

# **Tax Classification Discussion**

## **Town of Wellesley**

**September 26, 2011**  
**Board of Selectmen**

# Guidelines

- Educate and Share Information
  - Staff Presentation
  - Selectmen Questions
  - Audience Presentations (limit to 15 minutes)
    - Chamber of Commerce
    - Residents
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# Agenda/Outline

- Roles and Responsibilities
  - Understanding the Levy
  - Wellesley Today
  - What is a Split Rate?
  - Split Rate Impact in Wellesley
  - Classification Considerations
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# Selectmen's Role

## MGL Chapter 40, Section 56

“The selectmen... shall annually first determine the percentage of the local tax levy to be born by each class of real property...

“...in determining such percentages, the selectmen shall adopt a residential factor...”

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# Assessor's Role

## MGL Chapter 59, Section 2A

“The assessors of each city and town shall determine the fair cash valuation of such real property for the purpose of taxation...”

“Classification of real property shall not be implemented in any city or town until the commissioner [of revenue] has certified in writing to the assessors... that the assessments on the real property that they propose to make are at full and fair cash valuation...”

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# How is the levy calculated?

Total Assessed Value/\$1,000

**X**

Rate

**=**

Total Property Tax Revenue

(Levy)

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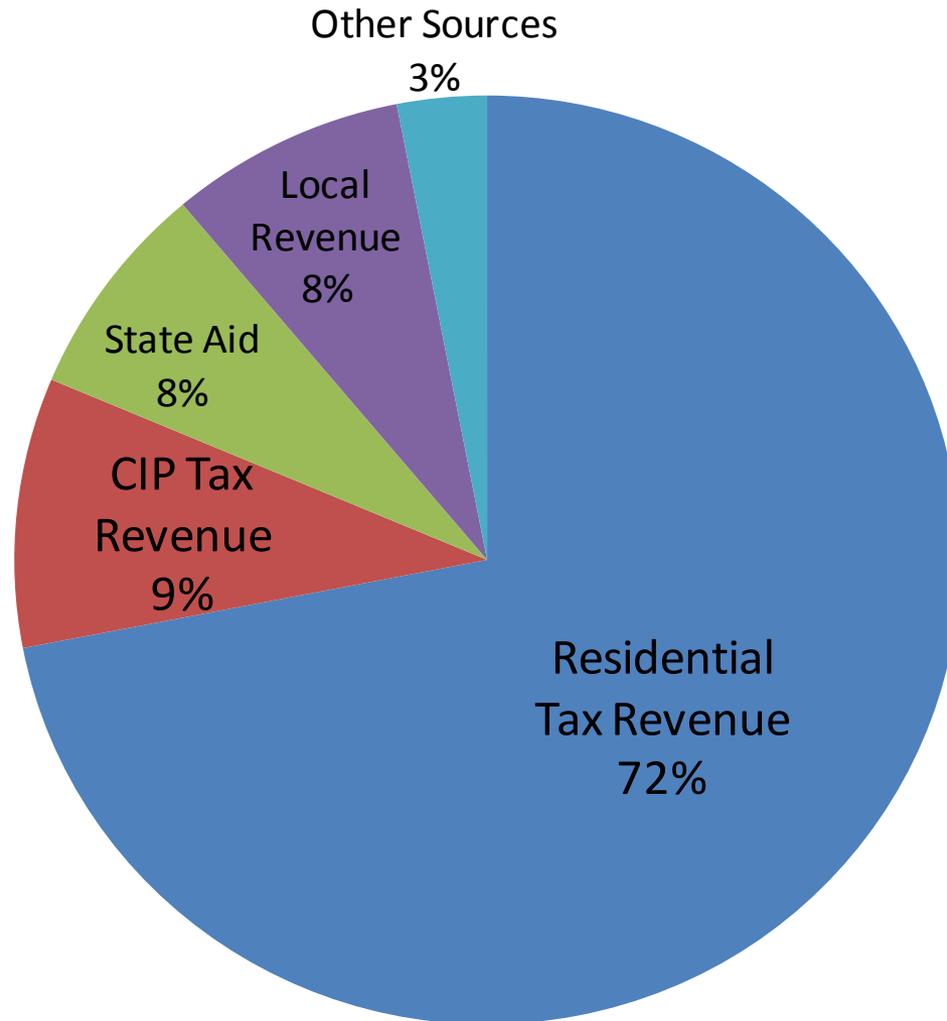
# Understanding the Levy

