

Wellesley's Future:

The Time has Come for a Dual Tax Rate

September 26, 2011

Wellesley is Facing Large Deficits

Wellesley is facing a **-\$5.3 million** deficit in FY2013 and a **-\$6.7 million** deficit in FY2014.

Fiscal Year	Projected Deficits
2013	-\$5.3 million
2014	-\$6.7 million
Total	-\$12 million

-\$12 million over the next two fiscal years.

Wellesley Needs an Override

*“We can scratch and claw and work down some of these figures, but suffice it to say, **we are not going to balance this budget without an override.**”*

Hans Larsen

Executive Director

Wellesley Board of Selectmen

September 2011

Paying for the Override

How are we going to
pay for the Override?

Paying for the Override

Option 1:

Raise everyone's Residential
and Commercial Property taxes.

Paying for the Override

Option 2:

Implement a Dual Tax Rate in
Conjunction with the Override.

Question: Do Other Towns Have Dual Tax Rates?

Answer:

- ❖ Yes, dual tax rates are very common in Massachusetts.
 - **13** of the Top **15** Cities and Towns in Massachusetts have dual tax rates.
(Wellesley is the **10th** largest town but does not have a dual tax rate.)
 - The Towns Most Comparable to Wellesley **all** have dual tax rates.
- ❖ It is surprising that Wellesley does not have a dual tax rate.

Question: Would a Dual Tax Generate Much Additional Revenue?

Answer:

- ❖ Yes, if Wellesley implemented a dual tax in conjunction with an Override:
 - Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year **without raising Residential Property taxes.**
 - **Wellesley would still have by far the lowest Commercial Property tax rate** of the Towns Most Comparable to Wellesley.

Comparative Analysis

- ❖ Wellesley in Comparison to:
 - The Top 15 Cities and Towns in Massachusetts
 - 13 Comparable Towns
 - I-95 / Route 128 Cities & Towns
 - The Towns Most Comparable to Wellesley

Wellesley
vs.
Top 15 Cities & Towns
in Massachusetts

Top 15 Cities and Towns in Massachusetts in terms of Total Property Values

- ❖ Wellesley is the **10th** largest towns in Massachusetts in terms of total property values.
- ❖ 13 of the Top 15 Cities and Towns in Massachusetts have dual tax rates.
- ❖ Wellesley and Plymouth are the only towns without dual tax rates.

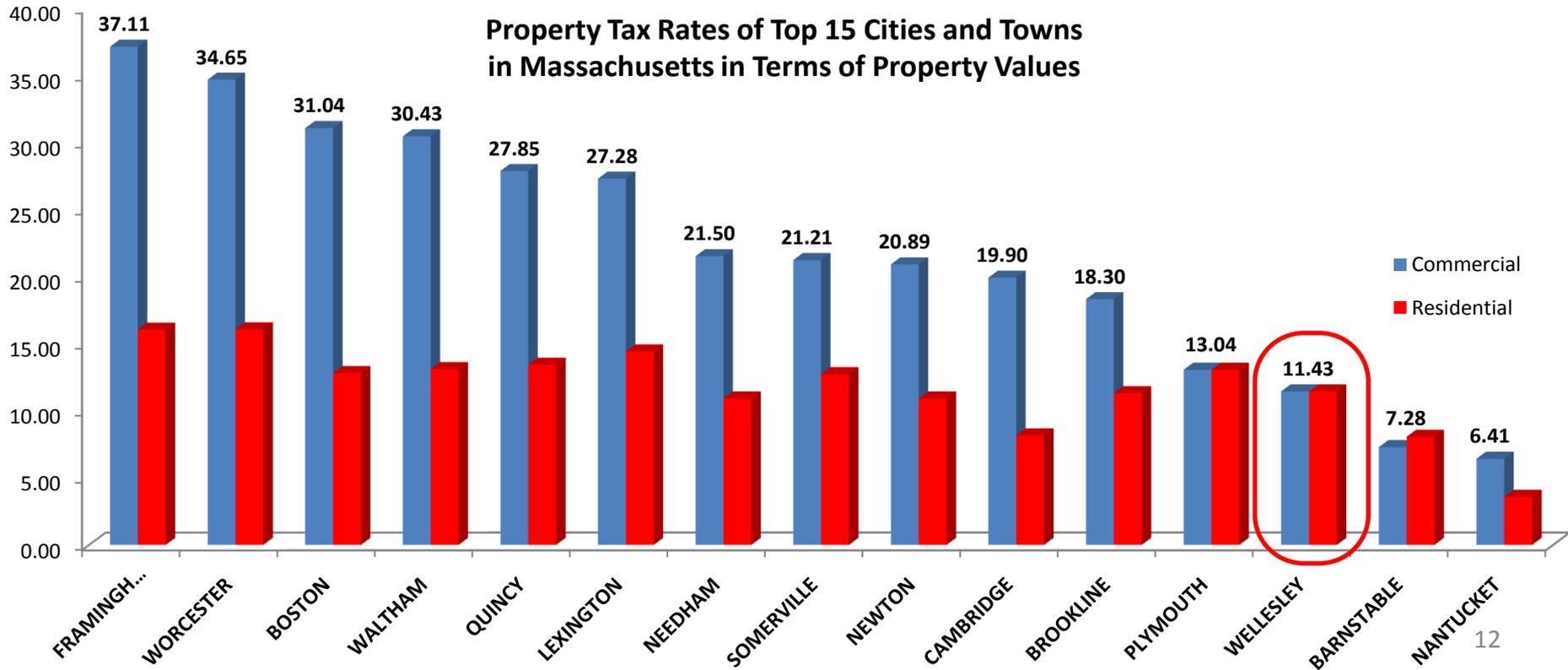
Rank	Cities & Towns	Total Private Property Values	Dual Tax Start Date
1	BOSTON	\$86,800,582,862	1983
2	CAMBRIDGE	\$24,162,077,598	1984
3	NEWTON	\$20,232,810,000	1982
4	NANTUCKET	\$17,208,429,905	1981
5	BROOKLINE	\$14,926,437,080	1982
6	BARNSTABLE	\$12,987,343,865	2006
7	WORCESTER	\$10,856,862,089	1984
8	QUINCY	\$10,616,310,980	1984
9	PLYMOUTH	\$8,829,548,161	No Dual Tax
10	WELLESLEY	\$8,761,624,100	No Dual Tax
11	WALTHAM	\$8,392,975,774	1983
12	SOMERVILLE	\$8,297,876,320	1986
13	LEXINGTON	\$7,973,719,190	1982
14	NEEDHAM	\$7,576,258,088	1988
15	FRAMINGHAM	\$7,459,613,764	1982

❖ Five of the Top 15 Towns are among the 13 Comparable Towns that Wellesley uses for benchmarking purposes (Brookline, Lexington, Needham, Newton, and Wellesley). Wellesley is the only one of these towns without a dual tax rate.

