

# Fiscal Year 2020 Tax Classification Hearing

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Director of Assessing

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# Fiscal Year 2020 Tax Classification Hearing

Introduction: What is the purpose of a Classification Hearing?

Under MGL Chapter 40, Section 56

“the Selectmen must hold a public hearing annually to consider the tax rate options available to the Town under property tax classification” and “shall adopt a residential factor which shall be used by the assessors to determine the percentages of the local tax levy to be borne by each class of real estate and personal property.”

The assessors shall provide “information and data relevant to making such determination and the fiscal effect of the available alternatives.”



# Fiscal Year 2020 Tax Classification Hearing

- Vote on Classification, splitting the tax rate
- Residential and commercial exemptions
- Excess Levy Capacity
- Property Assessment Review
- New Growth
- Projected Taxes and Potential Impact of a Split Rate



# Fiscal Year 2020 Tax Classification Hearing

First, lets review some Commonly Used Terms:

**NEW GROWTH:** Additions to the tax base from new construction and property improvements

**LEVY:** Revenue raised through property taxes

**LEVY LIMIT :** Maximum dollar amount a Town can raise in a fiscal year.  
(Prior years Levy + 2 ½% + New Growth + Debt Exclusion)

**EXCESS LEVY CAPACITY:** Difference between the levy and the levy limit

**DEBT EXCLUSION:** A temporary increase to the levy to pay for capital projects as voted

**CIP:** Class that includes Commercial, Industrial, & Personal Property

**MRF:** Minimum Residential Factor. This factor represents the minimum percentage the Residential class must pay

# Levy Limit Calculation

TO CALCULATE THE FY2020 LEVY LIMIT		
A. FY2019 Levy Limit from	107,285,191	
A1. ADD Amended FY2019 Growth	0	
B. ADD ( IIA + IIA1 ) X 2.5%	2,682,130	
C. ADD FY2020 New Growth	1,884,006	
C1. ADD FY2020 New Growth Adjustment		
D. ADD FY2020 Override		
E. FY2020 Subtotal	111,851,327	
		<b>\$ 111,851,327</b>
F. FY2020 Levy Ceiling	223,296,447	<b>FY2020 Levy Limit</b>
TO CALCULATE THE FY2020 MAXIMUM ALLOWABLE LEVY		
A. FY2020 Levy Limit from II.	111,851,327	
B. FY2020 Debt Exclusion(s)	9,784,362	
C. FY2020 Capital Expenditure Exclusion(s)		
D. FY2020 Stabilization Fund Override		
E. FY2020 Other Adjustment		
F. FY2020 Water / Sewer		
G. FY2020 Maximum Allowable Levy		<b>\$ 121,635,689</b>
		<b>MAXIMUM LEVY</b>



# Maximum Allowable Levy

- The maximum levy allowed for fiscal year 2020 is \$121,635,689
- This includes the debt exclusion of \$9,784,362

# Excess Levy Capacity

(Levy Limit + Debt Exclusion) - (Actual Levy) = (Excess Levy)

\$121,635,689	-	\$121,562,585.47	=	\$73,103.53
(Maximum Levy)		(Actual Levy)	=	(Excess Levy)