- Proposition 2½ restricts growth in the levy, not the rate
  - Budget process involves the levy limit + 2.5% & New Growth
  - As a result, budgets in Massachusetts are revenue driven
  - Determination of Assessed Values is a process separate from setting the levy
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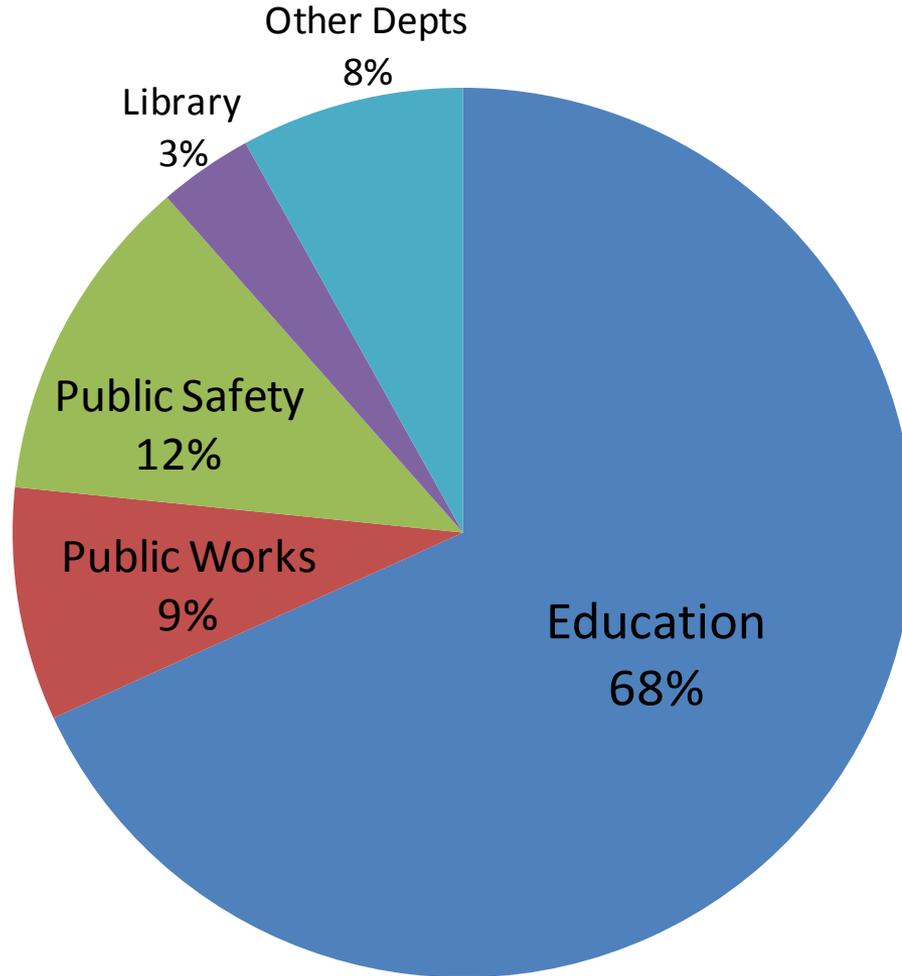
# Wellesley's Levy Profile Today

