committee, the School Superintendent and School Committee, the various other Department Heads and Town Committees - have evaluated, and will continue to evaluate, the many requests for funds carefully and bring to Town Meeting annual budgets that are, on the one hand, cost-effective and, on the other hand, responsive to the needs and wishes of a plurality of the town residents.

Of comparable importance for gaining approval of an override is for the voters at Town Meeting and at the ballot box to recognize that important government services are underfunded, that the salaries of Town employees – teachers, police, firemen, highway, cemetery, transfer station and custodial staff, many of the office workers – are lower than those in nearby towns, that many approved positions in Town Government are going unfilled because the budget lacks funding to pay for them. Not only does this put stress on the employees currently working in Town Government and possibly affect their performance, but it also can lead to discontent and encourage some to be looking for better opportunities elsewhere.

What might be done to gain support for an override in Westport?

Here are some possible elements of a strategy:

- First and most important is to make the citizens of Westport aware that, as demonstrated in the table above, the Westport property tax rate is much lower than in any nearby town, that the property tax burden and the level of government expenditures in Westport are also significantly lower than those for comparable nearby towns and that this has real consequences for the quantity and quality of government services.
- Second is to be as clear and specific as possible about the various reasons for raising more revenue and increasing government expenditure not just in the coming fiscal year but also on into the future. This will help residents to understand how they may benefit from those improved services. It is also important to remind them that they will be able to review and approve or reject specific expenditures in the future through the annual budgeting process.
- A third element would be to accompany the initial request for an override with enactment of various measures that will make the Westport property tax fairer and less onerous for those who have limited incomes and wealth or other disadvantages. Such measures should include exemptions for the elderly, the handicapped, surviving spouses, those with low incomes or wealth and other hardships, all of which are allowed under the current State Laws. In Westport, these various exemptions are not currently at their maximum allowed limits. That should be corrected. Not only would this make the property tax more equitable for the people of Westport, but it may help to reduce public resistance to enacting overrides.

Is it better to attempt one big override or a series of smaller overrides?

There is no clear answer to this question. As indicated previously, some towns have proposed and passed a few relatively large overrides while others have passed many smaller overrides often approving several overrides in the same year. Either way has the effect of raising the tax levy limit over time and thereby raising more revenues. Given the fact that Westport's property tax rate and revenue from that tax are so low relative to other towns, it might be tempting to go for a large override, but, based on past experience, that would probably be voted down.

An alternative strategy could be targeted on maintaining a constant tax rate in the face of rising property values such as are currently occurring. Given that the officially assessed property values in Westport rose by 10.5% this past year and are expected to continue to increase by that amount in the current year, it is possible to estimate how much of an override would be required to achieve the same tax rate next year. If there is no override, then the tax rate will inevitably decline as it did this year. The paper in the attached Appendix presents an analysis of what led to the reduction in the tax rate this year and, more importantly, how a greater decline in the rate could be avoided in the coming year. It concludes that an override of \$1,546,746 or 4.2 % will be needed to maintain a same tax rate in FY 2023 as in FY 2022

and that, to return to the FY2021 tax rate of 8.62, would require an override of \$2,173,291 or 6%. Those amounts of additional revenue would certainly help in dealing with the structural deficits currently being faced by Town officials.

Maintaining a steady property tax rate in the face of rising property values will both increase Town revenues and increase the progressivity of the property tax. The burden of the tax will be shifted to those owners of property that has increased in value which means primarily the owners of higher value properties that are currently experiencing the highest price increases. Thus, this strategy plus the increase in allowable exemptions to their maximum limits would clearly increase the progressivity of the tax structure and shift more of the burden onto the wealthier landowners. The converse of this proposition is that the currently very low property tax rate in Westport and the limits on exemptions have mainly benefited the owners of high value properties and have made the Westport property tax less progressive than in other towns.

If property values continue to rise at rates much higher than 2 ½ % per year, this strategy could be continued. Over a number of years it would raise Westport's property tax burden and progressivity, and its level of government expenditures per capita to bring them gradually closer to those of neighboring towns.

Appendix.

