



# Town of Natick

## Town Administrator's Office

**TO:** BOARD OF SELECTMEN  
**FROM:** MARTHA WHITE, TOWN ADMINISTRATOR  
**SUBJECT:** TAX CLASSIFICATION HEARING  
**DATE:** 11/9/2017  
**CC:** DEPUTY TOWN ADMINISTRATOR/FINANCE DIRECTOR  
DIRECTOR OF ASSESSING

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I urge the Board of Selectmen to vote to retain a single tax classification. In support of this recommendation, a "primer" is warranted to explain how a community's levy limit is calculated, and how such limit is impacted by changes in tax classifications.

Under the terms of Proposition 2 1/2, a community's "levy limit" is the restriction on the amount of property taxes a community can levy (i.e. impose on taxpayers) as well as how much that levy can be increased from year to year.

Specifically, a community cannot levy more than 2.5 percent of the total full and fair cash value of all taxable real and personal property in the community. Further, year-to-year increases in the levy are guided by this formula: Prior years Levy + 2 ½% + New Growth + Debt Exclusion/Override (if any).

Thus, importantly, a change in tax classification rates (such as imposing a higher tax rate on commercial and industrial properties) will NOT increase the tax levy or result in greater tax revenue to the Town. The levy can only be increased through voter approval of a debt exclusion of property tax override.

The purpose of the classification hearing is to determine the percentage share of the tax levy that each class of property will pay in accordance with the provisions of Proposition 2 1/2. Pursuant to such provisions, a community may shift the tax burden towards Commercial and Industrial Property (CIP) taxpayers to the maximum allowable 150%. The resulting "residential factor" is based on the percentage of residential property.

In my opinion, the data that Ms. Dangelo has provided for many years has consistently demonstrated that the potential benefits of a split tax rate to our residential taxpayers do not outweigh the negative impacts on our commercial and industrial taxpayers.

Specifically, based on Ms. Dangelo's FY 2018 data, if a split tax rate were adopted such that the CIP rate increased by 150%, the CIP tax rate would increase by \$6.53 per thousand and the residential rate would decrease by \$1.73 per thousand.

As a result, the tax bill for a home with an assessed value of \$400,000 would decrease by about \$700. It should be noted that taxes on our large multi-family properties (e.g. Chrysler Road and Avalon) would also be decreased.

However, the impact on commercial/industrial properties would be substantial. By way of example, property taxes on the Clark's Block in Natick Center would increase by over \$22,000 and property taxes on MathWorks - excluding their Lakeside Campus - would increase by over \$1 million. Also noteworthy is that, by increasing taxes on the CIP sector, their property values would drop given that such values are derived on an income basis.

Indisputably, the greatest stabilizer on residential taxes is growth in the CIP sector; that is, put simply, the greater the percentage of property tax attributable to commercial/industrial property the lesser is the tax burden on Natick's residents.

Presented with this data, the Board of Selectmen has consistently concluded that a split tax rate's benefits to residents - while not insubstantial - are more than offset by the impacts on the community's existing businesses as well as our future economic development opportunities.

It is the recommendation of the Administration that the Board of Selectmen maintain a single tax rate by voting a residential factor of 1.00.