The FY20 Excess Levy capacity is \$73,103.53

# Total Assessed Values - Fiscal Year 2020

LA-4

Assessment / Classification

Status: FORM APPROVED

BLA-LA13A : FORM APPROVED

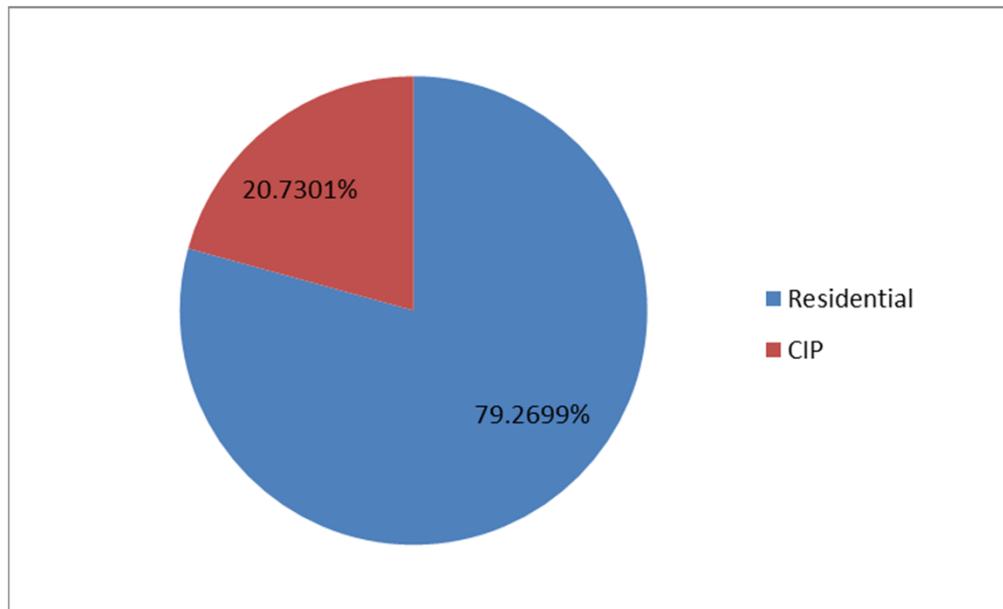
NATICK - 198 2020

Jurisdiction  Fiscal Year

Property Type	Parcel Count	Class1 Residential	Class2 Open Space	Class3 Commercial	Class4 Industrial	Class5 Pers Prop
101	8,536	5,274,909,200				
102	2,759	996,178,500				
MISC 103,109	40	39,533,600				
104	561	318,140,100				
105	83	48,364,700				
111-125	56	313,133,400				
130-32,106	841	53,496,100				
200-231	0		0			
300-393	540			1,626,493,600		
400-442	48				45,271,000	
450-452	0				0	
CH 61 LAND	4	0	0	21,520		
CH 61A LAND	8	11	0	194,120		
CH 61B LAND	0	17	0	1,333,400		
012-043	44	36,516,600	0	18,867,760	0	
501	1,030					17,789,350
502	746					31,723,920
503	1					261,450
504	3					80,370,410
505	12					24,228,900
506	0					0
508	4					4,313,990
550-552	2					716,240
<b>TOTALS</b>	<b>15,346</b>	<b>7,080,272,200</b>	<b>0</b>	<b>1,646,910,400</b>	<b>45,271,000</b>	<b>159,404,260</b>
<b>Real and Personal Property Total Value</b>						<b>8,931,857,860</b>
<b>Exempt Parcel Count &amp; Value</b>				682	722,966,200	

# Levy Allocation

The chart illustrates what portion of the levy would be paid by the Residential class versus the Commercial, Industrial, and Personal Property classes with a single rate.



# Classification Percentages

There has been a shift to commercial properties in comparison with last year. This increase is roughly ½ of a percent (0.46%)

	<b>Residential</b>	<b>CIP</b>
<b>Fiscal Year 2019</b>	79.7299%	20.2701%
<b>Fiscal Year 2020</b>	79.2699%	20.7301%
<b>% Change</b>	-0.4600%	0.4600%

# Projected Tax Rate - Fiscal Year 2020

The tax rate will be calculated by dividing the actual levy by the total assessed value.

$$\begin{array}{rcl} \text{Actual Levy} & / & \text{Total Assessed Value} & = & * \text{Tax Rate} \\ \$ 121,562,585 & / & \$ 8,931,857,860 & = & \$ 13.61 \end{array}$$

\*If a residential factor of 1.00 is adopted (single tax rate)

# Residential Factor

The minimum residential factor is 86.9243%.

This is the factor that would allow a split tax rate toward the CIP class up to 150%.

A residential factor of 1.00 will maintain a single tax rate.  
A residential factor below 1.00 will result in a split tax rate.

A 150% shift would increase the commercial tax rate by \$6.80 per thousand and reduce the residential rate by \$1.78 per thousand.

In FY2019, 109 of 351 communities elected to split the tax rate.

# Classification Impact

Based on the proportions of our tax base, a 1% decrease in residential taxes equates to a 4% increase in commercial taxes.

For example, at a 110% shift; residential taxes decrease roughly 2.5% while commercial taxes increase 10%

Any shift chosen will follow this 1:4 ratio.



# Classification Impact Examples

The chart shows the impact on different properties if the tax burden was shifted towards the CIP classes.

