

# Wellesley's Property Taxes:

Comparative Analysis and Argument in Favor of a Dual Tax Rate

December 5, 2011

## Comparative Analysis: Wellesley vs. Lexington and Needham

- ❖ At the October 17<sup>th</sup> Tax Classification Hearing, the Selectmen staff:
  - Identified Lexington and Needham as the towns most similar to Wellesley in terms of commercial property and the Dual Tax issue; and
  - Presented a comparative analysis of Wellesley vs. Lexington and Needham.
  
- ❖ Both Lexington and Needham have Dual Tax rates.
  
- ❖ This Presentation Provides:
  - Additional comparative analysis of Wellesley vs. Lexington and Needham in terms of commercial property and the Dual Tax issue; and
  - Argues in favor of Wellesley implementing a Dual Tax with a 1.10 Tax Factor Shift.

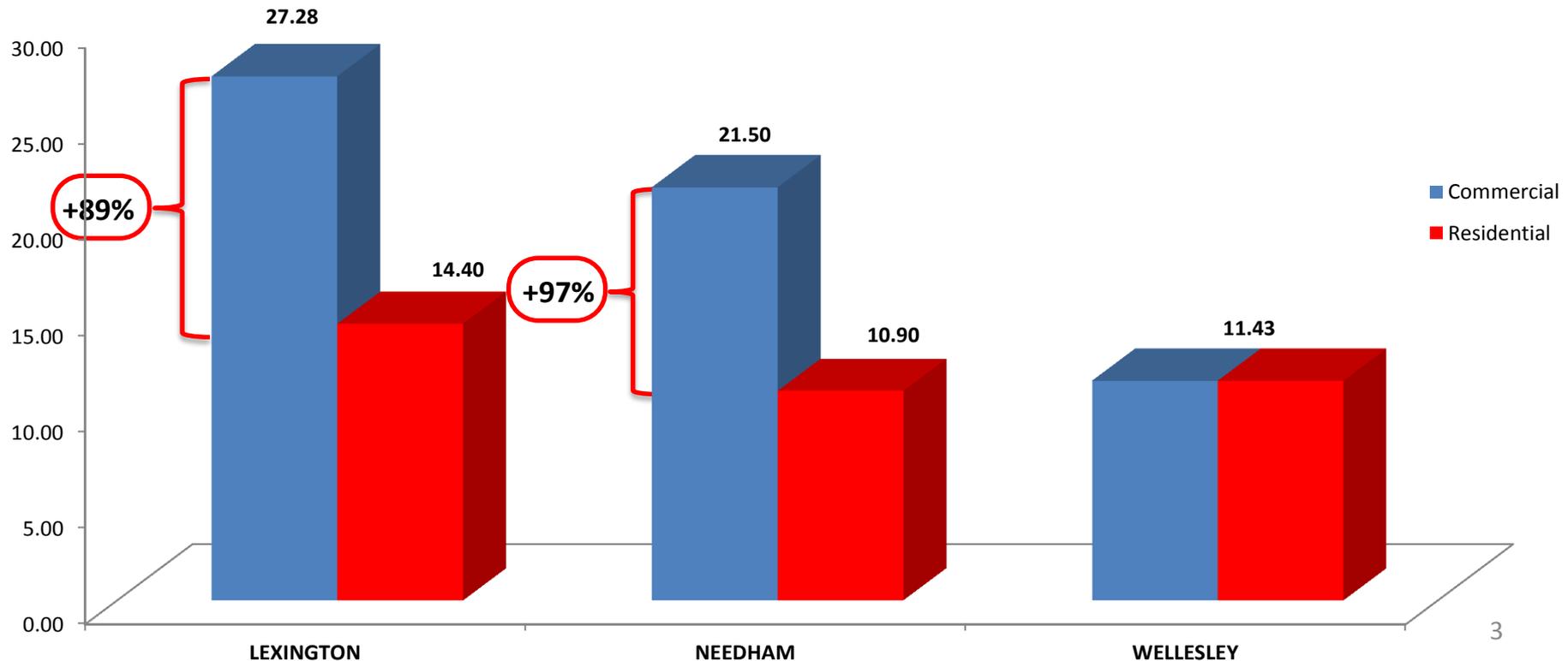
# Commercial vs. Residential Property Taxes

## Lexington, Needham, and Wellesley

❖ Comparable towns have significantly higher Commercial tax rates than Residential tax rates:

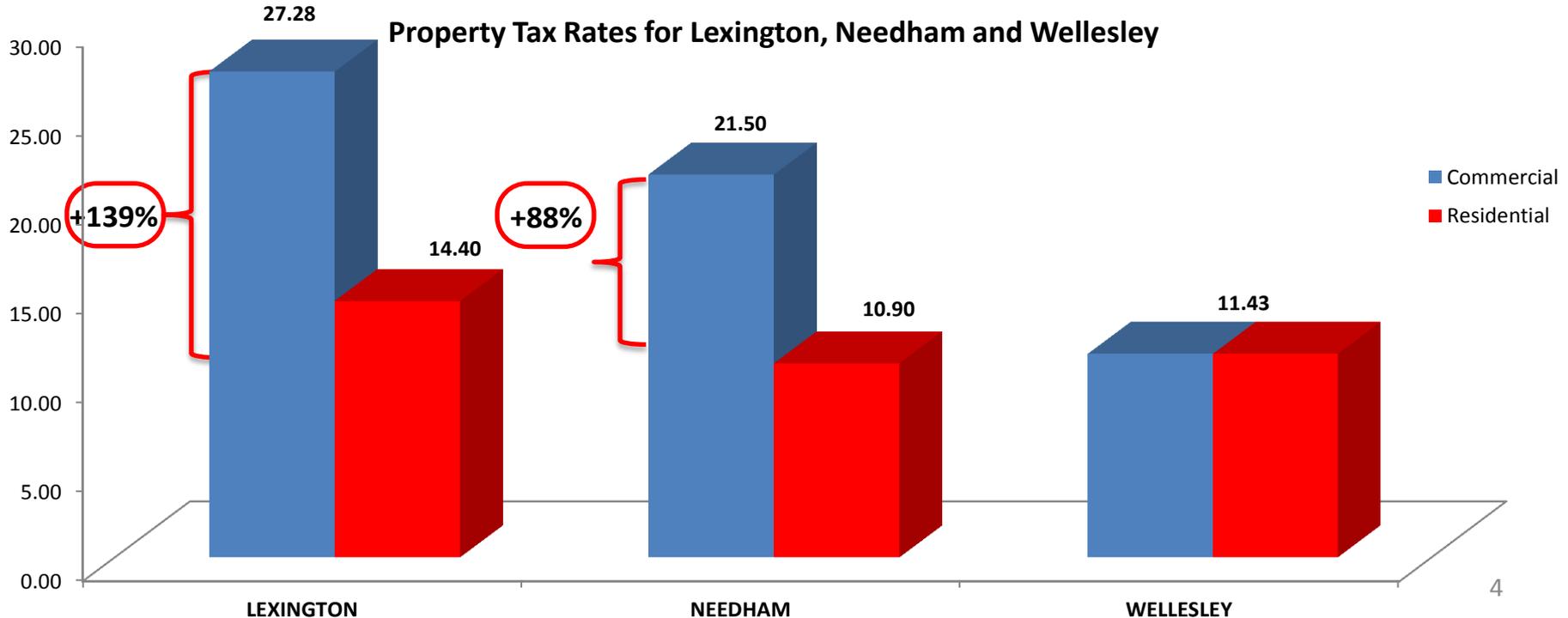
- Lexington's Commercial tax rate is **89%** higher than its Residential tax rate.
- Needham's Commercial tax rate is **97%** higher than its Residential tax rate.
- In contrast, Wellesley's Commercial tax rate is **0%** higher than its Residential tax rate.

