Boston City Council

Committee on Ways & Means
Mark Ciommo, Chair

December 7, 2010

Dear Councilors:

The Committee on Ways & Means held a hearing on **December 7, 2010** in order to discuss:

Docket #1595 - Message and order authorizing the City to increase the amount of the 41C Elderly Property Tax Exemption that pursuant to Massachusetts General Laws Chapter 59, Section 5 Clause 41C, the City of Boston elects to increase the minimum exemption amount from $500.00 to $750.00.

This order was sponsored by Mayor Menino and referred to Committee on December 1, 2010.

Docket #1614 - Order that pursuant to Chapter 40, section 56, the residential factor in the City of Boston for FY2011 shall be the minimum residential factor as determined by the Commissioner of Revenue pursuant to M. G. L., Chapter 58, section 1A, and be it further that pursuant to Chapter 403 of the acts of 2000, a residential exemption in the amount of value equal to thirty percent (30%) of the average assessed value of all Class One-Residential parcels in the City of Boston be, and hereby is approved for Fiscal Year 2011.

This order was sponsored Councilor Ross and referred to Committee on December 1, 2010.

Having considered the information presented and the testimonies heard, the Chair respectfully recommends that these matters **ought to pass**.

For the Chair:

Mark Ciommo

Mark Ciommo
Committee on Ways & Means

Fiscal Year 2011 Classification Hearing

Pursuant to G.L. Chapter 40, § 56, the City Council, together with the approval of the Mayor, must determine the percentages of the tax levy to be borne by each class of property for Fiscal Year 2011. In addition, the City must also determine whether to establish an exemption for owner occupied residential properties. The decision whether to implement classification and the residential exemption is a local option. These determinations must be made prior to the certification of the City's tax rate.

CLASSIFICATION

Pursuant to G.L. 59, § 2A, the Assessing Department has assigned each parcel of real property in the city to a class according to its use -- *Residential, Commercial, Industrial* or *Open Space.* Personal property is treated separately. Each parcel of property is assessed at its full and fair cash value.

Class One - Residential: includes all property containing one or more units held for human habitation. This would include single-family homes, large apartment buildings, accessory land and buildings. Motels or hotels are not included.

Class Two - Open Space: includes land maintained in an open or natural condition, which contributes significantly to the benefit and enjoyment of the public. Such land cannot be held for the production of income.

Class Three - Commercial: includes any property held for the purpose of conducting business e.g. office buildings, retail stores, etc.

Class Four - Industrial: includes property involved in the manufacturing, processing or extraction of raw material. It also includes utility real property.

The *Personal Property* class contains taxable personal property of individuals, partnerships, associations, and certain corporations.

Allocating the Levy

State Law requires that all property be assessed at its full market value. Cities and towns in the Commonwealth that have been certified by the Commissioner of Revenue as assessing property at full and fair cash value must annually determine the percentages of the tax levy to be borne by each class of property for the next fiscal year (G.L. Chapter 40, § 56).

The City's tax levy is allocated between residential and business properties using the classification formula provided in state law. The maximum amount of discount available to residential property is determined by the minimum residential factor, calculated by the Department of Revenue. The decision whether to implement classification is a local option.

Change in Classification Law

The citizens of the Commonwealth approved a constitutional amendment in 1978 authorizing the creation of four classes of real property and the taxation of these new property classes at different rates.

Following the passage of the classification amendment, the Legislature established statutory limits on the discount available to residential property, as well as the maximum increase that could be placed on business properties. Under the original legislation, the tax rate for residential property could be discounted down to 65% of the non-classified tax rate (i.e., what the rate would be without classification), provided that this rate did not increase the tax rate for business properties to more than 150% of the non-classified rate.

These limits remained until 1988, when valuation trends resulted in an increasing share of the property tax burden falling on residential properties. As a result, the Legislature expanded the statutory classification limits. The revised law provided that residential taxes can be no lower than 50% of the non-classified tax rate, provided that business properties not be taxed for more than 175% of what these classes would pay without classification. An additional limitation was imposed to ensure that the residential portion of the levy was not reduced below its lowest level since the implementation of classified rates. In Boston, this change effectively created a 70%-30% split between business and residential properties that existed through Fiscal Year 2002.

In Fiscal Year 2004, valuation trends again threatened to shift a significant portion of the City's tax levy onto residential taxpayers. The Mayor, with the support of the City Council, filed legislation to amend the classification law. Under the new law passed by the Legislature and approved by the Governor in January 2004, there were expanded classification parameters for fiscal years 2004 through 2007. The expanded parameters for determining the maximum shifts for communities that qualify were:

Fiscal Year	*Business Factor*	*Residential Factor*
2004	200%	45%
2005	197%	47%
2006	190%	49%
2007	183%	50%
2008	175%	50%

In Fiscal Year 2009, the business factor would have decreased to 170%, below the pre-2004 level. In an effort to prevent this shift onto residential taxpayers, the Mayor filed a bill in 2007 to permanently establish the business classification factor at 175%. The Mayor's bill also eliminated a provision in the classification law that prevented a reduction in the share of the tax levy paid by residents. Chapter 169 of the Acts of 2007 will keep the business classification factor at 175% for Fiscal Year 2010 and future years.

Classification Impact

In Fiscal Year 2011, residential taxpayers will once again save considerable tax dollars due to classification. Classification in Boston began with the passage of a constitutional amendment in 1978 that created four classes of property, with the new property classes taxed at different rates. All classes of property would be taxed at the same rate without this legislation, placing a heavy burden on residential taxpayers. For illustration purposes, the chart below shows Fiscal Year 2010 homeowner savings when comparing tax bills with and without classification (tax amounts include residential exemption).

Assessed Value	Tax With Classification	Tax Without Classification	Savings
$250,000.00	$1,483.93	$2,711.49	$1,227.56
$375,000.00	$2,968.93	$4,810.27	$1,841.34
$500,000.00	$4,453.93	$6,909.05	$2,455.12

RESIDENTIAL EXEMPTION

In addition to the residential factor, the City of Boston must decide whether to establish a residential exemption within the residential class for parcels which are the principal residence of a taxpayer (G.L. Ch.59, § 5C). A residential exemption is an assessed dollar amount of value that is exempt from taxation. The adoption of a residential exemption shifts the tax burden within the residential class but has no effect upon the other classes of property.

In 2000, the City petitioned the legislature to approve an increase in the residential exemption. The Legislature enacted Chapter 403 of the Acts of 2000, which allows the City to increase the residential exemption to 30% of the average assessed value of all Class One residential parcels in the City.

The City Council, with the approval of the Mayor, has chosen the maximum exemption allowed by law in each year since the exemption was made available in 1983. Extending the limit on the residential exemption to 30% is consistent with the City's historical commitment to keeping taxes affordable for homeowners.

Last year, the exemption saved qualifying homeowners $1,486.07 off their tax bills. For illustration purposes, the following table demonstrates the FY 2010 savings for homeowners who received the residential exemption.

Assessed Value	Tax With Residential Exemption	Tax Without Residential Exemption	Savings
$250,000.00	$1,483.93	$2,970.00	$1,486.07
$375,000.00	$2,968.93	$4,455.00	$1,486.07
$500,000.00	$4,453.93	$5,940.00	$1,486.07