



**FISCAL 2018
CLASSIFICATION HEARING**

November 28, 2017

Board of Selectmen
Robert C. Haarde, Chair
Susan Iuliano
Patricia Brown
Leonard Simon
Dan Carty

Board of Assessors
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Introduction

Each year, prior to the mailing of 3rd quarter tax billings, the Board of Selectmen holds a public hearing to determine the percentage of the town's property tax levy to be borne by each major property class. This responsibility and procedure are described in Chapter 40, Section 56 of the Massachusetts General Laws.

The steps in completing the Classification Hearing are outlined below. Also provided is information about the levy, property assessments, and recommendations made by the Board of Assessors.

Steps in Setting Tax Rates

Pre-classification Hearing Steps

- Step 1: Determination of the property tax levy (Budget Process)
- Step 2: Determine assessed valuations (Assessors)
- Step 3: Tabulate assessed valuations by class (Assessors)
- Step 4: Obtain DOR value certification (Assessors)
- Step 5: Obtain certification of new growth revenues (Assessors)

Classification Hearing Steps

- Step 6: Classification hearing presentation (Assessors & Selectmen)
- Step 7: Review and discuss tax shift options (Selectmen)
- Step 8: Voting a tax shift factor (Selectmen)

Post Classification Hearing Steps

- Step 9: Sign the LA-5 Classification Form (Selectmen)

Step 10: Send annual recap to DOR for tax rate approval (Assessors)

Step 11: Obtain DOR approval of tax rates (DOR)

Terminology

The following are definitions of the terms frequently used in the discussion of tax rates.

Levy: The tax levy (or levy) is the amount of property taxes to be raised. The levy amount is determined by the budget process. The total amount of the approved budget less revenues from other sources like motor vehicle excise, municipal fees, and state aid is the amount to be raised through property taxation. In Sudbury, the levy to be raised is: \$83,323,526. This represents a 4.2% increase over last year's levy of \$79,892,487.

Levy Ceiling: The levy ceiling is 2.5 percent of the full value of the town and represent the maximum property tax revenues that can be raised under Proposition 2 ½. Based on the Sudbury's total valuation of \$4,560,675,215 the town cannot levy taxes in excess of \$114,016,880.

New Growth Revenue: Property taxes derived from newly taxable properties like new construction, additions, renovations, subdivisions, and personal property. The Department of Revenue has certified Sudbury's new growth for fiscal year 2018 at \$983,400.

Levy Limit: Also referred to as the "maximum allowable levy", the levy limit is calculated by adding 2.5 percent of the previous year's levy limit, plus new growth revenue, and proposition 2 ½ overrides, capital expenditure exclusions, and debt exclusions. The certified maximum allowable levy for fiscal year 2018 is 83,524,281.

Excess Levy Capacity: Excess levy capacity is the difference between the levy and the levy limit. Sudbury's excess levy capacity is an estimated \$200,745.

The Fiscal Year 2018 Levy Limit and Amount to be Raised

The following is a calculation of Sudbury's estimated levy for fiscal year 2018.

Fiscal year 2017 levy limit	\$77,283,873
Levy increase allowed under Prop. 2 ½	1,932,097
New growth revenue	983,400
Debt excluded under Prop. 2 ½	2,247,641
Proposition 21/2 Override	1,077,270

Fiscal year 2018 levy limit	83,524,281
Levy to be raised (rounded by tax rate)	\$83,323,536
Excess levy capacity	\$200,745

Valuations by Class Before Tax Shift

<u>Major Property Class</u>	<u>Valuation</u>	<u>Percent</u>	<u>Res vs CIP%</u>
Residential	4,252,412,677	93.2409%	93.2409%
Commercial	172,317,688	3.7783%	
Industrial	29,891,300	0.6554%	6.7591%
Personal Property	106,053,550	2.3259%	
TOTAL	4,560,675,215	100.0000%	

Shifting the Tax Burden

Municipalities with a large commercial/industrial tax base often see fit to shift the tax burden to help maintain lower residential taxes. Sudbury, though having a relative small commercial tax base, has chosen to adopt a split tax rate.

The goal of recent classification hearings has been to adopt residential and commercial tax rates that yield relatively uniform tax increases in both sectors. Though the commercial, industrial, and personal property (CIP) sector makes up approximately 6.75 percent of the taxable valuation base, adoption of the recommended classification shift factor (see below) has resulted in this sector paying about 9 percent of Sudbury's property taxes.

With both residential and commercial/industrial class property valuations rising from 3 to 4 percent, a CIP shift factor of 1.33 will yield similar tax increases.

The Board of Assessors point out that a CIP shift factor of 1.33 with a corresponding residential shift factor of 0.976078 would result in a "relatively" uniform tax rate increase in both sectors.

Tax Rates and Options

Sudbury's uniform, single tax rate without applying shift factors is \$18.27 per thousand.

