

Fiscal Year 2019 Tax Classification Hearing

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Fiscal Year 2019

Tax Classification Hearing

This is the process we will discuss this evening:

The Selectmen will be asked to **vote on Classification**, which is splitting the tax rate.

We will also provide information about the residential and commercial exemptions.

We will advise you of the Excess Levy Capacity

And we will present additional information including:

- Property Assessment Review

- New Growth

- Projected Taxes and Potential Impact of a Split Rate

Fiscal Year 2019

Tax Classification Hearing

First, I would like to go over some **Commonly Used Terms**:

NEW GROWTH: Additions to the tax base from new construction and property improvements.

LEVY: Revenue raised through property taxes

LEVY LIMIT : Maximum dollar amount a Town can raise in a fiscal year.
(Prior years Levy + 2 ½% + New Growth + Debt Exclusion)

EXCESS LEVY CAPACITY: Difference between the levy and the levy limit

DEBT EXCLUSION: A temporary increase to the levy to pay for capital projects as voted

CIP: Class that includes Commercial, Industrial, & Personal Property

MRF: Minimum Residential Factor. This factor represents the minimum percentage of the levy the Residential class must pay.

Fiscal Year 2019

Tax Classification Hearing

The purpose of the classification hearing is to determine the percentage share of the tax levy that each class of property will pay.

The minimum residential factor is determined by the make up of the tax base. This factor allows the Board of Selectmen to shift the burden towards Commercial & Industrial taxpayers to a maximum of 150%.

The Board of Selectman vote that shift.

The adopted percentage is then used to determine the tax levy paid by each class of property and calculate the resulting tax rates.

Shifting taxes onto the CIP class does not increase the amount of revenue collected.

Residential Factor

The minimum residential factor is 87.2882%.

This is the factor that would allow a split tax rate toward the CIP class up to 150%.

A residential factor of 1.00 will maintain a single tax rate. A residential factor below 1.00 will result in a split tax rate.

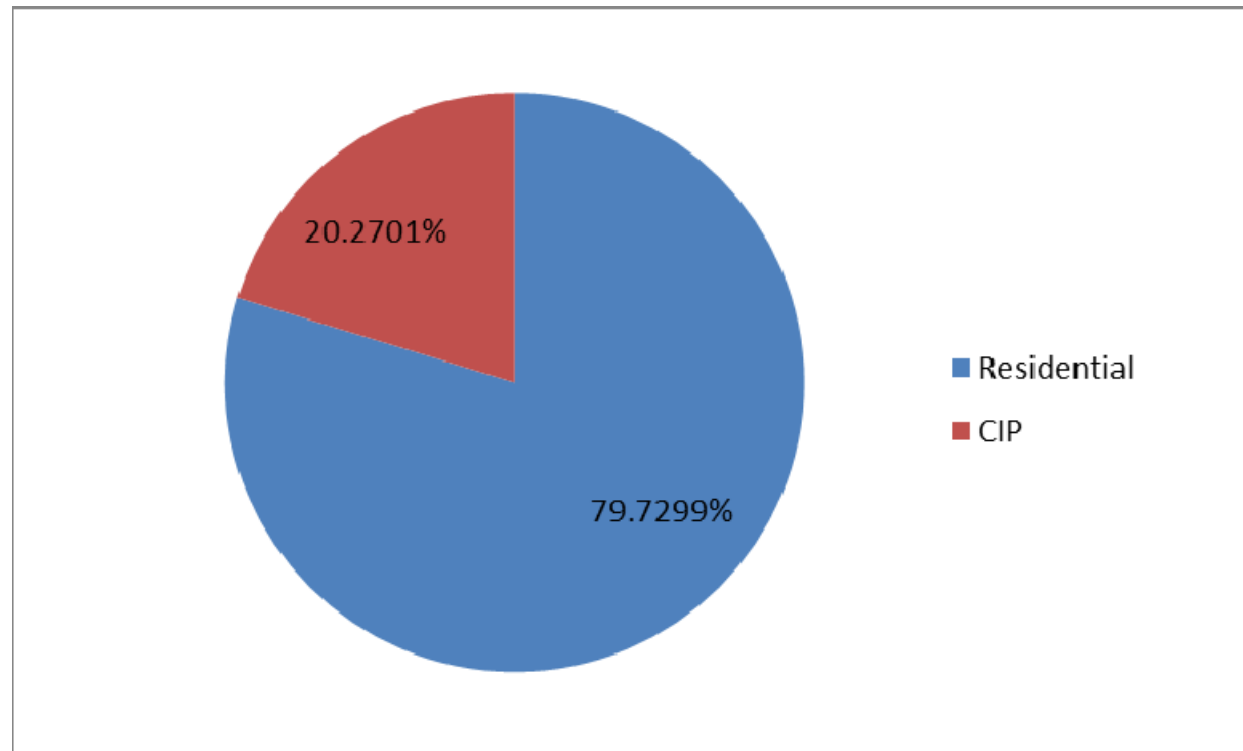
A 150% shift would increase the commercial tax rate by \$6.35 per thousand and reduce the residential rate by \$1.62 per thousand.

