



**Tax Classification Study Committee
Town Offices
50 Billerica Road
Chelmsford, MA 01824-2777**

October 1, 2018

To: The Chelmsford Board of Selectmen
From: Michael Rigney
Re: Report of the Town of Chelmsford MA Tax Classification Study Committee

The Tax Classification Study Committee is pleased to present its 2018 report on Tax Classification.

Respectfully Submitted:

The Chelmsford MA Tax Classification Study Committee:

Mike Rigney, Chair
Mary Frantz, Vice Chair
Pat Wojtas, Clerk, resigned August 13, 2018
Evan Belansky
Helen Blasioli
Tom Boucher
Dan Burke
John Edward
Sheila Pichette

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Town of Chelmsford Tax Classification Study Committee

FINAL REPORT

1. Introduction

Chelmsford's Board of Selectmen created a Committee to gather information to help the Board understand the Legislative intent and history of tax classification, to determine the positive and negative effects of implementing a dual tax rate for Chelmsford, and to study the use of the split rate in other cities and towns including a survey of the actual shifts implemented when first adopting a split rate. In addition, the Committee was to study the effect of a Small Commercial Exemption for commercial properties, a Residential Exemption, and exemptions available to individuals.

Establishment

The board appointed the Tax Classification Study Committee in May 2018 to review the possible use of Tax Classification. The committee members represent a broad citizen involvement with a variety of political views and diverse past and existing community experiences.

The committee consists of nine members:

Mike Rigney, Chair

Mary Frantz, Vice Chair

Pat Wojtas, Clerk, resigned August 13, 2018

Evan Belansky

Helen Blasioli

Tom Boucher

Dan Burke

John Edward

Sheila Pichette

Mission (Purpose)

The Committee will attempt to assess such effects objectively and in so far as possible will recommend various courses of action for the Board of Selectmen to consider when deciding whether to adopt a uniform or split property tax rate, or any other measures for tax relief.

2. Review of Assessment, Levy, and Uniform Rate

Property taxes in cities and towns in Massachusetts are determined by two variables: the assessed property value in the town and the tax levy burden of the town. While these topics are somewhat beyond the scope of this report, it is helpful to have a basic understanding of how each is determined. Taken together, these two variables determine the uniform tax rate for properties in the town which is the basis for local revenue, subject to the adjustments described in the rest of this report.

Assessment

Property must be assessed for local tax purposes at its full and fair cash value as of January 1 of each year. In order to ensure that these assessments are done fully and fairly, in accordance with the law, each community's assessments are reviewed and certified by the Massachusetts Commissioner of Revenue every five years, or another year as the Commissioner may schedule. Chelmsford's most recent certification was completed in 2016 and the next certification year is 2021.

Adjustments to assessments may be made in years between this certification to reflect changes in market conditions, such as new construction, alterations, or demolitions. These valuation adjustments are known as interim year adjustments and may be done without the prior review or approval of the Bureau of Local Assessment (BLA). After completion of the program, the community's assessments should be equitable and consistent within and between all property classes, as evidenced by conformity with accepted mass appraisal measures of assessment level and uniformity. The annual reports of the Assessor's office on the town's property valuations will reflect any interim year adjustments made since the last certification.

The question of what a "full and fair cash value" is for a given property depends somewhat on the nature of the property and is determined by using three different methods. Massachusetts law requires the use of at least two of these methods to determine value for a given property type. For residential properties, the Cost and Market approaches are used (Income approach cannot be used), and for commercial properties, all three approaches are commonly used.

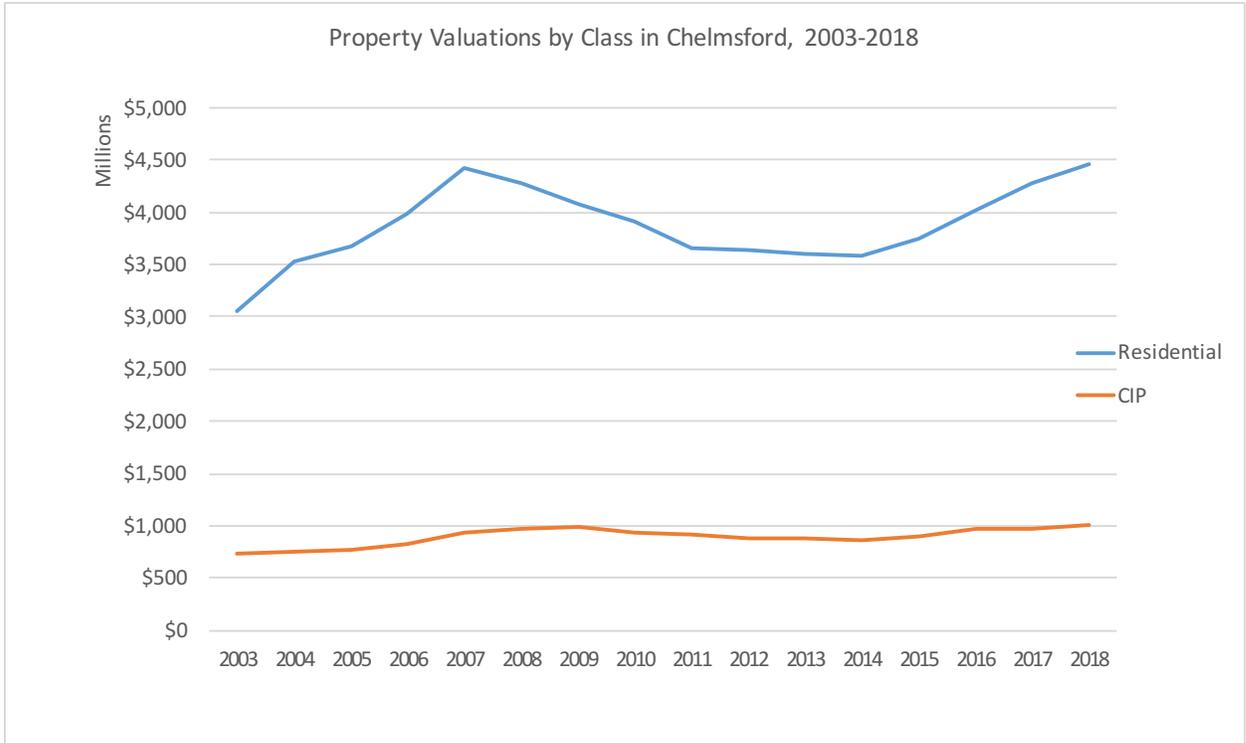
Market Approach – Sales prices of properties comparable to a subject property are considered good evidence of market value. Market sales of similar properties which sold in the year prior are analyzed, compared and adjusted to forecast what the property would sell for on January first. Most residential properties are valued by using the market and cost approaches together. The market approach is a reliable predictor of value in an active market where similar properties are transferring on a regular basis. However, it is less useful when sales of comparable properties are infrequent. As a guideline, BLA recommends that the total number of arms-length sales in any residential class should be at least 2% of all parcels in that use class. The number of sales of business properties is often significantly less than 2% of the parcels annually. In addition, if using the market approach to analyze business sales, care must be taken to distinguish value based on intangibles inherent in the business from values based on the improved property and land.

Cost Approach – the value is based on the estimated cost to replace or reproduce the buildings and improvements of a property, less any depreciation, plus the value of the land (determined separately). Reproduction cost is the amount of money necessary to erect a new structure that is an exact replica of the existing building. Replacement cost is the expenditure necessary to build a new building equal in utility to the original and able to serve as a substitute in function. The application of cost from a recognized cost manual, local building costs and/ or a cost trending multiplier may be considered for updating improvements, with proper allowances given for depreciation. The cost approach is most applicable to special-purpose properties that are not readily sold or rented and is well-suited for new construction.

Income Approach – the value is based on the estimated current value of a property's income. The income stream that a property is likely to produce for an investor over a definite period of time is determined by examining data such as rents, occupancy rates, and expenses and then converting the future income stream into present worth or market value using a capitalization rate. All rent schedules, income and expense information and capitalization rates must reflect current market conditions. Through the use of income and expense information, an assessor can develop reliable indicators of market rent and expenses for varying types of commercial and industrial properties.

Once rent and expense parameters have been established, capitalization rates can be developed and applied to net operating income to arrive at an indication of value. This approach is most applicable to real estate that is bought and sold based on its income-producing capabilities, such as retail stores, office buildings and apartment buildings. When no reliable sales data are available for the appraisal of a commercial or industrial property, the income approach to value can be the best indicator of value in part because investors, the typical owners of income-producing properties, place emphasis on the income approach in making decisions to buy or sell.

The final step in the appraisal process for a parcel is to analyze the value indications from cost, market and income approaches and determine a single market value for the parcel of property. The market as a whole is also reviewed by the Assessor to determine both the level and uniformity of existing assessments and to identify the source(s) of any existing inequities. Assessment level is the degree to which the overall ratio of assessed value to market value approximates the full value of the property class being analyzed. This is calculated by computing a community-wide median assessment/sale ratio (ASR). Assessment uniformity is the degree to which properties within and among classes are assessed at equal percentages of market value. This is calculated by measuring the coefficient of dispersion (COD) about the median. A well-regulated assessment process should not show sharp or unexpected increases in property values. Recent values in Chelmsford meet that expectation.



Tax Levy Calculations

The property tax levy is the revenue a community can raise through real and personal property taxes and is the largest source of revenue for most cities and towns.

Proposition 2 1/2 places several constraints on the amount of the levy raised by a city or town and on how much the levy can be increased from year to year. The levy ceiling limits the total property tax levy to no more than 2.5% of the total full and fair cash value of all taxable real and personal property in the community. A community’s levy is also constrained to no more than a 2.5% annual increase, but this levy limit excludes new growth so in many cases the overall growth in the levy from year to year can exceed this 2.5% benchmark. Overrides and debt exclusions can also be used to raise the total levy by more than 2.5% annually but those will not be discussed in this report.

The way in which these rules play out may be illustrated by calculating the levy limit and levy ceiling for Chelmsford in FY18:

	FY2018
Base Levy	\$90,161,406
2 1/2% Increase	\$2,254,035
New Growth	\$1,253,057
Total Base Levy	\$93,668,498

With a total valuation of property in Chelmsford for FY18 of \$5,454,829,350, the levy ceiling is calculated to be \$136,370,734 - well above the new base levy.

Uniform Rate Calculation

Once a community is certified as assessing property at full and fair cash value and the levy has been determined, local officials are required to determine for the fiscal year of certification, and the fiscal years that follow until the next scheduled certification, the percentages of the tax levy to be borne by each class of real property: residential, open space, commercial and industrial, and by personal property for that year.

The simplest method is to calculate a single property tax rate by dividing the levy by the town's total taxable valuation. Under this rate each class of property pays a share of the tax levy *equal* to its share of the total town value. The rate is expressed per thousands of dollars of valuation, like so:

<u>Full and Fair Cash Valuation</u>			
Residential	\$ 4,431,160,120	81%	
Open Space	\$ 23,312,215	0%	
Commercial	\$ 443,653,085	8%	
Industrial	\$ 395,021,500	7%	
Personal	\$ 161,682,430	3%	
TOTAL	\$ 5,454,829,350	100%	
<u>Tax Rate Computation with no shift or exemptions</u>			
		Levy	Tax Rate
Class	Levy Share	(=Total * Share)	(=Levy/Value*1000)
R & O	82%	\$ 80,002,323	17.96
C & I	15%	\$ 15,062,596	17.96
P	3%	\$ 2,903,816	17.96
Total	100%	\$ 97,968,735	

Summary

Other sections will expand on the pros and cons of various approaches to tax classification in Chelmsford. While that approach is not necessarily applicable here, the committee did identify several strengths of the current assessing process – most notably the excellent performance of the chief assessor, Frank Reen. His depth of knowledge and commitment are exemplary. The committee also considered the external validation of property valuations by the Massachusetts DOR a firm support for the assessing process in Chelmsford. The committee did note that better compliance with the income survey distributed by the assessor’s office to local business property owners would be desirable.

3. Split Rate

Splitting the tax rate shifts, by the adopted percentage, the burden of taxes borne by the Residential to the Commercial, Industrial and Personal Property (CIP). Every taxpayer in Chelmsford is affected by this vote. There is no change to the overall tax levy and revenues to the town are not increased by adoption of this local option.

A community that chooses to adopt a split tax rate generally begins by defining the degree to which the tax levy is to be shifted to the CIP sector. The CIP Levy Percentage is then multiplied by the selected factor and the Residential Levy Percentage is calculated by subtracting the CIP Percentage from 100% and used to determine the residential factor. The residential factor defines the degree to which the tax levy burden is to be paid by residential property owners. A residential factor of "1.0" will result in the taxation of all property at the same rate (a single rate), a lower one will result in a shift of taxes from the Residential class to the Commercial, Industrial, and Personal Property classes. This shift is implemented through a change in the tax rates applied to the different classes - a "split rate".

In Massachusetts, 109 communities adopted a split rate in FY18. In the cities and towns that chose to shift the burden, the mean CIP shift chosen was 1.51 and the median shift was 1.56.

Chelmsford utilized a split rate from FY87 through FY98, mostly with a shift of 1.05 which was ramped down over the last three years of the span to 1.04 and 1.02 before it was finally eliminated in FY99.

The legal concept of a split tax rate has evolved over the last 60 years in Massachusetts (following taken from "Background on the implementation of Tax Classification", Frank Reen, 2018). Because there was some question about the power of the Board of Selectmen to institute a split rate, a quick review of the legal underpinnings of the theory are in order:

1961: Mass SJC (*Bettigole v. Assessors of Springfield et al.* 343 Mass. 223): taxation of real property must be "proportional and reasonable", prohibiting the imposition of taxes upon one class of persons or properties at a different rate from that which is applied to other classes. An attempt by a municipality to establish separate tax rates for different property classes is deemed unconstitutional.

1978: Massachusetts citizens approve a constitutional amendment authorizing the Legislature to establish as many as four different property classes and allowing municipalities to tax each class differently.

1978: State requires communities to tax property at “full and fair cash value”

1978: Legislature adopts Tax Classification to allow cities and towns to manage the levy share relationship between residential and CI to keep levy shares relatively constant over time. In establishing split rates, the law does not restrict municipalities intent - municipalities can establish split rates for any reason, or for no reason. The legislation limited the extent of classification to 150% and further restricted the effects on a split rate so that residential properties had to pay at least 65% of what they would owe under a single rate.

1980: Proposition 2.5 requirement to tax at full/fair cash value results in tax burden shift from CI to the residential property class because prior to 1978 residential property assessments were generally significantly below market while commercial property assessments tended to reflect market values

1988: The Legislature revises limits on the extent of classification, so that residential taxes can be no lower than 50% of the uniform rate levy and “disfavored” classes (commercial, industrial, personal property or CIP) cannot be taxed at more than 175% of what the classes would pay without classification.

2003: Responding to continued declines in the aggregate real estate values for business properties relative to residential values, Chapter 3 of the Acts of 2004 created a sliding scale whereby the business sector, already responsible for 175% of the overall tax levy, shouldered a higher portion of the levy starting in 2004 (200%) and ending in 2009 (170%). This Act also required the Department of Revenue (DOR) to prepare a report to the Legislature on property tax classification.

2004: DOR report on the effects of Tax Classification (Tax Classification Report, December 2004, DOR Municipal Data Management and Technical Assistance Bureau) is published. The report concluded that tax classification as a municipally-managed policy was firmly entrenched in Massachusetts and was largely used for the “politically expedient” outcome of keeping the residential tax burden low.