- Residential 88.5%
  - Commercial, Industrial and Personal Property (CIP) 11.5%
  - Residential and (CIP) taxed at same rate  
FY11 = \$11.43
  - Total Levy FY11 = \$100,145,363  
(81% of General Fund)
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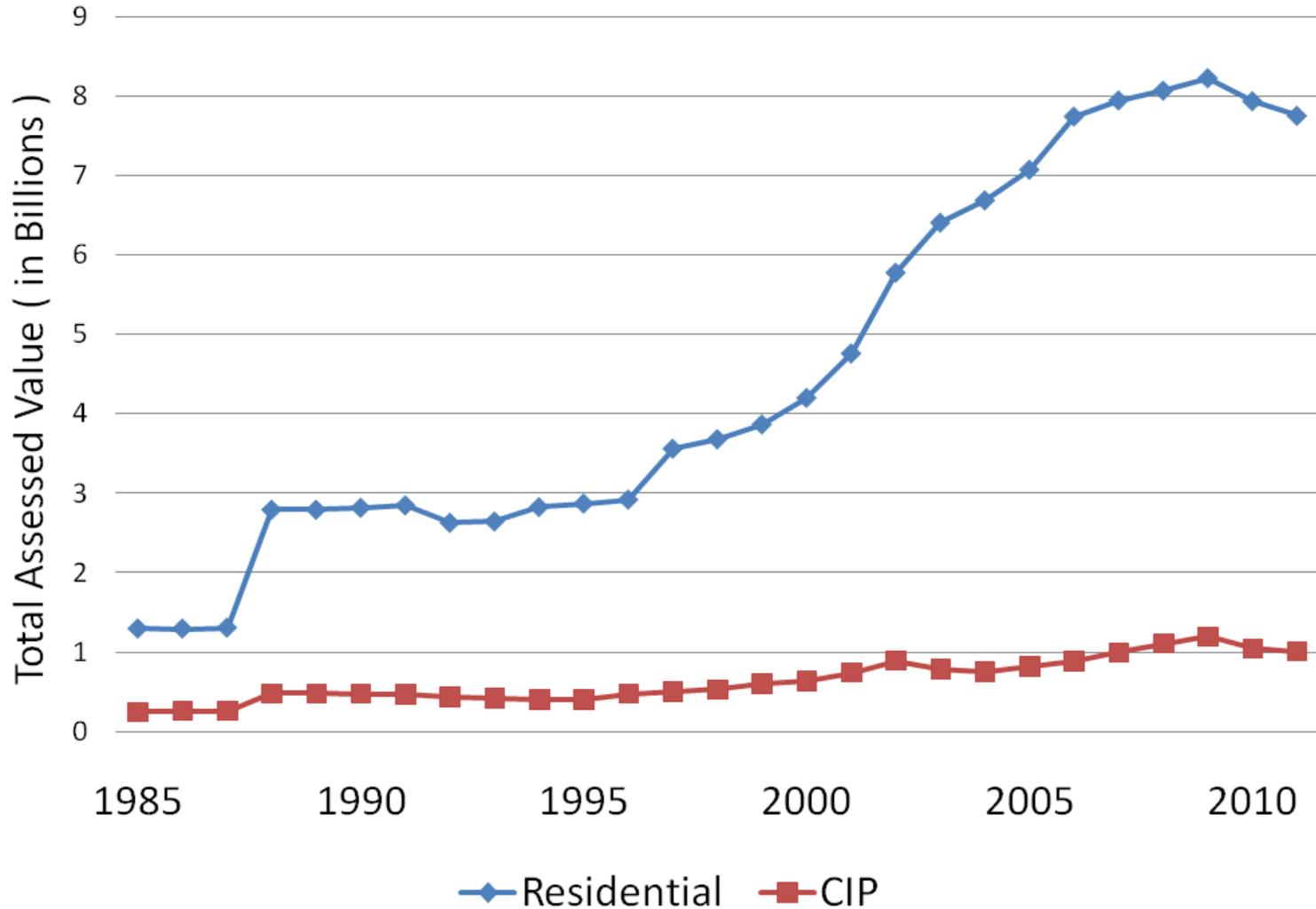
# Where does the money come from?



