



**CITY OF NORTHAMPTON
MASSACHUSETTS**

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MEMORANDUM

To: Finance Committee, City Council

From: Joan Sarafin, Principal Assessor

Date: October 26, 2014

Re: Annual Public Hearing on Property Tax Classification

Municipalities in Massachusetts are required to classify real estate into four classes, according to use: Residential, Open Space, Commercial and Industrial. Municipalities that are certified as assessing property at full and fair cash value may elect to shift the tax burden among the major property classes within certain limits established by law. The adoption of a split tax rate does not result in any additional dollars being raised from the property tax levy – it simply allows the municipality to determine, within limits calculated by the Department of Revenue (DOR), what percentage of tax burden is to be borne by each property class.

The determination whether to allocate the tax burden by class is made annually. In a city, the decision to allocate the tax burdens in accordance with the law is made by the City Council, with the approval of the Mayor. There are three phases to this process:

- 1) the city must value all taxable property at full and fair cash value
- 2) the city must classify every parcel of property according to use
- 3) the city may allocate its tax levy among classes of property (this is optional)

The share of the tax levy raised by commercial and industrial classes and personal property may be increased 50% as long as the residential and open space classes raise at least 65% of what they would have raised without the shift or split tax rate. The "minimum residential factor" established by the DOR is used to make certain that the shift of the tax burden complies with the law. In Northampton, the "minimum residential factor" is 87.10%.

This means the tax rate for residential property can be discounted down to 65% of the non-classified tax rate (i.e., what the rate would be without classification) provided that this rate does not increase the tax rate for business properties to more than 150% of the non-classified rate.

Upon certification by the Commissioner of Revenue that assessments represent full and fair cash values and receipt of the minimum residential factor, each city or town, annually must conduct a public hearing on the issue of whether or not to implement the preferential allocation aspects of the classification act. The key policy decision to be decided is: What will be the residential factor? The residential factor determines the share of taxes each class of property will pay.

In a city, the city council with the approval of the mayor can decide that each class will bear taxes in proportion of the full value assessments of the class, which is the classification factor of 1 - no shifting occurs. If one class receives a preferential rate, the other classes will have higher rate and bear a higher tax burden.

A municipality is not required to give the maximum discount to any favored class. They may choose any factor between the minimum residential factor (the highest discount for residential property - 87.10%) and the factor of 1.0 (treatment of all classes of property alike). In other words the tax rate can be split or the tax rate can remain the same for all classes of property. Conversely, a residential factor could be selected above 1.0 which would treat commercial, industrial and personal property as the favored class, shifting the burden onto residential property.

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Fiscal Year 2015 Values by Classification

	Total Valuation	Percentage	
Residential	2,591,076,188.00	79.49%	79.49% Total RO
Open Space	-	0.00%	
Commerical	476,973,450.00	14.63%	
Industrial	103,683,900.00	3.18%	20.51% Total CIP
Personal Property	87,785,230.00	2.69%	
TOTAL:	3,259,518,768.00	100.00%	100.00%

Maximum Share of Levy for CIP	30.76%	(1.50 x 20.51%)
Minimum Share of Levy for RO	69.24%	(100% - 30.76%)
Minimum Residential Factor	87.10%	(69.24%/79.49%)

Residential Properties - may be of three types:

- A. Owner-occupied and primary residence of tax payer
- B. Non owner-occupied, including rental single family, rental portions of multi-family Dwellings, apartment complexes and second homes
- C. Vacant, residentially zoned land

Open Space – Northampton does not use this optional classification category

Commercial Properties – these includes stores, office buildings and all vacant land classified as forest land (Chapter 61) farmland (Chapter 61A) and recreational land (Chapter 61B)

Industrial Properties – these include all buildings and land in and on which manufacturing takes place.

Personal Property – this includes all property owned by unincorporated property owners. Incorporated property owners pay only on property used in the conduct of business. Some major accounts are Western Massachusetts Electrical Company, New England Telephone Company, Comcast and Bay State Gas Company. All of these companies pay taxes based on the value of poles, wires and conduits, etc.

The attached chart analyzes the impact of a split tax rate favoring the residential class. The chart compares the impact of a single tax rate on all classes of property (in FY15 estimated at \$15.81 per \$1000) with five different split tax rates which shift the tax burden to properties classified as commercial, industrial and personal property (CIP). The five different rates shift the burden to CIP by 10%, 20%, 30%, 40% and the maximum of 50%. At the maximum shift, the residential rate drops to \$13.77 per thousand and the CIP rate rises to \$23.71 per \$1000. Also attached is a history of Northampton's tax rate and the percentage of residential and CIP properties.