2011: in VERIZON NEW ENGLAND INC. vs. BOARD OF ASSESSORS OF BOSTON the SJC affirms an appellate decision that the split tax rate structure authorized by G. L.

c. 40, § 56 (§ 56) -- a rate structure that provides for taxable personal property to be taxed at a rate identical to the rate applied to commercial and industrial real property but higher than the rate that would apply if all taxable property, real and personal, were taxed at a single, uniform rate -- does not violate the proportionality requirement of Part II, c. 1, § 1, art. 4, of the Constitution of the Commonwealth, as amended by art. 112 of the Amendments to the Constitution, as well as art. 10 of the Massachusetts Declaration of Rights and concludes "the split tax structure authorized by § 56 and related statutes does not violate the Massachusetts Constitution."

At various times, different justifications have been given for using a split rate. The 2004 Chelmsford report on classification wrote:

"the most probable rationales for instituting a split tax rate are:

1. To reduce the burden on residential tax payers by an arbitrary shift of a portion of that burden to the commercial and industrial property class without any specific reason for doing so (political classification);
2. To address a disproportionate use of municipal services by the commercial and industrial property classes;
3. To correct an inequity in property valuations brought about by a flawed or inconsistently applied valuation method;
4. To ensure that the proportional shares of contribution to the tax levy remain relatively constant over time....(Page 16, BOS Subcommittee Report)"

The current committee did not find a disproportionate use of municipal services or any inequities of property valuations.

Conditions of a Split Rate

G.L. c. 58, § 1A sets several bounds on the ability of a municipality to shift its tax burden through a split rate.

In the case of Chelmsford, the minimum residential factor which applies to the Residential and Open Space classes must be at least 65% of the uniform rate, and the tax rate for Commercial, Industrial, and Personal Property implied by the selected residential factor may not be more than 50% above the uniform rate. If the residential factor chosen does not raise at least 65% of the amount the RO classes would have

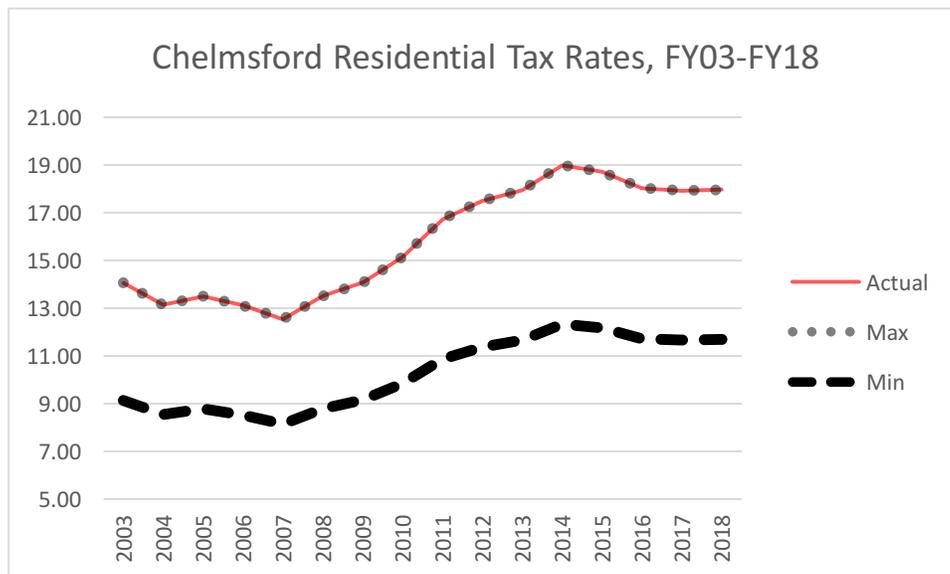
raised without a shift, then the shift factor applied to the CIP classes must be less than 50%.

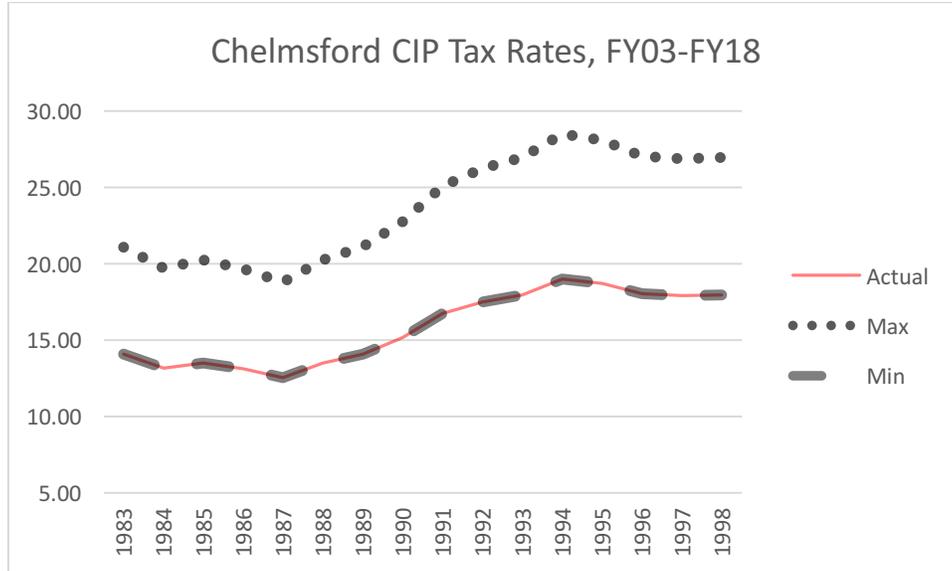
The statute goes on to allow lower residential factors (as low as 0.5) and correspondingly greater shifts to CIP classes (as high as 1.75) in the case where an adoption of a 0.65 residential factor would result in higher levy percentages than the year before – this essentially “holds harmless” many communities that took advantage of the opportunity to maximize the shift back in the 2004-2007 period. It does not apply to Chelmsford.

In any case, the total tax levy imposed on any class of real or on personal property cannot exceed 150 percent of the full and fair cash valuation of its taxable property divided by the full and fair cash valuation of all taxable real and personal property in the city or town.

It is also possible for a city or town to adopt a residential factor greater than 100 percent, which would have the effect of decreasing the commercial, industrial, and personal property tax rates and increasing the rates for residential and open space property.

The limits on the residential factor and CIP shifts essentially defines upper and lower bounds for a community to distribute its tax burden between classes of property. Shown below are the limits and actual rates chosen in Chelmsford since 2003.





Calculation of a Split Rate

If adopted, the changes in tax rates are determined by adopting a reduced residential factor, such that the proportion of the total tax levied paid by the CIP classes increases by whatever shift factor is chosen. After the shift in levy is calculated, new tax rates are calculated for the various classes.

In 2018 the tax rate for residential properties in Chelmsford was \$17.96 per \$1,000 of assessed value. This was calculated by dividing the total tax levy of \$97,968,735 by the total property valuation of the town, \$5,454,829,350

If the desired shift is 10% (expressed as a 1.10 split rate) then the residential factor required to achieve such a shift is 0.9775. The original tax levy determined by the uniform rate calculation on the RO classes is multiplied by this number to yield a new tax levy on those two classes. The remainder of the total levy is assigned to the CIP classes. Then new tax rates are calculated for these classes using the new levies and the original valuations. The table below illustrates the magnitude of the rate changes for a 1.10 split (compare to the table in the single rate section).

<u>Full and Fair Cash Valuation</u>			
Residential	\$ 4,431,160,120		81%
Open Space	\$ 23,312,215		0%
Commercial	\$ 443,653,085		8%
Industrial	\$ 395,021,500		7%
Personal	\$ 161,682,430		3%
TOTAL	\$ 5,454,829,350		100%
<u>Tax Rate Computation with a 1.10 Split Rate</u>			
		Levy	Tax Rate
Class	Levy Share	(=Total * Share)	(=Levy/Value*1000)
R & O	80%	\$ 78,202,271	17.56
C & I	17%	\$ 16,568,855	19.76
P	3%	\$ 3,194,198	19.76
Total	100%	\$ 97,965,324	

Net Effects of a Split Rate

The tables below show the effects of applying a 10% shift (a 1.10 split) on different classes of properties in Chelmsford, using FY18 data. The numbers for fiscal year 2019 and subsequent years would be different.

The first table is for all residential properties and shows that with a shift of 1.1, the residential property owners save about 2.2%. For larger shifts, the savings would be proportionally greater, e.g. a 1.5 shift (the maximum allowable by law) would result in a savings of approximately 11%.

<i>Property Value</i>	2018 Taxes	<i>Residential</i>	
		Tax w/SPLIT	Difference
\$20,000	\$359	\$351	(\$8)
\$50,000	\$898	\$878	(\$20)
\$200,000	\$3,592	\$3,511	(\$81)
\$300,000	\$5,388	\$5,267	(\$121)
\$400,000	\$7,184	\$7,023	(\$161)
\$500,000	\$8,980	\$8,778	(\$202)
\$600,000	\$10,776	\$10,534	(\$242)
\$800,000	\$14,368	\$14,045	(\$323)
\$999,999	\$17,960	\$17,557	(\$403)
\$1,002,200	\$18,000	\$17,595	(\$404)
\$2,000,000	\$35,920	\$35,113	(\$807)
\$5,000,000	\$89,800	\$87,783	(\$2,017)
\$10,000,000	\$179,600	\$175,567	(\$4,033)
\$20,738,500	\$372,463	\$364,099	(\$8,365)

The next table shows the effects of a 10% split rate on Commercial, Industrial, and Personal Property taxes. Compared to the savings on the residential side, the increase in taxes on the CIP side is greater, a 10% increase against the 2.2% savings on the residential side. A \$500,000 residential property saves \$202 in taxes; an equivalently valued \$500,000 commercial property pays an additional \$898. This is a consequence of the imbalance in the Residential and CIP shares of the overall valuation of the town. If the shares were equal, then the savings and increases would balance.

<i>Property Value</i>	<i>2018 Taxes</i>	<i>CIP</i>	
		<i>Tax w/SPLIT</i>	<i>Difference</i>
\$20,000	\$359	\$395	\$36
\$50,000	\$898	\$988	\$90
\$200,000	\$3,592	\$3,951	\$359
\$300,000	\$5,388	\$5,927	\$539
\$400,000	\$7,184	\$7,902	\$718
\$500,000	\$8,980	\$9,878	\$898
\$600,000	\$10,776	\$11,854	\$1,078
\$800,000	\$14,368	\$15,805	\$1,437
\$999,999	\$17,960	\$19,756	\$1,796
\$1,002,200	\$18,000	\$19,799	\$1,800
\$2,000,000	\$35,920	\$39,512	\$3,592
\$5,000,000	\$89,800	\$98,780	\$8,980
\$10,000,000	\$179,600	\$197,560	\$17,960
\$24,250,400	\$435,537	\$479,091	\$43,554

Review of hypothetical split rate since 2007

One of the questions the Committee tried to answer was what the long-term effects of split rate on various properties would look like. To do this, a hypothetical model was developed looking at how tax bills for various properties would be affected over 12 years at various levels of a split rate. The table below looks at changes in tax bills at a flat rate and at a 1.1 shift, adopted in FY07 and maintained for subsequent years (no further shift was implemented). In a necessary simplification, no other changes were made to the CIP share or any other variable. Comparisons are presented for the first year and last year of the model for 4 different properties. A full 12-year history for each of the properties may be found in Appendix B.

Year	Shift	Res Rate	CIP Rate	Avg SF Value	Bill	Lower Value	Tax Bill	\$1M Com.	Tax Bill	\$400K Com.	Tax Bill
2006	1.0	13.10	13.10	357,329	4,681	237,000	3,105	901,500	11,811	346,400	4,538
2007	1.0	12.53	12.53	396,327	4,966	251,400	3,150	1,118,400	14,014	402,900	5,048
2007	1.1	12.26	13.78	396,327	4,860	251,400	3,083	1,118,400	15,415	402,900	5,553
Increase at Flat Rate									2,203		510
First Year Incr. with 1.1 Shift									3,604		1,015
2018	1.0	17.96	17.96	399,500	7,175	215,900	3,878	1,207,900	21,694	384,100	6,898
2018	1.1	17.56	19.76	399,500	7,014	215,900	3,790	1,207,900	23,863	384,100	7,588
Incr. Over 12 Years at Flat Rate									9,883		2,360
Percentage Increase									83.7%		52.0%
Incr. Over 12 Yrs. with 1.1 Shift									12,053		3,050
Percentage Increase									102.1%		67.2%

It is apparent that in the first year that a shift is adopted, residents will see a smaller increase or even a decrease in their tax bill than under a flat rate. However, in subsequent years, increases will be similar under both scenarios. After 12 years, tax bills for the average SF residence will have increased 49.8% with the 1.1 Split Rate and 53.3% with a flat rate and 22.1% vs. 24.9% for a lower value residence. CIP properties will see significant increases in their tax bills in the first year, but lesser increases in subsequent years. Higher split percentages will produce greater savings for residents and greater increases for CIP properties. Every property is unique; the lower value residence and commercial properties in the table are actual properties in Chelmsford and depending on yearly assessment values may experience different results. The intent of this model is to show the magnitude of the changes that might be expected.

Review of Split rates in other communities

The committee was specifically charged with answering the question “**What is the initial shift adopted when other communities institute a split rate?**”. A review of the towns choosing to move from a single rate to a split rate or vice versa is between FY03 and FY16 is given in Appendix C and summarized on the next page. The mean initial rate chosen was 1.118 and the median was 1.080. About half of the towns increased the rate in subsequent years, and 9 of the 21 discontinued it before FY16. North Attleboro and Sturbridge have two entries apiece in the list because they initiated a shift, discontinued it, initiated it again and finally discontinued it once more all in the 13 year span surveyed.

