TOWN OF CONCORD
Finance Department

MEMORANDUM

DATE: October 20, 2008

TO: Christopher Whelan, Town Manager

FROM: Anthony T. Logalbo, Finance Director ATL

SUBJECT: Residential Exemption

In preparation for this evening's agenda item to discuss the Residential Exemption property tax mechanism, I have previously distributed a report dated October 13, 2005, "The Residential Exemption" prepared by the Town Appraiser, Lynn Masson and myself. This report had been transmitted to the Selectmen by the Board of Assessors in 2005 with its unanimous recommendation at that time opposed to adoption of the Residential Exemption.

The October 2005 report remains accurate in all of its details. I am attaching a further document dated today which attempts to summarize the key points of how the Residential Exemption would work and what its impacts would be, updating the data to FY08 values.

The Board of Assessors has recently considered this subject matter and has renewed its unanimous recommendation opposed to adoption of the Residential Exemption.

Concord Finance Department
October 20, 2008

The Residential Exemption

- **What is it?**

A shift of taxes WITHIN "Class One", the Residential Class of taxable assessed property.

- **What is "Class One" property?**

The statewide property classification system includes the following as part of "Class One":

		Fiscal Year 2008 Concord Data		
Code	Description	# of parcels	Total Value	Average
101	Single Family	4,620	$4,363,529,900	$ 944,487
102	Condominium	710	329,914,900	464,668
103-109	Multifamily, compounds	135	102,010,550	755,634
111-125	Apartment buildings	26	114,527,000	4,404,885
130-132	Vacant land in Res. Zone or accessory to res. Parcel	328	63,653,092	194,064
012-043	Mixed use parcels	36	30,737,015	853,806
	CLASS TOTAL	5,855	$5,004,372,457	$ 854,718

- **How does it work?**

The taxable assessed value is lowered by a standard dollar amount for all eligible parcels. The Residential Class tax rate is then recalculated so that the tax levy derived from the Class remains unchanged.

- **Why is this called a "Residential Exemption"?**

A portion of the original assessed value is not counted for purposes of the tax bill calculation, but this discount is offset by a higher Residential Class tax rate than would otherwise be set. Thus part of the assessed value for ELIGIBLE PARCELS is "exempted". This exempted amount is a set dollar amount for all ELIGIBLE taxpayers, based on UP TO 20% of the CLASS ONE average value.

This shift in the basis of the tax is relatively more 'valuable to lower-valued properties than to higher valued properties. Since the new tax rate applies to all adjusted values, those eligible parcels starting out originally below the Class average value would realize a reduced bill, while those eligible parcels starting above the Class average value would receive higher tax bills.

Parcels not eligible for an assessed value exemption would receive higher bills in accordance with the higher Class tax rate.

Taxpayers in the Commercial, Industrial and Personal Property Classes would be unaffected. The "Class One" Residential tax rate would be higher than the Commercial/Industrial/ Personal Property tax rate

- **Which parcels are eligible?**

Only owner-occupied residential parcels are eligible to receive the assessed value exemption. The exemption would not apply to rental property, vacant residential land, or property held in trust if the owner-occupant is not a Trustee under a recorded instrument.

As set forth by the State Department of Revenue, Division of Local Services/Bureau of Local Assessment, it is the responsibility of the local Board of Assessors to verify the eligibility of all parcels to receive the assessed value exemption.

- **What would be the impact on <u>eligible</u> and <u>ineligible</u> parcels?**

The Concord Board of Assessors has estimated that about 5,100 of the 5,855 residential parcels would be eligible. Of the 5,100 eligible, about 3,400 would see tax bill decreases while 1,700 would see tax bill increases (the majority of parcel values in the residential Class are below the average; the median single-family parcel value for FY08 was about 23% less than the average single-family parcel value).

Most of these tax bill changes (lower or higher) would be relatively small for those eligible for the assessed value exemption, except that the higher end of single-family parcel property values would receive tax increases approaching whatever the tax rate change needed to be.

