

FY2022 Tax Classification Hearing City of Northampton

November 4, 2021

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MGL C.40, S.56

(excerpts)

“The selectmen or town council of each town and the city council together with the mayor's approval in each city, which city or town has been certified by the commissioner of revenue to be assessing property at full and fair cash valuation, shall annually first determine the percentages of the local tax levy to be borne by each class of real property,”

“In determining such percentages, the selectmen, town council or the city council, together with the mayor's approval, as the case may be, shall first adopt a residential factor; provided, however, that if the mayor vetoes the city council's factor, in a city, the city council may override such veto with a vote equal to two-thirds of the members elected.”

“Said factor shall be an amount not less than the minimum residential factor determined by the commissioner of revenue in accordance with the provisions of section one A of chapter fifty-eight and shall be used by the board of assessors to determine the percentages of the local tax levy to be borne by each class of real and personal property.

“Prior to the adoption of such percentages, the selectmen, town council or the city council, as the case may be, shall conduct a public hearing on the question of their adoption. At such hearing, the board of assessors shall provide all information and data relevant to making such determination and the fiscal effect of the available alternatives.”

Tax Classification Hearing

The Classification Act passed in 1978 requires municipalities to classify real and personal property into one of four classes according to use:

Residential
Commercial
Industrial
Personal Property

Municipalities that are certified by the DOR as assessing property at its full and fair cash value may elect to shift the tax burden among the major property classes within certain limits established by law.

Definitions:

Residential – Includes all property containing one or more units used for human habitation. The class includes accessory land and buildings such as swimming pools, tennis courts, garages and sheds. Single-family homes are in this class, as are large apartment buildings.

Commercial – Includes any property held for the purpose of conducting a business, such as stores, office buildings, hotels, and all vacant land classified as forestland (Chapter 61), farmland (Chapter 61A) and recreational land (Chapter 61B).

Industrial Properties - Includes any property involved in manufacturing, processing or extraction. It includes utility real property used for storage and generation purposes.

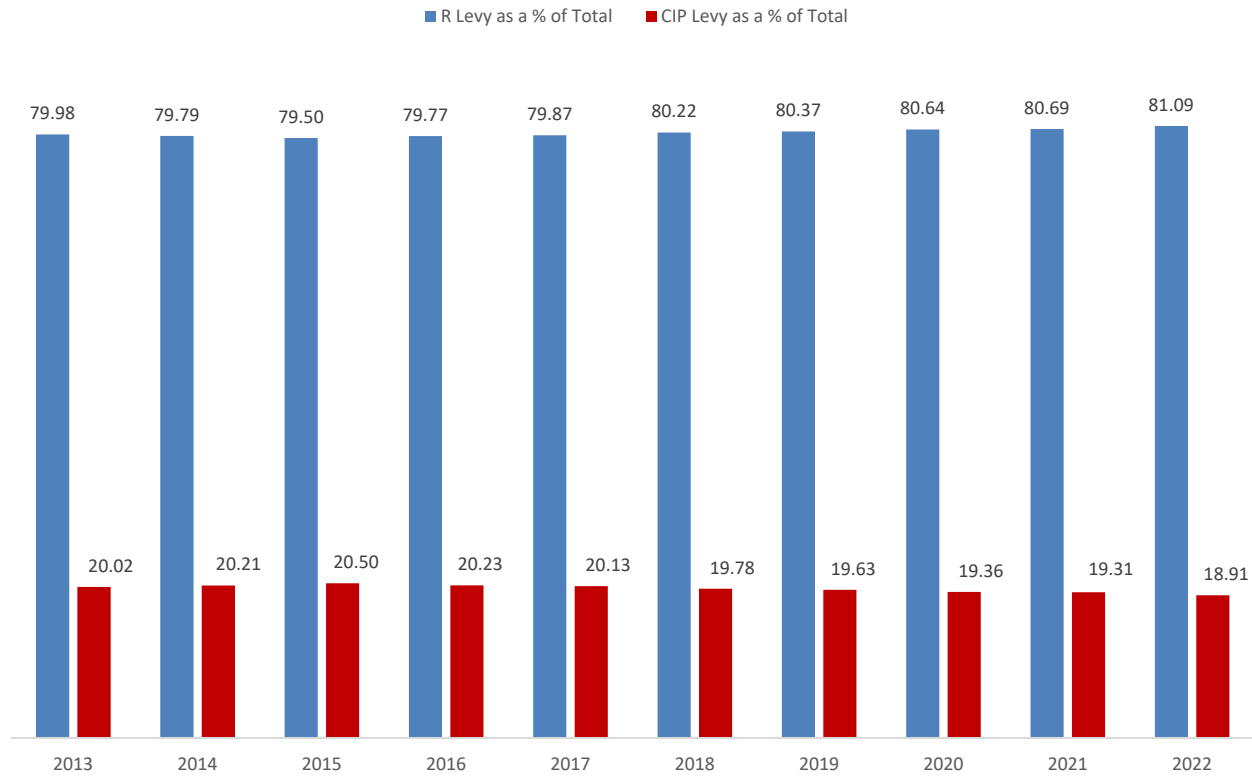
Personal Property – Contains all taxable personal property of individuals, partnerships, associations and certain corporations. A large portion of this class is owned by public utilities.

