

November 8, 2017

Dear Board of Selectmen,

Thank you for the opportunity to provide comments for the Fiscal Year 2018 Tax Classification Hearing.

I urge the Natick Selectmen to take a fresh look at the tax classification decision by understanding how the tax classification can increase the tax levy from new commercial growth while reducing the tax burden on residential homeowners. I also suggest using the data provided by the MA Department of Revenue Division of Local Services Municipal Databank to identify communities with similar attributes and benchmark Natick against them.

First, it is important to understand that a split tax rate does not just shift the tax burden from the residential to commercial class, but can also increase the tax levy.

Per MA DOR Levy Limits: A Primer on Proposition 2 ½ (page 8), “Proposition 2 ½ allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is **not** the result of revaluation.” It also states, “New growth is calculated by multiplying the increase in the assessed valuation of qualifying property by the prior year’s tax rate for the appropriate class of property.” <http://www.mass.gov/dor/docs/dls/publ/misc/levylimits.pdf> - page 8.

Thus, when a municipality has elected a split tax, tax on new Commercial, Industrial and Personal Property (CIP) growth is calculated using the prior year’s CIP tax rate. In years when the classification percentage of new CIP growth to all new growth exceeds the classification percentage of existing CIP property to all existing property (Natick = 22.0911% at 6/30/16), the tax on new growth will be greater with a split tax rate than a single tax rate. **The additional tax on new CIP growth permanently increases the tax levy which then increases by 2 ½% per year.**

As an example, attached is the calculation of the tax on new growth for the town of Burlington for fiscal years 2016 – 2017.

Town of Burlington Calculation of Tax on New Growth						
FY 2016	Prior FY Property by Class	Prior FY % by Class	New Growth by Class	% New Growth by Class	Prior FY rates by Class	Tax on New Growth
Residential	3,318,511,275	62.74%	44,386,016	32.56%	11.35	503,781
CIP	1,971,197,449	37.26%	91,948,089	67.44%	29.40	2,703,274
Total	5,289,708,724		136,334,105			3,207,055
FY 2017	Prior FY Property by Class	Prior FY % by Class	New Growth by Class	% New Growth by Class	Prior FY rates by Class	Tax on New Growth
Residential	3,396,245,775	61.36%	63,927,386	46.48%	11.46	732,608
CIP	2,138,554,119	38.64%	73,605,532	53.52%	28.28	2,081,564
Total	5,534,799,894		137,532,918			2,814,172

The Newton Comprehensive Plan (page 10-7) dated November 19, 2007 elaborates on how a split tax rate has benefitted their community.
<http://www.newtonma.gov/civicax/filebank/documents/30752>

“The 2½% annual growth in tax levy allowed without “new growth” is commonly more than offset by inflation in expenses, effectively obliging reductions in services unless other revenues such as State aid offset that, which in recent years they have not. “New growth,” helps to mitigate that as long as the new growth imposes less in new service costs than it pays in taxes. The “New Growth” component of the tax levy is cumulatively of increasing importance. Since 1992, “new growth” in Newton has added by about half to the annual tax levy increase otherwise allowed under Prop 2½. Projected “new growth” has been central to planning for how to finance the new Newton North High School, focusing greater public attention to it.

About a third of the New Growth addition to the allowable tax levy since 1992 has come from non-residential development. That share reflects both the relative amounts of residential and non-residential development in the City and the City’s use of a split tax rate, which increases the non-residential share of the levy. That almost doubles the tax revenue impact of non-residential New Growth. On average over those years, the New Growth figures have fluctuated greatly from year to year, especially the non-residential component. For that reason, non-residential New Growth is a closely watched phenomenon.”

With significant commercial new growth currently under development (MathWorks, 9/27 Exchange, Wegmans, etc.), I strongly urge the Selectmen to review new growth projections for FY 19 and tax calculations using single and split tax factors before taking a tax classification vote. How much will the tax levy increase from new commercial growth with different tax factors?

I also suggest that the Selectmen compare Natick to communities with similar characteristics rather than neighboring towns. The Massachusetts Department of Revenue Division of Local Services Municipal Databank collects, analyzes and distributes financial, demographic and economic data on all 351 cities and towns. <https://www.mass.gov/municipal-databank-data-analytics>

I recommend the following criteria to identify suburban municipalities with similar attributes to Natick:

- 2017 CIP greater than \$1 billion
- 2017 population between 25,00 and 45,000

Of the 351 municipalities in MA, twelve, including Natick, meet these criteria. (Barnstable, Everett and Watertown are excluded because they have residential exemptions.)