In FY2018, 109 of 351 communities elected to split the tax rate.

The maximum allowable shift for Natick is 150%

Levy Allocation

The chart illustrates what portion of the levy would be paid by the Residential class versus the Commercial, Industrial, and Personal Property classes with a single rate.



Classification Percentages

While property values have increased; there has been a shift to residential properties in comparison with last year. This increase is roughly $\frac{3}{4}$ of a percent (0.72%)

	Residential	CIP
Fiscal Year 2018	79.01%	20.99%
Fiscal Year 2019	79.73%	20.27%
% Change	0.72%	-0.72%

Classification Impact Examples

The chart shows the impact on different properties if the tax burden was shifted towards the CIP classes.

Tax Levy Shift								
Type	Typical Property	Assessment	100%	110%	120%	130%	140%	150%
Resid	Condo @ Natick Village	231,800	\$ 2,946	\$ 2,872	\$ 2,796	\$ 2,721	\$ 2,647	\$ 2,571
Resid	Single Family-Average Value	613,133	\$ 7,793	\$ 7,597	\$ 7,394	\$ 7,198	\$ 7,002	\$ 6,800
Resid	Single Family-New Construction	1,000,000	\$ 12,710	\$ 12,390	\$ 12,060	\$ 11,740	\$ 11,420	\$ 11,090
Resid	Sm. Apartment	1,500,000	\$ 19,065	\$ 18,585	\$ 18,090	\$ 17,610	\$ 17,130	\$ 16,635
Resid	Lg. Apartment	32,000,000	\$ 406,720	\$ 396,480	\$ 385,920	\$ 375,680	\$ 365,440	\$ 354,880
Comm	Gas Station	750,000	\$ 9,533	\$ 10,485	\$ 11,438	\$ 12,390	\$ 13,343	\$ 14,295
Comm	Small Retail	1,000,000	\$ 12,710	\$ 13,980	\$ 15,250	\$ 16,520	\$ 17,790	\$ 19,060
Comm	Office Bldg	40,000,000	\$ 508,400	\$ 559,200	\$ 610,000	\$ 660,800	\$ 711,600	\$ 762,400
Comm	Retail Mall	320,000,000	\$ 4,067,200	\$ 4,473,600	\$ 4,880,000	\$ 5,286,400	\$ 5,692,800	\$ 6,099,200
Residential Change				-2.52%	-5.11%	-7.63%	-10.15%	-12.75%
Commercial Change				9.99%	19.98%	29.98%	39.97%	49.96%

Based on the proportions of our tax base, a 1% decrease in residential taxes equates to a 4% increase in commercial taxes. For example, at a 110% shift; residential taxes decrease 2.5% while commercial taxes increase 10%, Any shift chosen will follow this 1:4 ratio.

Classification Impact Examples

Example: Mathworks



Type	Property	Assessment	Tax Levy Shift					
			100%	110%	120%	130%	140%	150%
Comm	Mathworks	166,652,100	\$ 2,118,148	\$2,329,796	\$2,541,445	\$2,753,093	\$2,964,741	\$3,176,389
Percent Change				9.99%	19.98%	29.98%	39.97%	49.96%

Classification Impact Examples

Example: Modera



Type	Property	Assessment	Tax Levy Shift					
			100%	110%	120%	130%	140%	150%
Res	Modera	37,392,700	\$ 475,261	\$ 463,296	\$ 450,956	\$ 438,990	\$ 427,025	\$ 414,685
Percent Change				-2.52%	-5.11%	-7.63%	-10.15%	-12.75%

Levy Limit Calculation

TO CALCULATE THE FY2019 LEVY LIMIT

A. FY2018 Levy Limit from I.	103,160,981	
A1. ADD Amended FY2018 Growth	0	
B. ADD (IIA + IIA1) X 2.5%	2,579,025	
C. ADD FY2019 New Growth	1,545,185	
C1. ADD FY2019 New Growth Adjustment		
D. ADD FY2019 Override		
E. FY2019 Subtotal	107,285,191	
		\$ 107,285,191
F. FY2019 Levy Ceiling	219,083,154	FY2019 Levy Limit