Wellesley Commercial Property Taxes vs. Top 15 Cities and Towns in Massachusetts

Wellesley has an extremely low Commercial Property tax rate.

- ❖ Wellesley is ranked **269th** out of 322 Massachusetts cities and towns.
- ❖ Wellesley has the **3rd lowest** Commercial Property tax rate of the Top 15 Cities and Towns.
- ❖ Only the beach communities of Barnstable and Nantucket have lower tax rates.

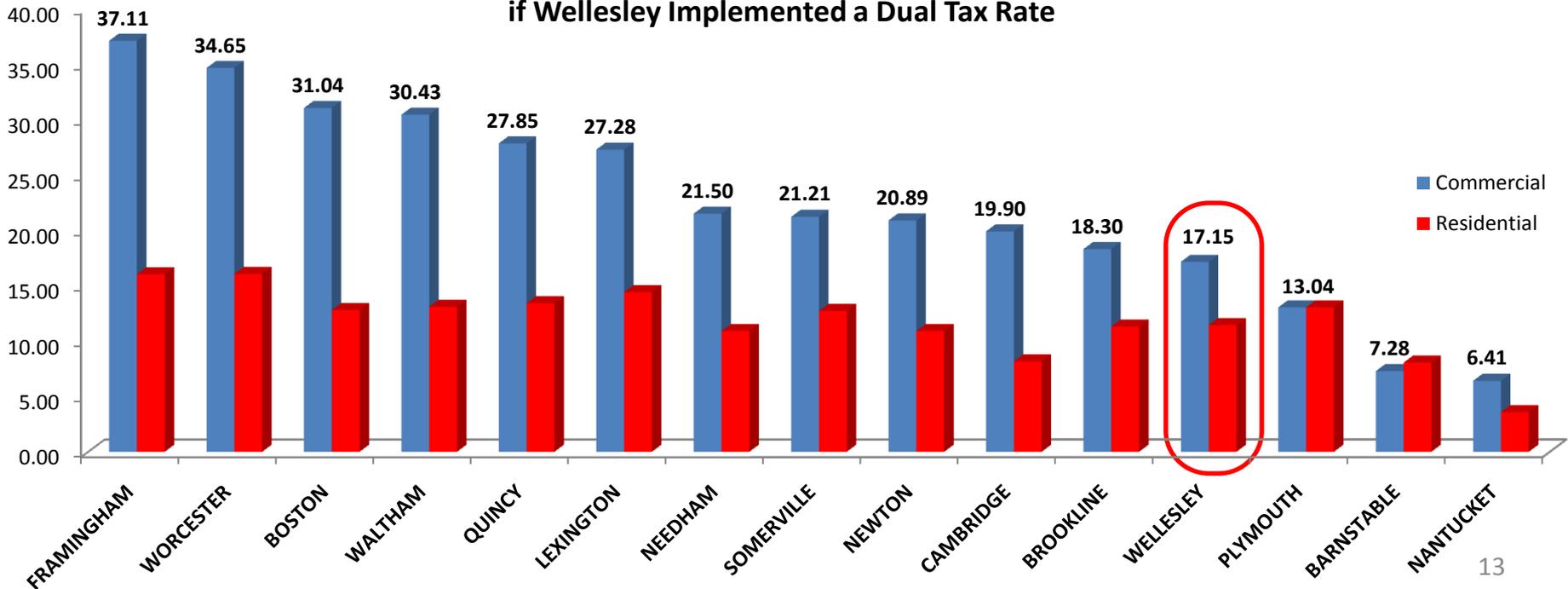


Effect of Dual Tax on Wellesley Commercial Property Taxes vs. Top 15 Cities and Towns in Massachusetts

If Wellesley implements a dual tax rate:

- ❖ Wellesley would have the **4th lowest** Commercial Property tax rate.
- ❖ Only the beach communities of Barnstable, Nantucket, and Plymouth would have lower tax rates.
- ❖ Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year.

Property Tax Rates of Top 15 Cities and Towns in Massachusetts
if Wellesley Implemented a Dual Tax Rate