Selection Criteria Results

Municipality	2017 Population	2017 Total CIP
Andover	35,035	1,473,754,609
Billerica	42,403	1,557,405,345
Braintree	37,414	1,340,003,255
Burlington	25,699	2,241,969,831
Danvers	27,724	1,102,380,881
Lexington	33,055	1,228,355,980
Marlborough	39,656	1,595,764,723
Natick	35,687	1,701,825,770
Needham	30,250	1,270,307,816
Norwood	29,114	1,399,160,494
Wellesley	28,872	1,432,153,400
Woburn	39,298	1,968,945,243

**Average Single-Family Tax Bill Comparison
Sorted by 2017 Average Single-Family Tax Bill**

Municipality	2017 Average SF Home Assessment	2017 Average SF Tax Bill	Natick - Difference
Woburn	409,763	4,073	-3,071
Braintree	422,482	4,537	-2,607
Norwood	417,786	4,658	-2,486
Billerica	339,565	4,784	-2,360
Burlington	446,122	4,934	-2,210
Marlborough	322,503	4,941	-2,203
Danvers	407,593	5,781	-1,363
Natick	529,607	7,144	0
Andover	604,053	9,170	2,026
Needham	843,913	10,034	2,890
Lexington	932,084	13,506	6,362
Wellesley	1,215,729	14,333	7,189

The Natick Difference column indicates the difference between the average single-family tax bill in other municipalities and Natick.

**Tax Rates and Residential to CIP Tax Shift
Sorted by 2017 Residential Tax Rate Descending**

Municipality	2017 Residential Tax Rate	2017 CIP Tax Rate	2016 CIP Shift	2017 Residential Assessment %	2017 Residential Tax %	2017 CIP Assess %	2017 CIP Tax %
Marlborough	15.32	26.41	1.370	68.01%	55.22%	31.99%	44.78%
Andover	15.18	26.46	1.535	80.68%	70.68%	19.23%	29.32%
Lexington	14.49	28.13	1.750	88.40%	79.70%	11.60%	20.30%
Danvers	14.19	21.83	1.335	75.65%	66.88%	24.35%	33.12%
Billerica	14.09	33.44	1.750	74.07%	54.62%	25.93%	45.38%
Natick	13.49	13.49	1.000	77.91%	77.91%	22.09%	22.09%
Needham	11.89	23.63	1.750	86.25%	75.95%	13.75%	24.05%
Wellesley	11.79	11.79	1.000	87.16%	87.16%	12.84%	12.84%
Norwood	11.15	22.46	1.520	71.29%	55.21%	28.71%	44.79%
Burlington	11.06	28.10	1.575	61.65%	38.75%	38.35%	61.25%
Braintree	10.74	23.72	1.750	78.63%	62.59%	21.37%	37.41%
Woburn	9.94	24.97	1.750	71.21%	49.61%	28.79%	50.39%

A CIP Shift not equal to 1.000 indicates a split tax rate. All municipalities that meet the selection criteria except Natick and Wellesley have elected a split tax rate. In these municipalities, the residential class has an assessed property percentage that exceeds their percentage of the total tax levy. On the surface, this may seem unfair. However, residential property is assessed at fair market value while commercial property is assessed using the income approach. The formula for commercial income values (assessment) is net operating income (potential rental income less a vacancy factor) less operating expenses times a variable capitalization rate. Because residential and commercial properties are assessed using different methodologies, it is difficult to compare their assessments and corresponding tax.

On the following chart, I have attempted to compare taxes paid by Natick commercial and residential class property owners by using a taxes paid per square foot approach. My sample indicates that commercial property owners in Natick generally pay significantly less real estate taxes per square foot than residential property owners.