TO CALCULATE THE FY2019 MAXIMUM ALLOWABLE LEVY

A. FY2019 Levy Limit from II.	107,285,191	
B. FY2019 Debt Exclusion(s)	4,245,295	
C. FY2019 Capital Expenditure Exclusion(s)		
D. FY2019 Stabilization Fund Override		
E. FY2019 Other Adjustment		
F. FY2019 Water / Sewer		
G. FY2019 Maximum Allowable Levy		\$ 111,530,486
		MAXIMUM LEVY



Maximum Allowable Levy

The maximum levy allowed for
fiscal year 2019 is
\$111,530,486

(This includes the debt exclusion of
\$4,245,295)

Excess Levy Capacity

(Levy Limit + Debt Exclusion) - (Actual Levy) = (Excess Levy)

$$\begin{array}{rcccl} \$111,530,486 & - & \$111,381,875 & = & \$148,610 \\ \text{(Maximum Levy)} & & \text{(Actual Levy)} & & \text{(Excess Levy)} \end{array}$$

This years Excess Levy capacity is \$148,610

This is the difference between the Maximum Levy and our Actual Levy.

Residential Exemption

The residential exemption shifts the tax burden within the residential class. The exemption benefits owner occupied properties. Since the same exemption amount is applied to all eligible properties, it provides greater benefit to lower-valued properties. In fact, there is a break-even point, where an eligible property that receives the residential exemption, actually pays higher taxes because of the adjusted rate.

Implementing a residential exemption without classifying (splitting) the tax rate results in a higher tax rate for some residential properties than commercial and industrial.

The board may choose to adopt a residential exemption of up to 35% of the average value of all residential properties.

Residential Exemption Examples

Selected Exemption			0%	5.00%	10.00%	20.00%	35.00%
Residential Tax Rate			12.71	13.27	13.88	15.28	18.02
	Qualifies for Exemption	Assess	Tax	Tax	Tax	Tax	Tax
Owner Occupied Condo	YES	231,800	2,946	2,717	2,467	1,889	766
Owner Occupied Home (Average Value)	YES	613,100	7,793	7,777	7,759	7,715	7,637
Non-Owner Occupied Home (Average Value)	NO	613,100	7,793	8,136	8,510	9,368	11,048
Owner Occupied Home	YES	800,000	10,168	10,257	10,353	10,571	11,005
Owner Occupied Home	YES	1,200,000	15,252	15,565	15,905	16,683	18,213
Large Apartment	NO	32,000,000	406,720	424,281	443,409	487,307	573,229

As previously discussed, this exemption benefits lower-valued owner occupied property. A qualifying condo assessed at \$231,800 would see its tax bill cut almost 75% with a 35% exemption. A qualifying house assessed at \$800,000 would see its tax bill increase with any exemption selected.

Residential Exemption

Sixteen communities adopted a residential exemption in FY2018.

Barnstable
Boston
Brookline
Cambridge
Chelsea

Everett
Malden
Nantucket
Provincetown
Somerset

Somerville
Tisbury
Truro
Waltham
Watertown
Wellfleet

The communities that generally utilize the residential exemption either have a large percentage of rental units (Boston, Brookline, Cambridge etc.) or seasonal housing (Nantucket, Provincetown etc.)

Small Commercial Exemption

The board may also approve a small commercial exemption of up to 10%.

This is only available to businesses that employ less than 10 people annually (as certified by the Department of Labor and Workforce Development) and are situated in a building that is valued less than \$1,000,000. All businesses at the property must qualify. In Natick, approximately 37 properties may be eligible.

Adopting a small commercial exemption without classifying (split) taxes, could result in a tax rate for some commercial properties less than the residential rate.

The benefit of this exemption goes to the property owner rather than the business itself.

Small Commercial Exemption

Fourteen communities adopted a small commercial exemption in 2018. Eleven out of fourteen also have a split tax rate.

Auburn

Avon

Bellingham

Berlin

Braintree

Dartmouth

Erving

New Ashford

North Attleborough

Seekonk

Somerset

Swampscott

Westford

Wrentham

Property Assessment Review

Property Assessment Review

Why do we change the assessed values?

- ***We are required to.*** Under the guidelines of the Department of Revenue and Massachusetts General Laws, Chapter 59, we are required to assess property at 100% full and fair cash valuation.

