WARRANT COMMITTEE

DISCUSSION WITH CHAIR, BOARD OF ASSESSORS

MARCH 3, 2021

WHAT IS PROPOSITION 2 ½?

Proposition 2½ is a Massachusetts law passed in 1980 that provides for annual 2.5% increase in the **property tax levy limit.**

- The **property tax levy** is the revenue a community can raise through real and personal property taxes.
- In Massachusetts, municipal revenues to support local spending for schools, public safety and other public services are raised through the property tax levy, state aid, local receipts and other sources.
- The property tax levy is the largest source of revenue for most cities and towns.
- **The Prop 2 ½ levy limit can permanently increase from year to year in these ways: 2.5% increase, new growth and overrides.**
- Once the levy limit is increased in any of these ways, the increased levy limit amount becomes the base upon which levy limits are calculated for future years.

https://www.mass.gov/files/documents/2016/08/oq/levylimits.pdf

'NEW GROWTH' DEFINITION

Prop 2 ½ allows a community to increase its levy limit annually by an amount based on the increased value of new development and other growth in the tax base that is **not** the result of revaluation.

The purpose of this provision is to recognize that new development results in additional municipal costs; for instance, the construction of a new housing development may result in increased school enrollment, public safety costs, and so on.

New growth under this provision includes:

- Properties that have increased in assessed valuation since the prior year because of development or other changes.
- Exempt real property returned to the tax roll and new personal property.
- New subdivision parcels and condominium conversions.

https://www.mass.gov/files/documents/2016/08/oq/levylimits.pdf

‘OVERRIDE’ DEFINITION

- Prop 2 ½ allows a community to assess taxes in excess of the automatic annual 2.5 percent increase and any increase due to new growth by passing an **override**.

- When an override is passed, the levy limit for the year is calculated by including the amount of the override.

- The override results in a permanent increase in the levy limit of a community, which as part of the levy limit base, increases at the rate of 2.5% each year.

https://www.mass.gov/files/documents/2016/08/oq/levylimits.pdf

'DEBT EXCLUSION' DEFINITION

- Prop 2 ½ allows a community to raise funds for certain purposes above the amount of its levy limit. A community can assess taxes in excess of its levy limit for the payment of specified debt service costs.
- A debt exclusion requires voter approval with very limited exceptions.
- The additional amount for the payment of debt service is added to the levy limit for the life of the debt only.
- Unlike overrides, exclusions do not become part of the base upon which the levy limit is calculated for future years.

https://www.mass.gov/files/documents/2016/08/oq/levylimits.pdf

BOARD OF ASSESSORS'
FY21 TAX CLASSIFICATION HEARING

	FY21
Assessed Value	$9,488,120,829

FY2020 levy	$ 92,590,154
+ 2.5%	$ 2,314,753
+ certified new growth	$ 1,104,005
+ current debt exclusions	$ 13,559,904
Max. FY2021 allowable levy	$109,568,817

Debt service represents ~ 12.4% of the max. allowable levy.

Real Estate – All Classes	Levy Impact	Tax Rate Impact
Commercial, Residential ,PP	$95,933,820	$10.11
Debt Exclusion		
Senior Center	212,164	0.02
Town Hall Complex Refunding	1,136,755	0.12
Fire Station Refunding	689	0.00
Underwood Pool	234,950	0.02
Wellington School	1,233,764	0.13
Fire Station Refunding	116,307	0.01
High School Phase 1	5,312,275	0.56
High School Phase 2	5,313,000	0.56
	$109,493,724	$11.54

HOW ASSESS VALUE OF AN INDIVIDUAL PROPERTY?

Estimate of Market Value

- The Massachusetts Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques at 100% of full and fair cash value.
- Individual assessments may rise or fall based upon market activities for similar properties and capital improvements.
- Purchase prices of homes in neighborhoods are analyzed to determent the proper assessed values of all properties as of January 1st each year.
- It is not unusual for properties in different neighborhoods to increase at different percentages in any given year.