Wellesley
vs.
13 Comparable Towns

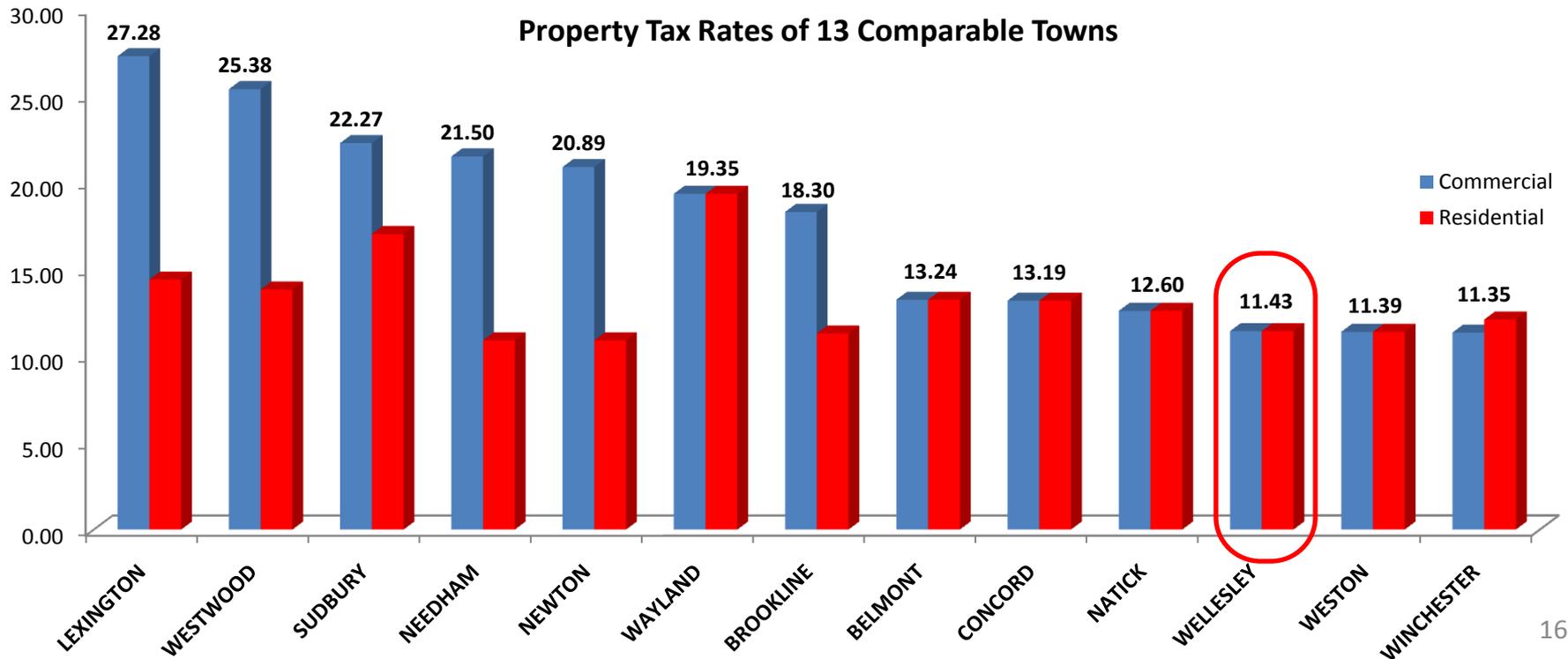
How were the 13 Comparable Towns selected?

- ❖ Wellesley’s Board of Selectmen use “10 Comparable Towns” for benchmarking purposes.
- ❖ Wellesley Public Schools use “12 Comparable Towns” for benchmarking purposes.
- ❖ This analysis merges these two lists into a single list of “13 Comparable Towns.”

	Town	Selectmen 10 Comparable Towns	WPS 12 Comparable Towns	Commercial Tax Rate	Residential Tax Rate
1	LEXINGTON	X	X	27.28	14.40
2	WESTWOOD		X	25.38	13.83
3	SUDBURY	X		22.27	17.03
4	NEEDHAM	X	X	21.50	10.90
5	NEWTON		X	20.89	10.90
6	WAYLAND	X	X	19.35	19.35
7	BROOKLINE		X	18.30	11.30
8	BELMONT	X	X	13.24	13.24
9	CONCORD	X	X	13.19	13.19
10	NATICK	X	X	12.60	12.60
11	WELLESLEY	X	X	11.43	11.43
12	WESTON	X	X	11.39	11.39
13	WINCHESTER	X	X	11.35	12.10

Wellesley Commercial Property Taxes vs. 13 Comparable Towns

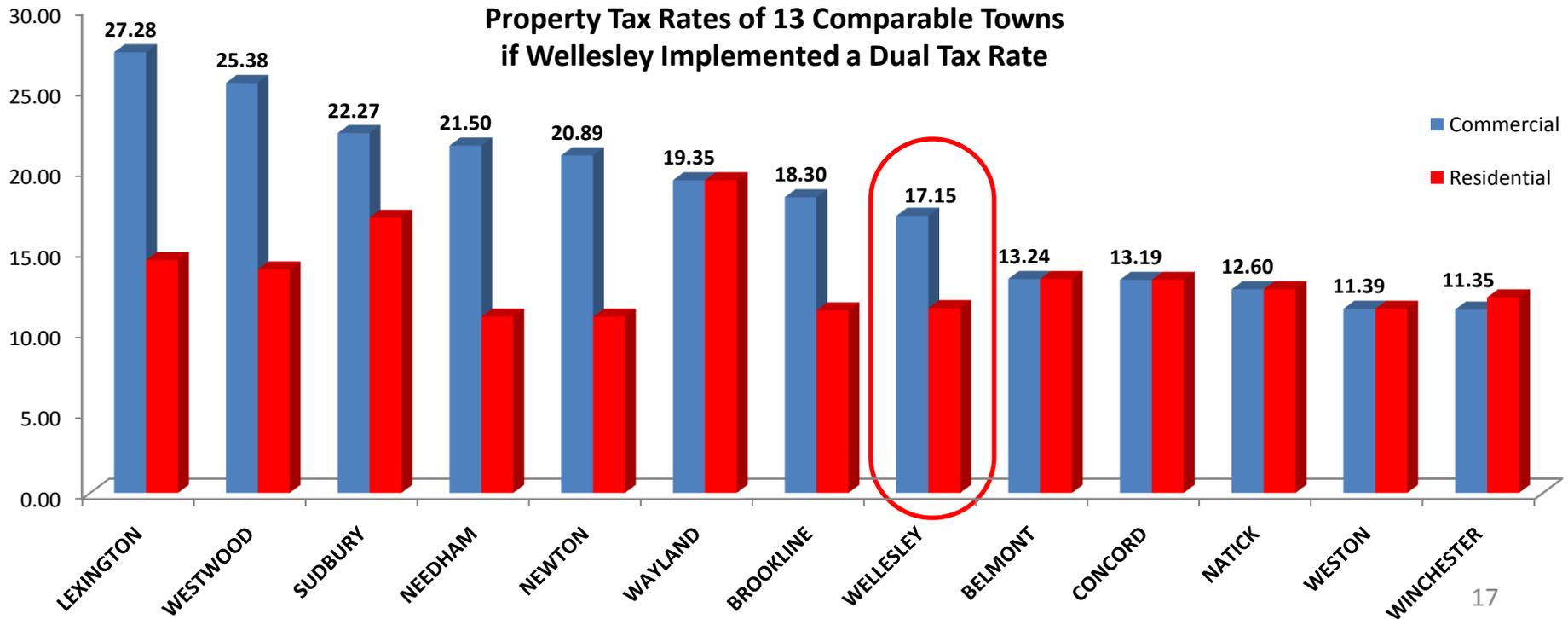
- ❖ Wellesley has an extremely low Commercial Property tax rate.
- ❖ Wellesley is ranked **11th** out of 13 Comparable Towns.