What does this mean?

- It means that our assessed values have to reflect the market, i.e. what properties are selling for.
- The Department of Revenue reviews and approves our values annually, completing a full audit or certification every 5 years. If our values are not “market value” they will not be approved.
- FY19 was a certification year and a full audit was completed by the DOR

Property Assessment Review

Overall, residential and commercial values have increased based on current market conditions.

The residential sales market has been driven by high demand and increased prices. The commercial market has remained consistent and has benefited from low interest rates and stable vacancy and rental rates.

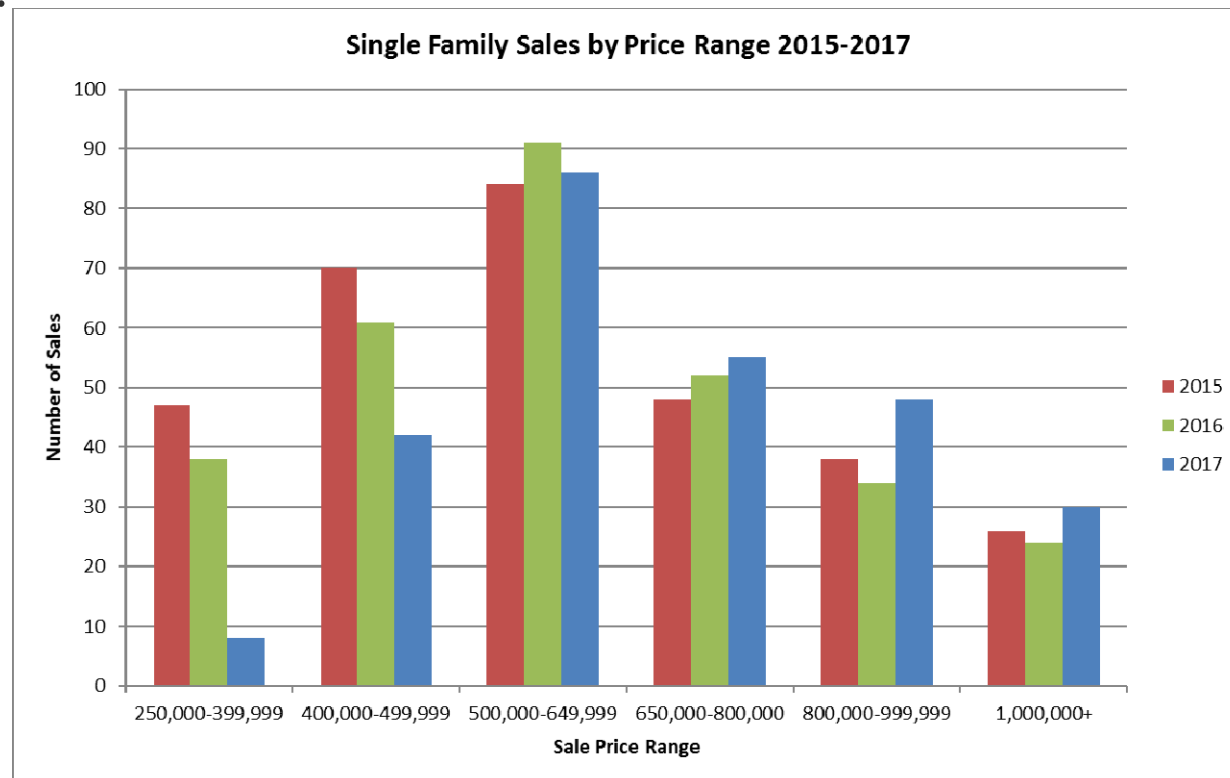
The average single family assessment increased from \$570,732 to \$613,133. This reflects the desirability of properties in the Town of Natick. If a single tax rate is adopted by the Board of Selectmen we will see an increase of \$344.87 to the average single family tax bill. However, 5,406 out of the 8,520 single family homes (63%) are below the average assessment.

The tax rate decreases by thirty four cents per thousand (\$0.34).