<u>Town</u>	<u>Fiscal Year</u>	<u>Initial Rate</u>	<u>Current(Final) Rate</u>
Amesbury	FY07	1.150	1.150 (FY08)
Barnstable	FY06	1.150	1.150 (FY06)
Berlin	FY11	1.050	1.300
Dartmouth	FY08	1.400	1.390
Foxborough	FY12	1.060	1.140
Hanover	FY04	1.010	1.050
Lenox	FY04	1.066	1.177
Lincoln	FY05	1.150	1.300
Longmeadow	FY15	1.100	1.100
Lynnfield	FY04	1.060	1.184
Mansfield	FY07	1.060	1.240
Millbury	FY07	1.070	1.070 (FY07)
New Salem	FY08	1.150	1.300
North Attleboro	FY05	1.050	1.080 (FY07)
North Attleboro	FY12	1.030	1.030 (FY12)
Plainville	FY13	1.050	1.090
Russell	FY13	1.145	1.129
Sturbridge	FY05	1.291	1.130 (FY09)
Sturbridge	FY13	1.150	1.100 (FY14)
Winthrop	FY06	1.080	1.080 (FY06)
Wrentham	FY04	1.200	1.220

Because the maximum shift available is used by many cities in Massachusetts, it is sometimes assumed that only communities with a large business population use a split rate. The CIP share (calculated as the combined valuation of the commercial, industrial, and personal property classes as a percentage of the overall town property valuation) is a convenient measure of the relative size of the business community. In FY16, (the last

year for which statewide data is available online) the relation between CIP share and adoption of a split rate is summarized in the table below

CIP Share	# of Towns in MA	# of Towns w/Split Rate	% Adopting Split Rate
0-5%	37	2	5.4%
5-10%	99	7	7.1%
10-15%	78	23	29.5%
15-20%	53	25	47.2%
20-25%	46	23	50.0%
>25%	36	30	83.3%
Totals	349	110	31.5%

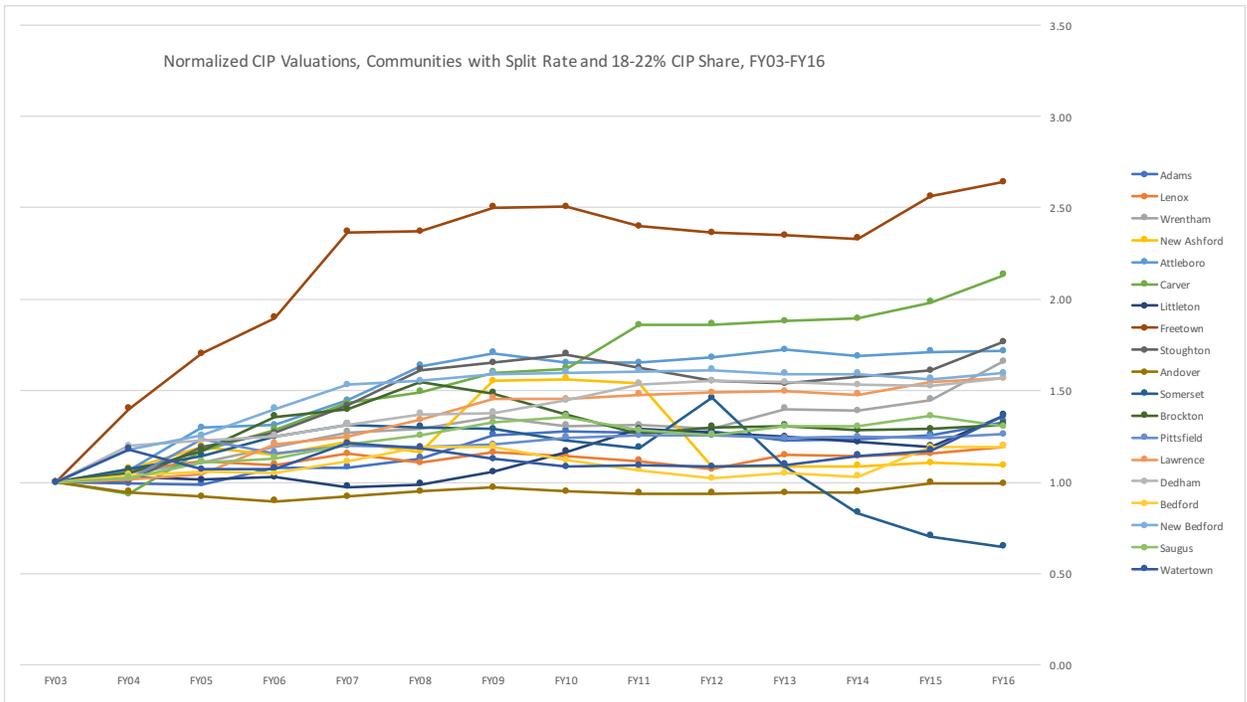
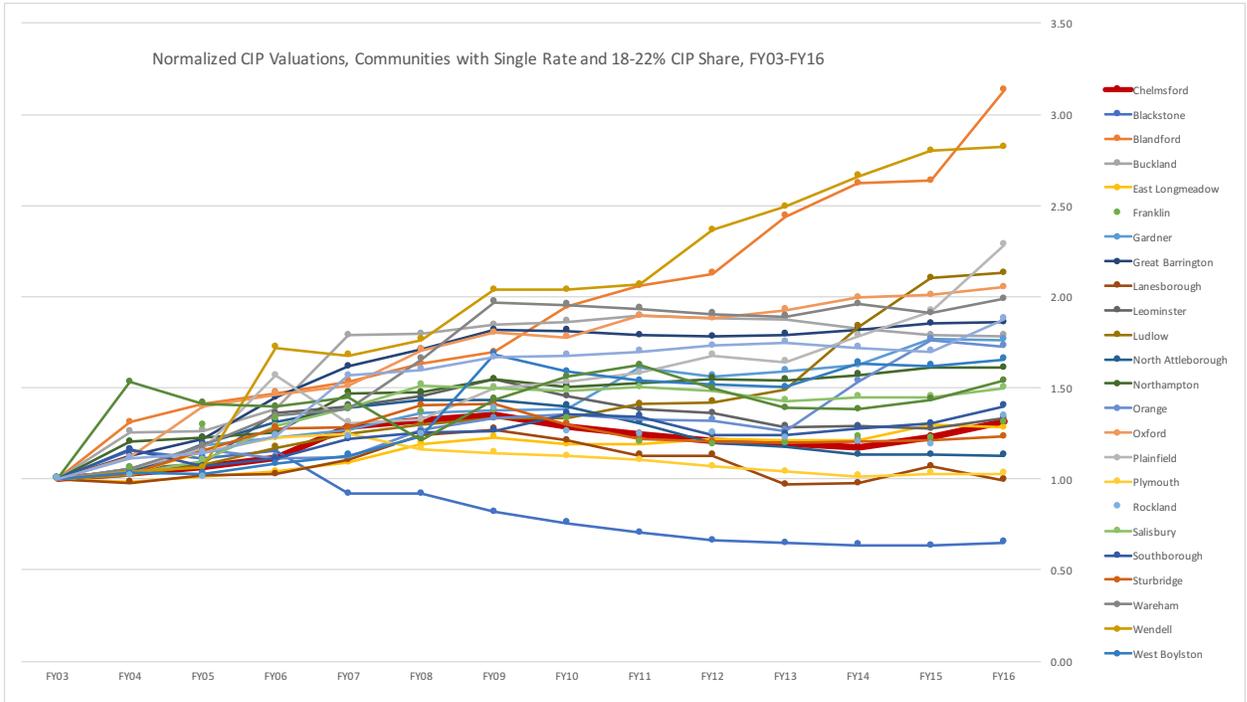
While many towns with high CIP shares do adopt a split rate, use of split rates is not limited only to them. In recent times Chelmsford has generally had a CIP share between 18-20%; nearly half the towns in Massachusetts with similar CIP shares have adopted a split rate.

The committee also tried to determine if adopting a split rate had predictable results on a community's CIP share. Results were inconclusive. One of the concerns about adopting a split rate is that commercial properties are valued using the "Income approach" and that model is based on the following formula:

$$\text{Value} = \text{Net Operating Income} / \text{Capitalization Rate}$$

The net operating income (NOI) of a business (all other variable held equal) will be reduced if property taxes increase. The relationship of capitalization rate (depends on similar properties' NOI and sales price) to property taxes is more complex, but in the absence of any other factors CIP property values could decline. Such a decline would effectively shift some of the tax burden to the residential class.

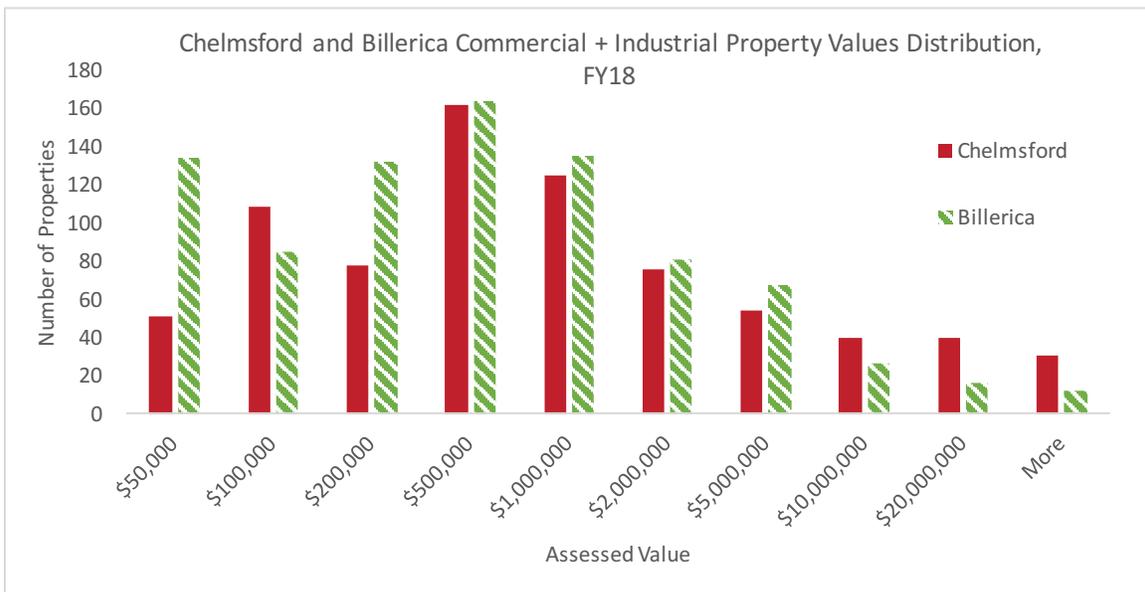
In an attempt to measure the effect of adoption of a split rate on the business community, the CIP valuations of towns with and without a split rate and a CIP share between 18%-22% were plotted over time. The data were normalized by dividing the CIP value of a town for each fiscal year by the CIP valuation in FY03 to try to make the data more easily visualized:



The single rate data set included 26 communities and the split rate data set included 19 communities. With the exception of a few outliers, most of the communities saw CIP

valuation growth between 0 and 100% over the 13 year time frame (landing between 1.0 and 2.0 on the charts). Readers may question whether specific towns are truly comparable to Chelmsford; the Committee certainly did. Ultimately the choice was made to include this data set because the Committee decided no two towns are truly comparable - there are always distinguishing circumstances that impact a town's economic development, but it was better to attempt an empirical approach than not to. The value of charts like these lies in the demonstration of this variability and as a reminder that, despite the value equation given above, a decline in CIP values is not inevitable. The assumption in the equation ("all things being equal") is rarely true in the real world and the range of outcomes amongst other towns with similar CIP shares, whether using a single rate or a split rate, suggests that those other, real-world "things" may have significant impacts on a community's business growth that equals or outweighs the choice of a single or split tax rate.

The Committee also examined whether there was an obvious difference in the distribution of large and small business properties in Chelmsford and nearby towns to see if imposing a split rate could be expected to result in different behavior in Chelmsford than in other towns. This was done by reviewing FY18 data on the number and size of all Commercial and Industrial properties in Chelmsford, Andover, Westford, and Billerica. Of these four towns, only Billerica has a split rate. A breakdown of the property value distributions in Chelmsford and Billerica is given below:



Somewhat unexpectedly, Chelmsford has a higher concentration of Commercial and Industrial properties valued at greater than \$5,000,000 than Billerica does. 33.3% of Chelmsford commercial and industrial properties are valued between \$1-\$5m and 14.5% are valued at more than \$5m, while Billerica has 33.3% and 6.5% respectively. The towns' overall number of business are similar, with Chelmsford having 765 properties with a total valuation of \$838,729,200 and Billerica having 854 properties with a total valuation of \$1,351,129,200 in the two classes.

Pros and Cons of a Split Rate

The Committee put together a list of some pros and cons of using a split tax rate in Chelmsford:

Pros

- Tax savings for residents
- More affordable housing, reduced housing burden
- Restores the levy split towards historical average
- Potential tool to manage levy split, respond to market variations

Cons

- May not be perceived as a rate cut by homeowners unless split increases dramatically
- Tax savings are not need based; greatest benefit to highest property values
- Apartment owners may not pass on savings to tenants or reinvest them
- May not be sufficient for all homeowners
- May not be compatible with economic development strategy
- May negatively impact business donations
- Potential loss of value in CIP sector
- Higher commercial rates could discourage re-investment in property

The committee also noted that a split rate would make residential property taxes less regressive – different committee members had differing opinions on whether that was a pro or con.

Summary

The split rate is the most commonly used local option of the various tax policy possibilities. It is a simple transfer of tax burden from homes to businesses, regardless of the motivation of the Select board. The historical justifications for using a split rate applicable to Chelmsford could be to reduce residential property taxes and to manage the levy split over time. The first motivation is straightforward - any split rate reduces residential taxes. In the second case, as an example of how the Board might choose to use a split rate to manage the levy split over time, say the Board chooses to fix the residential share of the levy at 80% and the CIP share at 20% (close to the baseline over the last 30 years in Chelmsford). In any year that the assessed valuation yields a higher than 80% share for residential properties, a residential factor of less than 1 would be applied to reduce the residential levy share back to 20%. If the assessed valuation shows a CIP share higher than 20%, the Board could choose a residential factor of 1.00 to produce a unified rate. As an example, if the Board had adopted this strategy in FY18, the shift would have been approximately 1.09.

When implementing a split rate, there are a number of issues to consider.

The first, is that due to inequality in the Residential and CIP shares of the overall town's property valuation, savings realized by individual homeowners are less than tax increases passed on to commercial owners of similarly valued businesses.

Another is that over time, unless the split is constantly increased, the growth in residential taxes will be similar to growth without a split. Homeowners will save money every year compared to what they would have paid without the split, but it may not always be perceived that way.

A review of other communities with similar CIP shares does not give conclusive guidance on whether a split rate would be good or bad for business property values over time, probably because other factors outweigh the threat to those property values from a higher tax rate. In fact, an increase in local property taxes is just one of a number of costs of doing business. However, the committee did find that while typical split rates in other towns which adopted and maintained a split rate in the FY03-FY16 time frame averaged 1.20 in FY16, the average of their initial rates was only 1.12. This is most likely due to concerns about the effects of large rate increases on the local businesses.

The committee recommends that if a split rate is to be implemented or removed, it be gradually changed to the final desired value, over a period of several years. This requires a long-term commitment from the Board of Selectmen and the political ability to manage the strategy across turnover of Board members. Rapid shifts, whether up or down, in a split rate will cause shocks either to the business or residential side and should be avoided.

4. Small Commercial Exemption

The Small Commercial Exemption (SCE) is an exemption of up to 10% which may be applied to the property value of eligible Commercial parcels. The tax burden shifts from the eligible Commercial parcels to non-eligible Commercial parcels and all Industrial parcels. Residential parcels and Personal Property accounts are not impacted by this exemption and there is no change to the overall tax levy.

Fourteen communities adopted the Small Commercial Exemption local option (Auburn, Avon, Bellingham, Berlin, Braintree, Dartmouth, Erving, New Ashford, North Attleborough, Seekonk, Somerset, Swampscott, Westford, Wrentham) in FY18. Of the fourteen, all but North Attleboro have adopted a 10% exemption. North Attleboro uses a 5% exemption. Nearly all of the communities adopting a SCE also have split rates. Only North Attleboro and Westford have a single rate. The recently released recommendations of the Westford FY19 Tax Classification Research Group suggest eliminating the small commercial exemption there.

Conditions of the Small Commercial Exemption

For a parcel to be eligible for a Small Commercial Exemption, it must meet both of the following criteria:

- (1) the parcel must be occupied as of January 1 of the tax year (e.g. January 1, 2018 for the FY18 tax year) by a business with an average annual employment of no more than ten during the preceding calendar year (January-December, 2017), and
- (2) the parcel must be valued at less than one million dollars, prior to the application of any small commercial exemption (G.L. c. 59, § 5I).

The Director of the Massachusetts Department of Workforce Development will provide the assessors with a list of businesses that met the employment criterion for the preceding calendar year by July 1 of the current year (G.L. c. 151A, § 64A). Businesses certified as having had an average annual employment of ten or fewer people at all locations during the preceding calendar year qualify for the exemption. This list of eligible businesses is not a public record and may be used by the assessors and their staff only to administer the small commercial exemption. If any of the assessors or their staff uses the list for other purposes or discloses any of the listed businesses to people outside the assessors' office, they may be fined one hundred dollars.