Type	Typical Property	Assessment	Tax Levy Shift					
			100%	110%	120%	130%	140%	150%
Resid	Condo @ Natick Village	231,800	\$ 3,155	\$ 3,071	\$ 2,990	\$ 2,907	\$ 2,826	\$ 2,742
Resid	Single Family-Average Value	617,960	\$ 8,410	\$ 8,188	\$ 7,972	\$ 7,749	\$ 7,533	\$ 7,310
Resid	Single Family-New Construction	1,000,000	\$ 13,610	\$ 13,250	\$ 12,900	\$ 12,540	\$ 12,190	\$ 11,830
Resid	Sm. Apartment	1,500,000	\$ 20,415	\$ 19,875	\$ 19,350	\$ 18,810	\$ 18,285	\$ 17,745
Resid	Lg. Apartment	38,000,000	\$ 517,180	\$ 503,500	\$ 490,200	\$ 476,520	\$ 463,220	\$ 449,540
Comm	Gas Station	750,000	\$ 10,208	\$ 11,228	\$ 12,248	\$ 13,268	\$ 14,288	\$ 15,308
Comm	Small Retail	1,000,000	\$ 13,610	\$ 14,970	\$ 16,330	\$ 17,690	\$ 19,050	\$ 20,410
Comm	Office Bldg	40,000,000	\$ 544,400	\$ 598,800	\$ 653,200	\$ 707,600	\$ 762,000	\$ 816,400
Comm	Retail Mall	340,000,000	\$ 4,627,400	\$ 5,089,800	\$ 5,552,200	\$ 6,014,600	\$ 6,477,000	\$ 6,939,400
Residential Change				-2.65%	-5.22%	-7.86%	-10.43%	-13.08%
Commercial Change				9.99%	19.99%	29.98%	39.97%	49.96%

# Classification Impact Examples

Modera



Type	Property	Assessment	Tax Levy Shift					
			100%	110%	120%	130%	140%	150%
Res	Modera	38,557,170	\$ 524,763	\$ 510,883	\$ 497,387	\$ 483,507	\$ 470,012	\$ 456,131
Percent Change				-2.65%	-5.22%	-7.86%	-10.43%	-13.08%

# Classification Impact Examples

Mathworks



Type	Property	Assessment	Tax Levy Shift					
			100%	110%	120%	130%	140%	150%
Comm	Mathworks	213,513,250	\$ 2,905,915	\$3,196,293	\$3,486,671	\$3,777,049	\$4,067,427	\$4,357,805
Percent Change				9.99%	19.99%	29.98%	39.97%	49.96%

# Other Tax Policy Options

- Residential Exemption
- Small Commercial Exemption



# Residential Exemption

- The board may choose to adopt a residential exemption of up to 35% of the average value of all residential properties.
- Shifts the tax burden within the residential class
- This shift results in a higher tax rate
- Benefits owner occupied properties
- Provides greater benefit to lower-valued properties
- Is a break-even point, where an eligible property pays higher taxes because of the adjusted rate.
- Implementing a residential exemption without classifying (splitting) the tax rate results in a higher tax rate for some residential properties than commercial and industrial.

# Residential Exemption Examples

Selected Exemption		0%	5.00%	10.00%	20.00%	35.00%	
Residential Exemption		\$0	\$27,350	\$54,700	\$109,400	\$191,450	
Residential Tax Rate		13.61	14.21	14.86	15.28	18.02	
	Qualifies for Exemption	Assess	Tax	Tax	Tax	Tax	Tax
Owner Occupied Condo	YES	231,800	3,155	2,905	2,632	1,870	727
Owner Occupied Home (Average Value)	YES	617,960	8,410	8,393	8,370	7,771	7,686
Non-Owner Occupied Home (Average Value)	NO	617,960	8,410	8,781	9,183	9,442	11,136
Owner Occupied Home	YES	800,000	10,888	10,979	11,075	10,552	10,966
Owner Occupied Home	YES	1,200,000	16,332	16,663	17,019	16,664	18,174
Large Apartment	NO	38,000,000	517,180	539,980	564,680	580,640	684,760

# Residential Exemption

Sixteen communities adopted a residential exemption in FY2019.

Barnstable	Everett	Somerville	Wellfleet
Boston	Malden	Tisbury	
Brookline	Nantucket	Truro	
Cambridge	Provincetown	Waltham	
Chelsea	Somerset	Watertown	

The communities that generally utilize the residential exemption either have a large percentage of rental units (Boston, Brookline, Cambridge etc.) or seasonal/tourist housing (Nantucket, Provincetown etc.)

