

PROPOSITION 2 ½ AND TAX LEVY SHIFTING OPTIONS

TOWN OF BARNSTABLE



Agenda

- Overview of Prop 2 ½
 - Levy limit
 - Levy ceiling
 - Maximum allowable levy
 - New property tax growth
 - Tax levy exclusions
- Taxable Property Values
- Tax Levy Shifting Options
 - Increase burden to CIP class to 150% (classified tax rates)
 - Adopt up to a 20% exemption on resident's homes (residential exemption)
 - Adopt up to a 10% exemption on small commercial properties (small business exemption)

Proposition 2 ½

- Key Definitions:

- Levy Limit – the maximum amount a community can levy in a given year **before** voter approved exclusions.
- Levy Ceiling – the maximum amount the levy limit can be. (2.5% of a community's full and fair cash value).
- Maximum Allowable Levy – the levy limit **increased** by any **voter approved** capital and/or debt exclusions.
- New Growth – newly constructed or altered property, exempt property returned to the tax rolls.
- Tax levy exclusions:
 - Debt exclusion – additional taxing above levy limit approved by voters to cover debt service costs on certain projects. (ex. school renovation projects). Exclusion last as long as the loan does.
 - Capital outlay exclusion - additional taxing above levy limit approved by voters to cover capital project costs (ex. heavy machinery purchase). Exclusion is added to levy for one year.

FY 2010 Levy Limit

TO CALCULATE THE FY2010 LEVY LIMIT

A. FY2010 Levy Limit	\$86,265,093	
B. Amended New Growth	\$0	
C. ADD 2.5%	\$2,156,627	
D. ADD FY2010 New Growth	\$618,549	
E. FY2010 Subtotal	<u>\$89,040,269</u>	
		<u>\$89,040,269</u>
F. FY2010 Levy Ceiling	<u>\$335,052,938</u>	FY2010 Levy Limit

FY 2010 Maximum Allowable Levy

TO CALCULATE THE FY2010 MAXIMUM ALLOWABLE LEVY

A. FY2010 Levy Limit	\$89,040,269
B. FY2010 Debt Exclusion(s)	\$2,302,877
C. FY2010 Capital Expenditure Exclusion(s)	\$0
D. FY2010 Cape Cod Comm	<u>\$499,439</u>
E. FY2010 Maximum Allowable Levy	<u>\$91,842,585</u>

Tax shifting options decide how the \$91,842,585 will be distributed between property classes. The three options to be discussed will not change the maximum allowable levy of \$91.84 million.

FY 2010 Estimated Tax Rate

Estimated Actual Tax Levy	\$91,838,851
Divided By Total Full & Fair Cash Value	<u>\$13,402,177,525</u>
=	0.006852532
	<u>X 1,000</u>
Single Tax Rate With No Classification	<u><u>\$6.85</u></u>

*FY09 SINGLE TAX RATE WAS \$6.12 PER THOUSAND

**TAX RATE INCREASE RELATED DIRECTLY TO
REDUCTION IN TOTAL TAXABLE TOWN VALUE OF
7.9%

TAX RATE OPTIONS – FY2010

- **Option #1, a split tax rate, demonstrates the results of accepting some percentage of tax rate shift between the residential and commercial/industrial/personal property (CIP) classes only. It does not factor in a residential exemption.**
- **The shift amount between classes will always be closely related to the % of taxable value of the classes. Residential is now 88.52% while CIP represents 11.48%. For FY09, Residential was 89.26% and CIP was 10.74%.**