If a sole proprietorship or partnership occupying the parcel on January 1 of the tax year does not appear on the certified list, the assessors may determine whether it met the employment criterion for the preceding calendar year. In all other cases, however, the assessors must rely exclusively on the Director's certification in determining whether a business qualifies for the exemption.

If a parcel has multiple commercial occupants or tenants, all occupants must be eligible businesses; that is each business must average fewer than 10 FTE individually but they do not need to have less than 10 FTE collectively.

The commercial parcel does not have to be owned by the occupying business or any other eligible business. If a parcel has multiple commercial occupants or tenants, all occupants must meet the eligibility requirements and if a parcel is multiple use, such as a residential and commercial property, all occupants of the commercial portion must meet the eligibility requirements, which are:

If a parcel is multiple use, such as a residential and commercial property, all occupants of the commercial portion must be eligible businesses.

The exemption applies to a specific parcel occupied by an eligible business, not to the eligible business itself. Therefore, if any particular eligible business occupies more than one parcel, each under one million dollars in value, each parcel would qualify for the exemption.

Calculation of the Small Commercial Exemption

If adopted, the exemption is applied by subtracting the calculated amount from the summed valuation of all commercial and industrial parcels. The levy amount is then divided by the remaining sum value to yield a tax rate for the Commercial and Industrial classes. If a split rate is also implemented, the levy amount is first increased by the amount appropriate to the split and that increased levy amount is divided by the adjusted valuation for the Commercial and Industrial classes.

In 2018 the tax rate for residential properties in Chelmsford was \$17.96 per \$1,000 of assessed value. The total value of all commercial properties in Chelmsford was \$443,653,085 and the value of the commercial properties eligible for a SCE (based on data from the state list) was \$47,122,001.

Assuming a value of 10% for the SCE to be applied yields an exemption amount of \$4,712,200. This amount is deducted from the total valuation of the Commercial and Industrial properties and the levy for these classes is divided by the result to give a tax rate of \$18.06 for those properties. As with the Residential Exemption, eligible property owners would see a reduction in their overall bill due to paying the new rate on a lesser valuation while non-eligible owners would pay a greater overall bill. The table below shows the effects of a small commercial exemption, a higher tax rate for Commercial and Industrial properties while the rates for Residential, Open Space, and Personal property are unchanged (compared to the single rate)

<u>Full and Fair Cash Valuation</u>			
Residential	\$	4,431,160,120	81%
Open Space	\$	23,312,215	0%
Commercial	\$	443,653,085	8%
Industrial	\$	395,021,500	7%
Personal	\$	161,682,430	3%
TOTAL	\$	5,454,829,350	100%
Eligible Commercial Parcels Value	\$	47,122,001	
Exemption Percentage		10%	
Exempt Valuation	\$	4,712,200	
Taxable Assessed Valuation of Eligible Parcels	\$	42,409,801	
New Commercial Valuation =	\$	437,431,301	
<u>Tax Rate Computation with a 10% Small Commercial Exemption</u>			
		Levy	Tax Rate
Class	Levy Share	(=Total * Share)	(=Levy/Value*1000)
R & O	82%	\$ 80,002,323	17.96
C & I	15%	\$ 15,062,596	18.06
P	3%	\$ 2,903,816	17.96

Net Effects

The tables below show the results of applying a 10% small commercial exemption for various commercial property values. All numbers are based on FY18 assessed values as the basis. The numbers for fiscal year 2019 and subsequent years would be different, although it is unlikely the change in tax liability resulting from the residential exemption would change dramatically from year-to-year.

The first table is for eligible commercial properties and shows the reduction in taxes for eligible properties:

<i>Property Value</i>	<i>2018 Taxes</i>	<i>Commercial - eligible parcels</i>	
		<i>Tax w/SCE</i>	<i>Difference</i>
\$20,000	\$359	\$325	(\$34)
\$50,000	\$898	\$813	(\$85)
\$200,000	\$3,592	\$3,251	(\$341)
\$300,000	\$5,388	\$4,877	(\$511)
\$400,000	\$7,184	\$6,502	(\$682)
\$500,000	\$8,980	\$8,128	(\$852)
\$600,000	\$10,776	\$9,753	(\$1,023)
\$800,000	\$14,368	\$13,004	(\$1,364)
\$999,999	\$17,960	\$16,255	(\$1,705)
\$1,002,200	\$18,000	n/a	n/a
\$2,000,000	\$35,920	n/a	n/a
\$5,000,000	\$89,800	n/a	n/a
\$10,000,000	\$179,600	n/a	n/a
\$24,250,400	\$435,537	n/a	n/a

The second table shows the slight increase in taxes on non-eligible Commercial and all Industrial properties when a 10% SCE is implemented. The increase is much smaller than the savings for eligible properties because, in a reversal of the split rate effect on CIP parcels, the number of eligible properties is much smaller than the pool of ineligible properties.

<i>Property Value</i>	<i>2018 Taxes</i>	<i>CI - non-eligible parcels</i>	
		<i>Tax w/SCE</i>	<i>Difference</i>
\$20,000	\$359	\$361	\$2
\$50,000	\$898	\$903	\$5
\$200,000	\$3,592	\$3,612	\$20
\$300,000	\$5,388	\$5,418	\$30
\$400,000	\$7,184	\$7,225	\$41
\$500,000	\$8,980	\$9,031	\$51
\$600,000	\$10,776	\$10,837	\$61
\$800,000	\$14,368	\$14,449	\$81
\$999,999	\$17,960	\$18,061	\$101
\$1,002,200	\$18,000	\$18,101	\$102
\$2,000,000	\$35,920	\$36,123	\$203
\$5,000,000	\$89,800	\$90,307	\$507
\$10,000,000	\$179,600	\$180,615	\$1,015
\$24,250,400	\$435,537	\$437,998	\$2,461

In this scenario, Personal property is taxed at the uniform rate calculated for the town.

Pros and Cons

Pros

- Provides relief for small Chelmsford business property owners
- Could be used to offset effects of split rate on small business properties

Cons

- Affects a limited pool of local commercial property owners
- If implemented without a split rate, some commercial owners would pay less in taxes than residential property owners with similarly valued properties.

- Most likely, additional commercial condos would apply for relief so the Assessor's overlay reserve should be expanded for at least the first year.

Summary

The Small Commercial Exemption is largely used as a way to mitigate the effects of a split rate on small businesses, but the fact that the benefit mostly goes to the property owner rather than the business itself means the ultimate effect can be unpredictable. The corollary increases on non-eligible property taxes are calculated to be relatively small given the restrictions on who can benefit.

Currently in Chelmsford which seems to have a large population of smaller businesses, only 10% of the valuation of commercial properties is eligible for the discount, although that number could change if and when a Small Commercial Exemption is implemented. According to data available to the Assessor's office, in FY18, 114 out of 454 commercial properties could be identified as qualifying for the exemption but they have stated that "The number of eligible parcels would certainly increase as we became aware of their employment status particularly Commercial condominiums that were not included on the list."

5. Residential Exemption

A Residential Exemption is a mechanism for a town to shift some of the property tax burden from lower-valued residential properties to higher-valued properties. This exemption has no impact on the overall tax levy of the town, or the total levy assigned to residential properties (i.e., the total amount of taxes paid by all residential properties owners does not change). This exemption has no impact on commercial/industrial/personal property taxation. Otherwise, as its name implies, the residential exemption exempts a certain amount of the assessed value of every residential property. This exemption may be up to 35% of the average assessed value of all eligible Residential parcels. (G.L. c. 59, § 5C). In fiscal year 2018 the average of all residential parcels in Chelmsford was \$352,266. Since the same exemption amount applies to all eligible properties, it provides more benefit to lower-valued properties.

Only 15 communities in Massachusetts adopted the residential exemption in FY18. These communities (Barnstable, Boston, Brookline, Cambridge, Chelsea, Everett, Malden, Nantucket, Provincetown, Provincetown, Somerset, Somerville, Tisbury, Truro, Waltham, and Watertown) can largely be characterized either as cities with a high rental property inventory (e.g., Boston, Somerville) or towns with a large base of seasonal housing (e.g., Nantucket). Eleven of the cities and towns which have adopted the residential exemption also have a split rate with a split in excess of 1.55.

A residential exemption may be implemented at any time during the year, but it would be best to consider it as a part of the whole of tax policy. Testimony from the Assessor's office to the Committee indicated they would need additional time to determine eligibility for such an exemption which might require the Board to consider the question a little earlier in the year than they have traditionally.

Conditions of the Residential Exemption

The property must be the principle residence of the owner as of January 1, as used by the taxpayer for state income tax purposes. It must be the taxpayer's domicile, that is, his fixed place of habitation, permanent home or legal residence.

The exemption is not applied to summer homes or to accessory land incidental to a residential use or to residential property not occupied by the owner, such as apartments.

The application of the residential exemption, in addition to any other exemptions allowable under G.L. c. 59, § 5, may not reduce the taxable value of the property to less than 10 percent of its full and fair cash value, except through the application of the hardship exemption found in G.L. c. 59, § 5, Cl. 18 and the exemption for paraplegic veterans and their surviving spouses provided under G.L. c. 58, § 8A.

Calculation of the Residential Exemption

Because some of the value of owner-occupied properties will be exempt from taxation, and the total amount of taxes over all residential properties must remain constant, the tax rate for residential properties must rise. This section provides an overview of how that works and the next section will provide examples of the net result for various property values, for both qualifying and non-qualifying properties.

While the residential exemption may be up to 35%, we will use 10% as an example to make the math a little simpler and it also represents something more reasonable than adopting the maximum exemption possible.

In 2018 the tax levy in Chelmsford was \$97,968,735 and the rate for all properties was \$17.96 per \$1,000 of assessed value. The residential portion of the levy was \$80,002,323, the total value of all Residential property (known as Class One property) was \$4,454,472,335 and the average assessed value for all residential properties was \$352,746.

Applying the exemption formula results in an exemption amount of \$35,275 (10% of \$352,746). Therefore, the first \$35,275 of each qualifying property's value is exempt from property taxes and the calculated new residential valuation is \$4,045,655,976.

A modified tax rate is then calculated by dividing the total levy for the residential class (which has not changed) by the adjusted valuation of the entire class.

As the table below shows, had a 10% residential exemption been in place in FY18, the tax rate for all residential properties would have been \$19.77 per \$1000 instead of \$17.96. The effect of the higher rate would have been mitigated for eligible homeowners because the value being taxed would have been reduced by \$35,275. Owners of non-eligible property would have paid more total taxes due to the increased rate.

<u>Full and Fair Cash Valuation</u>			
Residential	\$	4,431,160,120	81%
Open Space	\$	23,312,215	0%
Commercial	\$	443,653,085	8%
Industrial	\$	395,021,500	7%
Personal	\$	161,682,430	3%
TOTAL	\$	5,454,829,350	100%
Average Value of Eligible Residential Parcels \$ 352,746			
Exemption Percentage 10%			
Exempt Valuation \$ 35,275			
Taxable Assessed Valuation of Eligible Parcels \$ 408,816,359			
New Residential Valuation = \$ 4,045,655,976			
<u>Tax Rate Computation with a 10% Residential Exemption</u>			
		Levy	Tax Rate
Class	Levy Share	(=Total * Share)	(=Levy/Value*1000)
R & O	82%	\$ 80,002,323	19.77
C & I	15%	\$ 15,062,596	17.96
P	3%	\$ 2,903,816	17.96

Net Effects of Residential Exemption

The tables below show the results of applying a 10% residential exemption for various residential property values. Please note all the numbers are based on the calculations described in the previous section, which used 2018 assessed values as the basis. The numbers for fiscal year 2019 and subsequent years would be different, although it is unlikely the change in tax liability resulting from the residential exemption would change dramatically from year-to-year.

The first table is for owner-occupied residential properties – that is, properties that qualify for the exemption. In this case, the value of a \$20k property is not sufficient to receive a residential exemption as it fails the test which limits the reduction to no more than 100% of the property value.

<i>Property Value</i>	2018 Taxes	<i>Residential - owner occupied</i>	
		Tax w/RE	Difference
\$20,000	\$359		
\$50,000	\$898	\$284	(\$614)
\$200,000	\$3,592	\$3,177	(\$415)
\$300,000	\$5,388	\$5,106	(\$282)
\$400,000	\$7,184	\$7,034	(\$150)
\$500,000	\$8,980	\$8,963	(\$17)
\$600,000	\$10,776	\$10,892	\$116
\$800,000	\$14,368	\$14,749	\$381
\$999,999	\$17,960	\$18,606	\$646
\$1,002,200	\$18,000	\$18,648	\$649
\$2,000,000	\$35,920	\$37,892	\$1,972
\$5,000,000	\$89,800	\$95,752	\$5,952
\$10,000,000	\$179,600	\$192,183	\$12,583
\$20,738,500	\$372,463	\$399,290	\$26,827

The changes in tax liability shown in this table, illustrate the objective of the residential exemption. Properties with assessed values below roughly the averaged assessed value will see their property taxes going down relative to what they would be without the residential exemption (note that once instituted, the residential exemption will not prevent tax liability increasing in subsequent years). Properties assessed a significant amount above the average will experience an increase.

The second table is for non-owner-occupied residential properties – that is, properties that do not qualify for the exemption.

<i>Property Value</i>	2018 Taxes	<i>Residential - non-owner occupied</i>	
		Tax w/RE	Difference
\$20,000	\$359	\$386	\$27
\$50,000	\$898	\$964	\$66
\$200,000	\$3,592	\$3,857	\$265
\$300,000	\$5,388	\$5,786	\$398
\$400,000	\$7,184	\$7,715	\$531
\$500,000	\$8,980	\$9,643	\$663
\$600,000	\$10,776	\$11,572	\$796
\$800,000	\$14,368	\$15,429	\$1,061
\$999,999	\$17,960	\$19,286	\$1,326
\$1,002,200	\$18,000	\$19,329	\$1,329
\$2,000,000	\$35,920	\$38,573	\$2,653
\$5,000,000	\$89,800	\$96,432	\$6,632
\$10,000,000	\$179,600	\$192,864	\$13,264
\$20,738,500	\$372,463	\$399,970	\$27,507

For Chelmsford the vast majority of the non-qualifying residential properties are rental properties (there are some, but not many, seasonal properties). Assessed values and unit counts were reviewed for a non-random collection of rental properties in Chelmsford, representing a wide variety of assessed values (ranging from \$241,000 to \$20,750,000) and residence styles (from large apartment complexes to single-family homes and condominiums) and the changes in the tax rates due to a 10% residential exemption were calculated.

The lowest annual impact was \$437; the highest was \$37,558. The monthly increases per unit ranged from \$9 up to \$62. It seems reasonable to suppose that much, if not all, of the increase in tax liability would be passed on to Chelmsford residents as rent increases.

Pros and Cons

Pros

- Likely to help first-time homeowners and retirees who have downsized
- Most Condo owners will benefit

Cons

- Not income-based
- Shifts burden to higher priced homeowners who are already paying higher taxes
- Doesn't help rental properties and may increase rents
- Additional work required by Assessor's office to properly determine which properties are eligible for exemption

Summary

Property taxes are regressive. In general, higher-income earners pay a lower percentage of their income in property taxes than lower income earners. The residential exemption can be seen as an attempt to reduce the regressive nature of property taxes, but it is an imperfect attempt. Residential property values and incomes are highly correlated, but not perfectly so. In addition, some of the lowest income-earning residents of the community could face increases in their implied tax liability due to rent increases.