Effect of Dual Tax on Wellesley Commercial Property Taxes vs. 13 Comparable Towns

If Wellesley implemented a dual tax rate:

- ❖ Wellesley would continue to have an extremely low Commercial Property tax rate.
- ❖ Wellesley would be ranked **8th** out of 13 Comparable Towns.
- ❖ Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year.



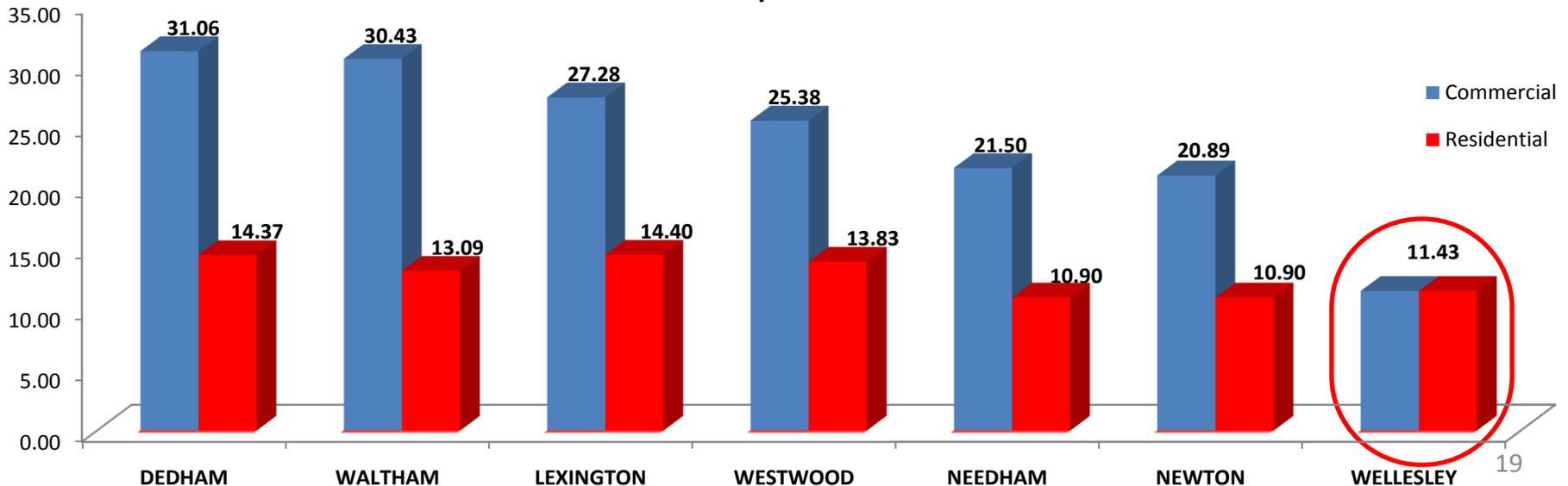
Wellesley Commercial Property Taxes
vs.
I-95 / Route 128 Cities & Towns

Wellesley Commercial Property Taxes vs. I-95 / Route 128 Cities & Towns

- ❖ Wellesley Commercial Property owners compete with six towns that border I-95 / Route 128.
- ❖ Wellesley is the only town that does not have a dual tax rate.
- ❖ Wellesley Commercial Property tax rate is the **lowest** by a huge margin.

• Dedham is 172% higher	• Westwood is 122% higher
• Waltham is 166% higher	• Needham is 88% higher
• Lexington 139% higher	• Newton is 83% higher

Real Estate Taxes of I-95 / Route 128 Cities and Towns



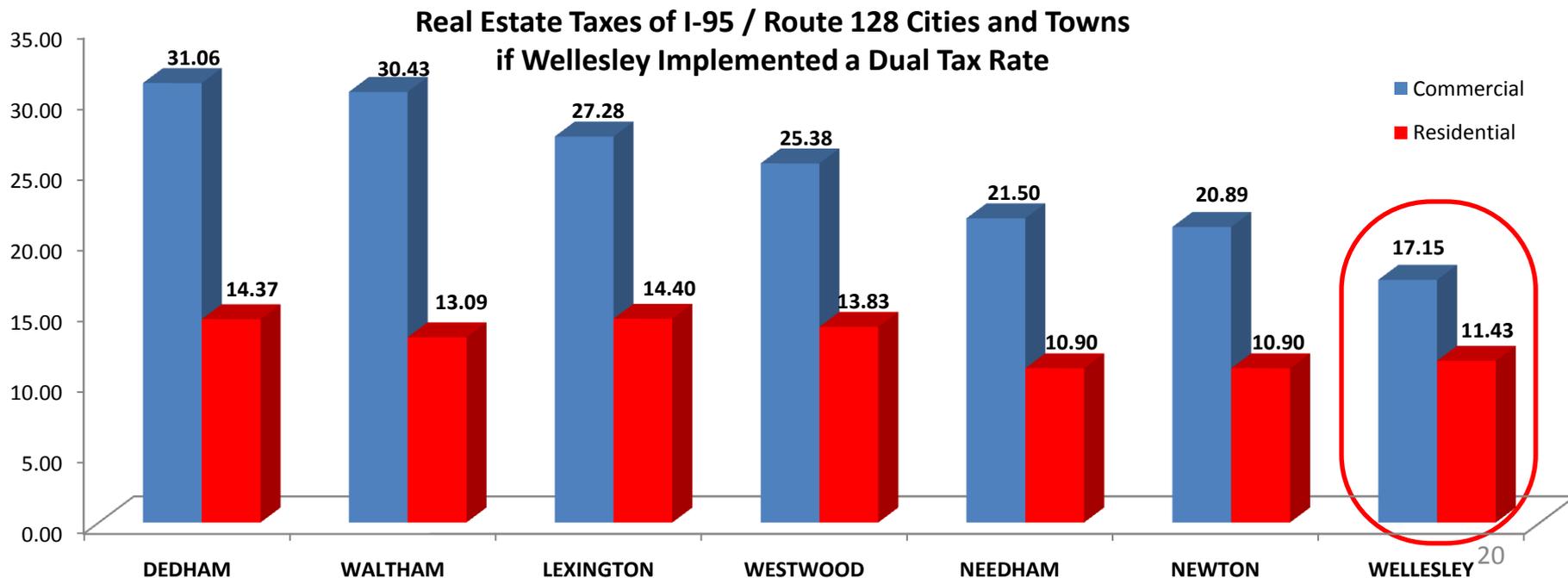
Effect of Dual Tax on Wellesley Commercial Property Taxes vs. I-95 / Route 128 Cities & Towns

If Wellesley implements a dual tax rate:

- ❖ Wellesley would still have the **lowest** Commercial Property tax rate by a significant margin.