Option #1 – Split Tax Rate/No Residential Exemption

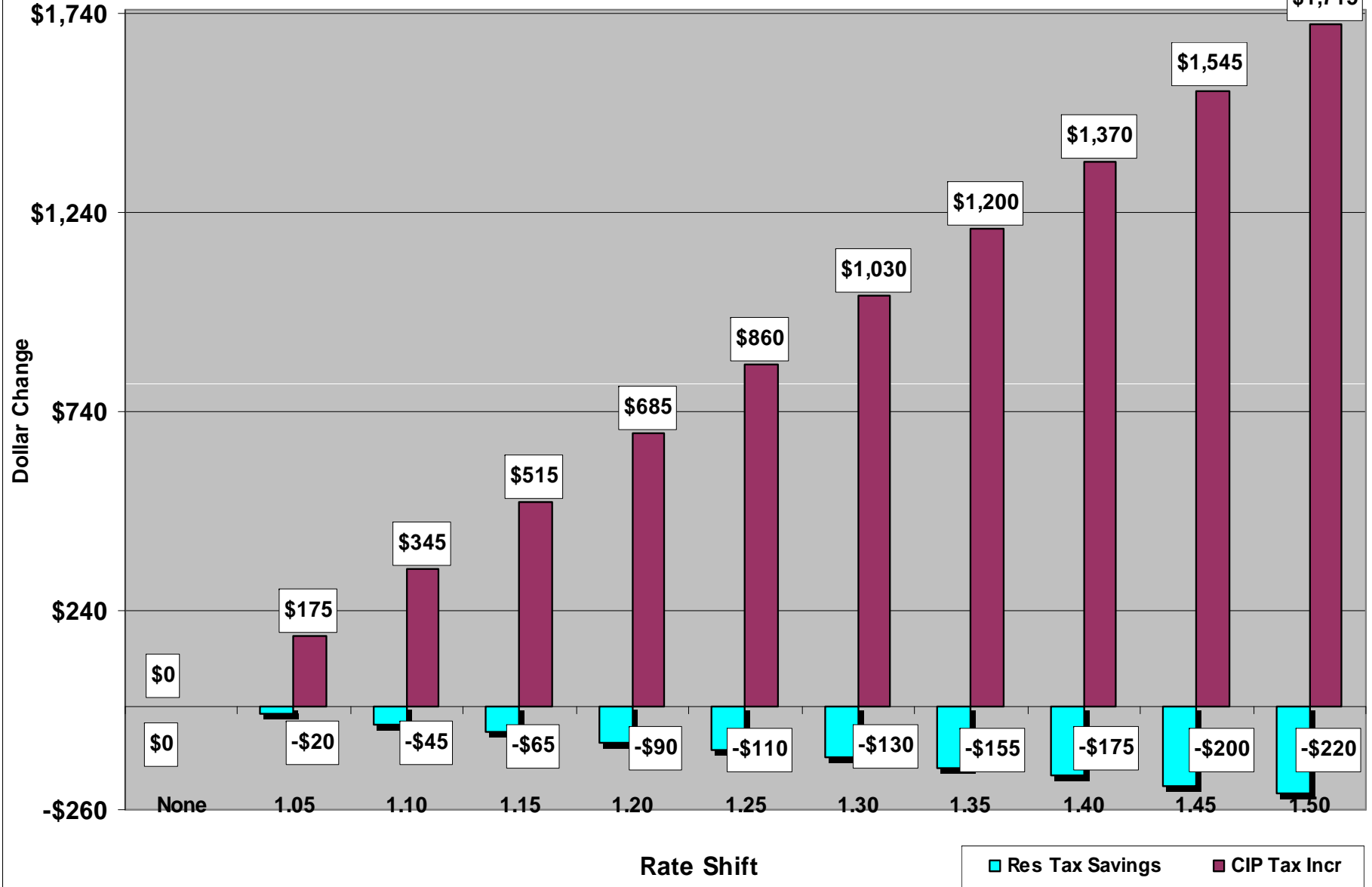
● If Council Adopted Maximum Allowable Tax Shift:

- Residential rate would be \$6.85 times MRF or $.9351 = \$6.41$ (Down 6.4%)
- CIP rate would be \$6.85 times 1.50 (maximum) = \$10.28 (Up 150%)
- Council could adopt any shift up to 1.50 which would result in a CIP rate between \$6.85 and \$10.28
- The ratio of dollars moved is 7.7 to 1. For every \$1 saved by a residential taxpayer, \$7.80 more will be paid by a CIP taxpayer at the maximum shift of 1.5.
- At total of \$5,271,850 is the maximum dollar amount allowed to be shifted to the CIP class from the Residential class.

