

THE ODD PROPOSITION

If the day ever comes when an ambitious scholar, perhaps in residence at Harvard's Kennedy School of Government, decides to compile the *Annals of Great Massachusetts Legislation*, there is one law that would surely take up the bulk of an otherwise slim volume: it is Chapter 580 of the Acts of 1980.

Popularly known as Proposition 2½, it remains more than a piece of historic tax limitation law; it is an enduring political curiosity. Spurned at first by the legislature, by liberal opinion-leaders, by much of the business establishment and by public policy experts, it was passed by a vote of the citizens. Put forward as a ballot initiative by an underestimated conservative group, it won by a 59-41 margin in November of 1980.

Now, 15 years since it took effect, it has been refined and amended but not seriously attacked. "Two-and-a-Half was just a ballot question at first; now it's much more than that," says Michael Widmer of the Massachusetts Taxpayers Foundation, which is often seen as the "responsible" voice on state tax matters — and which opposed Proposition 2½. Widmer says the law has achieved near "mythical" status and has become politically "sacrosanct."

In fact, a fair-minded historian might conclude that Proposition 2½ is the most sweeping public policy reform in recent Massachusetts history — and one that did not come about from the efforts of "progressive" reformers. It was Citizens for Limited Taxation, a group that was well to the right of the Massachusetts mainstream, that led the anti-tax campaign in 1979 and 1980, with an assist from an organized group of high-technology executives. In the wake of the Proposition 13 tax revolt in California in 1978, the Massachusetts uprising was seen as a continuation of the middle-class homeowners' protest movement.

Led through the 1980s by Barbara Anderson, who played the role here that the bombastic Howard Jarvis played in California, CLT got used to being called "tax-cut terrorists" in the press. And yet there is little doubt that the margin of approval for their once-dubious property tax limitation law would, these days, much exceed the nearly 60 percent it won at the ballot box.

Which doesn't mean that the law is not detested, or at least frowned upon, by staunch liberals. "I don't see the good in Proposition 2½, frankly," says Alan Lupo, a longtime *Boston Globe* columnist. Lupo believes strict limitations on local taxes have caused towns and cities to neglect public investment, and he decries the constraints it has indirectly caused on state government spending. As it has had to share more of its revenue with localities, he says, "the state has not been funding its own services adequately."

Other liberals have learned to live with Proposition 2½, without exactly learning to love it. James Marzilli, a Democratic state representative from Arlington who is a member of the Joint Committee on Taxation, concedes the law has had some beneficial effects. But when asked how Proposition 2½ compares with other legislative reforms in recent years, he asks, "Is it really a *reform*?"

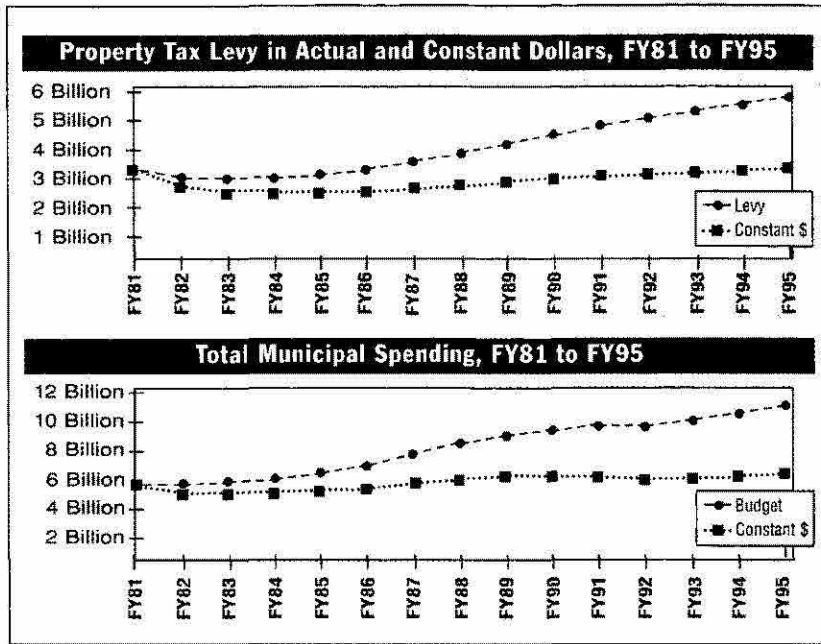
Jim Braude, who recently completed eight years as head of the Tax Equity Alliance of Massachusetts (TEAM), the liberal counterpart to Citizens for Limited Taxation, calls Proposition 2½ "a qualified success." But his assessment is more than a little backhanded. "It's a bad idea gone good," says Braude.