• Dedham would be 81% higher	• Westwood would be 48% higher
• Waltham would be 77% higher	• Needham would be 25% higher
• Lexington would be 59% higher	• Newton would be 22% higher

- ❖ Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year.



Wellesley
vs.
Towns Most Comparable
to Wellesley

Four Most Comparable Towns: Lexington, Needham, Newton, and Wellesley

Lexington, Needham, Newton, and Wellesley share the following characteristics:

- ❖ Rank in the Top 15 Towns in Massachusetts in term of property values;
- ❖ Are among the 13 Comparable Towns that Wellesley uses as benchmarks;
- ❖ Are among the I-95/ Route 128 Towns that compete with Wellesley Commercial Property owners;
- ❖ Total Commercial Property values of over \$950 million; and
- ❖ Commercial Property represents over 10% of total property value in the town.

	Four Most Comparable Towns	% of Property that is Residential	% of Property that is Commercial
1	NEEDHAM	86.9%	13.1%
2	LEXINGTON	87.2%	12.8%
3	WELLESLEY	88.5%	11.5%
4	NEWTON	89.5%	10.5%

Four Most Comparable Towns and the Dual Tax: Lexington, Needham, Newton, and Wellesley

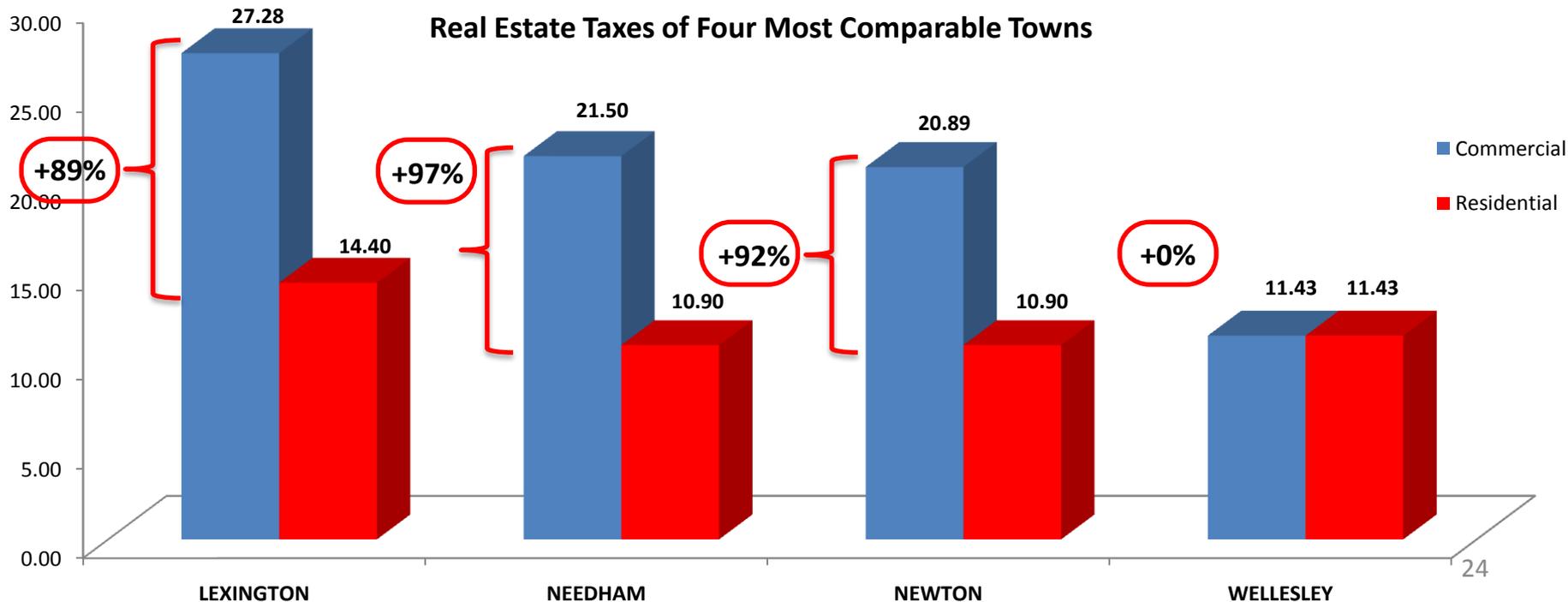
Wellesley is the only town that does not have a dual tax rate.

	Four Most Comparable Towns	Dual Tax Start Dates
1	LEXINGTON	1982
2	NEWTON	1982
3	NEEDHAM	1988
4	WELLESLEY	No Dual Tax

- ❖ Lexington implemented a dual tax in 1982.
- ❖ Newton implemented a dual tax in 1982.
- ❖ Needham implemented a dual tax in 1988.
- ❖ **Conclusion:** Wellesley is 25-30 years behind comparable towns.