NORTHAMPTON'S HISTORY OF CLASSIFICATION DATA

	Full & Fair Cash Value	Levy	Tax Rate	% Mix	MRF
FY 2002	1,738,857,120	27,665,217	15.91	Res 77.1956 CIP 22.8044	85.2295
FY 2003	1,769,407,280	29,018,279	16.40	Res 76.6223 CIP 23.3777	84.745
FY 2004	2,279,143,140	30,517,132	13.38	Res 78.182 CIP 21.818	86.0563
FY 2005	2,472,900,492	31,776,771	12.85	Res 79.4887 CIP 20.5113	87.0981
FY 2006	2,782,907,866	33,088,775	11.73	Res 81.369 CIP 18.631	88.4924
FY 2007	3,160,088,571	34,413,364	10.89	Res 80.7508 CIP 19.2492	88.0842
FY 2008	3,193,171,086	34,339,488	11.20	Res 80.9182 CIP 19.0818	88.0842
FY 2009	3,240,189,100	37,226,438	11.48	Res 80.2643 CIP 19.7365	87.7059
FY 2010	3,193,550,980	40,379,073	12.64	Res 80.5014 CIP 19.4985	87.8895
FY 2011	3,212,731,690	41,765,512	12.96	Res 80.384 CIP 19.616	87.8141
FY 2012	3,237,968,490	43,232,874	13.35	Res 80.199 CIP 19.801	87.655
FY 2013	3,188,201,590	45,383,189	14.23	Res 79.7877 CIP 20.2123	87.338
FY 2014	3,214,023,380	49,493,603	15.39	Res 79.7907 CIP 20.2123	87.3361
FY 2015	3,259,518,768	51,554,368	15.80	Res 79.4926 CIP 20.5074	87.1011

**Analysis of Shift to Split Tax Rate
City of Northampton
Fiscal Year 2015**

Residential Factor: Tax Rate for Businesses: Tax Rate for Residential:	Total Valuation	NO SHIFT	10% SHIFT	Change		20% SHIFT	Change		30% SHIFT	Change		40% SHIFT	Change		50% SHIFT	Change	
				from single tax rate	single tax rate												
		100.00%	97.42%			94.84%			92.26%			89.68%			87.10%		
		\$ 15.81	\$ 17.39	\$ 20.55	\$ 22.13	\$ 25.55	\$ 27.13	\$ 30.55	\$ 32.13	\$ 35.55	\$ 37.13	\$ 40.55	\$ 42.13	\$ 45.55	\$ 47.13	\$ 50.55	\$ 52.13
		\$ 15.81	\$ 15.40	\$ 14.99	\$ 14.59	\$ 14.18	\$ 13.77	\$ 13.37	\$ 12.97	\$ 12.57	\$ 12.17	\$ 11.77	\$ 11.37	\$ 10.97	\$ 10.57	\$ 10.17	\$ 9.77

Examples of Effect on Businesses:

Coca Cola	\$ 16,342,600	\$ 298,377	\$ 284,198	\$ 25,821	\$ 310,019	\$ 51,643	\$ 335,840	\$ 77,464	\$ 361,662	\$ 103,285	\$ 387,483	\$ 129,107
Big Y	\$ 12,852,562	\$ 203,199	\$ 223,506	\$ 20,307	\$ 243,813	\$ 40,614	\$ 264,120	\$ 60,921	\$ 284,427	\$ 81,228	\$ 304,734	\$ 101,535
Walmart	\$ 11,194,600	\$ 176,987	\$ 194,674	\$ 17,687	\$ 212,362	\$ 35,375	\$ 230,049	\$ 53,062	\$ 247,736	\$ 70,750	\$ 265,424	\$ 88,437
Stop and Shop	\$ 11,046,800	\$ 174,650	\$ 192,104	\$ 17,454	\$ 209,558	\$ 34,908	\$ 227,012	\$ 52,362	\$ 244,466	\$ 69,816	\$ 261,920	\$ 87,270
Hotel Northampton	\$ 6,370,300	\$ 100,714	\$ 110,780	\$ 10,065	\$ 120,845	\$ 20,130	\$ 130,910	\$ 30,195	\$ 140,975	\$ 40,280	\$ 151,040	\$ 50,325
Tiger Press	\$ 2,055,600	\$ 32,499	\$ 35,747	\$ 3,248	\$ 38,995	\$ 6,496	\$ 42,243	\$ 9,744	\$ 45,490	\$ 12,991	\$ 48,738	\$ 16,239
State Street Fruit Store	\$ 1,402,380	\$ 22,172	\$ 24,387	\$ 2,216	\$ 26,603	\$ 4,432	\$ 28,819	\$ 6,647	\$ 31,035	\$ 8,863	\$ 33,250	\$ 11,079
Wright Architectural Millwork	\$ 1,360,542	\$ 21,510	\$ 23,660	\$ 2,150	\$ 25,809	\$ 4,299	\$ 27,959	\$ 6,449	\$ 30,109	\$ 8,599	\$ 32,258	\$ 10,748
Serios Market	\$ 851,700	\$ 13,465	\$ 14,811	\$ 1,346	\$ 16,157	\$ 2,691	\$ 17,502	\$ 4,037	\$ 18,848	\$ 5,383	\$ 20,194	\$ 6,728
East Side Grill	\$ 751,800	\$ 11,886	\$ 13,074	\$ 1,188	\$ 14,262	\$ 2,376	\$ 15,449	\$ 3,564	\$ 16,637	\$ 4,751	\$ 17,825	\$ 5,939
Vollinger Farm	\$ 92,600	\$ 1,464	\$ 1,610	\$ 146	\$ 1,757	\$ 293	\$ 1,903	\$ 439	\$ 2,049	\$ 585	\$ 2,196	\$ 732

