The Town of Cape Elizabeth generally sets its tax rate based on the local tax valuation of the preceding year. The revenue from additional valuation generated from new construction and new approved subdivisions is not used in the tax rate calculation until the succeeding year. This one year sheltering of new valuation creates tax revenue that is not specifically allocated to any budget line thus creating what is known as ‘overlay” The overlay may be reduced during the budget year through any abatements approved by the assessor or as a result of hardship abatements approved by the town council. The overlay also serves as a temporary cash reserve that can meet unexpected budget needs.