There are any number of tax rate options the Board of Selectmen might chose. Several that might be considered are as follows:

Option	CIP Shift	Res. Shift	CIP Tax Rate	Res. Tax Rate
Single Tax Rate	1.0000	1.000000	18.27	18.27
10% Shift	1.1000	0.992751	20.10	18.14
20% Shift	1.2000	0.985502	21.92	18.01
30% Shift	1.3000	0.978253	23.75	17.87
33% Shift (same % burden as last year)	1.3300	0.976078	24.30	17.83
38% Shift (FY2017 factor)	1.3800	0.972453	25.21	17.77

40% Shift	1.4000	0.971004	25.58	17.74
50% Shift (maximum allowed)	1.5000	0.963754	27.41	17.61

Based on the balanced CIP/Res. increase scenario above, the Board of Assessors has calculated the following tax rates:

<u>Property Class</u>	<u>FY2018</u>	<u>FY2017</u>
Residential	17.83 (before exemption)	17.74
Commercial	24.30	25.01
Industrial	24.30	25.01
Personal Property	24.30	25.01

Note that the fiscal year 2018 tax rates are an estimate based on the available data as of this writing. Also, Sudbury's Means Tested Senior Exemption will be factored into the final Residential Tax Rate.

Option	CIP Shift	Res. Shift	CIP Tax Rate	Res. Tax Rate	Res. Tax Rate/SMTE*
Single Tax Rate	1	1	18.27	18.27	18.37
No Residential Tax Rate Increase	1.1	0.992751	20.10	18.14	18.24
No Added Revenues from CIP Class	1.2	0.985502	21.92	18.01	18.10
Balanced CIP/Res. Increase	1.33	0.979588	23.56	17.83	17.93
No CIP Tax Rate Increase	1.38	0.972453	25.21	17.77	17.86
Maximum Shift Factor	1.5	0.963754	27.41	17.61	17.70

* Options table including a column factoring in Sudbury's Senior Means Exemption Program. The Senior Exemption will add approximately 9 to 10 cents to the residential

Tax Impacts

With some exceptions, fiscal year 2018 residential valuations have increased approximately 3 percent.

The average residential tax bill calculation will change as follows:

FY2017 Average Single Family Valuation:	\$705,800
Taxes at \$17.74 per thousand	\$12,521
FY 2018 Average Single Family Valuation:	\$726,900
Taxes at \$17.83 per thousand	\$12,960
Average Tax Increase	\$439
Percent Increase	3.51%

Voting a Tax Shift Factor

The Sudbury Board of Selectmen votes in accordance with M.G.L., Ch. 40, Sec. 56, as amended, the percentage of local tax levy which will be borne by each class of real and personal property, relative to setting the Fiscal Year 2018 tax rates and sets the Residential Factor at 0.976078, (or other Factor) with a corresponding CIP shift of 1.33 (or other corresponding CIP shift), pending certification of the Town's annual tax recap by the Massachusetts Department of Revenue.

Residential Exemption

Adopting the Residential Exemption would allow the Selectmen to exempt from qualified residential properties a percentage of the average assessed value for the class. The exemption can be as high as twenty (20%) percent of the average assessed value for the residential property class. To compensate for the reduction, the residential tax rate would need to be increased. The residential exemption has the effect of shifting the tax burden from the lower valued properties to higher value properties. In the past the Board has voted not to adopt the Residential Exemption described in this section. Because Sudbury's

Means Tested Senior Exemption Program uses a special form of the State Residential Exemption, it may not be possible to also adopt the Residential Exemption described here. However, a vote is still needed and the description below is included for completeness.

Currently, fifteen Massachusetts cities and towns have adopted the Residential Exemption. Historically, the exemption has been adopted in those communities with a high percentage of apartments and other investment property or seasonal homes. In general terms, the exemption shifts real estate taxes onto Class I properties that are not occupied by the property owner as the owner's principal residence or are held for investment.

Assuming the maximum exemption allowance, the FY18 exemption value would be \$135,925 for qualifying properties. It would apply to owner occupied residential properties. A study documented in the November 2011 Residential Exemption Report indicated that about 83% of Sudbury's residential property owners would meet the statutory requirements to qualify for the exemption. A small percent of homeowners and all residential land owners would not receive the benefit.

Although some owner occupied properties would receive an exemption of up to 20%, the tax rate for the entire residential class would increase. As a result, while some properties would receive a tax reduction under the Residential Exemption option, we estimate the FY18 tax bill would rise even for qualified properties with assessments above a breakeven assessment of about \$726,000K (including primary residences, apartments and other vacant land).

Small Commercial Exemption

An exemption of up to 10% of the property valuation can be granted to commercial properties (not industrial) having one or more businesses employing 10 or fewer employees. Implementing this exemption requires increasing the CIP tax rate to offset lost revenues from qualifying properties.

For fiscal year 2018, 33 properties in the Town have been identified as meeting qualifying standards. Sudbury's nominal commercial class for FY18 hosts 190 accounts. In addition, there are 9 mixed use/part commercial, 49-chapter land, and 19 industrial properties all of which would be subject to an increased tax rate generated by the adoption of a small commercial exemption. The class 3 value reduction for those qualifying properties if a 10% small commercial exemption is adopted is \$1,022,460. The associated tax rate increase for all class 3 and class 4 properties has been approximated at twelve cents (for purposes of illustration we used a factor of 1.33 in our analysis). The average

tax savings for the 33 accounts is approximately \$719/ account.