Property Assessment Review

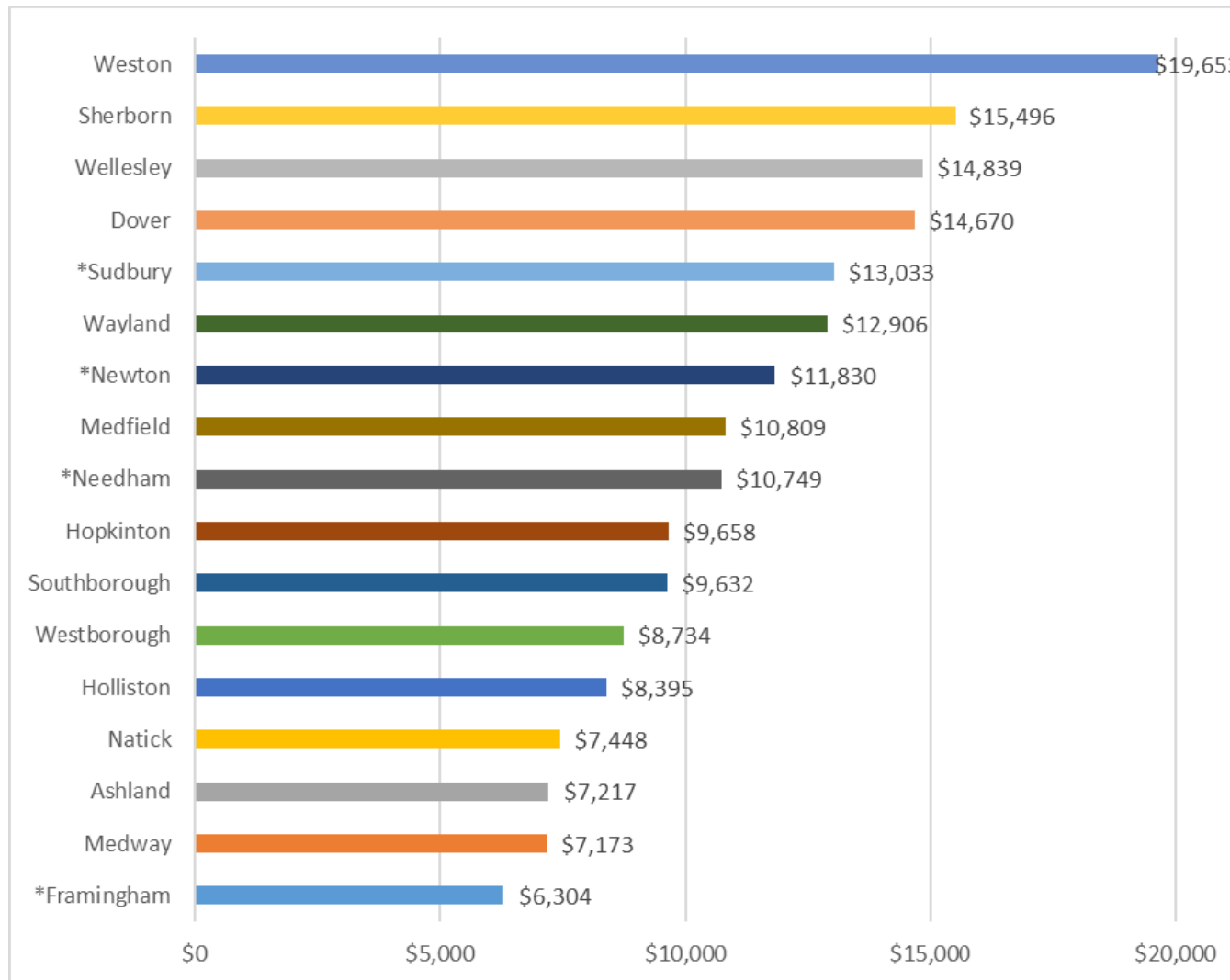
The following chart illustrates single family sales prices for calendar years 2015-2017. It shows trends including a significant decrease in the number of sales in the lower price ranges, between \$250,000 and \$499,999.

This chart also shows that the majority of 2017 sales are in the 500,000 to 649,999 range. This corresponds with the average single family value of \$613,133.



