November 9, 2017

To: The Board of Selectman

Re: Response to Mr. Caplin's letter to the Selectman dated 11/8/17 suggesting the implementation of a split tax rate

From: Janice Dangelo, Director of Assessing
Eric Henderson, Assistant Assessor

In response to a concerned taxpayer, we would like to point out a few items regarding the effect of a split tax rate. Town Administration and the Assessors have met and communicated with Mr. Caplin over the past couple of years concerning this subject. We hope to clarify some of the issues presented.

Assessed Values are based on Market Value regardless of methodology used

In appraisal there are three approaches to value; the Cost, Income, and Sales Comparison approach. The end result of all of these approaches is to determine market value; the most probable price a property should bear in an open and competitive market.

Utilizing a split tax rate does not increase the tax levy

"Cities and towns that are certified as assessing property at full and fair cash value may elect to shift the tax burden among the major property classes within certain limits established by law. The adoption of different rates does not change the total property tax levy; rather it determines the share of the total levy to be borne by each class."
MA DOR, DLS, Classification Workshop

The effect of a split tax rate on New Growth

A split tax rate increases the tax rate on CIP property while lowering the tax rate on Residential property. A split tax rate only increases new growth in years where the percentage of new growth from the CIP class exceeds the percentage share of the levy. In years where this is not the case, because of a decreased residential tax rate, new growth is actually lessened.
A review of these percentages for the last eleven fiscal years shows that the Town would have lost growth in 6 years and gained growth in 5.

The effect of a split tax rate on the value of Commercial/Industrial Property

The values of Commercial and Industrial property are based on the income approach as that is typically how these properties are bought and sold. In simple form, the income approach converts normalized annual net income into a property value. Expenses, including real estate taxes, are part of calculating net income. Thus, as expenses increase, the bottom line, ie net income decreases. As net income decreases, property values decrease.

The effect of a split tax rate on our large Taxpayers

Natick is unique in that our two largest CIP taxpayers account for 28 percent of the CIP base. This is a large percentage of our levy paid by these two taxpayers. The effect of a split tax rate, especially to the degree suggested, would have a huge impact on the financial well-being status of these properties and would negatively affect the market value of each.

Classification is based on Use

Large apartment complexes are residential and would benefit from the split tax rate; they would pay less in taxes. Note that 5 out of our 10 top taxpayers are apartment properties.

In conclusion, if the Town chooses to implement a split tax rate, we would suggest phasing in the shift. Implementing a 150% shift in tax burden on CIP property in one year would cause a significant increase in abatement filings and costly litigation.