LOOKING BACKWARD

Make no mistake about it: The faint praise Proposition 2½ gets now is a far cry from the denunciations it provoked in the heat of the ballot campaign.

After 15 years,
has Prop 2½
proven to be a
limited success?

BY DAVE DENISON



"Proposition 2½ is an outrage," fulminated columnist Robert L. Turner in the *Globe*. Writing several months before the statewide vote, Turner said the proposition was being pushed by "mindless tax-cutters" who were "quietly breathing mayhem." The *Globe* editorialized against Proposition 2½'s "meat-ax approach," and spoke of "fanatical critics of municipal government." Alan Lupo wrote of "foolish tax-cutting proposals that could turn Massachusetts into a nightmare."

Gerald Cohen, a Democrat from Andover who was chairman of the legislature's Joint Taxation Committee, was somewhat milder. He referred to Prop 2½ as "a well-intentioned nightmare." James Segal, a former state representative from Brookline, foresaw the "devastation" of the cities by Prop 2½. "The public workers will be hurt by massive layoffs, as well as by a leveling ... in wages. The urban residents will be hurt by drastic cuts in public services. Police and fire protection, educational services, elderly programs, public health and building inspections, sanitation, such as trash pick-up and street-cleaning, libraries and recreational activities will all have to be cut severely in the cities," Segal wrote in the spring of 1980.

Similar arguments were made that year by the League of Women Voters, the Massachusetts Municipal Association, and the business-backed Massachusetts Taxpayers Foundation. The teachers unions, including the powerful Massachusetts Teachers Association, saw an immediate threat in Proposition 2½. And progressives who were hoping a 1970s court challenge would create momentum for a new and more equal system of school finance looked at Prop 2½ as something that could only be a setback for public education.

"There were clearly cries of gloom and doom, and fears about what this would mean for education and local services," recounts Widmer of the Taxpayers

Foundation. In particular, educators worried about a measure included in Proposition 2½ that would end fiscal autonomy of school committees — the custom had been for school committees to decide how much the schools needed and then city councils and town meetings were charged with coming up with the money. Under the new law, school spending would have to compete with all other municipal needs in a drastically altered environment. Property tax revenue would be capped at 2.5 percent of the city or town's total property value — and from that point the tax levy could increase at no more than 2.5 percent per year.

Looking back, James Segal remembers how radical Proposition 2½ seemed. Says Segal, now an attorney at Hale & Dorr in Boston, "It was thought to be much too

much of a straight-jacket on the cities and towns." No one knew whether the state would replace the money that cities and towns would lose when property tax revenue was capped. State aid to localities was always "an iffy proposition," he says, and in the 1970s "it was always the first thing to be cut." How would municipal government be able to plan from year to year? In addition, most towns by 1980 still had not moved to assessing property at its "full and fair market value." No one was sure how the change in real estate assessment practices that the law required would affect local revenues.

As legislators, both Segal and Gerald Cohen had recognized that the property tax in Massachusetts was excessive. Brookline, which Segal represented, had one of the highest property taxes in the state. "It was really a mess," Segal says. But fixing it "was not necessarily a high priority for Democrats." Cohen believed it was the legislature's responsibility to cut property taxes by increasing state aid to cities and towns. But by imposing a strict cap on localities, he thought Proposition 2½ was "attacking the wrong government."

Barbara Anderson, for her part, has long since grown comfortable with a sense of vindication. In a 1981 interview she expressed the hope that in five years "I would like Cohen to come up to me and say, 'Barbara, you were right.'" Anderson says she got her wish. Nowadays, she says, when she runs into Cohen, who works the Statehouse halls as legislative counsel to the Massachusetts Lodging Association, "I always get a hug."

"I have said to Barbara Anderson [that] what I think she was right in was that the legislature could not or would not shift away from the property tax," Cohen says. Of Proposition 2½, he says, "I think it has proved to be a very positive piece of legislation."

GREG COUCH

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At her office near Beacon Hill, Anderson proudly displays a gift presented to her by the state Association of Town Finance Committees. The initials B.A. and the number 2½ are mounted on a wood stand with a plaque reading, "With deepest thanks and eternal gratitude."