Average Single Family Tax Bill Comparison

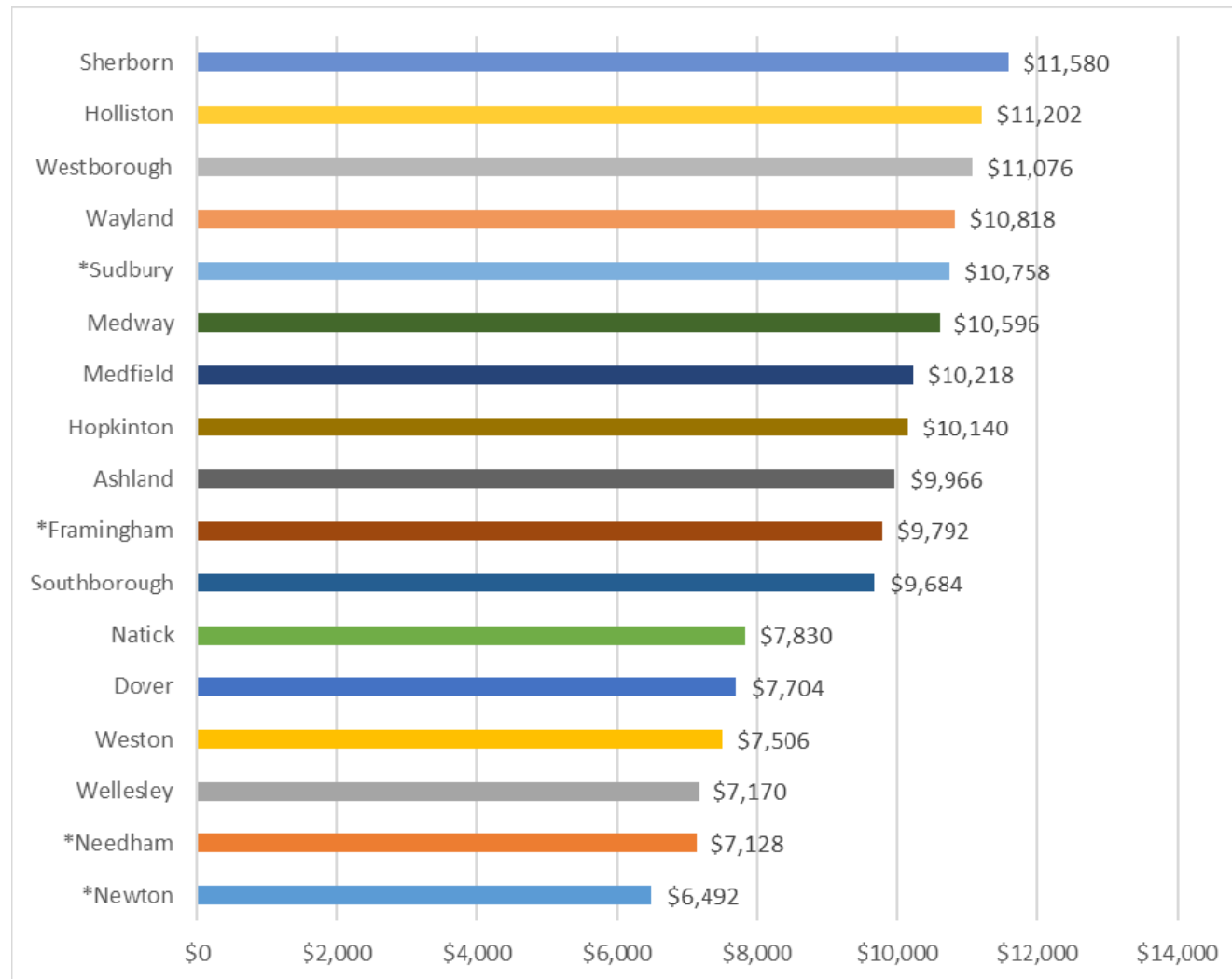
Fiscal Year 2018



* Indicates split tax rate

Tax Bill on \$600,000 House-Comparable Towns

Fiscal Year 2018



* Indicates split tax rate

New Growth

Our New Growth Value was certified and approved by the Dept. of Revenue October 15th, 2018 at One hundred eighteen million four hundred four thousand nine hundred ninety five dollars.

\$118,404,995

The major factors contributing to this total are:

Real Estate

\$100,747,273

Condominiums (\$5,263,662) – 6 new units with an average value of \$668,773 along with other renovations and remodeling.

Single Family Homes (\$40,839,220) – 19 new houses with average value of \$1,003,053. 39 renovations/additions that each contributed between \$200,000 and \$480,000 of growth along with another 44 renovations/additions that each contributed between \$100,000 and \$200,000 of growth.

Commercial (\$42,283,410) - Partial completion of Mathworks Lakeside project.

Mixed Use – Completion of Natick Common and Stonegate West Central projects.