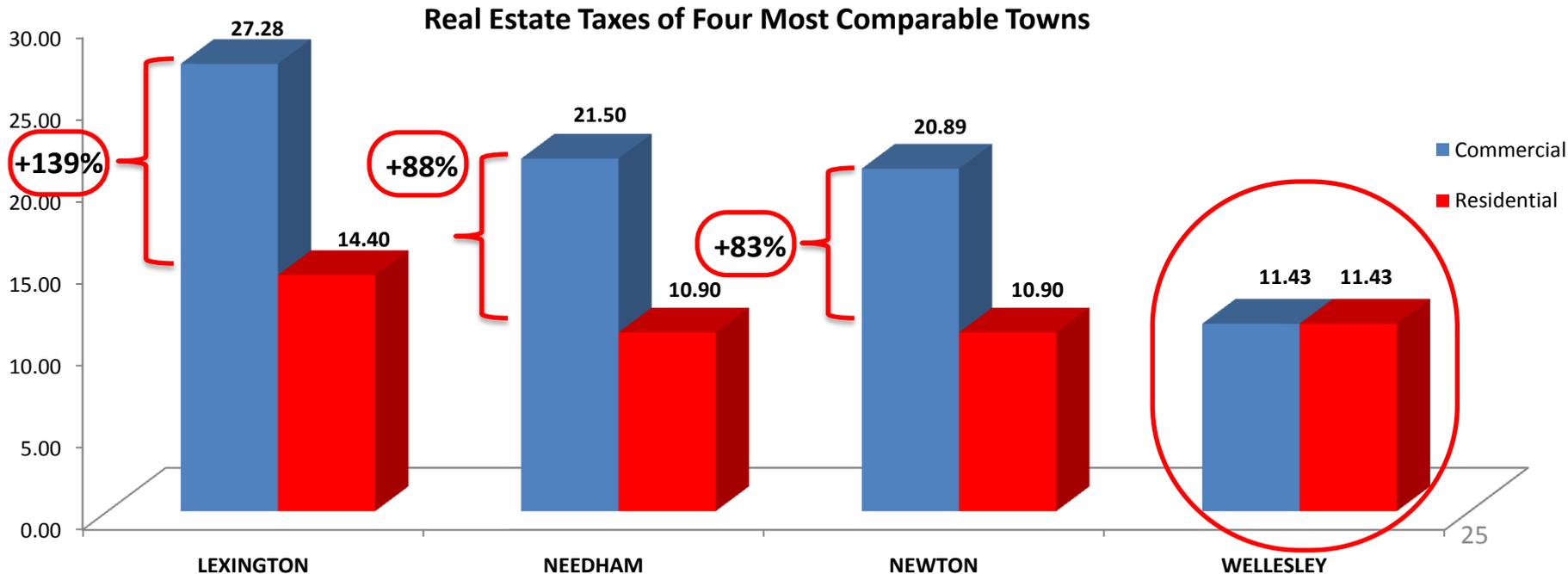
Commercial vs. Residential Property Taxes Lexington, Needham, Newton, and Wellesley

- ❖ 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.
 - Newton's Commercial tax rate is **92%** higher than its Residential tax rate.
 - In contrast, Wellesley's Commercial tax rate is **0%** higher than its Residential tax rate.
- ❖ **Conclusion:** Wellesley's Residential Property owners pay higher taxes in order to keep Commercial Property tax rates significantly lower than comparable towns.



Wellesley Commercial Property Taxes vs. Lexington, Needham, and Newton

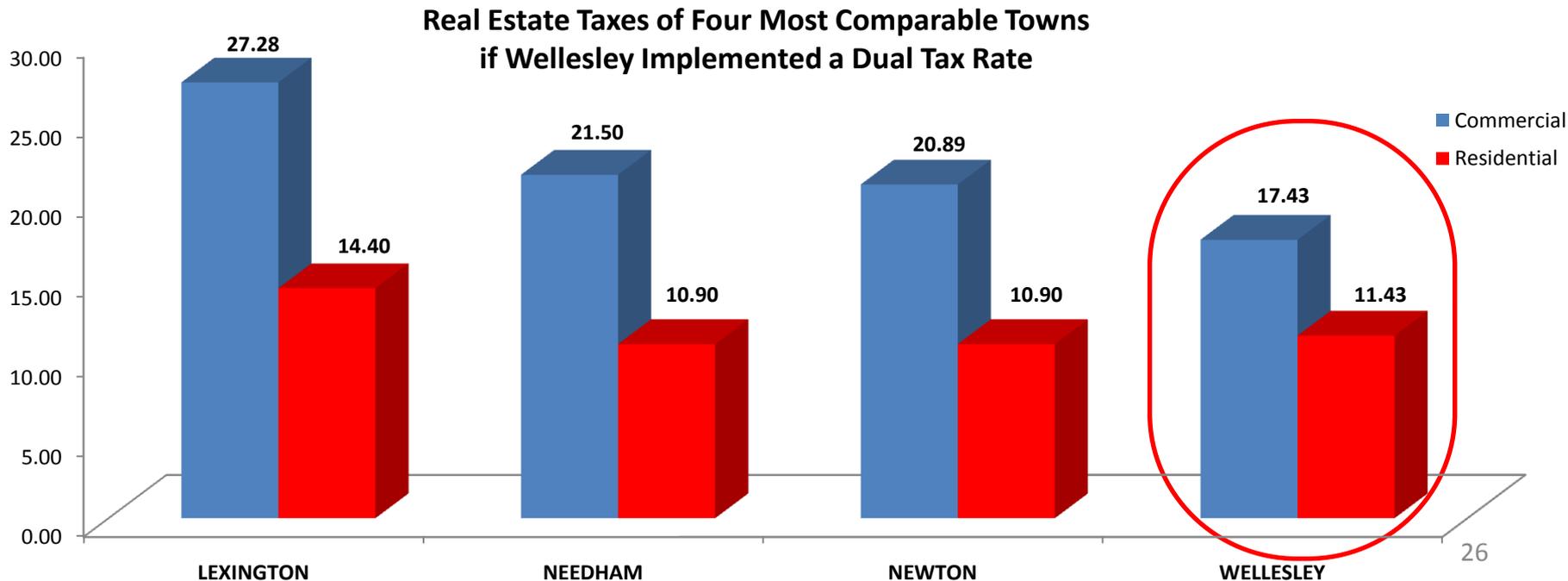
- ❖ Wellesley Commercial Property tax rate is the **lowest** by a huge margin.
 - Lexington is **139%** higher than Wellesley.
 - Needham is **88%** higher.
 - Newton is **83%** higher.
- ❖ In contrast, Wellesley's Residential Property tax rate is not the lowest. Needham and Newton have significantly 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 comparable towns.