6. Open Space Exemption:

The Open Space Exemption allows cities and towns to tax Open Space properties at a rate discounted up to 25% from the uniform tax rate. This exemption has no impact on the overall tax levy of the town, or the total levy assigned to residential properties (i.e., the total amount of taxes paid by all residential properties owners does not change). This exemption has no impact on commercial/industrial/personal property taxation. The tax dollars lost by the discount are shifted to the residential class of properties, which includes developable vacant land. Only one community in Massachusetts grants an open space discount: Bedford.

In fiscal year 2018 (and all years back to 2003) the total valuation of all open space parcels in Chelmsford reported by the DLS Municipal Databank was \$0.

No further investigation of this exemption was undertaken.

7. Exemptions and Other Reductions

There are a variety of exemptions from property taxes of varying amounts available for eligible residents. Some exemptions require residents to have less than qualifying amounts of income or property, others are available only to those with disabilities, and others still are reserved for senior citizens. This section will survey the available exemptions, noting their values and eligibility conditions as we go before concluding with some pros and cons. There are 10 major categories of exemptions for eligible citizens.

Category 1: The 17's - Survivors

G. L. c. 59, s. 5, clauses 17, 17C, 17C1/2, 17D, and 17E

Dating back at least to the 1930s, the original Clause 17 is not subject to local acceptance. It is mandatory for all cities and towns, and provides for a minimum exemption of \$175 for qualifying seniors age 70 and over, and for certain surviving spouses and minor children. The qualifying asset ceiling is \$20,000, and there is no income limit. By voting to accept 17C, 17C1/2, or 17D, communities may increase the qualifying asset ceiling to \$40,000 to expand eligibility. Another local option law allows communities to increase the exemption amount up to \$350, while another allows a vote to apply an annual cost of living adjustment to the exemption amount. In 2000, the Legislature added clause 17E to allow communities to vote to apply an annual inflation index to the asset limit. Because there is no income eligibility limit, some seniors who would be ineligible for the greater Clause 41 exemptions do qualify for the smaller Clause 17 benefits. G. L. c. 59, s. 5, para before CL.56 further allows for towns to increase the abatement amounts by no more than the CPI.

A municipality that has accepted a local option version of Clause 17 will never receive more or less reimbursement than it received in the year prior to local acceptance. Even if the community grants fewer exemptions in a given year, the amount of reimbursement does not change; it is in effect “frozen” regardless of exemption activity. DOR explains that the only exception to this rule is that in any year in which a municipality grants no Clause 17 exemptions, there is no “reimbursement.” If even one exemption were granted in a subsequent year, state reimbursement would be restored to the amount allotted prior to local acceptance.

Chelmsford has adopted Clause 17D, increasing the eligible whole estate limit to \$40,000 but has not adopted Clause 17E, which indexes whole estate limits by a COLA

determined by the DOR, nor has it linked the exemption amounts to the CPI. In FY18, 10 households used this exemption for a total of \$1,750, of which 0% was reimbursed by the state.

Category 2: 18 - Hardship

G. L. c. 59, s. 5, clause 18

Clause 18 provides a method of relief for homeowners in financial distress. Upon application to the Board of Assessors, they may be granted an exemption from any portion of their estate. No reimbursement from the state is received, the amount exempted is taken against the overlay fund.

In FY18, three Chelmsford households applied for hardship and were granted a total of \$950 in relief.

Category 3: The 22's - Veterans

G. L. c. 59, s. 5, clauses 22, 22A, 22B, 22C, 22D, 22E, and 22F

These clauses prescribe exemptions for some veterans, their spouses who own the domicile and their surviving spouses, and some surviving parents and spouses of active duty military personnel who died during or due to military service. Exemption amounts vary from \$400 annually to 100% but all are fixed by law. The first \$175 of relief is borne by the town, after that the remaining amount of relief, up to \$225 (\$575 for 22A, \$1075 for 22B, \$1325 for 22C, all of 22D, \$825 for 22E), is reimbursed to the town by the State. Any town accepting clause 22F may reduce the required residence time to 1 year (instead of 5 years) prior to the date of filing for exemptions.

Chelmsford has not adopted the reduced residency requirement. No local increases in the various exemption amounts are possible. In FY18, 231 Chelmsford households used at least one of these exemptions for a total of \$92,400, of which \$51,975 was reimbursed by the state.

Category 4: 37A - Blind

G. L. c. 59, s. 5, clauses 37 and 37A

Clause 37 is mandatory, unless a city or town adopts 37A which then supersedes Clause 37. This exemption cannot be coupled with other section 5 exemptions (e.g. clause 17 or 41) but whichever clause yields the greatest exemption can be selected. There are no asset or income limitations.

Chelmsford has adopted Clause 37A, increasing the exemption amount to \$500. In FY18, 25 Chelmsford households used this exemption for a total of \$12,500.00, of which \$2188.00 was reimbursed by the state.

Category 5: The 41's - Seniors

G. L. c. 59, s. 5, clauses 41, 41B, 41C, new 41C, and 41D

Dating back to the early 1960s, the original Clause 41 is mandatory. It requires that all cities and towns provide qualifying seniors age 70 and over a minimum exemption of \$500, if income does not exceed \$6,000 for singles and \$7,000 for married couples; the asset limits are \$17,000/single and \$20,000/married. By voting to accept Clause 41B or 41C, communities may increase the qualifying income and asset eligibility ceilings to expand eligibility. The term "new 41C" is sometimes used to refer to the amended Clause 41C which provides five additional local options to expand eligibility and increase the exemption amount:

- Reduce the eligibility age from 70 to 65;
- Increase the \$500 exemption to any amount from \$501 to \$1,000;
- Increase the income ceilings to as much as \$20,000/single and \$30,000/married;
- Increase the asset limit to as much as \$40,000/single and \$55,000/married;
- Exclude the value of a home with as many as four units from determination of assets.

Chapter 41C ½, if adopted, supersedes Cl. 41 (or any previously accepted version) and bases the exemption on 5% of average residential value as well as increasing gross receipts limit to the state senior circuit breaker limits which increase yearly. Local legislative bodies can further reduce the eligibility age to 65, increase the amount of exemption up to 20% of the average home value, or reduce the durational residency requirement to 5 years.

In 2000, the Legislature added clause 41D to allow for cost of living adjustments to both eligibility limits, subject to local acceptance.

A municipality that has accepted one of the local option Clause 41s will never receive more reimbursement than it received in the year prior to local acceptance, but reimbursement will decline in any year that fewer exemptions are granted.

Chelmsford has adopted the provisions of Clause 41C, increasing the qualifying income limits to \$20,000 (single) and \$30,000 (married) and the whole estate limits to \$40,000 (single) and \$55,000 (married). Chelmsford has not adopted an increase in the exemption amount, keeping it at \$500, nor has the town adopted the provisions of Clauses 41C 1/2 or 41D.

In FY18, 49 households used this exemption for a total of \$24,500, of which 0% was reimbursed by the state.

Category 6: 41A - Senior tax deferral

Clause 41A Deferral: G. L. c. 59, s. 5, clause 41A

Clause 41A is not subject to local acceptance. It applies in every community, and allows qualified individuals age 65 and over to enter into tax deferral and recovery agreements to postpone payment of property taxes until the property is sold. The 41A income eligibility ceiling is \$20,000, unless the community votes to allow a ceiling up to \$40,000. Interest is charged on deferred amounts at the rate of 8% per year.

Chelmsford has adopted the increase in the eligibility ceiling to \$40,000, but has not changed the interest rate. In FY18, 14 Chelmsford households used this exemption for a total of \$63,693. None of the reduction was reimbursed by the state, but full recovery of the reduction is done on a rolling basis as the estates are transferred. To date, a total of \$530,712 is currently deferred.

Category 7: 42/43 - Survivors of police/fire

G. L. c. 59, s. 5, clause 42, 43

Provides that property held by a surviving spouse or minor child of a police officer or firefighter killed in the line of duty as such police officer or firefighter is exempt from taxation. No local acceptance is needed and the amount exempted (100%) is fixed.

In FY18, no Chelmsford households claimed this exemption.

Category 8: Personal Property

G. L. c. 59, s. 5, clause 54

Clause 54 allows towns to exempt up to \$10,000 of personal property from taxation. No reimbursement is provided, but the overall levy is not reduced so the total amount of tax collected remains the same. The burden relieved in the Property class is shared by all five classes.

Chelmsford currently exempts \$5,000 of personal property.

Category 9: Work-off relief

Work-Off Program: G. L. c. 59, s. 5K

In 1999, the Legislature authorized cities and towns to vote to accept Section 5K to offer residents age 60 and over the opportunity to reduce their property tax obligation by up to \$500 in exchange for community service. A 2002 amendment authorized communities to increase the work-off limit by any amount up to \$750. The hourly credit for this work may not exceed the state's hourly minimum wage rate.

In FY18, 148 households used this exemption for a total of \$95,010 in lieu of tax payments.

Category 10: Senior Circuit Breaker Tax Credit

Circuit Breaker Program, G. L. c. 62, s. 6(k)

Also in 1999, the Legislature established the Circuit Breaker program to offer eligible homeowners and renters age 65 and over a state income tax credit, or refund if no taxes are owed. The eligibility criteria and the maximum allowed annual credits are indexed to inflation. For 2004, a maximum credit of \$820 is available, with income limits set at \$44,000/single and \$66,000/married; assessed value of the property may not exceed \$441,000. The benefit for a given individual is the amount by which property taxes plus one-half of water and sewer payments exceed 10% of the taxpayer's income – up to the maximum annual allowance. Renters may qualify if 25% of rent payments exceed 10% of income – up to the maximum annual limit. As a state-level program, Circuit Breaker is available without regard to the city or town in which a taxpayer resides, and does not impact local revenues. Eligible seniors may claim up to \$1,080 (for FY17). If the credit owed exceeds the amount of total tax payable the additional amount is refunded without interest. Can be combined with other exemptions, but exempted amounts are not eligible for credit.

In FY15 (the last year data is available), 880 households used this exemption to claim a total of \$824,329 in credits at no cost to the town.

Other Exemptions not adopted in Chelmsford

Elderly housing (in-law apartments)

G. L. c. 59, s. 5, clause 50

For property owners, exempts the value of improvements up to \$500 of taxes due to residential property made to provide housing in a 3-unit or less owner-occupied dwelling for person 60 or older who is not the owner.

Double personal exemption

G. L. c. 59, s. 5C 1/2

If adopted, the town may choose to grant additional relief to citizens who are eligible for exemptions. The amount must be uniform, cannot exceed 100% of the underlying exemption, and cannot reduce the taxable valuation below 10% of the full and fair cash valuation or reduce the amount of tax owed below the amount that was paid the previous year. Acceptance of this section by a city or town shall not increase the amount that it otherwise would have been reimbursed by the commonwealth pursuant to the respective clause. In plain language, the town can double exemptions but must do it for all eligible taxpayers and will not receive reimbursement for the additional relief granted.

Implementation of this exemption requires a vote of Town Meeting. The approximate budget implications of adopting this exemption are discussed below.

Senior circuit breaker exemption

G. L. c. 59, s. 5, clause 57

In addition to the Senior Circuit Breaker Tax Credit issued by the state, the Board of Selectmen can vote to allow the board of assessors to appropriate monies for and grant property tax rebates in an amount not to exceed annually the amount of the income tax credit set forth under subsection (k) of section 6 of chapter 62. In other words, the town may grant exemptions to seniors in the amount of the SCB tax credit for which the seniors are eligible. The eligibility requirements are the same as those for the SCB tax credit and these exemptions can be combined with other exemptions for which the taxpayer is eligible. This exemption is not reimbursed by the state, so in contrast to the tax credit, any exemptions awarded will amount to revenue foregone by the town. As with the double exemption, the possible budget impacts of adopting this exemption are discussed below.

National Guard

G. L. c. 59, s. 5, clause 56

Upon adoption, the board of assessors may grant, real and personal property tax abatement up to 100% of the total tax assessed to members of the Massachusetts National Guard and to reservists on active duty in foreign countries for the fiscal year they performed such service subject to eligibility criteria to be established by the board of assessors.

Elderly water/sewer

G. L. c. 59, s. 5, clause 52

For eligible seniors, exempts the amount of taxes that exceed higher water/sewer bills up to \$200 (only in community adopting water/debt shift under G.L. c. 59, § 21C(n) - this clause provides for water and sewer debt service charges to be levied in excess of the maximum levy limit.)

Septic System

G. L. c. 59, s. 5, clause 53

As with clause 52, eligible seniors may be exempt from amount of taxes that exceed higher sewer bills up to a total of \$300 for homeowners not connected to sewer system (only in community adopting sewer debt shift under G.L. c. 59, § 21C(n)).

Acceptance of clauses 52 and 53 is not possible in Chelmsford because the underlying enabling premise - acceptance of G.L. c. 59, § 21C(n), which allows a shift of water and sewer debt, was never implemented.

Cooperative ownership

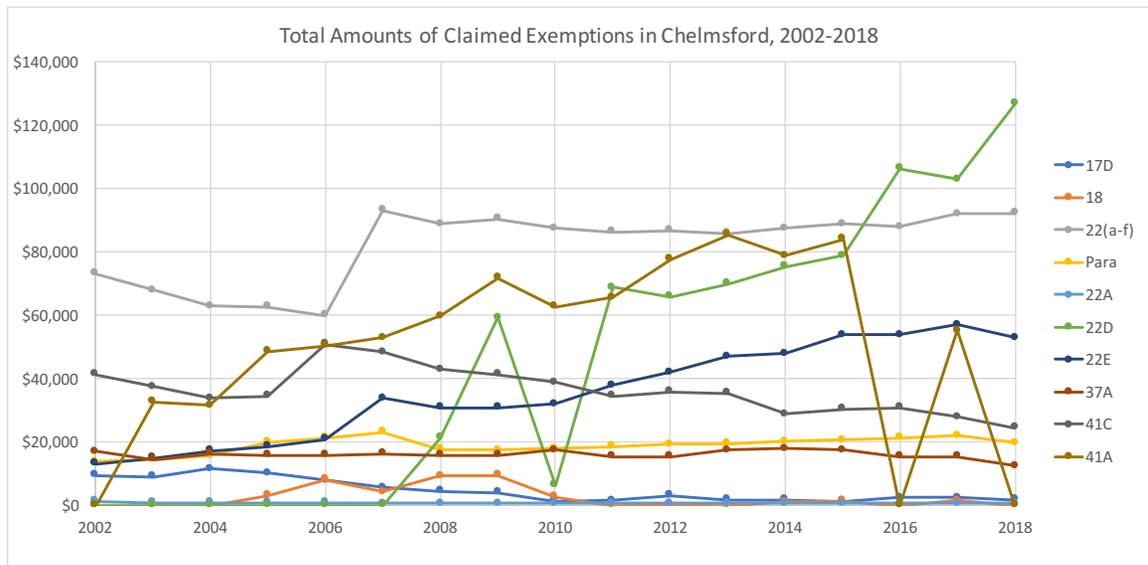
G. L. c. 59, s. 5, clause 55 and 5C1/2

The text of clause 55 reads "For purposes of this section, with respect to real property owned by a cooperative corporation, as defined in section 4 of chapter 157B, that portion which is occupied by a member pursuant to a proprietary lease as such member's domicile and is used as such member's principal residence for income tax purposes shall be deemed to be real property owned by such member for purposes of this section, provided that the portion of the real estate is represented by the member's share or shares of stock in the cooperative corporation and the percentage of such portion to the

whole is the percentage of such member's shares in the cooperative corporation to the total outstanding stock of the corporation, including shares owned by the corporation. Such portion of such real property shall be eligible for exemption from taxation pursuant to this section if such member meets all requirements for such exemption. Any exemption so provided shall reduce the taxable valuation of the real property owned by the cooperative corporation; provided, however, that the reduction in taxes realized thereby shall be credited by the cooperative corporation against the amount of such taxes otherwise payable by or chargeable to such member. Nothing in this paragraph shall be construed to affect the tax status of any manufactured home or mobile home under this chapter, but shall apply to the land on which such manufactured home or mobile home is located if all other requirements of this paragraph are met." The committee found this unclear and at the time of the report, the committee was not able to understand the implications of this exemption. If interested, the reader is referred to the Board of Assessors.

