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Local Fiscal Response to State Preemption: A Case Study of Massachusetts' Proposition 2½ Tax Referendum.

Abstract

State preemption in the form of tax and expenditure limits significantly limits local revenue-raising capacity. To gain insights into how local governments respond to fiscal preemption through direct democracy, this study focuses on tax referenda that override the levy limit set by Proposition 2½ in Massachusetts. Analyzing a sample of 320 municipalities from 2010 to 2021, we investigate the influence of fiscal slack resources and tax burden on the levy limit overrides and exclusions. Our analysis breaks down the tax referendum process into two stages, highlighting the involvement of different decision-makers: local officials proposing the referendum and individual voters approving it. We find that municipalities are motivated to seek tax referenda due to diminishing fiscal slack resources, yet the tax burden on residents can discourage such pursuits.

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