



Town of Natick *Massachusetts*

To: Finance Committee
From: Martha White, Town Administrator
CC: Board of Selectmen
Jeff Towne, Deputy Town Administrator/Finance Director
Bill Chenard, Deputy Town Administrator – Operations
Jan Dangelo, Director of Assessing
Date: March 17, 2015
Re: Warrant Article 5 / Means Tested Senior Tax Exemption

This memorandum is intended to provide information to help guide the Finance Committee's discussion of Article 5 on the Spring 2015 Town Meeting Warrant concerning a means-tested senior tax exemption. At the conclusion of the Board of Selectmen's discussion on March 16 regarding this proposal, they voted to recommend that Town Meeting refer this matter to the sponsor. A vote of referral will allow staff and the Board to further explore the questions and concerns raised in this memo to ensure that, if the Town were to adopt this program, it can be implemented with minimal disruption to existing operations and provide intended benefits to qualified property owners.

Natick Proposed Means Tested Senior Citizen Property Tax Exemption:

This exemption is effectively a residential tax split. By adopting this program, Natick will raise .5% of the residential tax levy in the first year of the program by increasing the residential taxpayer rate above what it would typically be without the program in effect. This will most likely result in residential taxpayers having a higher tax rate than commercial taxpayers. The .5% in the first year (and 1% each year thereafter) will raise taxes on all residential properties, including those this program is intended to help, in order for the funds raised to be put in a pool of available resources to be provided to qualified seniors to reduce the amount of taxes that they will pay. The ultimate goal is intended to insure that qualified seniors don't pay more than 10% of their income in property taxes to the Town of Natick.

This program intends to apply only to single-family residences with an owner or owners that meet certain requirements. The requirements are as follows:

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1. The qualifying real property is owned and occupied by a person whose prior year's income would make the person eligible for the circuit breaker income tax credit subsection (k) of section 6 of chapter 62 of the Massachusetts General Laws;
2. The qualifying real property is owned by a single applicant age 65 or older at the close of the previous year or jointly by persons either of whom is age 65 or above at the close of the previous year and if the joint applicant is 60 years of age or older;
3. The qualifying real property is owned and occupied by the applicant or joint applicants as their domicile;
4. The applicant or at least 1 of the joint applicants has been domiciled in the town of Natick for at least 10 consecutive years before filing an application for the exemption;
5. The maximum assessed value of the domicile is no greater than the prior year's average assessed value of a Natick single-family residence plus 10 per cent; (ex. FY14 plus 10% is \$ 501,017 for Natick), and
6. The Board of Assessors has approved the application.

The Board of Assessors may deny an application if they find the applicant has excessive assets that place them outside of the intended recipients of the senior exemption created by this program.

The applicants have to file an application with the Board of Assessors before a deadline established by the Board of Assessors. The application has to be filed every year.

This exemption is in addition to any other exemption allowable under the Massachusetts General Laws, except that there shall be a dollar cap on total exemptions granted as stated above (.5% in the first year).

There are a number of factors to consider when deciding on whether to adopt this program and put it into effect in Natick. We have the Town of Sudbury model to learn from. We need to consider the following:

NOTE: a possible time line for implementation would be as follows:

Town meeting, Spring 2015-affirmative action.

Massachusetts legislature – enact legislation signed by the Governor*

Town Election, March of 2016. Successful Vote

Fiscal Year 2017 applicants would receive credits.

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* Legislation has been filed that would make the Sudbury Special Act a General Law, and would make it permanent (Sudbury is a three year trial). Other communities are seeking similar home rule authority.

Goal of the Program:

The goal of this program was to assist taxpayers who, after receiving the Circuit Breaker credit, still paid more than 10% of their income to property taxes. All established limits under the circuit breaker are considered (\$ 77,000 if married and \$ 51,000 if single).

Sudbury also asked about undeclared assets, which may put the applicant outside the group intended to benefit from this program. (Currently using \$ 1,500,000)

Cost, and differences in Natick.

- 1.) Sudbury's residential property values are much higher than Natick: FY14 Sudbury with 10% factor is \$700,000 and Natick with factor is \$501,017.
- 2.) There were approximately 240 reported Sudbury seniors that qualified for the Circuit Breaker, 124 applied for the Sudbury exemption, 118 received the reduction. **Natick has approximately 674 residents who are eligible for the Circuit Breaker credit. That is almost three times as many as Sudbury. This will require a great deal of staff time to process the applications and in discussions with Sudbury staff they indicated that our amount of qualified residents would necessitate a dedicated staff member for the program.**
- 3.) There is a burden shift to the residential levy it is indicated or has been approved by Sudbury of 0.5% for the first year and 1.0% each year after. **Impact on Sudbury's taxes meant a shift from \$17.96 without the exemption to \$18.03 with the exemption. Natick will raise approximately \$385,000 of taxes spread out over just the residential tax base, which would equate to a 7 cents per thousand increase in the residential tax rate or \$35 increase for the average family residence valued at \$501,000 the first year and twice that amount for the second year and after. All estimated amounts are for illustrative purposes only and are not guaranteed until the program is adopted and implemented. Values and tax rates may change each year, and it is impossible at this time to estimate with certainty the impact this program may have.**
- 4.) Confidential applications require a dedicated staff member to process applications. Sudbury when implementing this program did so over a two-year period with many professionals assisting with the process.
- 5.) Sudbury grants only about 30 State Exemptions: 41C and 17D exemptions, Natick grants 93, this indicates a lower average income and potential for more applicants in Natick. **(Processing becomes a time issue)**

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- 6.) We must incorporate the state regulation that states no taxpayer may be awarded a credit that will reduce their property liability more than 50%. We will need to monitor that for each taxpayer in the program every year. It will be manually intensive to check.

Other points to consider:

- 1.) An applicant may qualify for this program and participation in the program may eliminate the person from receiving the Circuit Breaker in the future and thereby eliminate their participation in the program. More research is required on this point.
- 2.) Sudbury took over two years to review this program. Natick has only been actively looking at the impacts of the program for the past two months.
- 3.) Sudbury has been modifying their program and it has a sunset clause at the end of the third year unless it is extended. Their program has not been “perfected” yet and changes are being considered to next year’s program.
- 4.) A property owner with a high property value and low income could receive a higher exemption than someone with a low property value and the same amount of income.
- 5.) Can a property owner defer taxes and still be part of the program?
- 6.) Why not have the residency requirements be 30 years thereby helping those seniors who have lived in Natick for a long time?
- 7.) How is this recorded on the tax recap? Need additional information from the Department of Revenue.
- 8.) How will this affect low-income non-senior property tax owners? We may help one class of taxpayers at the detriment of another.
- 9.) This will effectively raise the residential rate higher than the commercial/industrial property tax rate.
- 10.) Will any software changes be required to process this exemption?
- 11.) This exemption, along with proposition 2½ increases; present and future debt exclusions; discussion of an override to support the budget due to increased school enrollment; health insurance and retirement contribution increases should all be considered as part of a long-term, comprehensive financial plan.
- 12.) The Town of Natick extends a full complement of tax exemptions each year, which reduces the tax burden for qualified seniors and veterans.
- 13.) The Town of Natick has an elderly and disabled tax donation fund, which also reduces the tax burden of qualified residents. This program could be greatly expanded. It has not had the volume of expected participation. Recent provision for

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on-line donations should generate greater participation; other ideas should be explored and implemented.

14.) There are process and procedure questions that remain unanswered at this time.

15.) The Town of Natick has a successful elderly tax work-off program as well.