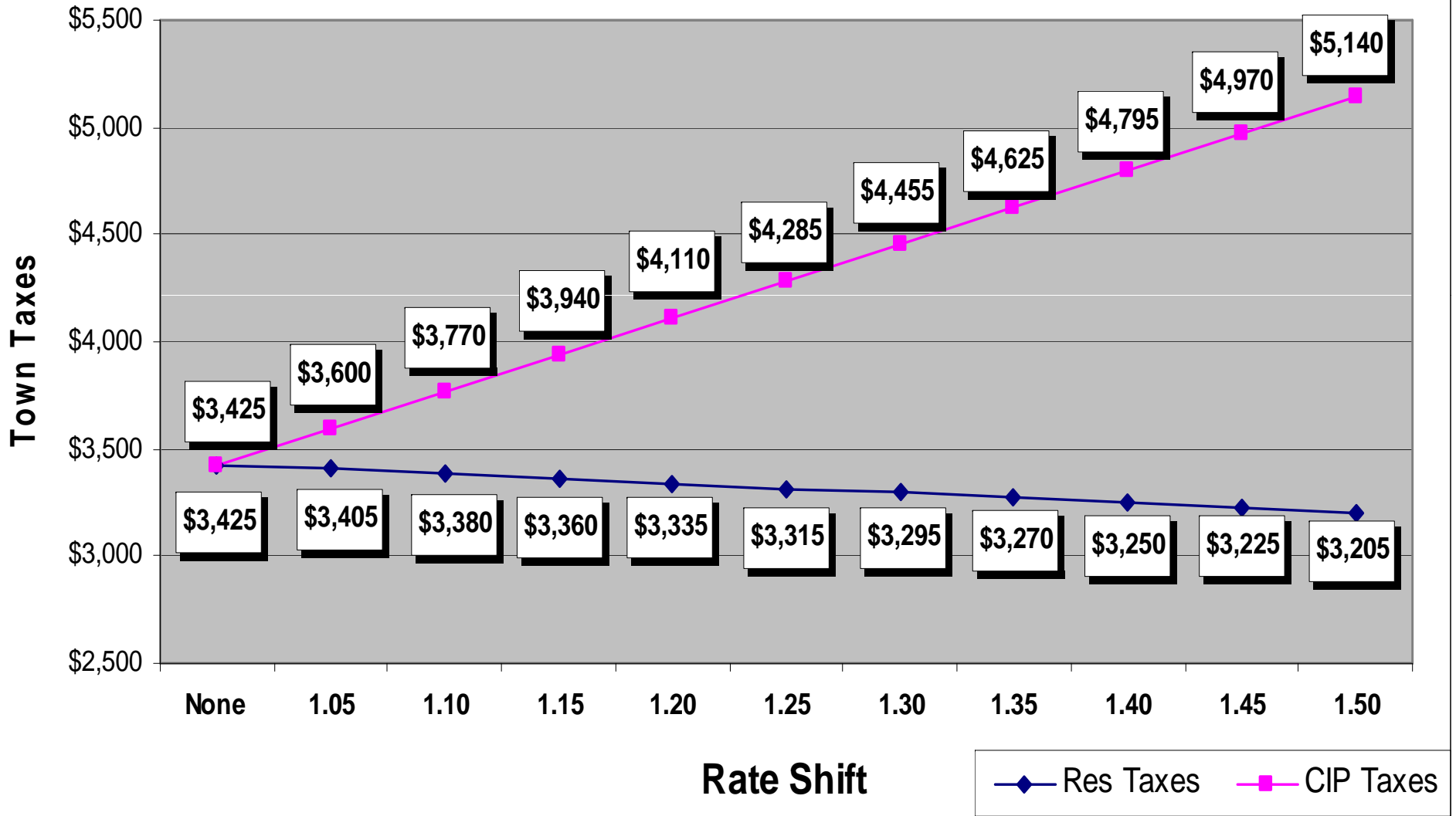
Split Tax Rate (No Exemption) - Continued