Sample Natick Properties
Commercial/Residential Real Estate Taxes per Square Foot
Sorted by Real Estate Taxes per Square Foot

Property Location	Assessment	Real Estate Taxes	Residential: Total TLA Commercial: Building Area	RE Taxes per SF	Property Class
12 Main St	1,631,400	22,008	19,081	1.15	General office building
4 Tech Cir	3,658,200	49,349	36,177	1.36	General office building
220 North Main St	3,042,200	41,039	28,465	1.44	General office building
1245 Worcester St	4,607,400	62,154	32,996	1.88	Small retail and service store
307 West Central St	1,925,500	25,975	13,512	1.92	General office building
1 Vision Dr.	22,199,900	299,477	147,999	2.02	General office building
8 Washington St	3,544,300	47,813	23,616	2.02	Bank building
49 Eliot Hill Rd	707,700	9,547	2,902	3.29	Single family
5 Crest Rd	493,400	6,656	1,956	3.40	Single family
32 Park Ave	616,600	8,318	2,145	3.88	Single family
13 Marshall Rd	614,500	8,290	2,016	4.11	Single family
7 Morgan Dr.	525,000	7,082	1,705	4.15	Condominium
4 Third St	737,100	9,943	2,200	4.52	Single family
9 Eliot St	764,100	10,308	2,226	4.63	Gasoline service station
10 Nouvelle Way	580,400	7,830	1,382	5.67	Condominium

The table below calculates and compares the amount of pro forma tax that would be paid by McDonalds and Dunkin Donuts using Natick assessments and other municipality's 2017 CIP Tax Rate.

**CIP Tax Rates/Sample Business Comparisons
Sorted by 2017 CIP Tax Rate Descending**

Municipality	2017 Residential Tax Rate	2017 CIP Tax Rate	CIP Rate/Residential Rate	CIP Rate/Natick CIP Rate	McDonalds - assessment \$1,717,600	Dunkin Donuts - assessment \$717,800
Billerica	14.09	33.44	2.37	2.48	57,437	24,003
Lexington	14.49	28.13	1.94	2.09	48,316	20,192
Burlington	11.06	28.10	2.54	2.08	48,265	20,170
Andover	15.18	26.46	1.74	1.96	45,448	18,993
Marlborough	15.32	26.41	1.72	1.96	45,362	18,957
Woburn	9.94	24.97	2.51	1.85	42,888	17,923
Braintree	10.74	23.72	2.21	1.76	40,741	17,026
Needham	11.89	23.63	1.99	1.75	40,587	16,962
Norwood	11.15	22.46	2.01	1.66	38,577	16,122
Danvers	14.19	21.83	1.54	1.62	37,495	15,670
Natick	13.49	13.49	1.00	1.00	23,170	9,683
Wellesley	11.79	11.79	1.00	0.87	20,251	8,463

Some residents believe that a split tax rate will cause businesses to close or not locate in Natick. However, based on the FY 2016 Tax Classification report, a 150% split tax rate will increase the CIP tax rate from \$13.49 to \$20.23 (increase of \$6.74). This CIP rate is still lower than all other comparable municipalities listed above (except Wellesley).

It should also be noted that “Investment Consulting Associates (ICA) has completed Task 2: Baseline Analysis of Town’s Economic Development Position for its Targeted Economic Development Study and Action Plan for the Town of Natick. An in-depth analysis of Natick today – its economic base, commercial and regulatory environment, and overall competitiveness – is crucial to formulating the most effective strategies and recommendations for enhancing economic development.” The report did not include real estate taxes as one of the top nine subcategories businesses use in making expansion and relocation decisions. The report stated “Some categories are weighted

more than others. For instance, Tax Regime, Climate & Natural Hazards, and Crime & Quality of Life were weighted less than the other subcategories in this model.”

The additional revenue from new growth can be used to fund infrastructure improvements (improve roads, sidewalks, parking, open space, etc.) in business districts to make properties more desirable, as well as other uses such as reducing or eliminating town fees. As an example, Burlington and Woburn do not charge residents for trash, school sports or school bus transportation fees.

The FY 2016 Tax Classification report also indicated that a 150% split tax rate will decrease the residential rate from \$13.49 to \$11.58 (decrease of \$1.91). This would reduce the taxes paid on the average \$529,600 home from \$7,144 to \$6,133 – a savings of \$1,011. This would clearly help Natick homeowners especially seniors and those on fixed incomes. This could also increase the likelihood of CPA passage or make it easier to pass debt exclusions.

Based on my data analysis, I recommend that the Selectmen adopt a 150% split tax rate for Fiscal Year 2018. A split tax rate will bring in much needed tax revenue to the town and provide tax relief to home owners.

Sincerely,

Bob Caplin
5 Crest Road
Natick, MA 01760

508-655-7686

bobcaplin@gmail.com