IS IT A REFORM?

If the opposition exaggerated the threat posed by Proposition 2½, the measure's supporters tended to exaggerate its political meaning. Caught up in the excitement of California's "mad as hell" tax revolt, some anti-tax advocates foresaw a revolution against government spending. Even now, Anderson is uncomfortable with the view of Proposition 2½ as a good-government reform. "Reformers are busybodies who just play around the edges," she says. "We're revolutionaries."

As the politics of the 1980s played out, Massachusetts voters indicated a less "revolutionary" attitude to government spending. When CLT led the charge against state taxes in 1990, pushing for the reduction of the state income tax from 5.9 to 5 percent, voters sided with a liberal-labor-business coalition that argued the rollback went too far. Cutting at least a billion dollars out of the state budget proved to be a more daunting prospect than limiting the growth of property taxes to 2.5 percent a year.

But some astute observers had questioned early on whether the vote for Prop 2½ signified a revolt against government spending. Writing in the *New England Economic Review* in early 1982, Katharine Bradbury, a Federal Reserve Bank economist and Helen Ladd, a Kennedy School professor, traced the discontent in Massachusetts to the "above-average reliance on local property taxes to finance local spending." Massachusetts had long been among the four states with the highest property taxes per capita in the nation. In 1980 the U.S. average for communities was to collect \$290 per capita for local government; in Massachusetts the amount was \$555. Property taxes were 3.4 percent of personal income nationwide, but 6.2 percent of personal income in Massachusetts.

However, the authors noted, "above-average spending is not the major cause of the state's high property taxes." The problem, as many in the legislature had recognized, was that cities and towns had comparatively few sources of revenue other than the property tax. And the state was unable to achieve a better balance by sharing state revenues. Proposition 2½ was, to this way of thinking, a reasonable statement on the part of the citizenry that the property tax was out of line and that the burden on homeowners should be eased.

PROPERTY TAXES DOWN

In the 15-year lifespan of Proposition 2½, Massachusetts has seen a strong late-'80s boom and an early-'90s bust. Through both periods, property taxes

have remained on an even keel. Even as property values soared in the boom, homeowners' taxes did not go up accordingly, because local government was restricted to 2.5 percent increases from year to year. And as property values dropped in the recession, cities and towns were prevented from making up the loss entirely with higher rates.

In this respect, Proposition 2½ did what it was intended to do: It forced the state to share revenue so that there would be less reliance on the property tax. In 1981, the last budget year before Proposition 2½ took effect, property taxes statewide made up 59 percent of local government revenues. By 1989, the figure had fallen to 46 percent. By 1992, as localities saw less state aid during the recession, it had crept back up to 52 percent — and has held steady at that level through 1995.

The total property tax levy across the state has grown, but not in *real* terms. In 1981, \$3.3 billion was collected in property taxes. By 1995, the take was \$5.7 billion. But adjusted for inflation, the \$3.3 billion tax levy dropped slightly by 1995 to \$3.25 billion. Consequently, Massachusetts has fallen in comparison with other states when ranked by property tax burden. Third-highest in the U.S. in 1981 with \$562 in property taxes per capita, the state ranked 12th in 1987 with \$640 per capita. By 1992, the number had grown to \$876 and the ranking was 10th.

Again, when adjusted for inflation, these numbers show an actual decrease: Expressed in constant 1993 dollars, the 1981 figure would be \$947 per capita. In 1993 it had dropped to \$872 per capita. As the MTF noted in a 1993 report, "total property taxes in constant dollars are still eight percent, or \$75 per capita, less than they were 12 years ago."

Even more striking, Massachusetts is squarely in the middle of nationwide rankings of property tax burden when taking into account higher-than-average personal incomes. Ranked 4th in 1981, with \$52.42 in property taxes per \$1,000 of personal income, the state was 22nd in 1992, with \$37.96 per \$1,000, according to MTF. As Massachusetts incomes grew through the 1980s, Proposition 2½ ensured that proportionally less of that new-found money would be paid out in property taxes. Just as important, when incomes fell during the recession, the percent of income spent on property taxes increased only slightly.

GOVERNMENT SPENDING, UP

One might be tempted to conclude that since Proposition 2½ has limited taxation it has therefore reined in government spending. Not exactly.