		Estimated Tax Rates	
CIP Shift	Res Factor	Res	CIP
1.05	99.3515	\$6.81	\$7.20
1.10	98.7030	\$6.76	\$7.54
1.15	98.0546	\$6.72	\$7.88
1.20	97.4061	\$6.67	\$8.22
1.25	96.7576	\$6.63	\$8.57
1.30	96.1091	\$6.59	\$8.91
1.35	95.4606	\$6.54	\$9.25
1.40	94.8121	\$6.50	\$9.59
1.45	94.1637	\$6.45	\$9.94
1.50	93.5152	\$6.41	10.28

Residential Tax Decrease vs. CIP Tax Increase Under Shift at \$500,000 of Value



Residential vs CIP Taxes Under Split Rate at \$500,000 of Taxable Value



Split Tax Rate Examples Of Tax Shifts

Assessed Value	Tax Shift	Res. Tax Rate	Res. Tax	Tax Savings	CIP Tax Rate	CIP Tax	Tax Increase	Net Tax Shift Difference
\$250,000	one rate	\$6.85	\$1,712.50	\$0.00	\$6.85	\$1,712.50	\$0.00	\$0.00
	1.10 shift	\$6.76	\$1,690.00	-\$22.50	\$7.54	\$1,885.00	\$172.50	\$195.00
	1.25 shift	\$6.63	\$1,657.50	-\$55.00	\$8.57	\$2,142.50	\$430.00	\$485.00
	1.50 shift	\$6.41	\$1,602.50	-\$110.00	\$10.28	\$2,570.00	\$857.50	\$967.50
\$500,000	one rate	\$6.85	\$3,425.00	\$0.00	\$6.85	\$3,425.00	\$0.00	\$0.00
	1.10 shift	\$6.76	\$3,380.00	-\$45.00	\$7.54	\$3,770.00	\$345.00	\$390.00
	1.25 shift	\$6.63	\$3,315.00	-\$110.00	\$8.57	\$4,285.00	\$860.00	\$970.00
	1.50 shift	\$6.41	\$3,205.00	-\$220.00	\$10.28	\$5,140.00	\$1,715.00	\$1,935.00
\$750,000	one rate	\$6.85	\$5,137.50	\$0.00	\$6.85	\$5,137.50	\$0.00	\$0.00
	1.10 shift	\$6.76	\$5,070.00	-\$67.50	\$7.54	\$5,655.00	\$517.50	\$585.00
	1.25 shift	\$6.63	\$4,972.50	-\$165.00	\$8.57	\$6,427.50	\$1,290.00	\$1,455.00
	1.50 shift	\$6.41	\$4,807.50	-\$330.00	\$10.28	\$7,710.00	\$2,572.50	\$2,902.50
\$1,000,000	one rate	\$6.85	\$6,850.00	\$0.00	\$6.85	\$6,850.00	\$0.00	\$0.00
	1.10 shift	\$6.76	\$6,760.00	-\$90.00	\$7.54	\$7,540.00	\$690.00	\$780.00
	1.25 shift	\$6.63	\$6,630.00	-\$220.00	\$8.57	\$8,570.00	\$1,720.00	\$1,940.00
	1.50 shift	\$6.41	\$6,410.00	-\$440.00	\$10.28	\$10,280.00	\$3,430.00	\$3,870.00

OPTION #2 - RESIDENTIAL EXEMPTION MGL CHAPTER 59, SECTION 5C

- TOWN COUNCIL CAN AUTHORIZE UP TO A 20% EXEMPTION TO BARNSTABLE "RESIDENTS".
- THE EXEMPTION APPLIED IS UP TO 20% OF THE VALUE OF THE AVERAGE RESIDENTIAL PARCEL VALUE.
- THE PROPERTY MUST BE THE "PRINCIPLE RESIDENCE" OF THE OWNER AS USED FOR INCOME TAX PURPOSES.
- THIS OPTION SHIFTS THE TAXES ONLY WITHIN THE RESIDENTIAL CLASS OF TAX PAYERS.
- THIS EXEMPTION DOES NOT CHANGE THE TOTAL TOWN TAX LEVY!