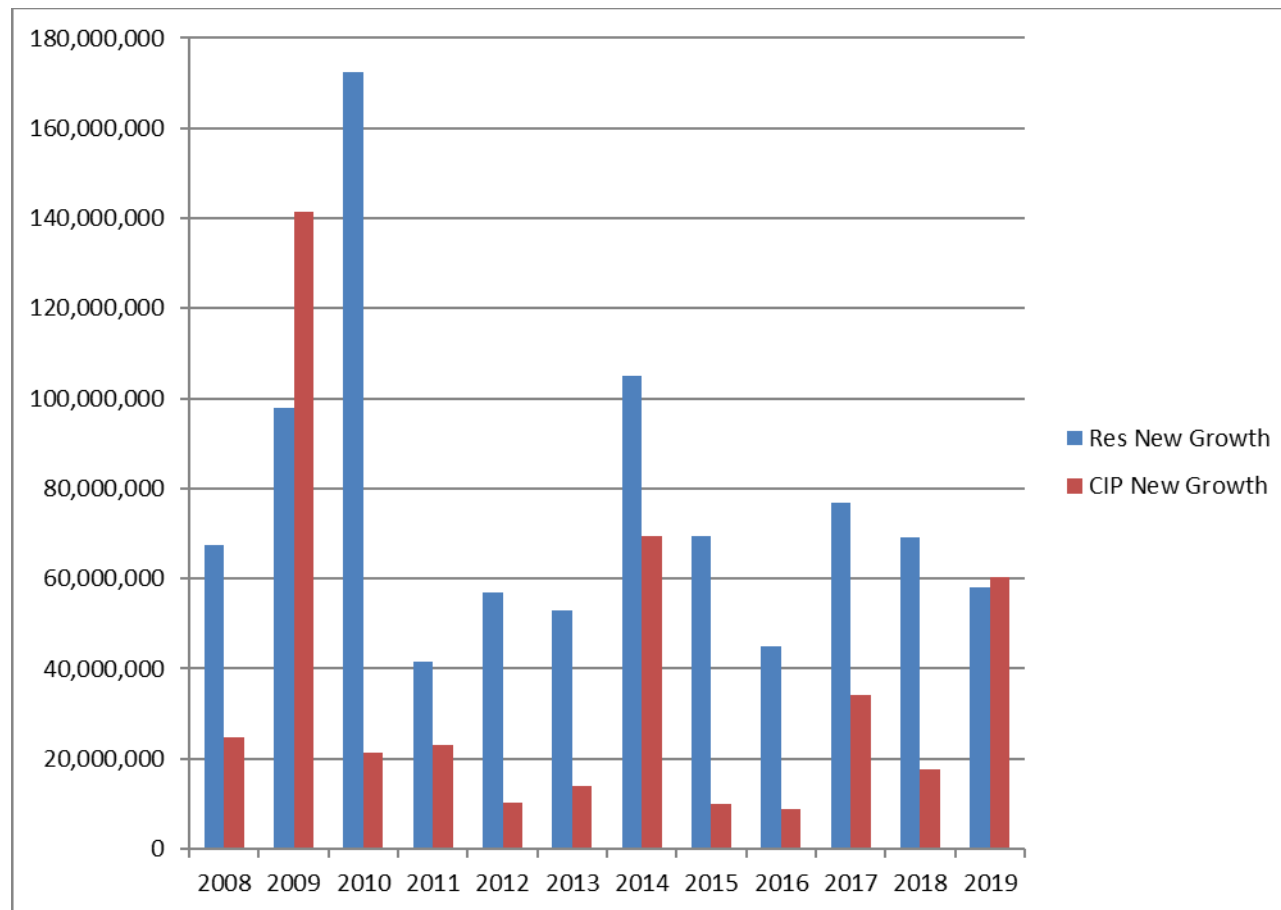
Personal Property

\$17,657,722

284 new accounts and the addition of over 1,400 new assets to existing accounts. Over \$7.2 million dollars of growth came from utility corporations and telephone and telegraph companies.

Historical New Growth Residential & CIP

As shown in this chart, new growth can vary greatly by year. Growth is often dependent on the health of the economy and is also affected by large projects.