Net Effects of Exemptions

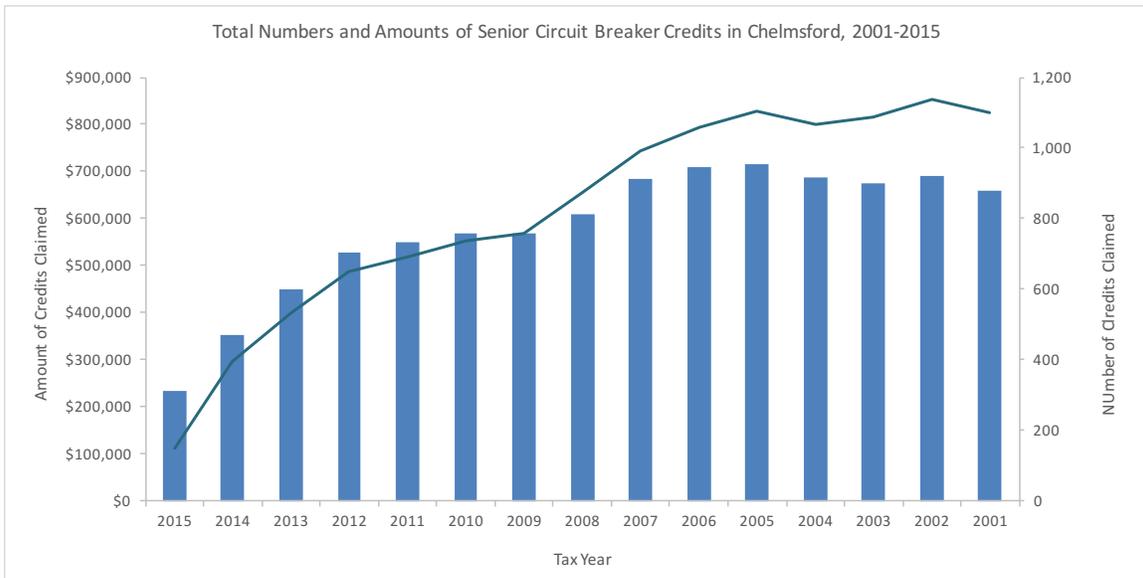
The effects of exemptions in Chelmsford can be divided into three parts. State exemptions, the Senior Circuit Breaker, and deferrals. The effect of deferrals has already been discussed; we will aggregate the other exemptions together to show the historical trends in the amount of exemptions granted to Chelmsford residents.



The amount of relief granted through most exemptions has remained largely constant since 2002. It bears noticing that the average single family tax bill has nearly doubled in that time (\$3711 in 2002, \$7175 in 2018). The sum total of all exemptions granted in 2018 was \$331,594, down slightly from the maximum recorded amount of \$378,456 in 2015. Doubling the amount of personal exemptions (via 5C ½) would forgo at least this much in revenue.

One exemption not shown on the chart above is the Work-off credit. Since that program was begun in 2014, the number of participants has remained fairly steady, ranging from 137-150 and an average tax credit of \$642 in 2018, up slightly from the 2014 value of \$508.

The next chart shows the number and amount of credits claimed via the Senior Circuit breaker in Chelmsford.



The trend is up here, with the amount of tax credits going up about 800% since 2001, although with the increasing number of claimants the average amount of SCB credit increased only from \$353 in 2001 to \$937 in 2015. This increase in the Senior Circuit Breaker tax credit has kept up with the increase in the average single family tax bill over

the similar period of time (\$3529 in 2001, \$6329 in 2015), performing much better than the exemptions in that regard. Adopting the Senior Circuit Breaker exemption in full (100% benefit) would require the town to set aside at least \$850,000 in additional funds in the overlay account, a more realistic number at least in the first year would probably be \$1,000,000.

Pros and Cons

Pros

- Exemptions are targeted to residents who meet defined criteria
- Chelmsford is reimbursed for a majority of the exemptions by the state
- The Senior Circuit Breaker tax credit does not cost the town anything
- Tax deferrals are completely recouped, with interest.

Cons

- Constant exemption amounts have not kept pace with homeowner tax bills
- If the town elects to increase exemption amounts, the increased amount is not reimbursed by the state
- Increased exemption amounts may not scale with the increase if additional residents decide to pursue the larger amounts
- Only residents who meet defined criteria benefit

Summary

Tax exemptions and deferrals, along with the Senior Circuit Breaker can be a good method for delivering targeted tax relief to eligible citizens. As eligibility is expanded, state reimbursement declines putting more pressure on the town finances. The Senior Circuit Breaker Tax Credit has done a better job of keeping up with growth in the tax levy. While this is a state credit and should be known to any tax accountant, Chelmsford might be more proactive in making seniors aware of it. The tax deferral program, allowing seniors to withhold payment of taxes until title to their property is transferred, can also be a useful tool for tax reduction in some circumstances.

Additional exemptions (or increases in current exemptions) that might be considered by the Board of Selectmen would include raising the Personal property deduction from \$5,000 up to as much as \$10,000 and allowing an additional exemption of up to the

amount of the Senior Circuit Breaker Tax Credit for seniors who meet the eligibility standards for the tax credit. These increases in exemptions will not be reimbursed by the State and would reduce the available tax revenue for other budget items.

In addition, Town Meeting could choose to increase the current allowed exemptions by up to 100%. Once again, these increased exemptions would not be eligible for reimbursement by the state and would be money lost for other purposes.

8. Additional Approaches

Multiple shifts

There is nothing in the law to prevent the Select Board from implementing more than one of the approaches above. The most obvious combination might be a split rate with the Small Commercial Exemption. The effects of combining a 1.10 split rate with a 10% SCE are detailed individually above. If they were to be implemented together, the effects can be summarized as follows:

Residential property owners would see their taxes go down by about 2%, the same as with a split rate only. The small commercial exemption has no effect on residential rates, so the values in this table are the same as the ones in the residential properties table for the split rate alone.

<i>Property Value</i>	2018 Taxes	<i>Residential</i>	
		Tax w/SPLIT+SCE	Difference
\$20,000	\$359	\$351	(\$8)
\$50,000	\$898	\$878	(\$20)
\$200,000	\$3,592	\$3,511	(\$81)
\$300,000	\$5,388	\$5,267	(\$121)
\$400,000	\$7,184	\$7,023	(\$161)
\$500,000	\$8,980	\$8,778	(\$202)
\$600,000	\$10,776	\$10,534	(\$242)
\$800,000	\$14,368	\$14,045	(\$323)
\$999,999	\$17,960	\$17,557	(\$403)
\$1,002,200	\$18,000	\$17,595	(\$404)
\$2,000,000	\$35,920	\$35,113	(\$807)
\$5,000,000	\$89,800	\$87,783	(\$2,017)
\$10,000,000	\$179,600	\$175,567	(\$4,033)
\$20,738,500	\$372,463	\$364,099	(\$8,365)

Commercial property owners with lots eligible for the 10% small commercial exemption would see a change in outcome compared to just a split rate, with a minor reduction in taxes on their commercial properties compared to the uniform rate:

<i>Property Value</i>	<i>2018 Taxes</i>	<i>Commercial - eligible parcels</i>	
		<i>Tax w/SPLIT+SCE</i>	<i>Difference</i>
\$20,000	\$359	\$358	(\$2)
\$50,000	\$898	\$894	(\$4)
\$200,000	\$3,592	\$3,576	(\$16)
\$300,000	\$5,388	\$5,364	(\$24)
\$400,000	\$7,184	\$7,152	(\$32)
\$500,000	\$8,980	\$8,940	(\$40)
\$600,000	\$10,776	\$10,729	(\$47)
\$800,000	\$14,368	\$14,305	(\$63)
\$999,999	\$17,960	\$17,881	(\$79)
\$1,002,200	\$18,000	n/a	n/a
\$2,000,000	\$35,920	n/a	n/a
\$5,000,000	\$89,800	n/a	n/a
\$10,000,000	\$179,600	n/a	n/a
\$24,250,400	\$435,537	n/a	n/a

And finally, industrial and non-eligible commercial property owners would see a little more than a 10% increase in taxes, mostly from the split rate but also from absorbing the burden that the eligible commercial owners were relieved of:

<i>Property Value</i>	<i>2018 Taxes</i>	<i>CI - non-eligible parcels</i>	
		<i>Tax w/SPLIT+SCE</i>	<i>Difference</i>
\$20,000	\$359	\$397	\$38
\$50,000	\$898	\$993	\$95
\$200,000	\$3,592	\$3,974	\$382
\$300,000	\$5,388	\$5,960	\$572
\$400,000	\$7,184	\$7,947	\$763
\$500,000	\$8,980	\$9,934	\$954
\$600,000	\$10,776	\$11,921	\$1,145
\$800,000	\$14,368	\$15,894	\$1,526
\$999,999	\$17,960	\$19,868	\$1,908
\$1,002,200	\$18,000	\$19,911	\$1,912
\$2,000,000	\$35,920	\$39,735	\$3,815
\$5,000,000	\$89,800	\$99,338	\$9,538
\$10,000,000	\$179,600	\$198,676	\$19,076
\$24,250,400	\$435,537	\$481,798	\$46,261

In this scenario, Personal property rates would absorb the shift from the residential side, but not the small commercial exemption. The rate would be the uniform rate, increased by whatever percentage is shifted - in this case 10.0%.

Both a Small Commercial Exemption and a Residential Exemption could also be combined with a Split Rate. In this case, there would be four categories of property owners: eligible Residential owners, non-eligible Residential Owners, eligible Commercial owners, and non-eligible Commercial owners plus all Industrial and Personal property owners. The effects of the three combined rate changes would be as follows.

Owner-occupied residential properties would see savings or increases in property taxes change with the underlying value of the property as in the simple Residential Exemption scenario. In the current scenario, the reduction in taxes extends to homes valued above the mean because of the split rate.

<i>Property Value</i>	2018 Taxes	<i>Residential - owner occupied</i>	
		Tax w/SPLIT+SCE+RE	Difference
\$20,000	\$359		
\$50,000	\$898	\$284	(\$614)
\$200,000	\$3,592	\$3,177	(\$415)
\$300,000	\$5,388	\$5,106	(\$282)
\$400,000	\$7,184	\$7,034	(\$150)
\$500,000	\$8,980	\$8,963	(\$17)
\$600,000	\$10,776	\$10,892	\$116
\$800,000	\$14,368	\$14,749	\$381
\$999,999	\$17,960	\$18,606	\$646
\$1,002,200	\$18,000	\$18,648	\$649
\$2,000,000	\$35,920	\$37,892	\$1,972
\$5,000,000	\$89,800	\$95,752	\$5,952
\$10,000,000	\$179,600	\$192,183	\$12,583
\$20,738,500	\$372,463	\$399,290	\$26,827

Non-owner occupied residential properties see a significant (~7.4%) increase across the board in taxes.

<i>Property Value</i>	2018 Taxes	<i>Residential - non-owner occupied</i>	
		Tax w/SPLIT+SCE+RE	Difference
\$20,000	\$359	\$386	\$27
\$50,000	\$898	\$964	\$66
\$200,000	\$3,592	\$3,857	\$265
\$300,000	\$5,388	\$5,786	\$398
\$400,000	\$7,184	\$7,715	\$531
\$500,000	\$8,980	\$9,643	\$663
\$600,000	\$10,776	\$11,572	\$796
\$800,000	\$14,368	\$15,429	\$1,061
\$999,999	\$17,960	\$19,286	\$1,326
\$1,002,200	\$18,000	\$19,329	\$1,329
\$2,000,000	\$35,920	\$38,573	\$2,653
\$5,000,000	\$89,800	\$96,432	\$6,632
\$10,000,000	\$179,600	\$192,864	\$13,264
\$20,738,500	\$372,463	\$399,970	\$27,507

For Commercial properties eligible for the SCE, there is still a small reduction in tax payments. At a 1.10 split rate, an eligible \$500,000 commercial property pays about \$20 less in taxes than a \$500,000 owner-occupied residence.

<i>Property Value</i>	2018 Taxes	<i>Commercial - eligible parcels</i>	
		Tax w/SPLIT+SCE+RE	Difference
\$20,000	\$359	\$358	(\$2)
\$50,000	\$898	\$894	(\$4)
\$200,000	\$3,592	\$3,576	(\$16)
\$300,000	\$5,388	\$5,364	(\$24)
\$400,000	\$7,184	\$7,152	(\$32)
\$500,000	\$8,980	\$8,940	(\$40)
\$600,000	\$10,776	\$10,729	(\$47)
\$800,000	\$14,368	\$14,305	(\$63)
\$999,999	\$17,960	\$17,881	(\$79)
\$1,002,200	\$18,000	n/a	n/a
\$2,000,000	\$35,920	n/a	n/a
\$5,000,000	\$89,800	n/a	n/a
\$10,000,000	\$179,600	n/a	n/a
\$24,250,400	\$435,537	n/a	n/a

Ineligible Commercial properties and Industrial properties pay 10.6% more in taxes in this scenario.

<i>Property Value</i>	<i>2018 Taxes</i>	<i>CI - non-eligible parcels</i>	
		<i>Tax w/SPLIT+SCE+RE</i>	<i>Difference</i>
\$20,000	\$359	\$397	\$38
\$50,000	\$898	\$993	\$95
\$200,000	\$3,592	\$3,974	\$382
\$300,000	\$5,388	\$5,960	\$572
\$400,000	\$7,184	\$7,947	\$763
\$500,000	\$8,980	\$9,934	\$954
\$600,000	\$10,776	\$11,921	\$1,145
\$800,000	\$14,368	\$15,894	\$1,526
\$999,999	\$17,960	\$19,868	\$1,908
\$1,002,200	\$18,000	\$19,911	\$1,912
\$2,000,000	\$35,920	\$39,735	\$3,815
\$5,000,000	\$89,800	\$99,338	\$9,538
\$10,000,000	\$179,600	\$198,676	\$19,076
\$24,250,400	\$435,537	\$481,798	\$46,261

Once again, the Personal property class would absorb the split rate shift from the residential property but not the intra-class small commercial exemption or the residential exemption so that class would see a 10.0% increase.