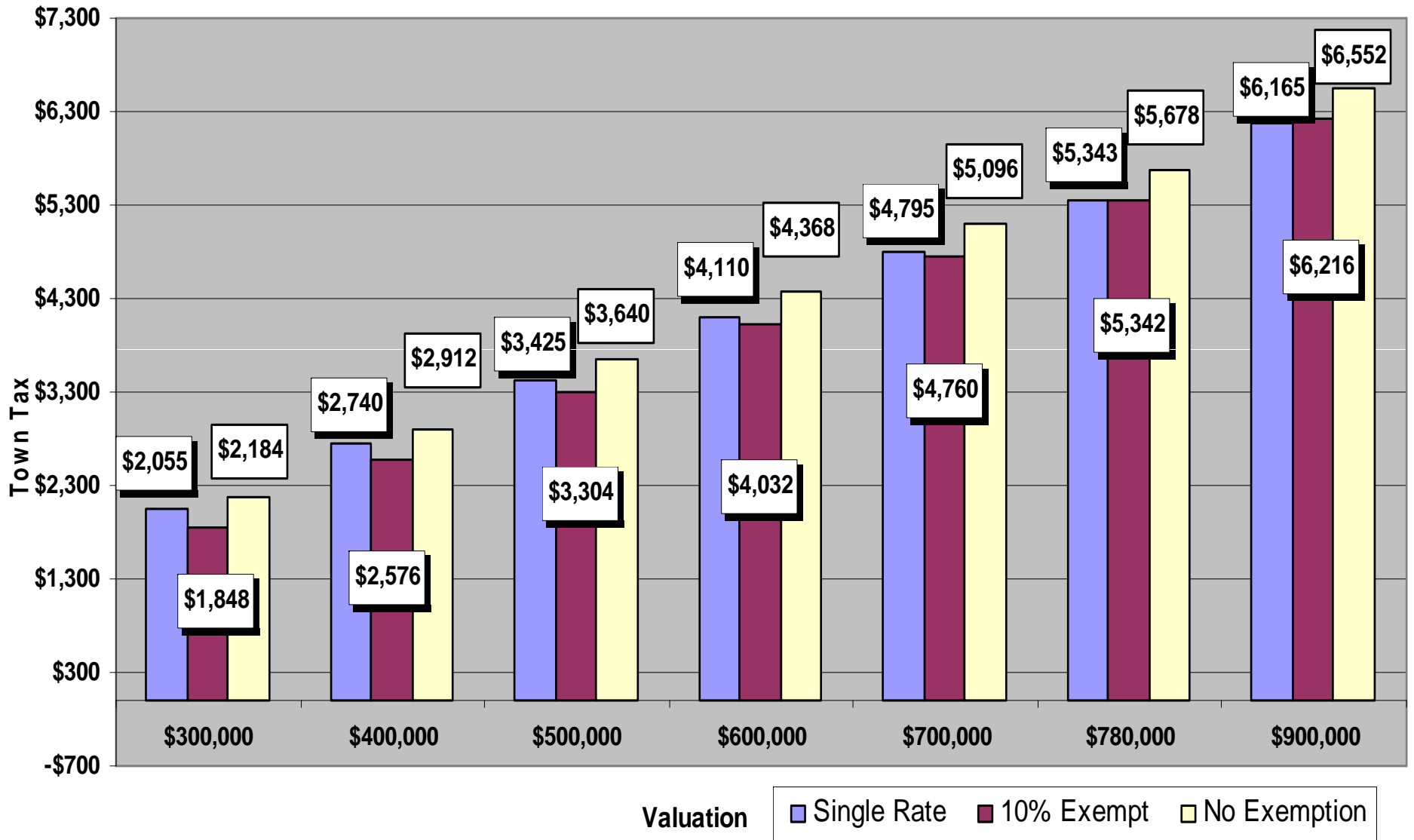
TAX RATE OPTIONS – FY2010

- **Option #2, a residential exemption, demonstrates the results of accepting a residential exemption of up to 20% of the average residential value only. It does not factor in a tax rate shift. This option removes exempted value of \$92,323 for each qualified primary residence from the tax rate calculation. Since Barnstable has potentially qualified 15,167 properties, the result is a higher tax rate for all residential properties and the deduction of \$92,323 from the qualified property's value before the tax is calculated at the higher tax rate.**