Local government indeed was forced to cut back in the early years of Proposition 2½. More than half the communities in the state were required to reduce property taxes in the first year after Proposition 2½ passed. This resulted in a loss of about \$490 million in local tax revenues

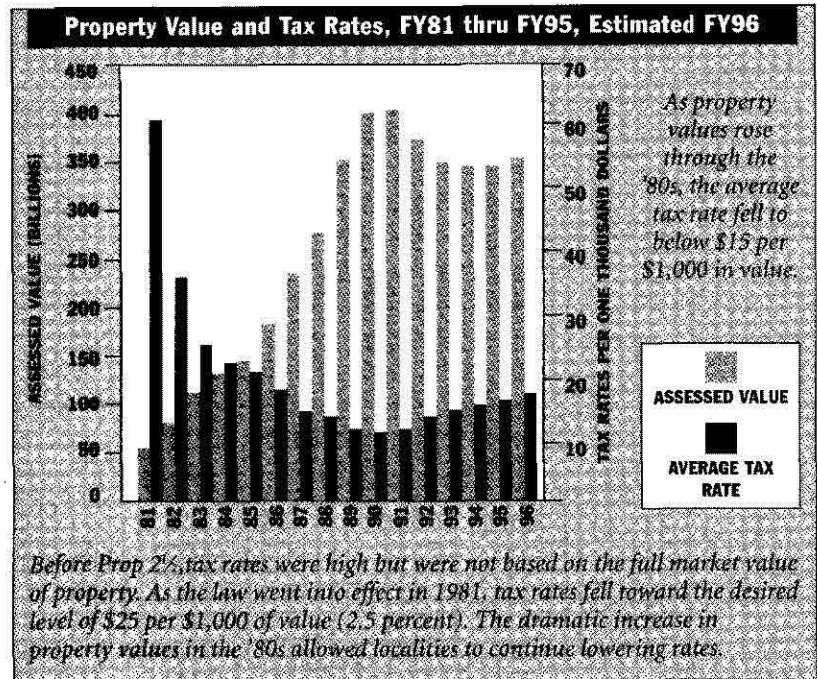
in 1982, and only about half of that was replaced by state revenue sharing that year. A survey by the Associated Press in September of 1982 found that 7,800 positions were eliminated in the schools and about 230 schools closed in the first year of Proposition 2½. There were about 360 fewer police officers and 550 fewer firefighters. The number of public employees (state and local), which had peaked at 372,000 in 1978, fell to 315,100 in 1982, and to 314,400 in 1984. By 1987 it was back up to 335,700 and though it dipped down in the recession, the 1995 level was again 335,700, still about 10 percent less than in pre-Prop 2½ years.

Most of those who had battled over Proposition 2½ in 1980, liberal and conservative, joined in the fight in the early 1980s to replace lost local revenues with state aid to cities and towns. Of course, the expanding economy in the 1980s made state generosity an easier proposition.

Increased state aid did not prevent belt-tightening in local government, even in the best years. But overall, government budgets at the local level grew. Total local revenues for 1981 were \$5.7 billion; by 1995 local revenues were \$11 billion. Even in inflation-adjusted terms that represents an increase, though a modest one: from \$5.7 billion to \$6.2 billion. This represents about an 8 percent increase over 15 years, which is about one-half of one percent per year. When growth of population is factored in, local revenue (per capita) still grew, but at about two-tenths of one percent per year.

Growth in government spending is more dramatic at the state level. Massachusetts has seen a significant increase in the state budget over the Proposition 2½ years. Leaving aside state aid to localities, state spending grew from \$4.5 billion in 1981 to \$13.3 billion in 1995, according to Scot Keefe, an economist at the Massachusetts Taxpayers Foundation. Adjusted for inflation, that's an increase from \$4.5 billion to \$8.2 billion, up 82 percent.

The state saw about a 5 percent increase in population from 1980 to 1990. Taking that into account and adjusting for inflation, the combined expenditures of state and local government are still well above the level of 15 years ago. Total per capita expenditures were \$1,941 in 1981 and were (in 1981 dollars) \$3,348 in 1992, according to Census Bureau statistics provided by Keefe. That is a 72 percent increase in *real* terms. (The Census Bureau counts spending of such agencies as the Mass Turnpike Authority, the MWRA and the MBTA as government spending, which partly accounts for the steep increase.) To make the point in a wider historical context, combined state and local government has doubled in real



MASS. DEPT. OF REVENUE, DIVISION OF LOCAL SERVICES

terms since 1971, when total per capita expenditures were \$750. By 1992 that figure was up to \$5,106, which in 1971 dollars is \$1525.