Other considerations

Tax Classification is tax policy for cities and towns. We were charged to investigate and educate on tax classification, but during our investigation it became apparent that the tax policy of the town could not be understood without reference to several other concepts. In addition to tax policy, the overall tax burden of the town can also be affected by the choice to tax to the levy capacity, which is a fundamental budgetary decision and the addition or destruction of property tax value, through new growth or degradation of certain properties' values through neglect or disuse. These topics are beyond the scope of the current report, but are inextricably intertwined with tax policy and this committee recommends the Select Board consider all three aspects of the issue while deciding on any one of them. As a point of reference, the 2% reduction in residential property taxes

could also be achieved with a similar cut in the levy, equivalent to a \$1.8 - \$2.0m reduction in the operating budget. It is left as an exercise for the reader to work out the specific cuts. Alternatively, a 2% reduction in the residential property tax levy could also be achieved by increasing the CIP valuation by about \$125,000,000. During discussions, it was estimated that the total amount of new growth that might be possible over 5-10 years in the Rt. 129 overlay zone was about \$80 million.

A third possibility might be to reduce the town's dependence on property taxes as a revenue stream for the town. Unfortunately, the trend is bad here, with the property tax levy comprising a larger component of the town's revenue almost every year. Action by the Board of Selectmen in this regard might consist of lobbying state legislators to increase local aid or to allow more leeway to levy local taxes.

Summary

Tax classification is the primary tool of tax policy available to the Chelmsford Board of Selectmen. Every year, after a public hearing, the Board is empowered to determine the allocation of the local property tax to be borne by the four classes of real property plus personal property for the upcoming fiscal year. In the recent past, the Board has chosen to have a single tax rate but they are legally justified in deciding to split the rate in order to reduce residential taxes, or to manage the levy split, or for any reason at all.

Applying a split rate would reduce the tax burden of residential tax payers and increase the burden on some or all local businesses. The increase in tax burden could be offset for smaller commercial property owners (not necessarily small businesses) by instituting a small commercial exemption. Increasing in the Personal property exemption might also mitigate the increase for some small businesses. The reduction in taxes for lower value residential properties could be further expanded with a residential exemption, which would increase the burden on more expensive homes and rental properties. Any and all of these adjustments to the tax burden are revenue-neutral for the town, neither increasing nor decreasing the overall tax levy (and money available for the budget). An open space discount option is also available to the Board, but does not make sense for Chelmsford at this time.

The purpose of the public classification hearing should be for the Board to hear from all stakeholders in town, before exercising their judgement to find the most appropriate distribution of the property tax burden. The timing of the hearing should be considered. In past years, the Board sometimes took only two weeks to consider the question of tax policy. A residential exemption would require additional work by the Board of Assessors to determine eligibility, so if such an exemption is considered, the public hearing should begin no later than the first meeting after Fall Town Meeting and might be held open for several meetings if the Board requires additional information.

What is appropriate may also change from year to year as circumstances within the town change. Care should be taken that any changes in the tax rates are made in a controlled and reasonable manner to minimize large swings in tax bills, whether up or down.

Exemptions are the other major route to residential tax relief considered by this Committee. The total amount of relief from exemptions has not significantly changed in the last 15 years, while the average single-family tax bill has nearly doubled. There are some provisions in law allowing the Town to increase the amount of exemptions granted, but the additional relief would not be compensated and would be a loss of revenue for the town. The Senior Circuit Breaker tax credit awarded by the state to eligible seniors does not cost the town any money and has more or less kept pace with the increase in the average tax bill. It is not clear that there is a lack of participation in this program, but the Town could try to increase awareness of it nonetheless, perhaps working together with the Senior Center. Tax deferrals for seniors are also a possible method for reducing the burden on seniors and allowing them to age in place but they have implications for generational wealth transfer and may not be appropriate in every case. Ultimately, while exemptions can help in some cases, their eligibility requirements restrict their use to only a subset of the town's residents.

Whatever choices are made each year by the Board of Selectmen, it should be remembered that tax policy is only one of three major tools that the Selectmen have to affect the overall economic atmosphere of the town. The others are economic development and the budget. The interplay of all three factors is complex and not easily forecast. It is the right and responsibility of the Board of Selectmen to choose among the various options available to provide the broadest benefit for all of Chelmsford.

Appendix A - List of Speakers

Presenters to the Tax Classification Study Committee. Full discussion with presenters can be viewed through Chelmsford Telemedia/YouTube for the specific dates indicated.

July 2, 2018

Paul Cohen, Chelmsford Town Manager appeared before the Committee and indicated that tax classification is clearly the responsibility of the Board of Selectmen per the Town Charter and Massachusetts State Law.

July 24, 2018

Lisa Marrone, Director of Chelmsford Business Development stated that she thought expanding the tax base was her goal and stated that there are four main parts of the program: retention, expansion, enhanced expansion and job creation.

August 7, 2018

Ameena Langford, Tax Accountant, Member of Chelmsford Finance Committee, Chelmsford resident spoke about effects of various tax situations on residential and commercial properties.

August 14, 2018

Rhodes Johnson, past Selectmen spoke about the time when the Board of Selectmen decided to split the tax rate and explained the reasoning behind the change, as well as, the return to a single rate.

Tim McGurty, Worcester Research Bureau spoke about what his organization does in the City of Worcester. He stated that the Bureau was formed 1985 as a result of the tax changes at that time. Their form of government changed to a city council and a Mayor was elected.

Bill Mitchell, Chief Assessor, City of Leominster spoke about why the City of Leominster is a single rate community. He spoke about the stability of the administration and staff, in particular, the longevity of its Mayor in office. He stated there has been a single rate in the City since 1906.

August 28, 2018

Public Input Session

September 25, 2018

John Power, Principal, Farley White, 150 Apollo Drive, presented business insight from his experience in working with those in Chelmsford.

Appendix B – 12 year Rate History Scenario

12 Year History Model of Tax Bill Changes for Average Single Family Residence																				
Flat Rate, 1.1 Shift and 1.3 Shift																				
	Avg SF	Shift	Res.	CIP	Avg SF	Inc.	%	Shift	Res.	CIP	Avg SF	Inc.	%	Shift	Res.	CIP	Avg SF	Inc.	%	
	Value		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change	
2006	357,329	1.0	13.10	13.10	4,681			1.0	13.10	13.10	4,681			1.0	13.10	13.10	4,681			
2007	396,327	1.0	12.53	12.53	4,966	285	6.1%	1.1	12.26	13.78	4,860	179	3.8%	1.3	11.73	16.29	4,649	-33	-0.7%	
2008	378,123	1.0	13.50	13.50	5,105	139	2.8%	1.1	13.19	14.85	4,989	129	2.6%	1.3	12.58	17.55	4,758	109	2.3%	
2009	360,280	1.0	14.07	14.07	5,069	-36	-0.7%	1.1	13.73	15.48	4,946	-43	-0.9%	1.3	13.05	18.29	4,701	-57	-1.2%	
2010	347,700	1.0	15.15	15.15	5,268	199	3.9%	1.1	14.79	16.67	5,141	195	3.9%	1.3	14.06	19.70	4,887	187	4.0%	
2011	324,600	1.0	16.73	16.73	5,430	163	3.1%	1.1	16.31	18.40	5,295	154	3.0%	1.3	15.48	21.75	5,024	137	2.8%	
2012	323,200	1.0	17.49	17.49	5,653	223	4.1%	1.1	17.06	19.24	5,515	221	4.2%	1.3	16.21	22.74	5,241	217	4.3%	
2013	323,052	1.0	17.95	17.95	5,799	146	2.6%	1.1	17.51	19.75	5,658	143	2.6%	1.3	16.64	23.34	5,377	136	2.6%	
2014	322,380	1.0	18.98	18.98	6,119	320	5.5%	1.1	18.53	20.88	5,972	314	5.6%	1.3	17.62	24.67	5,679	303	5.6%	
2015	338,434	1.0	18.70	18.70	6,329	210	3.4%	1.1	18.25	20.57	6,177	205	3.4%	1.3	17.35	24.31	5,873	194	3.4%	
2016	362,736	1.0	18.03	18.03	6,540	211	3.3%	1.1	17.60	19.83	6,384	207	3.3%	1.3	16.73	23.44	6,070	197	3.4%	
2017	385,700	1.0	18.14	18.14	6,995	455	7.0%	1.1	17.72	19.95	6,835	452	7.1%	1.3	16.89	23.58	6,516	446	7.3%	
2018	399,500	1.0	17.96	17.96	7,175	180	2.6%	1.1	17.56	19.76	7,014	179	2.6%	1.3	16.75	23.35	6,692	176	2.7%	
Change Over the 12 Years					2,494	53.3%						2,333	49.8%						2,010	42.9%
The model assumes a flat tax rate in 2006 with shift adopted in 2007 and maintained at the adopted level.																				
Every property is unique and valuations change from year to year. The intent of this model is to show the magnitude of the changes in tax bills that might be expected for the average single family property.																				

12 Year History Model of Tax Bill Changes for Lower Value Residence																				
Flat Rate, 1.1 Shift and 1.3 Shift																				
	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%		
Value		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change		
2006	237,000	1.0	13.10	13.10	3,105			1.0	13.10	13.10	3,105			1.0	13.10	13.10	3,105			
2007	251,400	1.0	12.53	12.53	3,150	45	1.5%	1.1	12.26	13.78	3,083	-22	-0.7%	1.3	11.73	16.29	2,949	-156	-5.0%	
2008	237,000	1.0	13.50	13.50	3,199	49	1.6%	1.1	13.19	14.85	3,127	44	1.4%	1.3	12.58	17.55	2,982	33	1.1%	
2009	236,400	1.0	14.07	14.07	3,326	127	4.0%	1.1	13.73	15.48	3,246	119	3.8%	1.3	13.05	18.29	3,085	102	3.4%	
2010	212,400	1.0	15.15	15.15	3,218	-108	-3.3%	1.1	14.79	16.67	3,140	-105	-3.2%	1.3	14.06	19.70	2,986	-99	-3.2%	
2011	198,700	1.0	16.73	16.73	3,324	106	3.3%	1.1	16.31	18.40	3,241	101	3.2%	1.3	15.48	21.75	3,075	90	3.0%	
2012	198,700	1.0	17.49	17.49	3,475	151	4.5%	1.1	17.06	19.24	3,391	150	4.6%	1.3	16.21	22.74	3,222	146	4.8%	
2013	191,400	1.0	17.95	17.95	3,436	-40	-1.1%	1.1	17.51	19.75	3,352	-39	-1.1%	1.3	16.64	23.34	3,185	-36	-1.1%	
2014	181,800	1.0	18.98	18.98	3,451	15	0.4%	1.1	18.53	20.88	3,368	16	0.5%	1.3	17.62	24.67	3,203	17	0.5%	
2015	185,600	1.0	18.70	18.70	3,471	20	0.6%	1.1	18.25	20.57	3,387	19	0.6%	1.3	17.35	24.31	3,221	18	0.6%	
2016	189,400	1.0	18.03	18.03	3,415	-56	-1.6%	1.1	17.60	19.83	3,333	-54	-1.6%	1.3	16.73	23.44	3,170	-51	-1.6%	
2017	203,600	1.0	18.14	18.14	3,692	278	8.1%	1.1	17.72	19.95	3,608	275	8.3%	1.3	16.89	23.58	3,440	270	8.5%	
2018	215,900	1.0	17.96	17.96	3,878	185	5.0%	1.1	17.56	19.76	3,790	182	5.1%	1.3	16.75	23.35	3,616	177	5.1%	
Change Over the 12 Years					773	24.9%						686	22.1%						511	16.5%
The model assumes a flat tax rate in 2006 with shift adopted in 2007 and maintained at the adopted level.																				
This is just one example of a lower value residence. Every property is unique and valuations change from year to year.																				
The intent of this model is to show the magnitude of the changes in the tax bills that might be expected for a property of this approximate value.																				

12 Year History Model of Tax Bill Changes for Comercial Property of Assessed at Approximately \$1M																							
Flat Rate, 1.1 Shift and 1.3 Shift																							
	Avg SF	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%				
	Value		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change				
2006	901,500	1.0	13.10	13.10	11,811			1.0	13.10	13.10	11,811			1.0	13.10	13.10	11,811						
2007	1,118,400	1.0	12.53	12.53	14,014	2,203	18.7%	1.1	12.26	13.78	15,415	3,604	30.5%	1.3	11.73	16.29	18,218	6,407	54.2%				
2008	1,138,300	1.0	13.50	13.50	15,367	1,353	9.7%	1.1	13.19	14.85	16,904	1,489	9.7%	1.3	12.58	17.55	19,977	1,760	9.7%				
2009	1,104,300	1.0	14.07	14.07	15,538	170	1.1%	1.1	13.73	15.48	17,091	187	1.1%	1.3	13.05	18.29	20,199	222	1.1%				
2010	1,007,400	1.0	15.15	15.15	15,262	-275	-1.8%	1.1	14.79	16.67	16,788	-303	-1.8%	1.3	14.06	19.70	19,841	-358	-1.8%				
2011	951,000	1.0	16.73	16.73	15,909	647	4.2%	1.1	16.31	18.40	17,500	712	4.2%	1.3	15.48	21.75	20,682	841	4.2%				
2012	938,100	1.0	17.49	17.49	16,407	498	3.1%	1.1	17.06	19.24	18,048	548	3.1%	1.3	16.21	22.74	21,330	647	3.1%				
2013	906,300	1.0	17.95	17.95	16,268	-139	-0.8%	1.1	17.51	19.75	17,895	-153	-0.8%	1.3	16.64	23.34	21,149	-181	-0.8%				
2014	1,022,400	1.0	18.98	18.98	19,405	3,137	19.3%	1.1	18.53	20.88	21,346	3,451	19.3%	1.3	17.62	24.67	25,227	4,078	19.3%				
2015	1,074,100	1.0	18.70	18.70	20,086	681	3.5%	1.1	18.25	20.57	22,094	749	3.5%	1.3	17.35	24.31	26,111	885	3.5%				
2016	1,122,900	1.0	18.03	18.03	20,246	160	0.8%	1.1	17.60	19.83	22,270	176	0.8%	1.3	16.73	23.44	26,320	208	0.8%				
2017	1,159,600	1.0	18.14	18.14	21,030	784	3.9%	1.1	17.72	19.95	23,133	862	3.9%	1.3	16.89	23.58	27,339	1,019	3.9%				
2018	1,207,900	1.0	17.96	17.96	21,694	664	3.2%	1.1	17.56	19.76	23,863	730	3.2%	1.3	16.75	23.35	28,202	863	3.2%				
Change Over the 12 Years						9,883	83.7%							12,053	102.1%							16,391	138.8%
The model assumes a flat tax rate in 2006 with shift adopted in 2007 and maintained at the adopted level.																							
This is just one example of a commercial property valued at approximately \$1M. Every property is unique and valuations change from year to year. CIP values in particular may see decreases when a split rate is implemented. The intent of this model is to show the magnitude of the changes that might be expected in the tax bills for a commercial property of this approximate value.																							