Residential Exemption @ 10%

- | | <u>Savings</u> | <u>%Chg</u> |
|---|----------------|-------------|
| ● <u>Original Rate X Average Value:</u> | | |
| ● \$6.85 x \$500,000 = \$3,425 | \$0 | 0% |
| ● <u>Same Property with 10% Exemption:</u> | | |
| ● \$7.28 x (\$500,000 - \$46,162) = \$3,304 | \$121 | - 3.5% |
| ● <u>Same Property w/o Exemption:</u> | | |
| ● \$7.28 x \$500,000 = \$3,640 | - \$185 | +6.3% |
- A Residential Exemption of 10% would remove \$700,123,887 from the residential taxable value base of \$11,863,466,810 (5.9%) resulting in a tax rate increase for all residential properties of \$0.43 per thousand (6.3%). The residential share of the tax levy does not change with the adoption of this exemption.

Single Rate vs. 10% Exemption vs. No Exemption

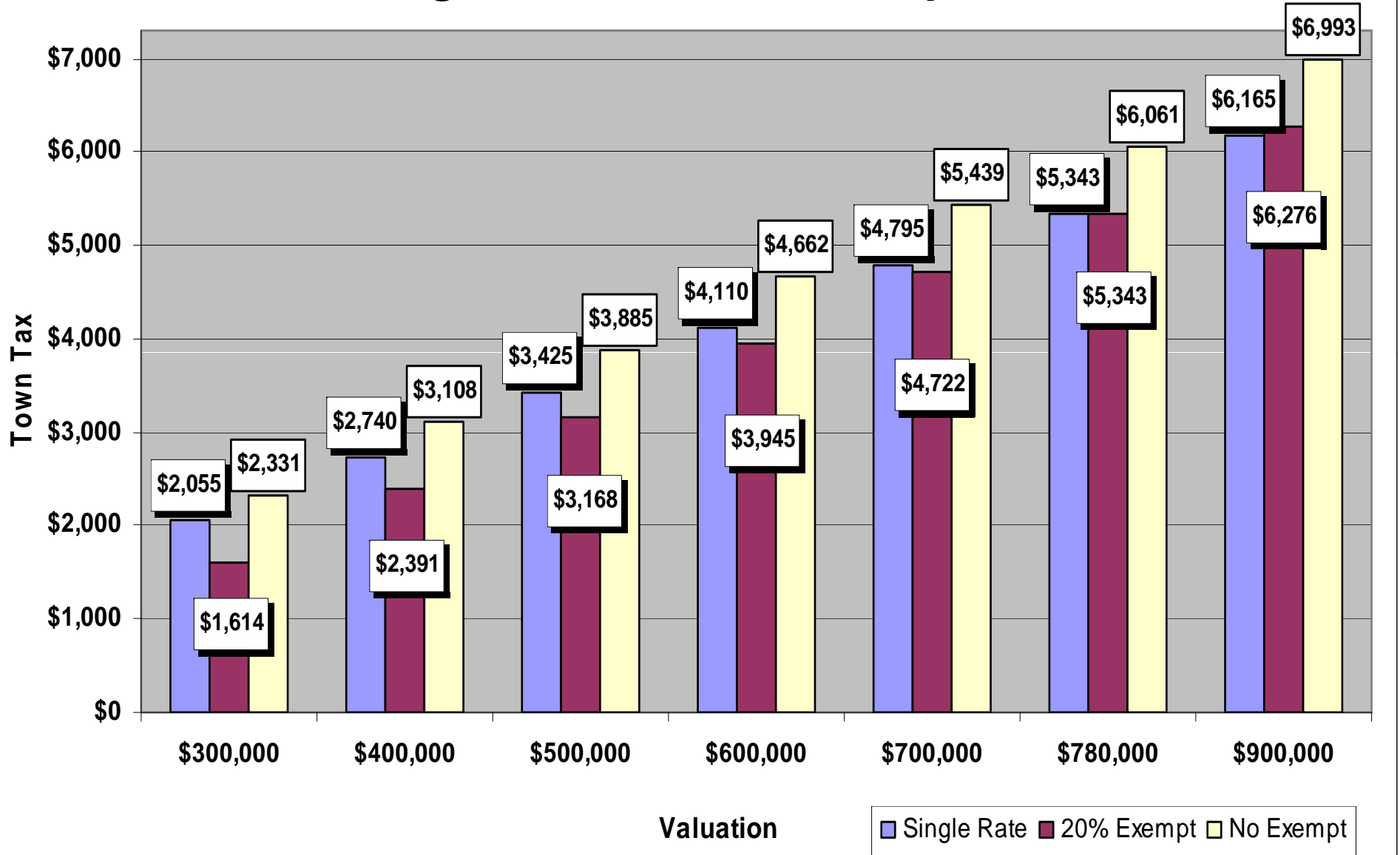


Residential Exemption @ 20%

- | | <u>Savings</u> | <u>% Chg</u> |
|---|----------------|--------------|
| ● <u>Original Rate x Average Value:</u> | | |
| ● \$6.85 x \$500,00 = \$3,425 | \$0 | 0% |
| ● <u>Same Property with 20% Exemption:</u> | | |
| ● \$7.77 x (\$500,000 - \$92,323) = \$3,168 | \$257 | -7.5% |
| ● <u>Same Property w/o Exemption:</u> | | |
| ● \$7.77 x \$500,000 = \$3,885 | - \$460 | +13.4% |
- A Residential Exemption of 20% would remove \$1,400,262,941 from the residential taxable value base of \$11,863,466,810 (11.8%) resulting in a tax rate increase for all residential properties of \$0.92 per thousand (13.4%). The residential share of the tax levy does not change with the adoption of this exemption