As we have seen, the increase in spending did not come from local government — it came at the state level.

A LIMITED SUCCESS

Barbara Anderson's hope in the early days, she recalls, was that Proposition 2½, by forcing the state to spend more on aid to cities and towns, would lead to cutbacks in state programs. "That was the whole thing behind what we were doing: we wanted the state to cut back," she says. Though the CLT-effort in 1990 to roll back state taxes failed, she believes Proposition 2½ has at least kept legislators worried about anti-tax sentiment. "They're certainly aware that if they go too far, and people finally get fed up people can do with the income tax exactly what they did with Proposition 2½," she says.

Anderson, as well as other conservatives, likes to see Proposition 2½ as only the first step in limiting taxation. Don Feder, who was executive director of CLT in 1978 and is now a columnist at the *Boston Herald*, says Prop 2½ "helped a lot of people who I think were treated unfairly." But he adds, "I don't think Proposition 2½ is that revolutionary, by the way. I don't think it's done much to shake up state politics."

Meanwhile, it has done a number of things that good-government liberals might well applaud:

- ◆ It has decreased reliance on a regressive tax — the property tax, after all, does not always fall on those who are most able to pay. A Citizens for Tax Justice report showed that in Massachusetts in 1985 the property tax weighed more heavily on the poor and the middle class than on the wealthy, with families at \$10,066 a year paying 3.7 percent of their income in property taxes, families

"The state legislature would not have dealt with this issue without help from the outside," says James Segal.

at \$35,526 paying 3.0 percent, families at \$73,491 paying 2.7 percent and those at \$201,034 paying 1.9 percent.

◆ It forced a more sensible real estate assessment system. In the old days assessors set the value of houses at a fraction of their market value. This often made it impossible for homeowners to know what local assessors

were up to. Moving to "full and fair market value" assessment brought about more professional and standard practices.

◆ It has led to more efficient municipal spending. Nobody who closely watches city and town budgets disputes that management of public monies is more careful now than it used to be. Says Leslie Kirwan, former deputy commissioner of the state department of revenue, "I think [local government] had to make cuts — they definitely have — but they've also improved their management."

◆ It has allowed for more democratic decision-making on questions of tax increases. Because Proposition 2½ allows communities to vote to override the 2.5 percent yearly increase, there have been hundreds of instances around the state where proponents of higher taxes were forced to do what does not always come naturally: to go to the citizens and make the case for a tax hike. When override campaigns win, as they have about 40 percent of the time (counting capital spending and debt-financing questions, in which tax hikes are temporary), the tax increase has a legitimacy in the view of the taxpayers it almost never has when it is imposed by a few authorities.

On the other hand, as critics point out, Prop 2½ has not affected towns and cities equally. It is easier for wealthy communities to override the limit. And towns and cities that have had economic growth have fared much better than those that have not. State Rep. Marzilli of Arlington contends Prop 2½ "has reinforced the inequality between our cities and how we educate our children." He notes that some communities "were hurt disproportionately by Proposition 2½, and Arlington is a classic example." Because Arlington is a developed residential suburb with no industry and little new growth, he says, it has faced more stringent cutbacks than most other towns. Proposition 2½ "didn't provide a real solution to how you fund town government," in Marzilli's view.

The other bothersome aspect of the law to some op-

ponents is that it still carries the potential to not just limit local government but to impose real cuts. If Massachusetts were to see the combination of slow growth and high inflation, the 2.5 percent limit on local revenues would mean spending reductions. This can occur, as well, in places with greater needs for municipal spending — for example, in a town that finds itself with a growing school population. How would Proposition 2½ work under such conditions? "It would pinch a lot more," says Kirwan, who is now Chief of Staff in the Executive Office for Administration and Finance.

GOOD LUCK AND TIMING

Asked if there is a political lesson to be learned from the battle over Proposition 2½ and its subsequent track record, James Segal pauses to ponder. "I'd like to say there is, but we have to look at what happened in the '80s," he says. Segal notes that the decade when Proposition 2½ was put in place saw low inflation, falling energy costs, and decreasing public school enrollment. "If this would have passed in 1974, we'd have a different story," he says.