Rising Property Values, Tax Caps and Overrides

Rising property values increase the nominal wealth of some property owners and also the total assessed value of properties in a town. But limits imposed on property taxes by Proposition 2 ½ in Massachusetts that are not offset by overrides lead to reductions in property tax rates and constraints on the revenues that towns realize from such taxes. This Appendix illustrates the problem and possible solutions using the current conditions faced in the Town of Westport.

As shown in the table below, the total assessed value of all categories of property increased by 10.5% between FY 2021 and FY 2022 and is currently projected to increase by the same amount in FY 2023. The property tax rate was 8.62 per thousand in FY 2021 and the tax levy limit, debt exclusion payments and maximum available levy for that year are as shown in the table. In FY 2022, the tax levy limit increased by 4.9% - consisting of the 2 ½% under the cap plus 2.4% due to build-out of new properties. Debt exclusion payments increased by 70.5% mainly due to debt payments for the new school. This added \$3.8 million to the maximum tax levy, which rose by 8.8% over the FY 2021 to \$34,363,575.

Comparison of Assessed Property Values and Tax Levies, Westport, FY 2021-2023

Total assessed values	FY 2021	FY 2022	Change	FY 2023 est.	Change
Residential	3,373,984,658	3,723,707,143	10.4%		
Commercial	187,389,182	203,451,367	8.6%		
Industrial	14,172,290	19,286,810	36.1%		
Personal	88,116,300	103,126,410	17.0%		
Total Assessed Value	3,663,662,430	4,049,571,730	10.5%	4,475,250,000	10.5%
Override Calculation					
Tax Rate	8.62	8.48	-1.62%	8.48	0%
2 ½ % increase		729,081		764,605	
New growth		691,874		400,000	
Tax levy limit	29,163,246	30,584,201	+4.9%	31,748,806	3.8%
Debt exclusion payments	2,413,248	4,114,185	+70.5%	4,654,559	13.1%
Maximum available levy	31,594,494	34,363,575	+8.8%	36,403,364	5.9%
New Total Assessed Value X prior year's tax rate		34,907,308		37,950,120	8.7%
New total – maximum levy = Potential Override		543,733		1,546,756	

The actual total tax level approved at Town Meeting was \$34,340,379 and the tax rate dropped from 8.62 in FY 2021 to 8.48 in FY 2022. This was less than the maximum available levy of \$34,363,575 by \$ 23,196.

If there had been a decision to try to maintain a constant tax rate of 8.62 per \$1,000 rather than having the rate drop to 8.48, this would have required an override. Applying the former tax rate of 8.62 to the total assessed value of all property in FY 2022 would have produced a new total tax levy of \$34,907,308. This would have been \$543,733 above the maximum available levy. The possible higher total revenue resulting

from an override of \$543,733 would have increased total revenue from the property tax by 10.5% which is the same percentage increase as in the total assessed value of all properties.

It is important to note the large increase in debt exclusion payments that raised the maximum available levy by a comparable amount. This also reduced the amount of an override that would have been needed to maintain a constant tax rate of 8.62. The size of the debt exclusion payments will be a significant factor in estimating the amount of overrides needed in future years to maintain a steady tax rate.

Projections for FY 2023

Preliminary estimates of the increase in property values for FY 2023 indicate approximately a 10% increase. If we assume that the increase will be at the same rate as the previous year, or 10.5%, then the estimated total property value for FY 2023 would be \$4,475,250,000.

The 2 ½ % increase in the old tax levy limit will add \$764,605 to the new tax levy limit. New growth is projected at \$400,000 which together with the 2 ½ % increase would bring the tax levy limit for 2023 up to \$31,748,806. Debt service payments under debt exclusions are projected to add an additional \$4,654,559 bringing the projected maximum available levy up to 36,403,364.

To maintain the same tax rate as that of the current year of 8.48, the new total tax levy should be \$37,950,120. To reach that level of total tax levy would require an override of \$1,546,746. This would be an increase of 4.2% over the maximum available levy that would be possible without the override. It would make possible an increase of about 3% to the preliminary total budget estimates for the Town of \$50 million.

If, however, the objective was to reach the tax rate of FY 2021 of 8.62 per thousand, then the amount of the needed override would increase to \$2,173,291, which would be 6% more than the maximum available levy without the override and add 4.3% to the preliminary total budget.