THE BREAKEVEN POINT FOR VALUE, WHERE NO TAX ADVANTAGE IS GAINED FROM THE EXEMPTION FOR FY10 IS \$780,000.

Single Rate vs. 20% Exemption



Option #2A – Split Tax Rate With 20% Residential Exemption

- If Council Adopted Maximum Allowable Tax Shift:
 - Residential rate would be \$7.77 times MRF or $.935152 = \$7.27$ (Down 6.4%)
 - CIP rate would be \$6.85 times 1.50 (maximum) = \$10.28 (Up 150%)
 - Council could adopt any shift up to 1.50 which would result in a CIP rate between \$6.85 and \$10.28

Split Tax Rate (20% Exemption) - Continued

CIP Shift	Res Factor	Estimated Tax Rates	
		Res	CIP
1.05	99.3515	\$7.72	\$7.20
1.10	98.7030	\$7.67	\$7.54
1.15	98.0546	\$7.62	\$7.88
1.20	97.4061	\$7.57	\$8.22
1.25	96.7576	\$7.52	\$8.57
1.30	96.1091	\$7.47	\$8.91
1.35	95.4606	\$7.42	\$9.25
1.40	94.8121	\$7.37	\$9.25
1.45	94.1637	\$7.32	\$9.94
1.50	93.5152	\$7.27	10.28

TAX RATE OPTIONS – FY2010

- **Option #3, a small commercial exemption, only affects the distribution of tax burden on the commercial, industrial and personal property classes and has no effect on the residential tax rate or tax burden.**
- **Approximately 286 properties potentially qualify for this exemption. Any tax reduction is received by the property owner and NOT the businesses operating on the property.**
- **This option operates in an very similar manner to the residential exemption by removing the chosen percentage of exempted value from the tax rate calculation. The result is an increase for all CIP properties of \$0.05 per thousand of value.**