Jim Braude points to the near doubling of state revenue sharing in the years when Gov. Dukakis was at the helm as the deciding factor. Proposition 2½ was made to work, Braude says, "by the governor and the government Barbara Anderson loved to hate." Says Alan Lupo, "It was as if the goo-goos and the economic gods conspired to make Barbara Anderson look like a prophet."

But Segal, as a former lawmaker who observed the legislature tied up in knots over the property tax issue in the 1970s, draws a conclusion about the role of the electorate in breaking governmental gridlock. "The state legislature would not have dealt with this issue without help from the outside," he says. Former representative Cohen agrees: "If government is not responsive to the pain of the people, the people have the right to say 'We're going to implement this.'"

Roger Hatch, director of local aid at the revenue department says, "To analyze this correctly, you'd have to analyze what would have happened without Prop 2½, but of course nobody can answer that."

Nobody, except perhaps Barbara Anderson, who has a ready answer: "If you understand the way government works and thinks, if we would not have passed Proposition 2½, we would now have the highest property tax in the country, and the highest income tax in the country, and the sales tax would be as bad as it is, which would be worse if it weren't for New Hampshire." She suggests that in a few more years Massachusetts could have seen "a property tax revolt that might have abolished the property tax entirely."

Might she be right? If so, Proposition 2½ might well appear in the *Annals of Great Massachusetts Legislation* as a classic good-government reform. ■



A TALE OF EIGHT CITIES & TOWNS

Proposition 2½ has created a new culture for local government in Massachusetts.

It has changed the way local government does business. Officials must look carefully at every spending item. And as a result, most local governments have become leaner and more efficient.

Seeking voter approval for property tax hikes above 2.5 percent does lend them a legitimacy they lacked before Proposition 2½, but many local officials find the process overwhelming, especially in small towns with overworked volunteers. Proposition 2½ gives local voters unprecedented power over the direction of their municipal government.

CommonWealth picked eight cities and towns across the state, ranging from the wealthy suburb of Brookline to an economically depressed North Adams to chart the impact of Proposition 2½ on local spending and municipal government.

Although Prop 2½ is seen as choking off local revenue, seven of the eight communities actually saw increases in their municipal budgets in real dollars from 1981 to 1995. Only Worcester saw a decrease over that period, of 1.5 percent.

The highest budget increases were in two completely different communities: The budget of the prosperous suburb of Acton increased 35 percent in real dollars from fiscal 1981 to 1995, and the economically depressed city of Springfield had a budget increase of 47 percent.

Per capita spending in all communities except Worcester also increased in real dollars from 1981 to 1995 (using 1992 population estimates).

Haverhill, one of the cities with the greatest increases in spending, spends the most per person on local government: expressed in 1981 dollars the figure would be

\$1,441 for 1995. Springfield is a close second, spending \$1,391 per person in 1995, an increase from \$956 in 1981. Brookline, with a slight decrease in population, spent \$1,379 per person in 1995.

In Acton, spending went from \$885 per person in 1981 to about \$1,156 per person in fiscal 1995. In Worcester, per capita spending declined slightly, from \$1,129 per person in 1981 to \$1,101 in 1995. Despite the increase in real terms of municipal budgets, many officials maintain that Proposition 2½ does not allow them to keep up with increases in the costs of providing local services.

And the degree to which local officials in the communities we studied are still hostile to Proposition 2½ depends on how much their community has been helped by the state.

CITIES GET MORE AID

In Brookline, where state aid only pays for 8 percent of the fiscal 1995 budget, many town officials would just as soon see Proposition 2½ repealed. When asked what she would do to reform the law, Brookline Selectman Ronny Sydney was blunt: "I'd probably throw it out."

In North Adams, where the state paid for 53 percent of the local budget in fiscal 1995, (according to data provided by the state Department of Revenue's Division of Local Services) and in Springfield, where the state provides 43 percent of the fiscal 1995 budget, officials still support the law.

"I think the framers of Proposition 2½ were right on target," said Springfield Mayor Michael Albano, who describes himself as a liberal Democrat. "There was waste in the municipal governments."

With limited local tax increases, officials do not have an unrestricted revenue stream from property taxes.

As a result, any major increase in gov-

The effects of
Prop 2½ vary
widely around
the state.

BY DAVID TYLER