Distribution by Property Classification

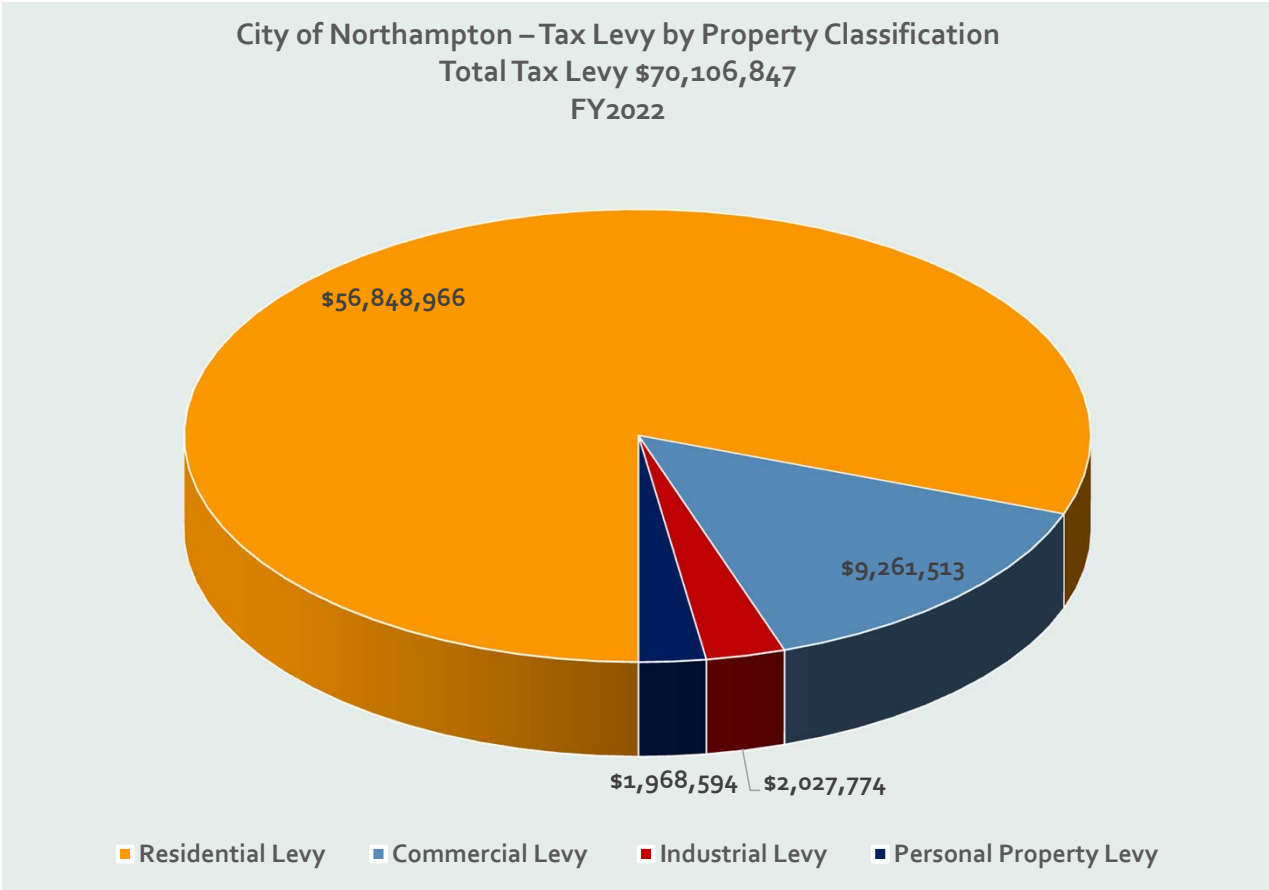
Residential as % of Total Levy

Commercial/Industrial/Personal Property as % of Total Levy

City of Northampton - Distribution by Property Classification
FY2013 - FY2022

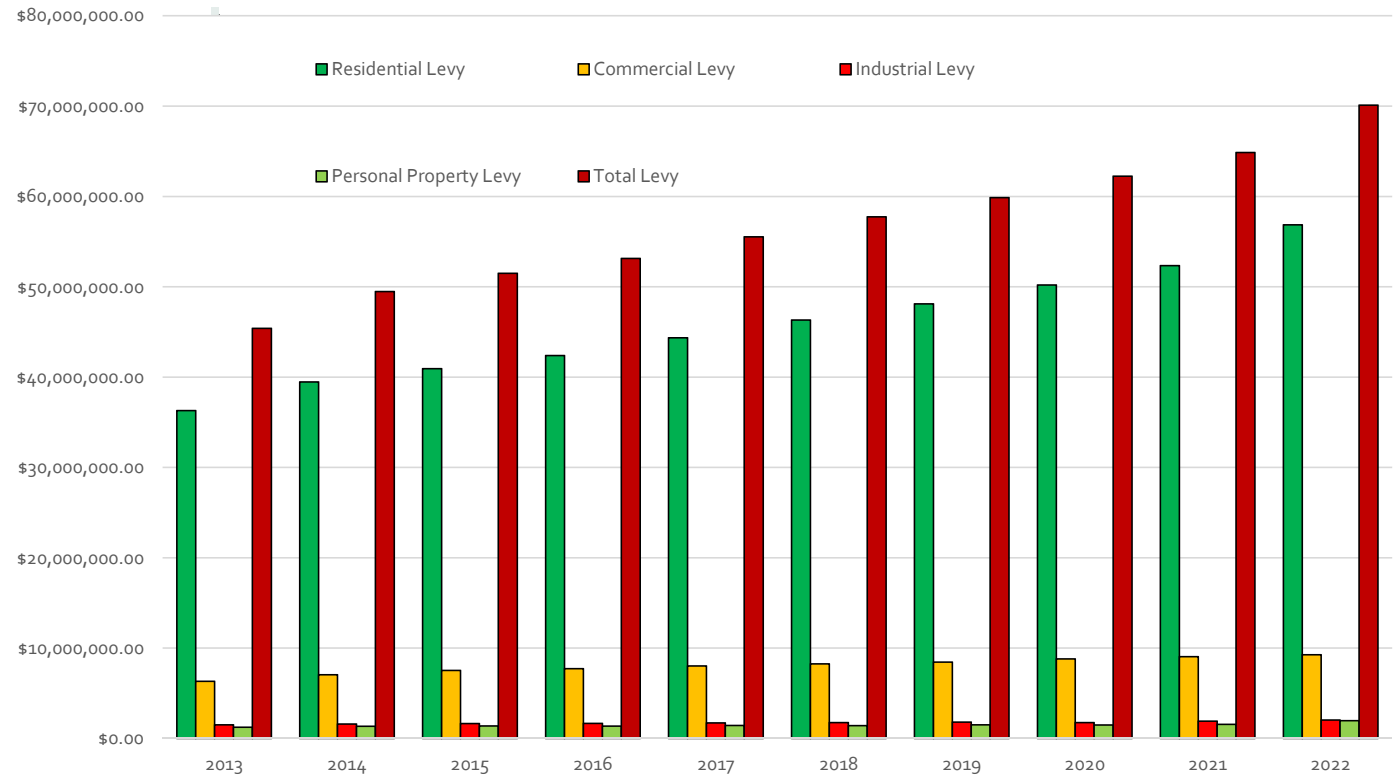


FY2022 Distribution by Property Classification



Northampton Property Values

City of Northampton -10 Years - Property Values FY2013 - FY2022



Definition of New Growth

The additional tax revenue generated by new construction, renovations and other growth in the property tax base during a calendar year. It does not include value increases caused by normal market forces or by revaluations.

New growth for FY2022 is based on new construction, renovations and additions that occurred between July 1, 2020 to July 1, 2021.