TOP TEN TAXPAYERS – FISCAL YEAR 2019

OWNER	PROPERTY CLASS	REAL ESTATE VALUE	REAL ESTATE TAXES	PERSONAL PROPERTY VALUE	PERSONAL PROPERTY TAXES	FY2019 ASSESSED TOTAL	TOTAL TAXES (RE & PP)
GENERAL GROWTH PROPERTIES (NATICK MALL)	CIP	\$ 337,286,800	\$ 4,286,915	\$ 2,490,560	\$ 31,655	\$ 339,777,360	\$ 4,318,570
MATHWORKS INC	CIP	\$ 166,652,100	\$ 2,118,148	\$ 298,560	\$ 3,795	\$ 166,950,660	\$ 2,121,943
AVALON NATICK LLC	RES	\$ 85,660,900	\$ 1,088,750	\$ 50,240	\$ 639	\$ 85,711,140	\$ 1,089,389
HC ATLANTIC DEVELOPMENT LP	CIP	\$ 68,955,400	\$ 876,423	\$ -	\$ -	\$ 68,955,400	\$ 876,423
FRANCHI PASQUALE	RES	\$ 46,041,500	\$ 585,187	\$ -	\$ -	\$ 46,041,500	\$ 585,187
COGNEX/VISION DRIVE	CIP	\$ 42,695,500	\$ 542,660	\$ -	\$ -	\$ 42,695,500	\$ 542,660
NATICK VILLAGE INVESTMENT LTD PTRN	RES	\$ 42,201,700	\$ 536,384	\$ -	\$ -	\$ 42,201,700	\$ 536,384
DDH HOTEL LLC	CIP	\$ 38,983,900	\$ 495,485	\$ 557,980	\$ 7,092	\$ 39,541,880	\$ 502,577
MCREF NATICK DEVELOPMENT LLC	RES	\$ 37,392,700	\$ 475,261	\$ 3,780	\$ 48	\$ 37,396,480	\$ 475,309
CLOVERLEAF APARTMENTS LLC	RES	\$ 35,772,400	\$ 454,667	\$ -	\$ -	\$ 35,772,400	\$ 454,667
TOTALS:		\$ 901,642,900	\$ 11,459,881	\$ 3,401,120	\$ 43,228	\$ 905,044,020	\$ 11,503,109

TOP 10 TAXPAYER PERCENT OF LEVY = 10.33%

TOTAL ASSESSED VALUES – FISCAL YEAR 2019

LA-4
 Assessment / Classification
 Status: FORM APPROVED
 BLA-LA13A : FORM APPROVED
 NATICK - 198 2019

Jurisdiction Fiscal Year

Property Type	Parcel Count	Class1 Residential	Class2 Open Space	Class3 Commercial	Class4 Industrial	Class5 Pers Prop
101	8,520	5,223,895,400				
102	2,737	954,687,200				
MISC 103,109	39	38,803,400				
104	573	323,640,400				
105	83	48,281,600				
111-125	57	305,504,200				
130-32,106	844	56,245,900				
200-231	0		0			
300-393	539			1,561,038,700		
400-442	48				43,710,000	
450-452	0				0	
CH 61 LAND	4 0		0	17,130		
CH 61A LAND	8 11		0	189,600		
CH 61B LAND	0 17		0	1,333,400		
012-043	44	35,930,060	0	18,780,990	0	
501	1,047					19,619,770
502	753					30,398,060
503	1					298,560
504	3					72,838,460
505	13					23,538,500
506	0					0
508	4					3,820,800
550-552	2					754,040
TOTALS	15,347	6,986,988,160	0	1,581,359,820	43,710,000	151,268,190
Real and Personal Property Total Value						8,763,326,170
Exempt Parcel Count & Value					682	722,128,300

Projected Tax Rate

The tax rate will be calculated by dividing the actual levy by the total assessed value.

$$\begin{array}{rcl} \text{Actual Levy} & / & \text{Total Assessed Value} = \text{Tax Rate} \\ \$111,381,875 & / & \$8,763,326,170 = \$12.71 \end{array}$$

*If a residential factor of 1.00 is adopted this maintains a single tax rate

Talking Taxes..

If Natick maintains a single tax rate, we can expect the following:

- We have projected an increase to the average single family tax bill. This is an estimate of \$344.87 to the average assessed single family. Remember, 63% of single family homes are below the average single family value.
- Natick's Top 10 Taxpayers will collectively contribute eleven million five hundred three thousand one hundred and nine dollars (\$11,503,109) in taxes for Fiscal Year 2019. (This includes Personal Property)
- The Top 10 Taxpayers pay 10.33% to Natick's Total Tax Levy.

In Conclusion I am asking the Board to vote.

1. The board must adopt a residential factor.

Remember this factor represents the minimum percentage of the levy the Residential class must pay and determines the shift towards the CIP class.

A residential factor of 1.00;
will result in a single tax rate.

A residential factor less than 1.00;
will result in a split tax rate.

The Board may also consider:

1. A residential exemption.
- and/or
2. A small commercial exemption.

Typically the exemptions above are found in communities that have a large percentage of rental or absentee owners and/or split the tax rate.

Thank You

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Director of Assessing

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Assistant Assessor