TIMING – LAGS ON ASSSESSED VALUE

The Assessors estimate "full and fair cash value" as of January 1 (known as the "assessment date") prior to the fiscal year.

EG: the assessment date for FY2021 is January 1, 2020.

Sales List for Calendar Year 2019 and FY2021 Assessments

SINGLE FAMILY DWELINGS

ST#	STREET	ASSESSMENT	SALE PRICE	DEED DATE
4	AUDUBON LN	1,192,000	1,150,000	10/16/2019
9	AUDUBON LN	959,000	1,100,000	11/26/2019
36	BEATRICE CIR	1,088,000	1,200,000	11/07/2019
91	BEATRICE CIR	1,338,000	1,400,000	11/06/2019
63	BEATRICE CIR	1,016,000	1,070,000	05/24/2019
841	BELMONT ST	776,000	785,000	07/16/2019

https://www.belmont-ma.gov/sites/g/files/vyhlif2801/f/uploads/101102104_report_cy19_0.pdf

FISCAL YEAR - QUARTERLY PAYMENTS: Q1, Q2 = ESTIMATES; Q3, Q4 = ACTUAL

- The first two bills of the fiscal year (which runs July 1 through June 30) are called preliminary tax bills. The amount on these first two bills is calculated by taking the previous year's Real Estate tax bill, including the Community Preservation Surcharge, less any abatements and exemptions, plus 2.5%, then divided by four.
- The third and fourth quarter bills are actual bills. These bills will show the tax rate for the current fiscal year as well as the current valuation of the property. The bills will also include the current betterment, committed interest, water/sewer liens and Community Preservation Surcharge.
- Given that the first and second bills do not include unusual increases such as permanent overrides or temporary debt exclusions those increases are applied to the third and four bills in two equal installments but representing the entire years increase.
- If their tax bills are rising and taxpayers compare the first or second estimated quarterly tax bill to the actual tax bill due Feb 1 or May 1 they will see an **inflated** change. (see following example)

NOTE: Tax bills due Feb 1, 2020 and Feb 1, 2021 included increases for 1st and 2nd rounds of borrowing for High School debt exclusion (~$560 for $1M assessment)

QUARTERLY PAYMENTS
EXAMPLE OF Q1, Q2 ESTIMATES VS Q3, Q4 ACTUAL

FY20 Value	$ 1,102,000.00
FY20 Tax Rate	$ 11.00
Total Taxes Due FY20	$ 12,122.00
Total Taxes Due FY20 divided by 4	$ 3,030.50
' **Preliminary Taxes FY21 - 1st and 2nd Quarter**	$ 3,030.50
1st Quarter due 8/1/20 2nd Quarter due 11/1/20	
FY21 Value	$ 1,119,000.00
FY21Tax Rate	$ 11.54
Total Taxes Due FY21	$ 12,913.26
less amount pd 8/1	$ 3,030.50
less amount pd 11/1	$ 3,030.50
remainder due in second half FY21	$ 6,852.26
amount due in Q3 and Q4	$ 3,426.13

Actual annual increase = 6.5%

Increase Q3 payment vs. Q2 payment = 13.1%

Understanding the Quarterly Tax Bills and How they Work (updated example)

https://www.belmont-ma.gov/sites/g/files/vyhlif2801/f/file/file/quart.pdf

STATE OVERSIGHT

- The Massachusetts Department of Revenue (DOR) annually performs a statistical analysis of all sales for proposed assessments to ensure that they are accurate
- The statistical tests including a Coefficient of Dispersion (COD) of 10% or less and a Price Related Differential (PRD) of between 98% and 103% amount others test are used to ensure horizontal and vertical equity.
- In addition, every 5 years, the DOR conducts a comprehensive analysis of the Town's mass appraisal process and reviews property values in great detail to ensure that the assessment practices ensure "full and fair market values".
- The DOR most recently conducted this comprehensive analysis for Belmont in 2019.