12 Year History Model of Tax Bill Changes for Comercial Property of Assessed at Approximately \$350-400K																							
Flat Rate, 1.1 Shift and 1.3 Shift																							
	Avg SF	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%	Shift	Res.	CIP	Tax	Inc.	%				
	Value		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change		Rate	Rate	Bill		Change				
2006	346,400	1.0	13.10	13.10	4,538			1.0	13.10	13.10	4,538			1.0	13.10	13.10	4,538						
2007	402,900	1.0	12.53	12.53	5,048	510	11.2%	1.1	12.26	13.78	5,553	1,015	22.4%	1.3	11.73	16.29	6,563	2,025	44.6%				
2008	410,700	1.0	13.50	13.50	5,544	496	9.8%	1.1	13.19	14.85	6,099	546	9.8%	1.3	12.58	17.55	7,208	645	9.8%				
2009	396,700	1.0	14.07	14.07	5,582	37	0.7%	1.1	13.73	15.48	6,140	41	0.7%	1.3	13.05	18.29	7,256	48	0.7%				
2010	361,100	1.0	15.15	15.15	5,471	-111	-2.0%	1.1	14.79	16.67	6,018	-122	-2.0%	1.3	14.06	19.70	7,112	-144	-2.0%				
2011	339,200	1.0	16.73	16.73	5,674	204	3.7%	1.1	16.31	18.40	6,242	224	3.7%	1.3	15.48	21.75	7,377	265	3.7%				
2012	331,400	1.0	17.49	17.49	5,796	122	2.1%	1.1	17.06	19.24	6,376	134	2.1%	1.3	16.21	22.74	7,535	158	2.1%				
2013	334,900	1.0	17.95	17.95	6,011	215	3.7%	1.1	17.51	19.75	6,613	237	3.7%	1.3	16.64	23.34	7,815	280	3.7%				
2014	315,800	1.0	18.98	18.98	5,994	-18	-0.3%	1.1	18.53	20.88	6,593	-19	-0.3%	1.3	17.62	24.67	7,792	-23	-0.3%				
2015	331,700	1.0	18.70	18.70	6,203	209	3.5%	1.1	18.25	20.57	6,823	230	3.5%	1.3	17.35	24.31	8,064	272	3.5%				
2016	357,100	1.0	18.03	18.03	6,439	236	3.8%	1.1	17.60	19.83	7,082	259	3.8%	1.3	16.73	23.44	8,370	306	3.8%				
2017	364,000	1.0	18.14	18.14	6,601	163	2.5%	1.1	17.72	19.95	7,261	179	2.5%	1.3	16.89	23.58	8,582	212	2.5%				
2018	384,100	1.0	17.96	17.96	6,898	297	4.5%	1.1	17.56	19.76	7,588	327	4.5%	1.3	16.75	23.35	8,968	386	4.5%				
Change Over the 12 Years						2,360	52.0%							3,050	67.2%							4,430	97.6%
The model assumes a flat tax rate in 2006 with shift adopted in 2007 and maintained at the adopted level.																							
This is just one example of a low value commercial property. Every property is unique and valuations change from year to year. CIP values in particular may see decreases when a split rate is implemented. The intent of this model is to show the magnitude of the changes that might be expected in the tax bills for a commercial property of this approximate value.																							

Appendix C - Split Rate stories

Survey of what happens to the CIP levy share when a community adopts (or drops) a split tax rate.

Lincoln

2004: CIP levy share is 3.37

2005: adopts split tax rate of 1.5; gradually increases to 1.30

CIP levy share falls during the Great Recession; rises to a peak of 3.85 in 2012

2016: CIP levy share is 3.54

Amesbury

2006: CIP levy share is 12.79

2007: adopts split tax rate of 1.15

CIP share falls slightly in 2007; rises to 13.84 in 2008

2009: split tax rate dropped

CIP share continues to rise to peak of 16.74 in 2014

2016: CIP levy share is 15.95

Barnstable

2005: CIP levy share is 11.22

2006: adopts split tax rate of 1.15

CIP share falls slightly to 10.89

2007: split tax rate dropped

CIP share continues to fall during the Great Recession, and then starts to rise

2016: levy share is 12.04

Berlin

2010: CIP levy share is 24.94

2011: adopts split tax rate of 1.05 with gradual increase to 1.30

CIP share increases – decreases – increases

2016: CIP levy share is 28.56

Dartmouth

2007: CIP levy share is 14.30

2008: adopts split tax rate of 1.40

CIP share rises, even during the Great Recession

2016: CIP levy share is 17.83

Foxborough

2011: CIP levy share is 25.85

2012: adopts split tax rate of 1.06 with gradual increase to 1.14

CIP share increases for one year, then decreases

2016: CIP levy share is 23.52

Hanover

2003: CIP levy share is 16.25

2004: adopts split tax rate of 1.01 with gradual increase to 1.05

CIP share drops (a lot during the Great Recession), then rises, then drops

2016: CIP Levy share is 16.82

Lenox

2003: CIP levy share is 26.27

2004: adopts split tax rate of 1.066 with gradual increase to 1.177

CIP share drops (a lot during the Great Recession) to a low of 16.9, then rises

2016: CIP levy share is 19.54

Longmeadow

2014: CIP levy share is 5.22

2015: adopts split tax rate of 1.10

CIP share rises slightly

2016: CIP levy share is 5.35

Lynnfield

2003: CIP levy share is 8.45

2004: adopts split tax rate of 1.06, then adjusted up/down/up to 1.184 in 2016

CIP share falls to a low of 6.69 in 2007 and then rises

2016: CIP levy share is 13.79

Mansfield

2006: CIP levy share is 21.58

2007: adopts split tax rate of 1.06 with gradual increase to 1.24

CIP share drops in 2007, then increases, then decreases

2016: CIP levy share is 22.93

Millbury

2006: CIP levy share is 18.07

2007: adopts split tax rate of 1.07

CIP share drops to 16.69

2008: drops split tax rate

CIP share increases (strongly post Great Recession)

2016: CIP levy share is 23.45

New Salem

2007: CIP levy share is 3.33

2008: adopts split tax rate of 1.15 with gradual increase to 1.30

CIP share increases significantly

2016: CIP levy share is 7.83

North Attleborough

2004: CIP levy share is 26.22

2005: adopts split tax of 1.05 with increase to 1.08

CIP share falls significantly

2008: drops split tax rate

CIP share rises

2012: adopts split tax rate of 1.03

CIP share falls

2013: drops split tax rate

CIP share continues to drop

2016: CIP levy share is 18.86

Plainville

2012: CIP levy share is 23.68

2013: adopts split tax rate of 1.05, increased to 1.09 in 2016

CIP share increases significantly

2016: CIP levy share is 29.99

Russell

2016: CIP levy share is 11.10

2007: drops split tax rate of 1.30

CIP share drops, then increases, then drops

2013: split tax rate re-adopted at 1.145 decreasing to 1.129

CIP share increases

2016: CIP levy share is 13.47

Sturbridge

2004: CIP levy share is 24.45

2005: adopts split tax rate of 1.29, then increase, then decrease

CIP share drops significantly, then starts to rise

2010: drops split tax rate

CIP share varies slightly

2013: re-adopts split tax rate of 1.15 and then 1.10

CIP share rises

2015: drops split rate again

CIP share falls

2016: CIP levy share is 18.86

Winthrop

2004: CIP levy share is 6.08

2005: adopts split tax rate of 1.10, then 1.08

CIP share falls

2007: drops split rate

CIP share rises

2016: CIP levy share is 6.95

Wrentham

2003: CIP levy share is 20.16

2004: adopts split tax rate 1.20, thereafter varying between 1.11 and 1.22, ending at 1.22

CIP share falls and then rises

2016: CIP levy share is 20.98

Appendix D. Reports and Studies

The Tax Classification Study Committee were presented with, or discovered, reports, studies, course materials, and various information pertinent to the issue of tax classification. This appendix provides a list of such resources. The summaries are taken from the original source, but readers are advised to read the original sources (URLs are provided) for a full understanding, and to reach their own “take away.”

Title: Tax Classification: Passing the Buck\$

Source: Worcester Regional Research Bureau

URL: <http://www.wrrb.org/reports/2016/11/tax-classification-passing-the-buck/>

Summary: Since 1984, the City of Worcester has set residents against businesses in an annual duel over property tax rates. As municipal budgets continue to grow, a zero-sum game exists in which a decrease in taxes on one property class necessitates an increase in taxes on another.

Title: A Research Bureau Policy Alternative: Tax Rates

Source: Worcester Regional Research Bureau

URL: <http://www.wrrb.org/reports/2017/05/a-research-bureau-policy-alternative-tax-rates/>

Summary: In order to further the Worcester City Council’s deliberations on tax policy, The Research Bureau is pleased to present a White Paper on criteria for consideration in preparation of annual tax rate determinations and alternatives to secure a more equitable single tax rate.

Title: 31st Annual Survey of Corporate Executives Commentary: Highway Accessibility
Tops List of Corporate Site Selection Factors

Source: AreaDevelopment

URL: <http://www.areadevelopment.com/Corporate-Consultants-Survey-Results/Q1-2017/highway-accessibility-tops-list-Charles-Ruby-Deloitte-Tax.shtml>

Summary: 31st Annual Survey of Corporate Executives Commentary: Highway Accessibility
Tops List of Corporate Site Selection Factors

Title: Rethinking Property Tax Incentives for Business

Source: Lincoln Institute of Land Policy

URL: <https://www.lincolninst.edu/publications/policy-focus-reports/rethinking-property-tax-incentives-business>

Summary: Despite a generally poor record in promoting economic development, property tax incentives continue to be used.

Title: Practical Strategies to Attract and Retain Economic Investment

Source: Northeastern University Dukakis Center for Urban and Regional Policy

URL: <http://www.northeastern.edu/dukakiscenter/wp-content/uploads/2011/12/EDSAT-Presentation-Oct2014.pdf>

Summary: The Dukakis Center has developed a practical method for helping cities and towns analyze their capacity for economic development. Known as EDSAT (Economic Development Self-Assessment Tool), this a secure and confidential online self-assessment mechanism for evaluating and interpreting a municipal jurisdiction’s characteristics and processes directly linked to the factors affecting local investment.

Title: What Makes Working Cities Work? Key Factors in Urban Economic Growth

Source: Federal Reserve Bank of Boston

URL: [https://www.bostonfed.org/-](https://www.bostonfed.org/-/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief32014.pdf)

[/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief32014.pdf](https://www.bostonfed.org/-/media/Documents/Community%20Development%20Issue%20Briefs/cdbrief32014.pdf)

Summary: The analysis suggests that the highest correlates to economic growth are the availability of sites for development, economic development marketing, and the timeliness of municipal approvals for development projects.

Title: State and Local Business Taxes are Not Significant Determinants of Growth

Source: Grading the States

URL: <http://www.gradingstates.org/>

Summary: State and local business taxes don't significantly affect the cost of doing business, but the state rankings examined on this website embrace the faulty belief that by lowering taxes on businesses and the wealthy, states can entice firms to relocate to their state or expand their operations.

Title: The Growth Mirage: State Tax Cuts Do Not Automatically Lead to Economic Growth

Source: Tax Policy Center

URL: <https://www.taxpolicycenter.org/publications/growth-mirage-state-tax-cuts-do-not-automatically-lead-economic-growth>

Summary: Previous work shows no clear impact of state taxes on growth.

Title: Taxation and economic development: the state of the economic literature

Source: Syracuse University Maxwell School of Citizenship and Public Affairs

URL: <http://surface.syr.edu/cgi/viewcontent.cgi?article=1001&context=ecn>

Summary: Taxes do not appear to have a substantial effect on economic activity among states.

Title: Studying Firm Locations: Survey Responses vs. Econometric Models

Source: The Journal of Regional Analysis and Policy

URL:

<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=2ahUKEwi2sZ7J3cbcAhXCneAKHVqCBTsQFjABegQIABAC&url=https%3A%2F%2Fpageconsearch.umn.edu%2Fbitstream%2F132161%2F2%2F2000-1-1.pdf&usg=AOvVaw0IH9kbtKefscGj0rwhnAML>

Summary: This exercise has suggested that responses to location surveys may be trusted in many instances.

Title: Where does the Taxachusetts Label Come From

Source: Massachusetts Budget and Policy Center

URL: http://massbudget.org/report_window.php?loc=Where-Does-the-Taxachusetts-Label-Come-From-2017.html

Summary: Overall, the level of taxation in Massachusetts is very close to the national average.

Title: Choosing Massachusetts For Business: Key Factors In Location Decision-Making

Source: MassEcon (Location is Everything)

URL: <https://massecon.com/choosing-massachusetts-business-key-factors-location-decision-making/>

Summary: Why do companies like General Electric, SanDisk, Dassault Systèmes, IBM, and a long list of others choose to locate or expand in Massachusetts? In a word: workforce.

Title: Business Location Decision-Making and the Cities: Bringing Companies Back

Source: The Brookings Institution Center on Urban and Metropolitan Policy

URL: <https://www.brookings.edu/wp-content/uploads/2016/06/cohen-1.pdf>

Summary: In the end, strategically investing resources in basic and targeted business needs will sustain a city's long-term economic viability for years to come.

Title: Property Taxes under "Classification": Why do Firms pay more?

Source: Center for Real Estate MIT

URL: <https://economics.mit.edu/files/5886>

Summary: The model comparative statics suggest that smaller and wealthier communities will encourage firms by keeping taxes low and rely less on their tax subsidy. With this data we find that towns with more pre-existing commerce chose to discriminate most, that such higher taxes gradually do discourage firm location, and that smaller and wealthier towns tend not to engage in tax discrimination.

Title: The Importance of Quality of Life in the Location Decisions of New Economy Firms

Source: University of North Carolina Center for Urban and Regional Studies

URL: <https://curs.unc.edu/files/2013/05/neweconomyreport.pdf>

Summary: Traditionally, the location decisions of firms have been driven primarily by factors such as land costs, labor costs and access to materials and markets. Today, however, quality of life for employees is becoming an important factor as well

Title: Put mindless econometrics and regression analysis where they belong – in the garbage can!

Source: Real-World Economics Review Blog

URL: <https://rwer.wordpress.com/2012/12/04/put-mindless-econometrics-and-regression-analysis-where-they-belong-in-the-garbage-can/>

Summary: Editorial Note – This entry is a placeholder because I could not find the interesting article I recently read that called into question all quantitative studies of tax policies because it is so difficult to identify all the relevant control variables.

Title: Examining Tax Fairness

Source: Massachusetts Budget and Policy Center

URL:

http://www.massbudget.org/report_window.php?loc=FactsAtAGlance_Tax_Fairness.html

Summary: the Massachusetts tax system is regressive, collecting a larger share of household income from lower-income households than it does from upper-income households.

Title: The Impact of Kingston's Homestead Tax System on Kingston's Economic Development

Source: Center for Research, Regional Engagement, and Outreach SUNY New Paltz

URL:

<https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKEwiRgB2cobvdAhUNON8KHWiACb8QFjAAegQIARAC&url=https%3A%2F%2Fwww.kingston->

ny.gov%2Ffilestorage%2F8463%2F8511%2F8682%2F8694%2FImpact-of-Kingston-Homestead-Tax-Study-March2014.pdf&usg=AOvVaw36rMZyalzN3KU68aliOxFj

Summary: This report, commissioned by the City of Kingston and funded by the Dyson Foundation through the Community Foundation of Ulster County, examines whether the homestead property tax system is a significant impediment to economic development and whether or not it has impacted commercial property values in Kingston.

Title: Assessment Administration: Law Procedures and Valuation Course 101 Handbook

Source: Commonwealth of Massachusetts Department of Revenue

URL: <http://www.mass.gov/dor/local-officials/dls-newsroom/dls-publications/assessment-administration-law-procedures-and.html>

Summary: Provides course material in downloadable chapters on Assessment

Administration: Law, Procedures and Valuation

Title: Who Pays: A Distributional Analysis of the Tax Systems in all 50 States
(Massachusetts edition)

Source: Institute on Taxation and Economic Policy

URL: <https://itep.org/whopays/massachusetts/>

Summary: According to ITEP's Tax Inequality Index, Massachusetts has the 24th most unfair state and local tax system in the country. States with regressive tax structures have negative tax inequality indexes, meaning that incomes are less equal in those states after state and local taxes than before