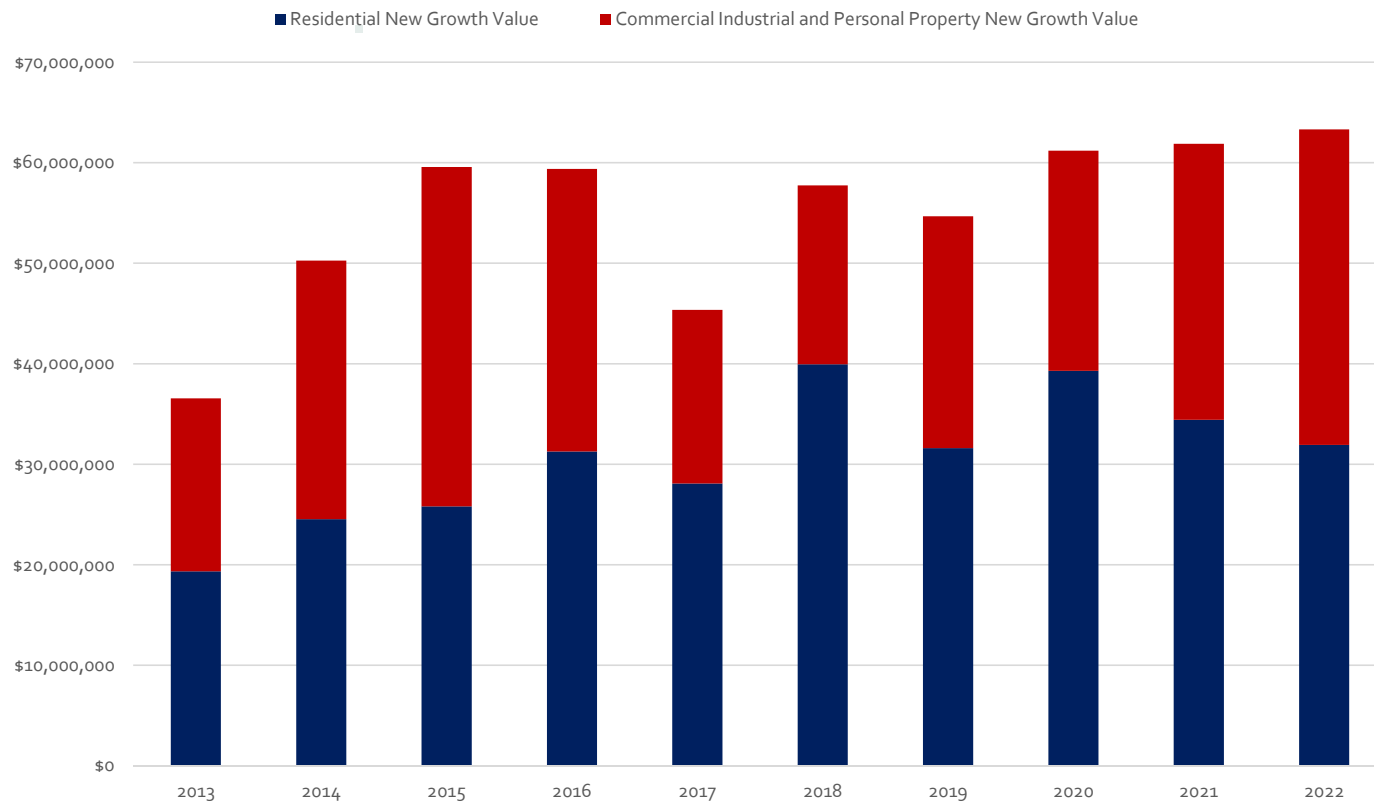
New Growth Value by Classification

Residential: \$31,925,949

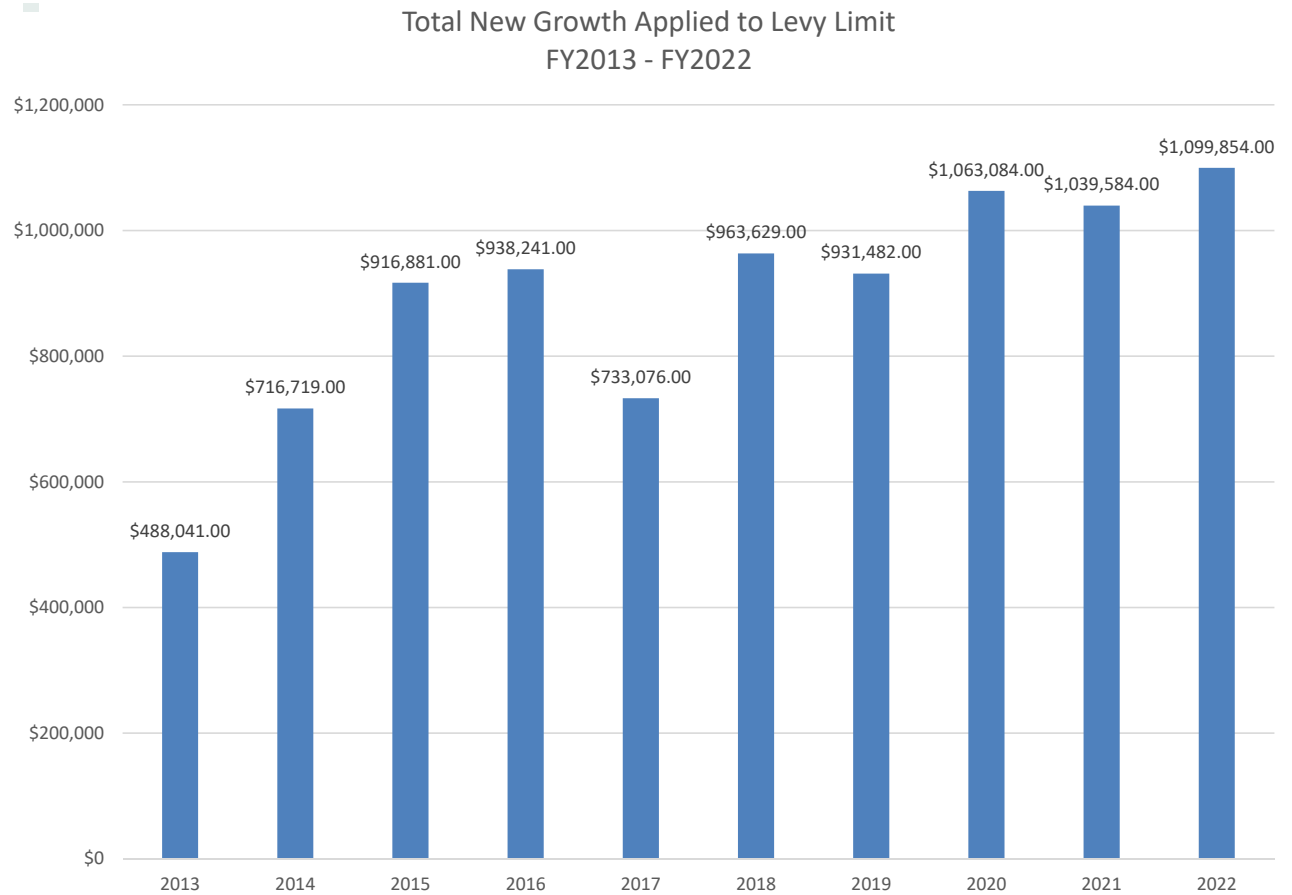
Commercial: \$31,393,711

Total Growth: \$63,319,660

New Growth Value by Classification FY2013 - FY2020



Tax Revenue Generated by New Growth



Major Construction Projects that contributed to New Growth for FY2022

Value added between 7/1/2020 to 7/1/2021 on selected large projects:

- Emerson Way Development– 15 New Homes – value added = \$5,552,700
- Village Hill Residential – 7 Homes, 20 condos, 53 units affordable apartment complex– value added = \$7,097,800
- 547 Easthampton Rd– Storage Facility – value added = \$5,138,200
- Syncarpha Solar PILOT– Solar Farm– value added = \$3,367,896
- 325 King St– Shopping Center– value added = \$1,057,100
- 209 Earle St– Addition to Industrial Site– value added = \$964,915