All non-eligible parcels, (755 parcels, which include an estimated 1,500 residential units when rental units are counted), regardless of value, would face a significant tax bill increase.

- **How does this work?**

The example that follows is based on what would have happened had the Residential Exemption been employed for last year's tax bills. All steps would have to occur PRIOR TO the setting of a tax rate for the fiscal year.

Using a 10% discount, every eligible parcel would receive an assessed value reduction of $85,472 (example based on FY08 data). The tax rate is then recalculated based upon the resulting Class Taxable value. The Concord Board of Assessors estimates that the tax rate for the Residential Class would increase by about 10%. The actual tax rate for FY08 was set at $10.72. After applying the standard dollar subtraction from taxable assessed values for all eligible property, the FY08 tax rate for Class One Residential property would have been an estimated $11.81. The tax rate for all other property (Commercial/Industrial/Personal Property) would have remained at $10.72.

A precise calculation would require a process for determining parcel eligibility before the tax rate is set and then handling appeals and further verifications continuously during the year (the Town of Brookline reports that three staff people are dedicated entirely to this process of identification and verification of eligibility).

- **The math at a 10% Residential Exemption**

Step 1: Total unadjusted Class value = $5,004,372,457
Residential Class tax rate without "exemption" = $10.72
Residential Class tax levy = $$53,646,873

Step 2: Estimates 5,090 of $5,855 parcels would be eligible for exemption
5,090 x $85,473 (10% of average Class One value) = $435,052,480

Step 3: Reset the Class One taxable value base

$5,004,372,457
(435,052,480)
$4,569,319,977 adjusted taxable base for Class One

Step 4: Recalculate the required tax rate to raise the same tax levy

$53,646,873 divided by $4,569,319,977 = $11.81 tax rate

Step 5: Result

			Eligible parcels			Ineligible parcels	
Original Value	Tax Bill $10.72 rate	@	Tax Bill @ $11.81	change		Tax Bill @ $11.81	change
$100,000	$1,072		$172	(900)		$1,181	109
$200,000	$2,144		$1,353	(791)		$2,362	218
$300,000	$3,216		$2,534	(682)		$3,543	327
$400,000	$4,288		$3,715	(573)		$4,724	436
$500,000	$5,360		$4,896	(464)		$5,905	545
$600,000	$6,432		$6,077	(355)		$7,086	654
$700,000	$7,504		$7,258	(246)		$8,267	763
$800,000	$8,576		$8,439	(137)		$9,448	872
$900,000	$9,648		$9,620	(28)		$10,629	981
$1,000,000	$10,720		$10,801	81		$11,810	1,090
$1,250,000	$13,400		$13,753	353		$14,763	1,363
$1,500,000	$16,080		$16,706	626		$17,715	1,635
$1,750,000	$18,760		$19,658	898		$20,668	1,908
$2,000,000	$21,440		$22,611	1,171		$23,620	2,180

- **Consequences**

Parcels eligible for "exemption"

With a 10% residential Exemption;
- the tax bill would decrease for about 3,400 residential parcels
- the tax bill would increase for about 1,000 single family residential parcels valued at more than $925,000.

Parcels ineligible for "exemption"

With a 10% Residential Exemption, the recalculated tax rate would be about 10% higher. This higher tax rate raises taxes 10% on -

- all rental property, which comprises the bulk of the Town's affordable housing stock;

- all residential property held in Trust where the applicant is not a trustee and therefore lacks legal title (Concord has more than 300 residential parcels held in Trust, therefore requiring that the Assessors examine the actual recorded document to establish exemption eligibility);

- all residential vacant land (more than 300 parcels)

Coordination with State Circuit Breaker

Eligible seniors can receive a refundable tax credit on their state income tax return (regardless of whether any state taxes are owed, but requiring the filing of a return). A tax credit of up to $900 was available for tax year 2007 if one of the following exceeded 10% of total gross income:

- Homeowners – net real estate tax payment plus one-half of water/sewer charges paid in calendar year 2007;

- Renters – 25% of non-subsidized rent paid in 2007.