Option #3

Small Commercial Exemption

SMALL COMMERCIAL EXEMPTION MGL Chapter 59, Section 51

**TOWN COUNCIL CAN AUTHORIZE UP TO A 10% EXEMPTION TO
THE VALUATION OF QUALIFIED COMMERCIAL PROPERTY**

COMMERCIAL PROPERTY QUALIFIES IF:

- A. It is occupied by a business which had no more than 10 employees on average the previous calendar year.**
- B. The assessed valuation of the property was less than \$1,000,000 prior to the exemption.**

Small Commercial Exemption - Continued

The Commissioner, Dept of Workforce Development, annually provides the Assessors with a list of qualified businesses. The business occupying the property must be on this list to qualify unless it is a sole proprietorship or partnership, in which case the Assessors must make the determination.

If there are multiple businesses on the property ALL the businesses must qualify in order for the exemption to be granted.

If the property has residential and commercial elements all the commercial tenants must qualify.

The exemption ONLY impacts the Commercial and Industrial classes. It shifts some of the taxes to the non-qualified Commercial and all the Industrial properties.

The exemption does not affect the amount of taxes raised by the Town.

Small Commercial Exemption Example

RESIDENTIAL	\$11,863,466,810	88.52%
OPEN SPACE	\$0	0.00%
COMMERCIAL	\$1,280,508,135	9.55%
INDUSTRIAL	\$81,780,400	0.61%
PERSONAL	\$176,362,180	1.32%
TOTAL	\$13,402,117,525	100%

QUALIFIED PARCELS:

A review of the 2010 Qualified Businesses found 286 parcels met the preliminary qualifications. The total FY 2010 value of these 286 parcels was \$100,229,500.

FULL AND FAIR CASH VALUE	\$100,229,500
EXEMPTION PERCENTAGE	10%
EXEMPTION VALUATION	<u>\$10,022,950</u>
ADJUSTED CLASS VALUATION	<u>\$90,206,550</u>

CLASS	VALUE	LEVY
COMMERCIAL	\$1,280,508,135	\$8,771,481
INDUSTRIAL	\$81,780,400	\$560,196
TOTAL	\$1,362,288,535	\$9,331,677
EXEMPTION AMOUNT	<u>\$10,022,950</u>	
ADJUSTED TAXABLE VALUE	<u>\$1,352,265,585</u>	

The tax rate is arrived at by dividing the levy of each class by the total value of the class and multiplying by 1,000.

$$\text{Rate} = \$9,331,677 / \$1,352,265,585 \times 1,000 = \$6.90$$

Small Commercial Exemption Example - Continued

TAX BILLS OF SAMPLE QUALIFYING PROPERTY WITH & WITHOUT EXEMPTION AT 10%

	<u>TAX VALUE</u>	<u>TAX RATE</u>	<u>BILL</u>	<u>DIFFERENCE</u>
TAX WITHOUT EXEMPTION	\$250,000	\$6.85	\$1,713	
TAXPAYER QUALIFIED	\$225,000	\$6.90	\$1,553	-\$160.00
TAXPAYER NOT QUALIFIED	\$250,000	\$6.90	\$1,725	\$12.50
TAX WITHOUT EXEMPTION	\$500,000	\$6.85	\$3,425	
TAXPAYER QUALIFIED	\$450,000	\$6.90	\$3,105	-\$320.00
TAXPAYER NOT QUALIFIED	\$500,000	\$6.90	\$3,450	\$25.00
TAX WITHOUT EXEMPTION	\$750,000	\$6.85	\$5,138	
TAXPAYER QUALIFIED	\$675,000	\$6.90	\$4,658	-\$480.00
TAXPAYER NOT QUALIFIED	\$750,000	\$6.90	\$5,175	\$37.50
TAX WITHOUT EXEMPTION	\$1,000,000	\$6.85	\$6,850	
TAXPAYER QUALIFIED	\$899,999	\$6.90	\$6,210	-\$640.01
TAXPAYER NOT QUALIFIED	\$1,000,000	\$6.90	\$6,900	\$50.00