- Village Hill Commercial– Office Buildings and Retail – value added = \$966,800

The Levy Limit for Northampton for FY2022 is \$70,129,409.

The Actual Levy for FY2022 will be \$70,106,847.

This leaves unused levy capacity of \$22,562.

Overlay voted on in 21 to go into effect for FY22 billing.

Debt Exclusions \$620,476:
(represents \$.158 on tax rate)

Police Station – last debt service payment is in FY2032

I. TO CALCULATE THE FY 2021 LEVY LIMIT

A. FY 2020 Levy Limit	61,649,762
A1. Amended FY 2020 Growth	1
B. ADD (IA + IA1)*2.5%	1,541,244
C. ADD FY 2021 New Growth	1,039,583
C1. ADD FY2021 New Growth Adjustment	0
D. ADD FY 2021 Override	2,500,000
E. FY 2021 Subtotal	66,730,590
F. FY 2021 Levy Ceiling	93,343,062

I. **66,730,590**
FY 2021 Levy Limit

II. TO CALCULATE THE FY 2022 LEVY LIMIT

A. FY 2021 Levy Limit from I.	66,730,590
A1. Amended FY 2021 Growth	9,975
B. ADD (IIA + IIA1)*2.5%	1,668,514
C. ADD FY 2022 New Growth	1,099,854
C1. ADD FY 2022 New Growth Adjustment	0
D. ADD FY 2022 Override	0
E. ADD FY 2022 Subtotal	69,508,933
F. FY 2022 Levy Ceiling	97,969,322

II. **69,508,933**
FY 2022 Levy Limit

III. TO CALCULATE THE FY 2022 MAXIMUM ALLOWABLE LEVY

A. FY 2022 Levy Limit from II.	69,508,933
B. FY 2022 Debt Exclusion(s)	620,476
C. FY 2022 Capital Expenditure Exclusion(s)	0
D. FY 2022 Stabilization Fund Override	0
E. FY 2022 Other Adjustment	0
F. FY 2022 Water/Sewer	0
G. FY 2022 Maximum Allowable Levy	\$ 70,129,409

Single Versus Split Tax Rate: This is what this hearing is about.....

Note: The total amount that can be raised in taxes stays the same, whether there is a single or split tax rate. A split tax rate does not raise more revenue, it simply shifts the tax burden among the taxpayers.