Examples of Effect on Residential Properties:

	\$ 100,000	\$ 1,581	\$ 1,540	\$ (41)	\$ 1,499	\$ (82)	\$ 1,459	\$ (122)	\$ 1,418	\$ (163)	\$ 1,377	\$ (204)
	\$ 200,000	\$ 3,162	\$ 3,080	\$ (82)	\$ 2,998	\$ (164)	\$ 2,918	\$ (244)	\$ 2,836	\$ (326)	\$ 2,754	\$ (408)
	\$ 300,000	\$ 4,743	\$ 4,620	\$ (123)	\$ 4,497	\$ (246)	\$ 4,377	\$ (366)	\$ 4,254	\$ (489)	\$ 4,131	\$ (612)
	\$ 400,000	\$ 6,324	\$ 6,160	\$ (164)	\$ 5,996	\$ (329)	\$ 5,836	\$ (489)	\$ 5,672	\$ (652)	\$ 5,508	\$ (816)
	\$ 500,000	\$ 7,905	\$ 7,700	\$ (205)	\$ 7,495	\$ (410)	\$ 7,295	\$ (610)	\$ 7,090	\$ (815)	\$ 6,885	\$ (1,020)
	\$ 600,000	\$ 9,486	\$ 9,240	\$ (246)	\$ 8,994	\$ (492)	\$ 8,754	\$ (732)	\$ 8,508	\$ (978)	\$ 8,262	\$ (1,224)
	\$ 700,000	\$ 11,067	\$ 10,780	\$ (287)	\$ 10,493	\$ (574)	\$ 10,213	\$ (854)	\$ 9,926	\$ (1,141)	\$ 9,639	\$ (1,429)
	\$ 800,000	\$ 12,648	\$ 12,320	\$ (328)	\$ 11,992	\$ (656)	\$ 11,672	\$ (976)	\$ 11,344	\$ (1,304)	\$ 11,016	\$ (1,632)
	\$ 900,000	\$ 14,229	\$ 13,860	\$ (369)	\$ 13,491	\$ (738)	\$ 13,131	\$ (1,098)	\$ 12,762	\$ (1,467)	\$ 12,393	\$ (1,836)
	\$ 1,000,000	\$ 15,810	\$ 15,400	\$ (410)	\$ 14,990	\$ (820)	\$ 14,590	\$ (1,220)	\$ 14,180	\$ (1,630)	\$ 13,770	\$ (2,040)
	\$ 1,500,000	\$ 23,715	\$ 23,100	\$ (615)	\$ 22,485	\$ (1,230)	\$ 21,885	\$ (1,830)	\$ 21,270	\$ (2,445)	\$ 20,655	\$ (3,060)
	\$ 2,000,000	\$ 31,620	\$ 30,800	\$ (820)	\$ 29,980	\$ (1,640)	\$ 29,180	\$ (2,440)	\$ 28,380	\$ (3,260)	\$ 27,540	\$ (4,080)

Averages:

Average Home	\$ 301,078	4,760	4,637	(123)	4,513	(247)	4,393	(367)	4,269	(481)	4,146	(614)
Average Commercial Property	\$ 609,000	9,628	10,561	962	11,563	1,924	12,515	2,887	13,477	3,849	14,439	4,811
Average Industrial Property	\$ 652,100	10,310	11,340	1,030	12,370	2,061	13,401	3,091	14,431	4,121	15,461	5,152