Wellesley Commercial Property Taxes vs. Lexington, Needham, and Newton

If Wellesley implemented a dual tax rate:

- ❖ Wellesley Commercial Property tax rate will still be the **lowest** by a significant margin:
 - Lexington's will be **57%** higher.
 - Needham will be **23%** higher.
 - Newton will be **20%** higher.
- ❖ Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year and still have the **lowest** Commercial Property tax rate.



Key Facts and Findings

- ❖ Wellesley is facing a **-\$5.3 million** deficit in FY2013 and a **-\$6.7 million** deficit in FY2014.
- ❖ Wellesley needs to pass an Override.
- ❖ Dual tax rates have been in common use in Massachusetts for over 30 years.
 - 13 of the Top 15 Cities and Towns in Massachusetts have dual tax rates.
 - The Towns Most Comparable to Wellesley all have dual tax rates.
- ❖ If Wellesley implemented a dual tax in conjunction with the Override:
 - Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year without raising Residential Property taxes.
 - Wellesley would still have by far the lowest Commercial Property tax rate of the Towns Most Comparable to Wellesley.
- ❖ **Wellesley should implement a dual tax rate.** Failure to implement a dual tax rate will result in higher Residential Property taxes and would place the interests of Commercial Property owners far above the interests of Residential Property owners.

Appendix: Common Questions and Misconceptions

Question: Aren't Wellesley's Commercial Property taxes already high?

Answer: No, Wellesley's Commercial Property tax rate is extremely low.

Wellesley Commercial Property tax rate is:

- ❖ Ranked **269th** out of 322 MA cities and towns (Bottom 17%);
- ❖ Ranked **13th** out of the 15 Top Towns (Bottom 13%);
- ❖ Ranked **11th** out of the 13 Comparable Towns (Bottom 15%); and
- ❖ The **lowest** by a significant margin of the I-95 / Route 128 Towns;
- ❖ The **lowest** by a significant margin of the Towns Most Comparable Wellesley:
 - Lexington's Commercial tax rate is **139%** higher than Wellesley;
 - Needham is **88%** higher; and
 - Newton is **83%** higher.
- ❖ **Conclusion:** For over 30 years, Wellesley Residential Property owners have paid higher taxes in order to keep Commercial tax rates substantially lower than comparable towns. The time has come to end this practice.

Question: Does Wellesley have enough Commercial Property to justify a dual tax?

Answer: Yes, Wellesley has a large amount of Commercial Property (11.5%) due in large measure to the office parks located on I-95/Route 128.

- ❖ Every Comparable Town with 10-15% Commercial Property has a dual tax with the exception of Wellesley.
- ❖ Wellesley has more Commercial Property than eight other towns: Needham, Concord, Westwood, Belmont, Winchester, Sudbury, Weston, and Wayland.
- ❖ Wellesley has a larger percentage of Commercial Property than eight other towns: Newton, Concord, Brookline, Sudbury, Belmont, Winchester, Wayland, and Weston.

Total Commercial Property Value

Rank	Municipality	Total Commercial Property
1	NEWTON	\$2,119,141,637
3	NATICK	\$1,487,506,782
2	BROOKLINE	\$1,375,604,280
4	LEXINGTON	\$1,019,733,440
5	WELLESLEY	\$1,008,444,100
6	NEEDHAM	\$989,672,896
7	CONCORD	\$475,142,769
8	WESTWOOD	\$468,347,094
9	BELMONT	\$312,629,600
10	WINCHESTER	\$294,289,222
11	SUDBURY	\$274,711,172
12	WESTON	\$241,826,350
13	WAYLAND	\$148,526,813

Percentage of Commercial Property

Rank	Municipality	Residential	Commercial
1	NATICK	76.5%	23.5%
2	WESTWOOD	86.6%	13.4%
3	NEEDHAM	86.9%	13.1%
4	LEXINGTON	87.2%	12.8%
5	WELLESLEY	88.5%	11.5%
6	NEWTON	89.5%	10.5%
7	CONCORD	90.6%	9.4%
8	BROOKLINE	90.8%	9.2%
9	SUDBURY	92.9%	7.1%
10	BELMONT	93.9%	6.1%
11	WINCHESTER	94.5%	5.5%
12	WAYLAND	94.9%	5.1%
13	WESTON	95.4%	4.6%

Question: Would a dual tax generate much additional revenue?

Answer: Yes, if Wellesley implements a dual tax in conjunction with an override in which the Residential Property rate of 11.43 (11.43 per assessed \$1,000) is unchanged and the Commercial Property rate is increased 50% to 17.15 (\$17.15 per assessed \$1,000), Wellesley could collect an additional **\$5.8 million** of Commercial Property tax revenue each year.

❖ **Benefit to the town:**

- Wellesley Fiscal Year 2011 property tax revenues are just over \$100 million.
- \$5.8 million of new, reoccurring property tax revenue would be a significant, and much needed, addition to Wellesley's budget.

❖ **Choices and Priorities:**

For over 30 years, Wellesley Residential Property owners have paid higher taxes in order to keep Commercial tax rates substantially lower than comparable towns.

Wellesley should implement a dual tax rate. Failure to implement a dual tax will result in higher Residential Property Taxes and would place the interests of Commercial Property owners above the interests of Residential Property owners.

Question: Will Wellesley continue to draw commercial interest with a dual tax rate?

Answer:

- ❖ Yes, Wellesley's high quality residential and commercial properties, quality schools, proximity to Boston, and ease of access to world class universities and major medical centers, all contribute to making Wellesley a desirable location for businesses.
- ❖ Wellesley would still have by far the lowest Commercial Property tax rate of the Towns Most Comparable to Wellesley.
- ❖ The surrounding cities and towns of Boston, Brookline, Cambridge, Dedham, Framingham, Lexington, Needham, Newton, Sudbury, Waltham, and Westwood have already implemented dual taxes and have continued to see commercial business in their communities thrive.

Question: Can anything be done to protect small Commercial Property owners?

Answer:

Yes, Wellesley can protect small Commercial Property owners by offering a **Small Commercial Exemption**.