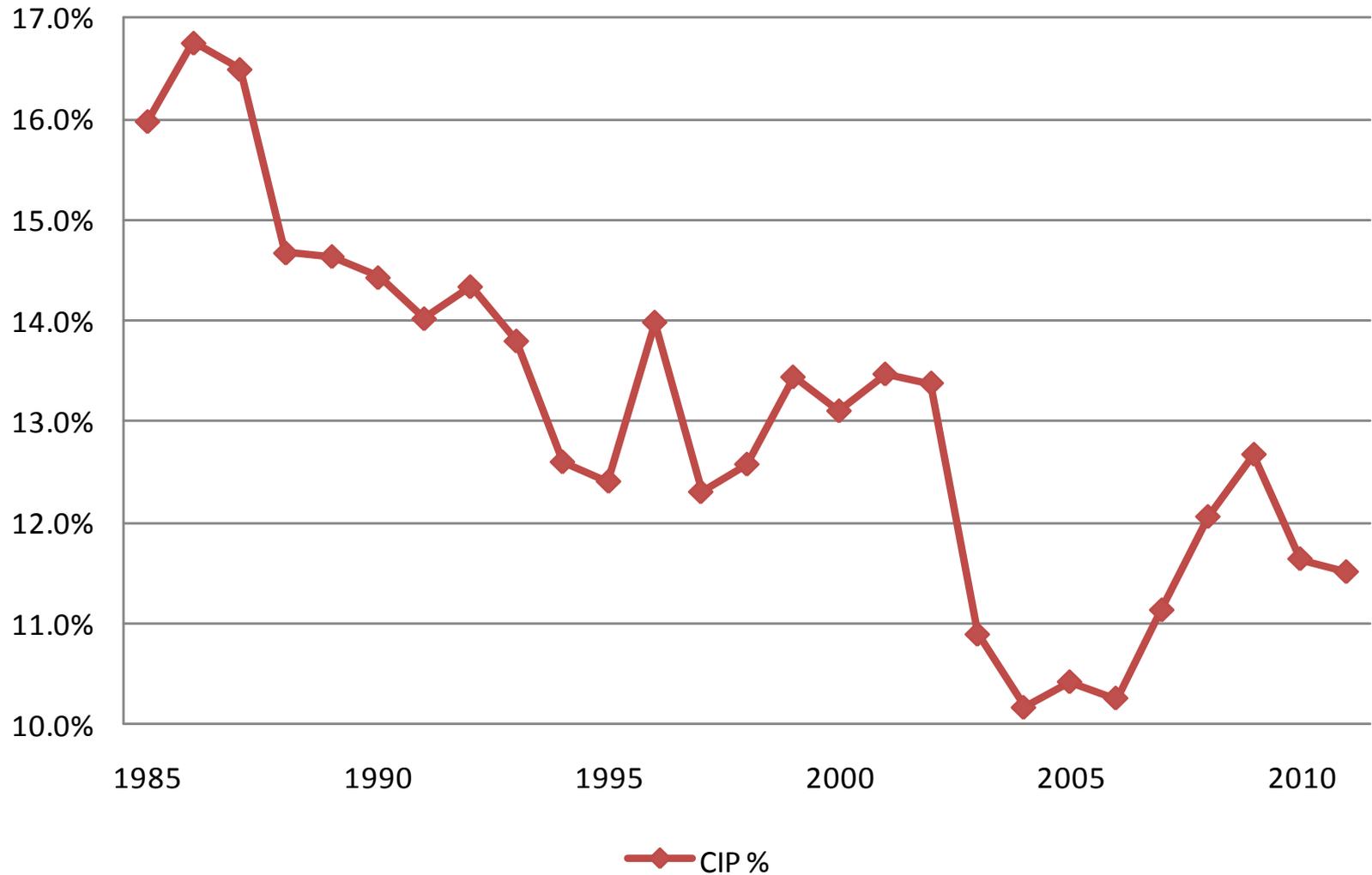
# Where does the money go?