Property Tax Rates for Lexington, Needham and Wellesley



# Wellesley Commercial Property Taxes vs. Lexington and Needham

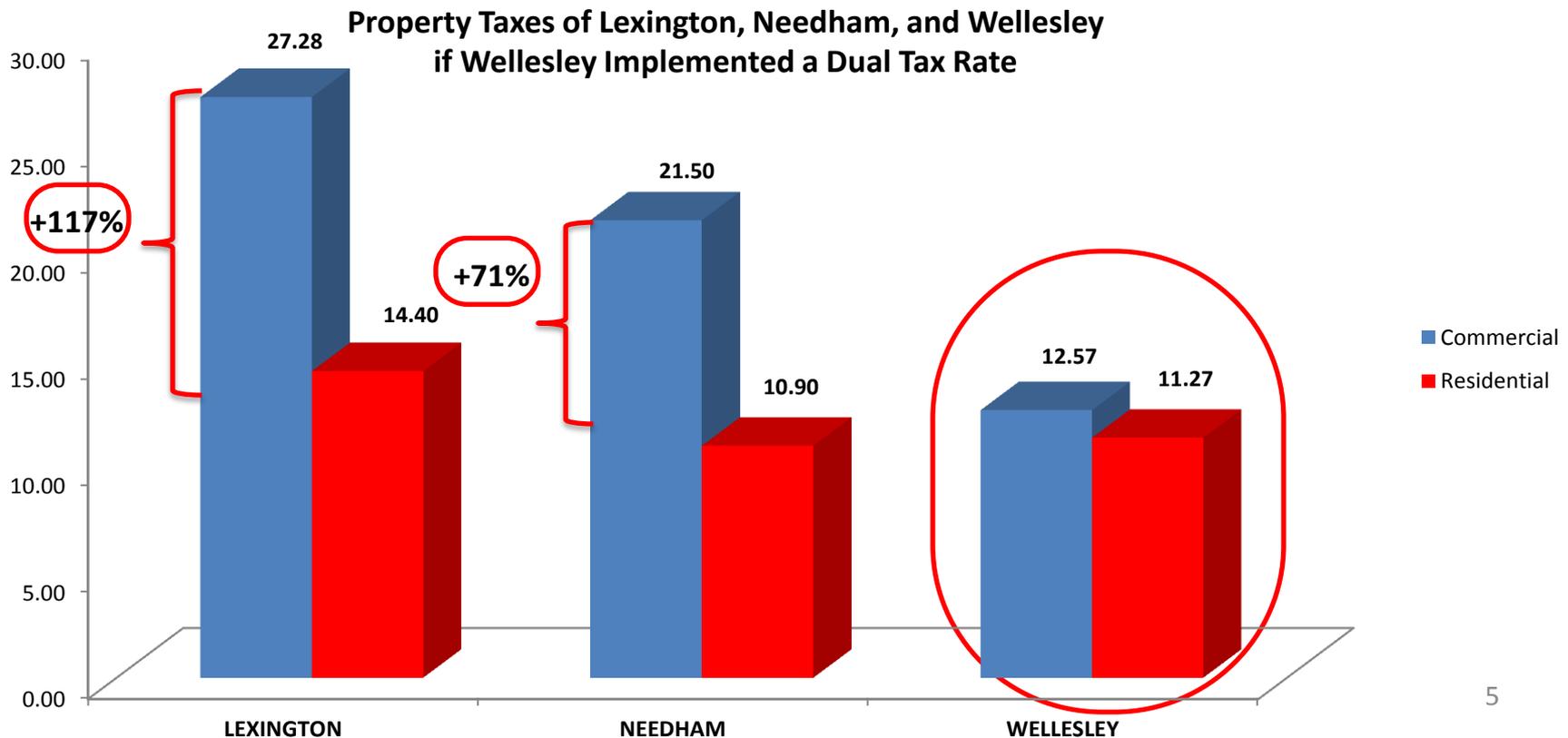
- ❖ Wellesley Commercial Property tax rate is the **lowest** by a huge margin.
  - Lexington is **139%** higher than Wellesley.
  - Needham is **88%** higher than Wellesley.
- ❖ In contrast, Wellesley's Residential Property tax rate is not the lowest. Needham has significantly higher Commercial Property rates than Wellesley but lower Residential Property tax rates.
- ❖ **Conclusion:** Wellesley's Residential Property owners pay higher taxes in order to keep Commercial Property tax rates significantly lower than towns like Lexington and Needham.



# Wellesley Commercial Property Taxes vs. Lexington and Needham

If Wellesley implemented a dual tax with a 1.10 Tax Factor:

- ❖ Wellesley Commercial Property tax rate would still be the **lowest** by a huge margin:
  - Lexington's would be **117%** higher.
  - Needham will be **71%** higher.



# Comparative Analysis of Tax Cost and Property Value: Lexington, Needham, and Wellesley

Town	Total Sq. Footage	Total Value	Annual Value Per Sq. Ft	Annual Tax Cost Per Sq. Ft	Tax Cost / Value Per Sq. Ft	% Higher than Wellesley
Wellesley	3,879,464	\$843,592,972	\$217.45	\$2.49	1.15%	-
Needham	6,255,689	\$795,953,700	\$125.80	\$2.70	2.15%	87.4%
Lexington	5,269,943	\$854,617,000	\$162.17	\$4.42	2.73%	138%

- ❖ Wellesley's average value per square foot is \$217.45.
  - **34%** higher than Lexington at \$162.17.
  - **73%** higher than Needham at \$125.80.
  
- ❖ Wellesley's average tax cost as a percentage of value per square foot is 1.15%.
  - Lexington is **138%** higher at **2.73%**.
  - Needham is **87%** higher at **2.15%**.
  
- ❖ Wellesley commercial property owners benefit from low taxes and high rents.
  
- ❖ **Conclusion:** Low taxes have translated into higher profits for commercial property owners rather than lower rents from tenants.

# Why recommend such a small Tax Factor Shift?

## ❖ What we know:

- Comparative analysis of Lexington, Needham, and Wellesley supports the adoption of a dual tax.
- Lexington and Needham adopted dual tax rates without destroying commercial activity in their towns and they have renewed the dual tax rates every year. 100% renewal rates are a strong indicator of a successful policy.

## ❖ What we do not know:

- Will a dual tax make Wellesley a stronger, better funded, and more attractive community?
- Will a dual tax rate drive commercial activity out of Wellesley?

## ❖ Recommendation:

- We will never know the answer to these question unless we test a Dual Tax.
- Most prudent course of action is to start small and see what happens.
- A Tax Factor Shift of 1.10 is a very small, incremental change in which the average tax cost as percentage of value per square foot would be a very modest **1.26%**.