Considerations:

- a) The qualifying 33 taxpayers will receive a measurable tax benefit. Other small businesses (not qualifying) will bear the increased burden along with larger commercial and industrial properties.
- b) 20 of the qualifying 33 accounts are commercial condominiums. However, within the same condominium complexes 62 units will not make the cut for different reasons. The properties are otherwise quite similar in size, use, and assessment.
- c) Many of the small businesses appearing on the Department of Unemployment Assistance (DET) list as qualifying will not benefit from the exemption, as they are tenants in larger commercial properties with assessed values exceeding the allowable \$1,000,000 cap.

Based on the foregoing, we can conclude the following:

- The vast majority of Sudbury's small businesses will not stand to benefit by adoption of this exemption, as they are tenants in strip malls, and other large commercial buildings.
- They in fact will be penalized with the increased tax rate. Mill Village is a good example of this. The property consists of 30+ small businesses, all of whom would be penalized. Another example are the tenants at the Cummings building on Rte. 117.
- As evidenced by the small number of eligible accounts the lion's share of Sudbury's small business community will not benefit from this exemption.

Open Space Exemption

A maximum value exemption of 25% may be applied under the Open Space Exemption, where the classification of open space land has been adopted by the Town. Sudbury has no properties classified as open space, but makes available the 3 chapter classifications – Chapter 61 Forestry, Chapter 61A Agriculture, and 61B Recreation which offer significant valuation and tax reductions.

The Open Space exemption cannot presently be implemented, and therefore the Board of Assessors advises against adoption.

VOTING THE EXEMPTIONS

The Selectmen cannot consider an **Open Space Discount** as the Town does not utilize the Class 2 Open Space Option, therefore the Open Space Discount cannot be considered and a vote is not justified.

Example Vote(s) on Residential and/or Small Commercial Exemption Options:

1. This language including negative and affirmative options speaks to the Residential Exemption only:

Motion: [Not] to adopt a Residential Exemption for Fiscal Year 2018, or

Motion: [To] adopt a Residential Exemption for Fiscal Year 2018 of ___% of the **Average of all Residential Value** for those eligible residential properties, which will shift the burden within the Residential Class.

2. This language including negative and affirmative options speaks to the Small Commercial only:

Motion: [Not] adopt the Small Commercial Exemption for Fiscal Year 2018, or

Motion: [To] adopt the Small Commercial Exemption for Fiscal Year 2018 of ___% of the **Assessed Value of the eligible properties occupied by business (as) on the DET list valued at less than \$1 million**, which will shift the burden within the Commercial & Industrial Classes.

ADDENDUM

SUDBURY'S MEANS TESTED SENIOR TAX EXEMPTION

Finally, we are asking this evening that the SelectBoard vote on the cap which will be used to fund the Sudbury Senior Means Tested Exemption Program for FY 2018. Section 3 of Chapter 169 of the Acts of 2012, specifies that the total cap on the exemptions granted by the act shall be set annually by the board of selectmen, within a range of .5 to 1 per cent of the residential property tax levy for the town of Sudbury. The vote is traditionally taken following the mandatory Classification Hearing votes.

Massachusetts Chapter 169 of the Acts of 2012 established, and Chapter 10 of the Acts of 2016 renewed a pilot program in Sudbury for granting certain qualified senior residents a measure property tax relief. FY18 is the fifth year of the program. The exemption is similar to the Residential Tax Exemption in that it shifts the tax burden from qualified residential property owners to other residential property owners. For FY14, the statute limited the total exemptions granted under the pilot program to a dollar cap equal to 0.5% of the residential levy (after any CIP shift). For FY 17 the Selectmen voted to continue with the cap of 0.5%.

For FY18, Selectmen have the option, if needed, to increase this percentage up to and including 1.0%.

Applications are required, and the Assessors administer this program for all applicants deemed qualified by the Board of Assessors. For FY18, the Assessors received 115 applications and the Board of Assessors identified 113 applicants tentatively qualified to receive the exemption. In order for the Assessors to complete the necessary calculations, the Board of Selectmen must first vote the Residential Factor and CIP shift values for FY18 in the Classification Hearing. That vote will determine a tentative residential tax rate, which will then be used in the calculations and result in an increase in the tentative residential tax rate.

For FY18, the interplay between the Classification Hearing decision and the Senior Tax Exemption calculations seems to involve the potential need to adjust the 0.5% cap which has been in place since FY 2014.

The Act also provides an alternative to increasing the cap, whereby the income threshold may be adjusted above the nominal 10.0% until the need is reduced to fall within the cap.

Suggested Motion:

Vote in accordance with Chapter 169 of the Acts of 2012, the total FY18 cap on the exemptions granted by the Means Tested Senior Tax Exemption shall be .55% of the residential property tax levy.