# Total Assessed Value (1985-2011)



# Percentage of CIP Trend



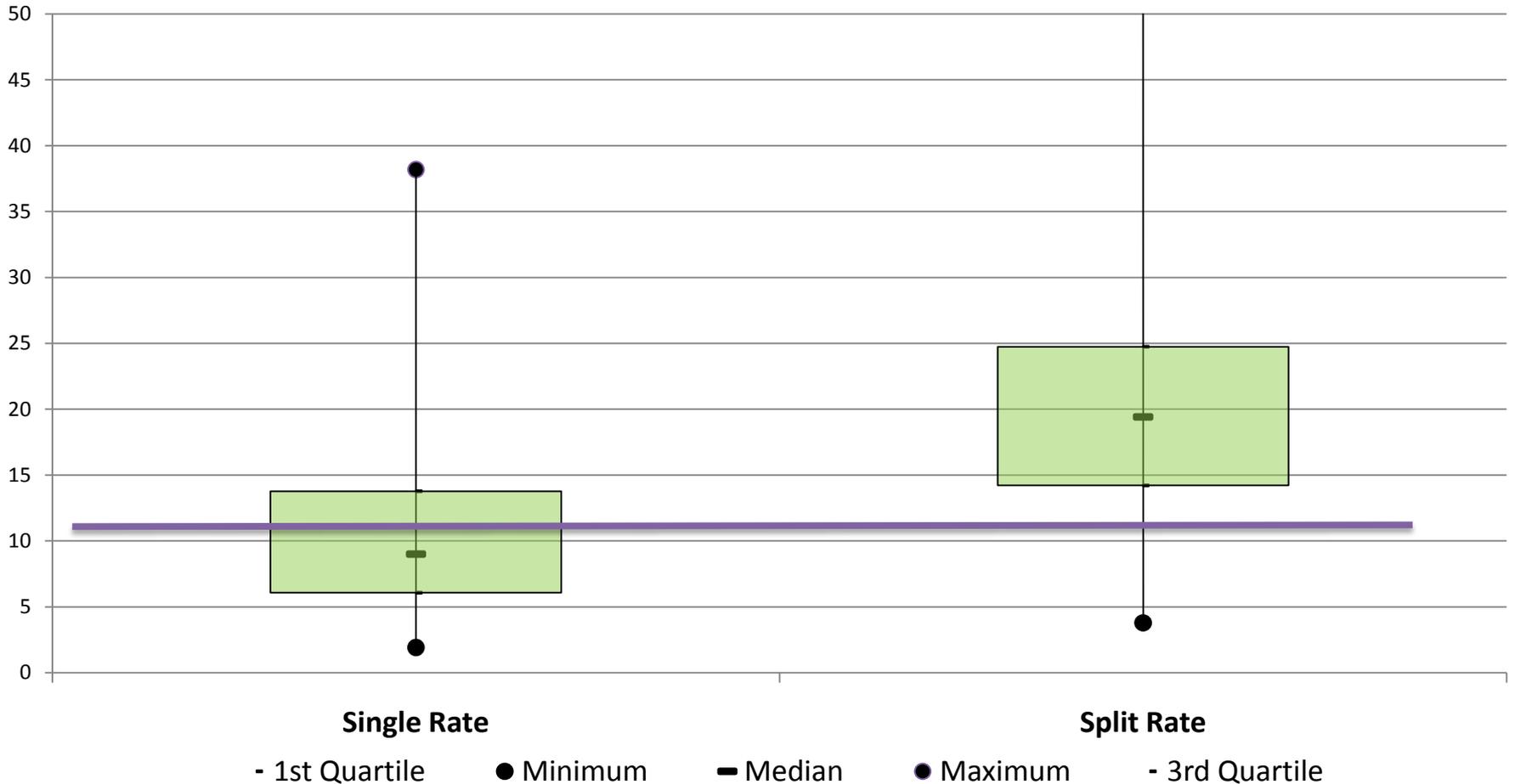
# What is a Split (or Dual) Tax Rate?