- ❖ A **Small Commercial Exemption** may be applied to certain commercial properties. If adopted, up to 10% of the assessed value of the eligible parcel would be exempt. Eligibility requirements are:
 - Assessment less than \$1 million; and
 - Occupied by a business which has been certified as having no more than an average of ten employees in the previous year.
 - The property **does not** have to be owner occupied to qualify.
- ❖ A **Small Commercial Exemption** would have no impact on the total taxes raised by the Town of Wellesley.

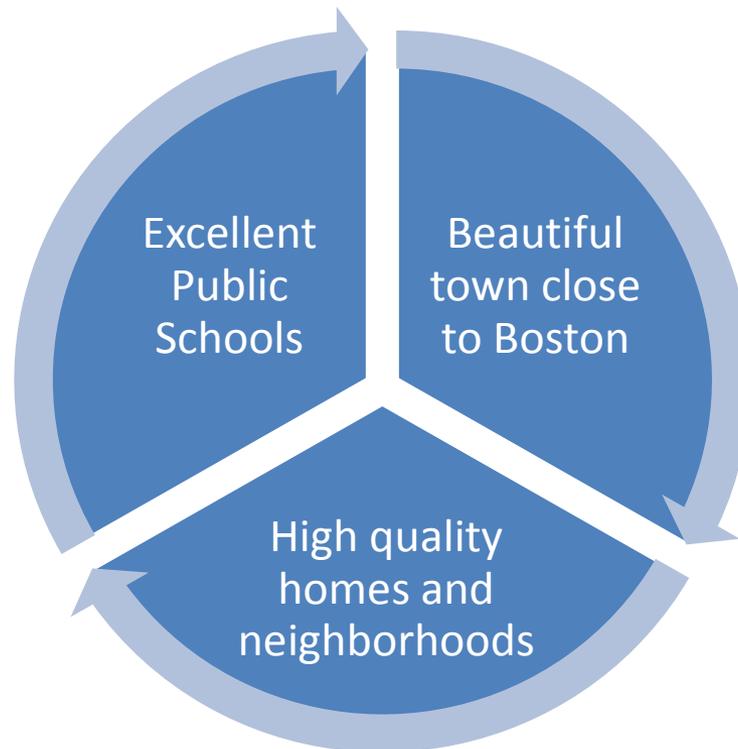
Dual Tax Rate: Legislative History and Key Terminology

- ❖ **Legislative History:** In 1978, an amendment to the Massachusetts Constitution endorsed by the electorate resulted in the Classification Act. This Act requires cities and towns to classify real property into different classes according to use:
 - Residential
 - Open Space
 - Commercial
 - Industrial
 - Personal Property
- ❖ **Commercial Property:** In this report the term “**Commercial Property**” is used to describe as a single class “Commercial Property, Industrial Property, and Personal Property.”
- ❖ **Creation of a Dual Tax:** The share of the tax revenues raised by Commercial Property may be increased as much as 50%.
- ❖ **Increased Revenue from a Dual Tax:** The adoption of different tax rates or dual tax rates does not change the total property tax raised. In order to increase the total tax revenue generated, Wellesley would need to implement a dual tax in conjunction with an override in which the town would raise additional tax revenue by increasing Commercial Property tax as much as 50% without raising Residential Property tax rates.

We Are All
in this Together

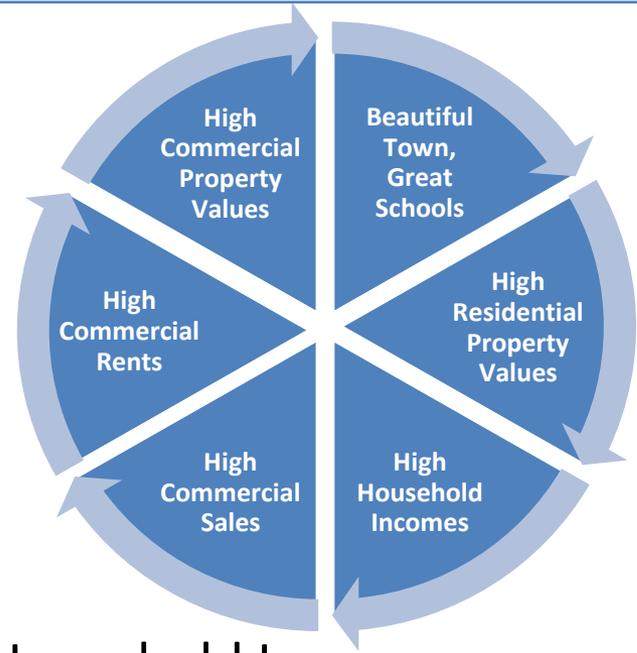
Wellesley is a Great Place to Live

- ❖ Beautiful town close to Boston
- ❖ High quality homes and neighborhoods
- ❖ Excellent public schools



Wellesley is a Great Place to Own Commercial Property

- ❖ Commercial Property owners benefit greatly from being located in Wellesley.
- ❖ Beautiful town, great homes, and excellent schools = high residential property values.
- ❖ High residential property values = high Household Incomes.
 - Wellesley's median Household Income (\$133,359) is **165%** higher than the U.S. media Household Income (\$50,221)
- ❖ Wellesley's high Household Incomes = high sales per square foot.
- ❖ High sales per square foot = high commercial rents per square foot.
- ❖ High commercial rents = high commercial property values.



Excellent Public Schools Increase Property Values

- ❖ *“Finding a great place to live and an excellent school for your kids are two of the biggest decisions a family will ever make, and they are very closely related.”*

~Bill Jackson, Founder and CEO, GreatSchools

- ❖ Education is very important to Wellesley Residents
 - 76% of Wellesley residents have a bachelor degree, **244%** higher than the U.S. average (22%)
- ❖ Great public schools = Great place to live
- ❖ Families pay a substantial premium for their homes for the right to send their kids to Wellesley Public Schools.
- ❖ **Virtuous Circle:** This creates a virtuous circle in which excellent public schools drive property values up and high property values help fund excellent public schools.

We Are All In This Together

- ❖ The value of Wellesley's residential and commercial property is directly linked to the quality of its public schools.
- ❖ The quality of the Wellesley's public schools is directly linked to the value of its residential and commercial properties.