IF TAXPAYERS DISAGREE WITH THEIR ASSESSMENT

- Property owners may file an abatement application for additional review of their local tax assessments.
- These applications must be filed with the Assessors Office on the date the first actual tax bill is due which is typically the third (fiscal) quarterly actual tax bill or February 1st.
- Filing for an abatement does not alter one's obligation to pay the tax bill as it must be received by the Belmont Collector of Taxes by the due date.

ESTIMATING FISCAL YEAR 2022 BASE TAX RATE

- For the purpose of this presentation we will take the current levy and multiply it by 2.5% to determine what the impact would be on the tax rate due to this annual change
- Fiscal Year 2021 Tax Rate is $11.54 including the debt exclusion of $1.43 or $10.11 without the debt exclusion
- The FY 2021 Levy Limit of $95,933,820 * 2.5% = $2,398,646 in additional levy to be raised under Proposition 2 ½ for FY 2022.
- If all assessments stay the same this would add $0.25 to the existing tax rate or $10.36 without an override and before the debt exclusions

$10.36 with Prop 2 ½ increase and

Debt Exclusions $1.43 or $11.79

ESTIMATING THE IMPACT OF THE PROPOSED OVERRIDE

- The proposed override would have the following impact on the tax rate assuming all assessments stayed the same.
- A $6,400,000 dollar override would at $0.67 cents to the current tax rate
- Prior to debt exclusions the tax rate would be:
- Current Tax Rate ($10.11) + Proposition 2 ½ ($0.25) + Proposed Override ($0.67)

$11.04 with proposed Override and

Debt Exclusions $1.43 or $12.47

THE CURRENT TAX RATE BREAKDOWN

- A home assessed at $1,000,000 currently pays $11,540 (excluding the CPA)

Real Estate - All Classes	**Tax Levy Raised**	**Tax Rate Impact**
Commercial, Residential, PP	$ 95,933,820	$ 10.11
Debt Exclusion	**Debt Exclusion**	**Tax Rate Impact**
Senior Center	$ 212,164	$ 0.02
Town Hall Complex Refunding	$ 1,136,755	$ 0.12
Fire Station Refunding	$ 689	$ 0.00
Underwood Pool	$ 234,950	$ 0.02
Wellington School	$ 1,233,764	$ 0.13
Fire Station Refunding	$ 116,307	$ 0.01
High School Phase 1	$ 5,312,275	$ 0.56
High School Phase 2	$ 5,313,000	$ 0.56
	$ 109,493,724	**$ 11.54**

** First Fire Station Refunding Debt is less than $0.01 total impact*

ESTIMATED TAX RATE APPORTIONMENT ON $1,000,000 ASSESSMENT

A home assessed at $1,000,000 would pay $12,467 for FY2022 if the proposed override is successful (excluding the CPA)

This would be a total increase of $927.00 including Prop 2 ½ of $253 and $675 from the proposed override

Real Estate - All Classes	**Tax Levy Raised**	**Tax Rate Impact**	**Assessment $1,000,000**
Commercial, Residential, PP	$ 95,933,820	$ 10.11	$ 10,111
Proposition 2 1/2	$ 2,398,346	$ 0.25	$ 253
Override	$ 6,400,000	$ 0.67	$ 675
Debt Exclusion	**Debt Exclusion**	**Tax Rate Impact**	
Senior Center	$ 212,164	$ 0.02	$ 22
Town Hall Complex Refunding	$ 1,136,755	$ 0.12	$ 120
Fire Station Refunding	$ 689	$ 0.00	$ 0
Underwood Pool	$ 234,950	$ 0.02	$ 25
Wellington School	$ 1,233,764	$ 0.13	$ 130
Fire Station Refunding	$ 116,307	$ 0.01	$ 12
High School Phase 1	$ 5,312,275	$ 0.56	$ 560
High School Phase 2	$ 5,313,000	$ 0.56	$ 560
	$ 118,292,070	**$ 12.47**	**$ 12,467**

** First Fire Station Refunding Debt is less than $0.01 total impact*

**The figures used are actual estimates based on current data. They have been rounded for clarity resulting in a slight variance in the total tax bill calculation*