This exemption is not recommended for Natick



# Small Commercial Exemption

- The board may chose to adopt a small commercial exemption of up to 10%.
- Available to businesses that employ less than 10 people annually (as certified by the Department of Labor and Workforce Development) and are situated in a building that is valued less than \$1,000,000.
- All businesses at the property must qualify.
- In Natick, approximately 37 properties may be eligible.
- Benefit goes to the property owner rather than the business itself.
- Adopting a small commercial exemption without classifying (split) taxes, could result in a tax rate for some commercial properties less than the residential rate.

# Small Commercial Exemption

Fifteen communities adopted a small commercial exemption in 2019. Twelve also have a split tax rate.

Auburn

Avon

Bellingham

Berlin

Braintree

Chelmsford

Dartmouth

Erving

New Ashford

North Attleborough

Seekonk

Somerset

Swampscott

Westford

Wrentham



# Fiscal Year 2020 Property Assessment Review

# Property Assessment Review

Why do we change the assessed values?

- *We are required to.* Under the guidelines of the Department of Revenue and Massachusetts General Laws, Chapter 59, we are required to assess property at 100% full and fair cash valuation.

What does this mean?

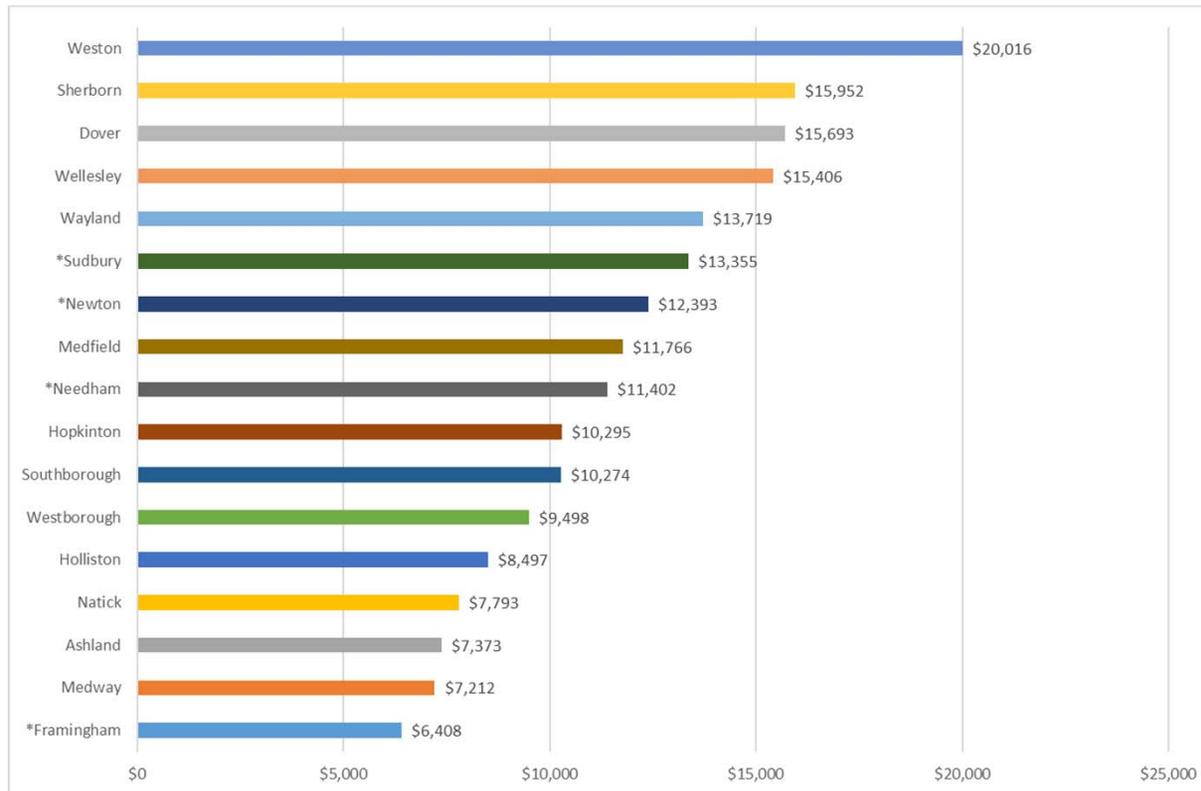
- Our assessed values have to reflect the market, i.e. what properties are selling for.
- The Department of Revenue reviews and approves our values annually, completing a full audit or certification every 5 years. If our values are not “market value” they will not be approved.