- Communities decide to tax Residential and Commercial, Industrial & Personal Property (CIP) differently.
  - Statute allows an increase in CIP's share of the tax levy up to 50% higher than residential
  - Does not generate new revenue; reallocates levy burden
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# Benchmark Communities

Community	Single Rate	Split Rate	Year Split Rate
Belmont	X		
Brookline		X	Prior 1982
Concord	X		
Lexington		X	Prior 1982
Natick	X		
Needham		X	1988
Newton		X	Prior 1982
Sudbury		X	Prior 1982
Wayland	X		
Wellesley	X		
Weston	X		
Westwood		X	Prior 1982
Winchester	X		

# Analysis: Massachusetts Single/Split Rate Communities (CIP as % of Total Value)



# Split Rate Impact in Wellesley

- If Wellesley had a maximum shift (i.e. 50%) for FY2011:
    - Residential tax rate = \$10.68
    - Commercial tax rate of = \$17.15
  - Median Residential value (\$786K) = a \$590 decrease in tax bill
  - Median Commercial value (\$1.811M) = a \$10,359 increase in tax bill
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# FY11 Pro Forma Split Rate Options

Tax Factor Shift	Residential				Commercial			
	Rate Change	Median Assessment	Median Tax Bill	Change	Rate Change	Median Assessment	Median Tax Bill	Change
1.00	11.43	786,000	8,984	-	11.43	1,811,000	20,700	-
1.10	11.27	786,000	8,858	(126)	12.57	1,811,000	22,764	2,065
1.20	11.12	786,000	8,740	(244)	13.72	1,811,000	24,847	4,147
1.30	10.97	786,000	8,622	(362)	14.86	1,811,000	26,911	6,212
1.40	10.82	786,000	8,505	(479)	16.00	1,811,000	28,976	8,276
1.50	10.68	786,000	8,394	(590)	17.15	1,811,000	31,059	10,359

# Split Rate Tax Bill Impact Snapshots

Assessed Value	Residential			Commercial		
	FY11 Rate (\$11.43)	Max Shift (\$10.68)	Decrease in Tax Bill	FY11 Rate (\$11.43)	Max Shift (\$17.15)	Increase in Tax Bill
600,000	6,858	6,408	(450)	6,858	10,290	3,432
800,000	9,144	8,544	(600)	9,144	13,720	4,576
1,000,000	11,430	10,680	(750)	11,430	17,150	5,720
4,000,000	45,720	42,720	(3,000)	45,720	68,600	22,880
6,000,000	68,580	64,080	(4,500)	68,580	102,900	34,320
8,000,000	91,440	85,440	(6,000)	91,440	137,200	45,760
10,000,000	114,300	106,800	(7,500)	114,300	171,500	57,200

# FY11 Pro Forma Split Rate Options + \$5M Override

Tax Factor Shift	Residential				Commercial			
	Rate Change	Median Assessment	Median Tax Bill	Change	Rate Change	Median Assessment	Median Tax Bill	Change
1.00	12.00	786,000	9,440	456	12.00	1,811,000	21,750	1,050
1.10	11.85	786,000	9,314	330	13.21	1,811,000	23,923	3,224
1.20	11.68	786,000	9,180	197	14.41	1,811,000	26,097	5,397
1.30	11.53	786,000	9,063	79	15.61	1,811,000	28,270	7,570
1.40	11.37	786,000	8,937	(47)	16.81	1,811,000	30,443	9,743
1.50	11.22	786,000	8,819	(165)	18.02	1,811,000	32,634	11,934

# Split Rate Tax Bill Scenario

	FY11	Split Rate	
	Single Rate	No Override	\$5M Override
Residential	11,430	10,680 (Save \$750)	11,220 (Save \$210)
Commercial	11,430	17,150 (Cost \$5,720)	18,020 (Cost \$6,590)

Assumptions			
Assessed Value	\$1,000,000	FY11 Single Rate	\$11.43
Split Rate - No Override		Split Rate - \$5M Override	
- Residential	\$10.68	- Residential	\$11.20
- Commercial	\$17.15	- Commercial	\$18.02

# Conclusion: Options

- Must set tax rate and mail tax bills before January 1<sup>st</sup>
  - Options before the Board of Selectmen:
    - A. Retain Single Rate in FY12
    - B. Split rate in FY12
  - Override question could be placed on the ballot for FY13, or a subsequent fiscal year
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# Conclusion: Classification Considerations

- Will an increased tax burden on CIP significantly lower Residential tax burden?
  - Is timing proper for the move to a split rate?
  - What is the rationale for making a change?
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# Questions

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