The credit is the dollar amount that is in excess of the 10% threshold, up to the aforementioned $900.

Eligibility requirements for the 2007 tax year (tax returns filing date April 15, 2008) were:

- 65 years of age or older as of Dec. 31, 2007
- Owner/renter of residential property as primary residence located in Massachusetts
- Not a dependent of another taxpayer
- Property assessment, before exemptions but after abatements, does not exceed $772,000
- Taxpayer income may not exceed
  - $48,000 for single individual
  - $60,000 for head of household
  - $72,000 married filing jointly

The credit, the assessed value cap and the income standards are adjusted annually by the State Department of Revenue

Unlike the "Residential Exemption", the State Circuit Breaker is thus tied directly to income eligibility conditions. While we have no data for the majority of about 140 Concord taxpayers who receive the state Circuit Breaker credit, we do have some data because Circuit Breaker eligibility is used to determine eligibility for our Senior Citizen Water Discount program.

An examination of the available data (limited to about 40 applicants) indicates that in about a quarter of the cases the implementation of a local 10% Residential Exemption would have reduced local taxes so as to partially or fully eliminate the state tax credit. In other words, we would have substituted local property tax dollars and surrendered the state tax dollars, making no beneficial difference to the local taxpayers in need.

- **Summary**

Since enactment in 1979 as part of the state law that established the Tax Classification System still in use, just 14 of 351 cities and town have adopted the Residential Exemption mechanism. For the most part, the motives of adopters have been clear – it offers the ability for some types of communities to shift taxes to non-residents (second-home owners on the Cape, for instance). Each of the communities now using this tax policy also tax Commercial/Industrial policy to the maximum allowed shift, a policy Concord abandoned in FY96).

It may be that there is a general correlation between the value of one's home and one's current income ability to pay the tax. There is, however, no concrete evidence available to us that would verify this supposition. What we do know factually is that the Town's over-65 population is well-distributed across the entire range of property value. A tax policy that cannot identify the intended targets of its beneficence has as much likelihood to do harm as good.

An optimal strategy might well be for the Town to augment fund-raising efforts for the Hugh Cargill Fund and to intensify efforts to identify those residents in need of assistance.

RESIDENTIAL EXEMPTION
FY 2008 DATA
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Town	% Exemption	When Adopted	Population	# Parcels w/o Exempt	% Residential Value of the Total	# Residential Parcels	# Parcels Granted Exemptions	% Exempted Parcels of Residential Parcels	% CIP of the Levy
Boston	30	1983	599,351	139,998	66%	129,039	75,525	59%	60%
Chelsea	20	~1990	38,203	6,301	74%	5,529	3,209	58%	45%
Somerville	30	1992	18,268	15,584	86%	14,586	9,115	62%	25%
Tisbury	20	1988	3,805	3,240	89%	2,787	985	35%	17%
Somerset	10	~1990	18,268	6,953	71%	6,691	6,000	90%	51%
Waltham	20	1986	59,758	15,116	69%	14,037	11,141	79%	54%
Marlborough	10	early 80's	38,065	12,166	71%	11,231	8,643	77%	45%
Cambridge	30	1986	101,388	22,749	61%	21,076	13,832	66%	65%
Watertown	20	1990	325,221	9,836	81%	9,305	6,230	67%	33%
Nantucket	20	1981	10,531	10,822	93%	9,880	2,034	21%	13%
Brookline	20	1982	54,809	16,831	91%	16,237	10,973	68%	16%
Barnstable (no shift to CIP)	20	2006	46,738	27,576	90%	25,359	15,020	59%	10%
Everett	20	2006		9,310	68%	8,403	5,325	63%	56%
Malden	5	2007	55,712	12,961	88%	12,326	7,641	62%	20%