# Property Assessment Review

- Overall, residential and commercial values have increased based on current market conditions.
- The residential sales market has continued to be robust but has shown signs of “leveling out” after years of large YOY increases. The commercial market has remained consistent and has benefited from low interest rates and stable vacancy and rental rates. Specific property types; such as hotels, office/flex space, and shipping/receiving warehouse properties have seen value appreciation. There have been large commercial investments; most prominently in the Route 9 area.
- The average single family assessment increased from \$613,133 to \$617,960. If a single tax rate is adopted by the Board of Selectmen we will see an increase of \$617.52 to the average single family tax bill.
- The tax rate increases by ninety cents per thousand (\$0.90).

# Average Single Family Tax Bill Comparison Fiscal Year 2019

Comparable Towns



# New Growth

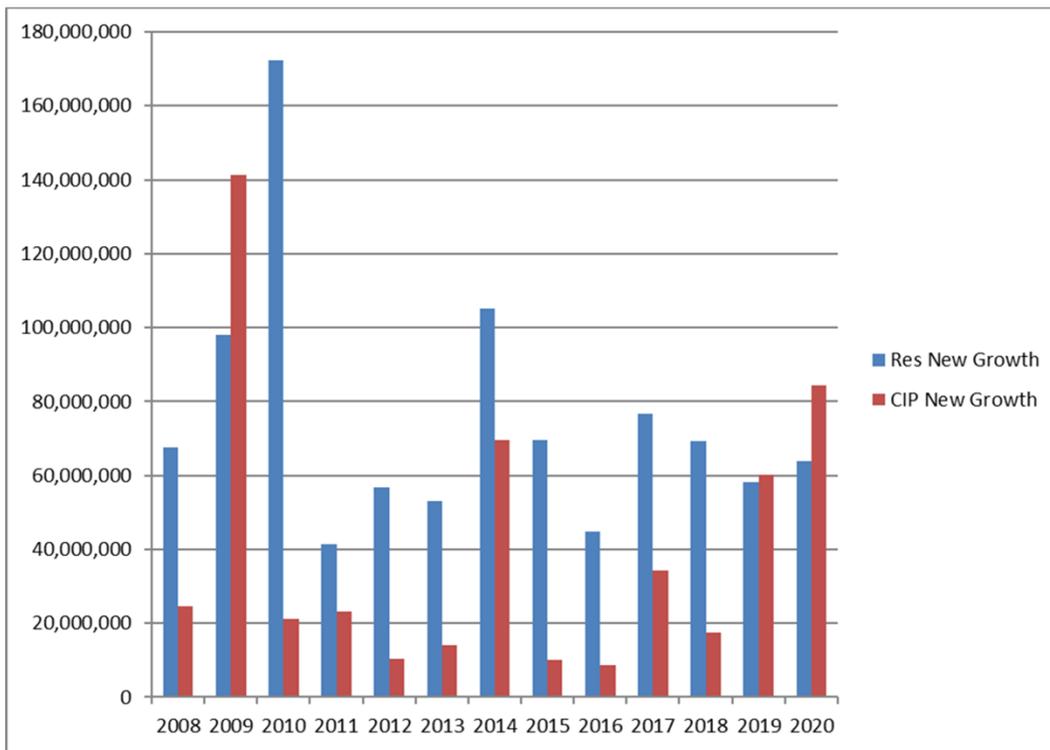
New Growth valuation was certified by the Dept. of Revenue on October 2<sup>nd</sup> 2019 at one hundred forty eight million two hundred thirty thousand two hundred and thirteen dollars.