- FACTOR OF 1.00: Selection of a single tax rate means that all four property classes will pay the same tax rate. ***This is the recommendation of the Principal Assessor and the Mayor.***
- FACTOR LESS THAN 1.00: The law allows the option to shift the tax burden among the classes by reducing the share of the tax levy paid by the residential property owners and shifting/increasing those taxes to commercial, industrial and personal property taxpayers through the adoption of a residential factor of less than 1.00.
- FACTOR OF GREATER THAN 1.00: Conversely, a factor greater than 1.00 may be adopted, which would have the opposite effect, reducing the share of the tax levy paid by commercial, industrial and personal property taxpayers and shifting/increasing those taxes on residential property owners.

Single Tax Rate:

The factor of 1.00 will result in an estimated FY2022 tax rate of \$17.89 per \$1000 for all property classifications, which is an increase of (\$0.52) or a 3% increase.

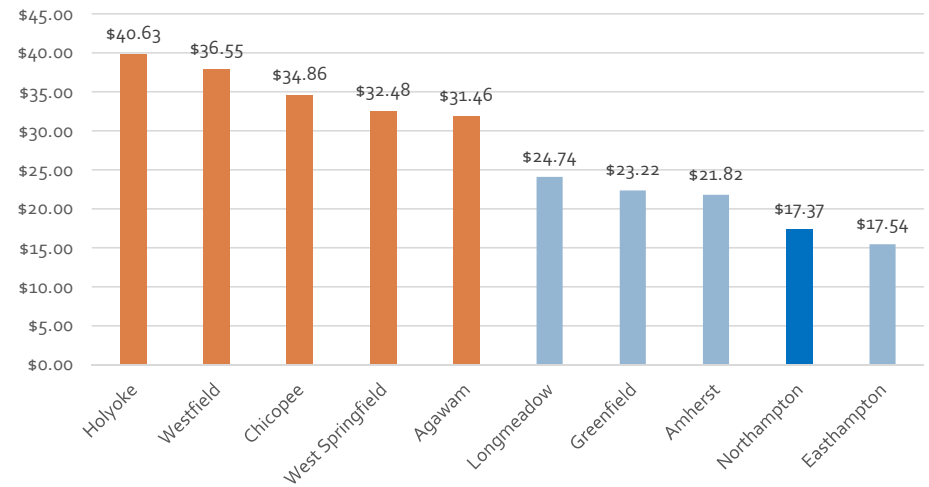
- For comparison purposes, this is where Northampton's FY21 residential rate ranked with our neighboring communities FY21 rates.

- For comparison purposes, this is where Northampton's FY21 commercial/industrial rate ranked with our neighboring communities FY21 rates.

Residential Tax Rates - FY2021



Commercial Tax Rates - FY2021



Split Tax Rate:

The Minimum Residential Factor (MRF) is 88.3394 for FY2022. This is the maximum allowable shift determined by the DOR. This would result in a split tax rate of \$15.80 for Residential and \$26.84 for Commercial/Industrial and Personal Property.

- Residential Impact

Average Single Family Home Value: \$352,329
Single Tax Rate: $\$352,329 / \$1000 \times \$17.89 = \$6,303$
Split Tax Rate: $\$352,329 / \$1000 \times \$15.80 = \$5,567$
Decrease of \$736

- Commercial and Industrial Impact

Average Commercial Value: \$606,479
Single Tax Rate: $\$606,479 / \$1000 \times \$17.89 = \$10,850$
Split Tax Rate: $\$606,479 / \$1000 \times \$26.84 = \$16,278$
Increase of \$5,428

Average Industrial Value: \$760,717
Single Tax Rate: $\$760,717 / \$1000 \times \$17.89 = \$13,609$
Split Tax Rate: $\$760,717 / \$1000 \times \$26.84 = \$20,418$
Increase of \$6,809

Single versus Split Tax Rate:

- 240 Massachusetts Communities had a single tax rate in FY2021
- 104 Massachusetts communities had a split tax rate in FY2021 with shifts ranging from \$0.25 to \$22.89 above the residential rate (favoring lower tax rates for residential property and higher tax rates for businesses)
- 7 Massachusetts communities had split tax rate in FY2021 with shifts ranging from \$0.03 to \$0.84 below the residential rate (favoring lower tax rates for businesses, and higher tax rates for residential property)

Typically a split tax rate might be considered when:

- the percentage of residential property to commercial/industrial/personal property is at least at 70%-30%
- the major taxpaying businesses are difficult to move such as a power plant or a shopping mall

It can be difficult for a community to revert back to a single tax rate after splitting the tax rate, as it often results in a substantial tax increase for residential properties

***The Mayor and the Principal Assessor
recommend a Factor of 1.00 – A Single Tax Rate***

Other Exemptions allowed upon Mayoral Option:

Residential Exemption MGL C.59 s. 5C – The Residential Exemption allows for a shift of the tax burden within the residential class from the lower valued properties to the higher valued ones and those owned by non-residents. However, this also shifts the burden to rental properties.

MGL C.59 s.5C "With respect to each parcel of real property classified as Class One, residential, in each city or town certified by the commissioner to be assessing all property at its full and fair cash valuation, and at the option of the board of selectmen or mayor, with the approval of the city council,...."

Small Commercial Exemption MGL C.59 s.5I - The Commercial Exemptions allows smaller businesses with an average annual employment of no more than 10 people and an assessed valuation of less than \$1,000,000 to receive an exemption. Adoption of this exemption increases the commercial and industrial tax rates. The amount of the tax levy paid by those two classes remains the same, but because of exempted valuation, it is distributed over less assessed value. This higher rate creates a shift that reduces the taxes paid by owners of properties occupied by small businesses and shifts them to larger commercial and industrial taxpayers. However, this will not benefit small businesses that do not own the property that they use for their business.

MGL C.59 s.5I "With respect to each parcel of real property classified as class three, commercial, in each city or town certified by the commissioner to be assessing all property at its full and fair cash valuation, and at the option of the board of selectmen or mayor, with the approval of the city council..."

Residential Exemption Pros and Cons:

Pro: • A majority of owner occupied properties would benefit, this would likely help first time homeowners.

Cons: • Non-owner occupied properties would pay increased taxes. Owners of these properties may increase monthly rent to offset this increase of taxes. These properties would include apartments' and single family homes that are not owner occupied.

- Benefit is not income based
 - Shifts burden to higher priced homeowners who are already paying higher real estate taxes.
 - Additional work required by Assessor's office to properly determine which properties are eligible for the exemption.
 - Increase in Overlay Reserve to allow for people to appeal their status.
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Small Commercial Exemption Pros and Cons:

Pro: • Reduces the taxes paid by owners of properties occupied by small businesses

Cons: • Adoption of this exemption increases the Commercial and Industrial tax rates

- Has no benefit for small businesses that do not own the property that they use for the business.
 - Benefits landlords far more than actual small business owners.
 - Additional work required by Assessor's office to properly determine which properties are eligible for the exemption.
 - Increase in Overlay Reserve to allow for people to appeal their status.
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SUMMARY:
 Principal Assessor
 and Mayor
 recommend City
 Council approve a
 residential factor of
 1.00 for FY2022
 which results in a
 single tax rate of
 \$17.89/\$1000
 valuation

Recommended Residential Factor of "1" for FY2022

Class	Percentage	Total Valuation	Tax Rate per \$1000 Valuation	Levy by Class
Residential	81.089	\$ 3,177,695,139	\$ 17.89	\$ 56,848,966
Commercial	13.2106	\$ 517,692,188	\$ 17.89	\$ 9,261,513
Industrial	2.8924	\$ 113,346,767	\$ 17.89	\$ 2,027,774
Personal Property	2.808	\$ 110,038,800	\$ 17.89	\$ 1,968,594
	100.00	\$ 3,918,772,894		\$ 70,106,847