\$148,230,213

The major factors contributing to this total are:

Single Family Homes	\$46,554,150
Residential Condominiums	\$11,880,400
Other Residential	\$ 5,331,850
Commercial/Industrial	\$59,997,800
Personal Property	\$24,466,013

# Historical New Growth- Residential & CIP



# Top Ten Taxpayers- Fiscal Year 2020

OWNER	PROPERTY CLASS	REAL ESTATE VALUE	REAL ESTATE TAXES	PERSONAL PROPERTY VALUE	PERSONAL PROPERTY TAXES	FY2020 ASSESSED TOTAL	TOTAL TAXES (RE & PP)
GENERAL GROWTH PROPERTIES (NATICK MALL)	CIP	\$ 337,286,800	\$ 4,590,473	\$ 2,611,300	\$ 35,540	\$ 339,898,100	\$ 4,626,013
MATHWORKS INC	CIP	\$ 213,251,800	\$ 2,902,357	\$ 261,450	\$ 3,558	\$ 213,513,250	\$ 2,905,915
AVALON NATICK LLC	RES	\$ 88,256,700	\$ 1,201,174	\$ 57,510	\$ 783	\$ 88,314,210	\$ 1,201,956
HC ATLANTIC DEVELOPMENT LP	CIP	\$ 68,535,600	\$ 932,770		\$ -	\$ 68,535,600	\$ 932,770
FRANCHI PASQUALE	RES	\$ 46,959,500	\$ 639,119		\$ -	\$ 46,959,500	\$ 639,119
NATICK VILLAGE INVESTMENT LTD PTRN	RES	\$ 45,167,600	\$ 614,731		\$ -	\$ 45,167,600	\$ 614,731
COGNEX/VISION DRIVE	CIP	\$ 43,345,300	\$ 589,930		\$ -	\$ 43,345,300	\$ 589,930
DDH HOTEL LLC	CIP	\$ 39,884,600	\$ 542,829	\$ 976,370	\$ 13,288	\$ 40,860,970	\$ 556,118
EGMR 30 SUPERIOR (FED EX)	CIP	\$ 39,914,200	\$ 543,232		\$ -	\$ 39,914,200	\$ 543,232
MCREAF NATICK DEVELOPMENT LLC (MODERA)	RES	\$ 38,525,900	\$ 524,337	\$ 31,270	\$ 426	\$ 38,557,170	\$ 524,763
<b>TOTALS:</b>		<b>\$ 961,128,000</b>	<b>\$ 13,080,952</b>	<b>\$ 3,937,900</b>	<b>\$ 53,595</b>	<b>\$ 965,065,900</b>	<b>\$ 13,134,547</b>

TOP 10 TAXPAYER PERCENT OF LEVY = 10.8%

TOP 2 TAXPAYER PERCENT OF LEVY = 6.2%

# Conclusion.....

If Natick maintains a single tax rate, we can expect the following:

- We have projected an increase to the average single family tax bill of \$617.52.
- Natick's Top 10 Taxpayers will collectively contribute thirteen million one hundred thirty four thousand five hundred and forty seven dollars (\$13,134,547) in taxes for Fiscal Year 2020.
- The Top 10 Taxpayers pay 10.8% to Natick's Total Tax Levy.

# Conclusion.....

The debt exclusion for the Kennedy Middle School and West Natick Fire Station have had a major impact on the FY20 tax rate. The following defines the portions of the tax rate as a result of the new and past debt exclusion votes, along with the impact on the average single family home:

TAX RATE BREAKDOWN	
LEVY	\$ 12.51
PRIOR DEBT EXCLUSION	\$ 0.46
NEW DEBT EXCLUSION (KMS+FIRE STA)	\$ 0.63
TOTAL	\$ 13.61

IMPACT ON AVERAGE SINGLE FAMILY HOME	
ASSESSED VALUE	\$ 617,960.00
TOTAL RE TAX BILL	\$ 8,410.44
LEVY	\$ 7,733.49
PRIOR DEBT EXCLUSION	\$ 285.29
NEW DEBT EXCLUSION (KMS+FIRE STA)	\$ 391.66

# Conclusion.....

Administration and the finance department recommend a MRF of 1.00, maintaining a single tax rate.

This is based on the following:

- Continued commercial growth without the use of TIFs (Tax Increment Financing)
- Based on our tax base ratios, a relatively minor reduction in residential taxes would result in a significant increase in commercial taxes.
- Concerned about the impact on small businesses
- When comparing surrounding and similar communities; our taxes are reasonable for services offered.



In conclusion I am asking the board to vote:

The board must adopt a residential factor.

A residential factor of 1.00 will result in a single tax rate

A residential factor of less than 1.00 will result in a split tax rate

The board may also consider:

1. A residential exemption  
and/or
2. A small commercial exemption

Typically these exemptions are found in communities that have a large percentage of rental or non-resident owners and have a split tax rate. They are not recommended for Natick.