The Commonwealth of Massachusetts
Department of Revenue
Division of Local Services

Ira A. Jackson
Commissioner

Edward J. Collins, Jr.
Deputy Commissioner

BUREAU OF LOCAL ASSESSMENT

INFORMATIONAL GUIDELINE RELEASE NO. 85-402

SUBJECT: ANNUAL DETERMINATION OF LEVY PERCENTAGES

JUNE 1985

FISCAL YEAR 1986

GUIDELINES FOR ANNUAL DETERMINATION OF LEVY PERCENTAGES BY CLASS

(Chapter 797 of the Acts of 1979)

Local officials are required to determine annually, after a public hearing, the percentages of the tax levy to be borne by each class of real property: residential, open space, commercial and industrial, and by personal property for the fiscal year, provided that the Commissioner certifies, every three years, that their community is assessing property at full and fair cash value. This requirement is set forth in General Laws Chapter 40, Section 56.

I. GUIDELINES

Cities and towns certified by the Commissioner as assessing property at full and fair cash value as of January 1, 1983 for fiscal year 1984 or as of January 1, 1983 for fiscal year 1985 shall follow the procedures set forth in these guidelines prior to establishing the fiscal year 1986 tax rate.

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A. Establishment of Assessments

1. The Board of Assessors shall determine the assessed value of all property as of January 1 1985, as required by Chapter 59, Section 38.

a. The assessors may reassess property to reflect full and fair cash value, provided that appropriate appraisal methods are employed and that the resulting values, as to level and uniformity, are consistent within each property class, as well as between all property classes.

(1) Assessors that propose to reassess must seek prior approval from the Commissioner by submitting the following to the Bureau of Local Assessment:

(a) A written notice of intent to reassess that includes a request that the Bureau perform an assessment-sales ratio study.

(b) A brief description of the appraisal methodologies being employed to develop residential, commercial, industrial, land, and personal property values as of January 1, 1985. It is not necessary to submit detailed documentation supporting proposed valuation increases with the request, although the assessors may do so. However, such documentation must be submitted to the Bureau with the Form LA-2, "Total Valuation of All Property." See Section A-3-b below.

(2) After reviewing the assessors' request, the Bureau shall:

(a) Conduct an analysis of residential and land sales.

(b) Determine the overall percentage increase, if any, in the level of assessed valuation that is warranted to reflect full and fair cash value in those classes.

(c) Notify the assessors of the results of the statistical study and of the overall increase warranted by the market.

b. The assessors may adjust valuations to reflect changes in the tax base due to new construction, alterations, demolitions, etc. between January 1, 1984 and January 1, 1985.

2. The assessors shall determine the usage classification of all property as of January 1, 1985, as required by Chapter 59, Section 38.

3. After assessments are determined as of January 1, 1985 to reflect changes in value, usage classification and/or tax base, the assessors shall submit to the Bureau of Local Assessment:

   a. The total valuation of each class of real property and of personal property on Form LA-2, "Total Valuation of All Property." (Attached).

   b. Documentation supporting any increases in commercial, industrial and personal property values. The type of documentation presented must reflect the appraisal method(s) appropriate to those property types. For example, if the cost approach was employed, the analysis would indicate the extent of increases in land values and building costs since the last reassessment. If the income approach was employed, an analysis of current income, expenses and capitalization rates would be undertaken to document the extent of any changes in those factors.

   c. Tax base growth on Form LA-13, "Assessment Change List," including supporting documentation. Refer to Bureau of Local Assessment Informational Guideline Release Number 85-403 for further instructions.

4. The Bureau of Local Assessment will review the information submitted by the assessors to ensure that the overall increases in assessed value from the fiscal year 1985 assessment roll are consistent with the market, as indicated by the Bureau's sales analysis and the assessors' supporting documentation.

B. <u>Determination of Minimum Residential Factor and Certification</u>

1. <u>Determination of Minimum Residential Factor</u>

   a. Based upon the total valuation of each class as submitted by the assessors, the Commissioner shall determine a minimum residential factor for each city and town that he has previously determined to be assessing property at full and fair cash valuation. (Ch. 58, S. 1A).

(1) This factor shall be 65 percent subject to such adjustment upward as may be required to provide that the percentage of the total tax levy imposed on any class of real or on the class of personal property shall not exceed 150 percent of the full and fair cash valuation of the taxable property in that class divided by the full and fair class valuation of all taxable real and personal property in the city or town.

(2) In no instance shall the minimum residential factor determined by the Commissioner be greater than 100 percent, although a city or town may adopt a residential factor greater than that amount. See Section C-2 below.

b. The statutory formula set forth above uses the percentage share of the tax burden that each class of property bears to the total after revaluation to establish the limits within which a community may shift the tax burden from the residential and open space property classes to the commercial, industrial and personal property classes.

(1) The Commissioner may not establish a minimum residential factor below 65 percent, which is the minimum share of the tax levy that the residential and open space classes may bear if the commercial, industrial and personal property classes are to bear no more than 150 percent of their full and fair cash value percentage share of the total tax levy.

(2) The Commissioner may not establish a minimum residential factor greater than 100 percent. However, a city or town may adopt a residential factor greater than that amount, and thereby increase the tax burden on the residential and open space classes.

(3) By adopting a residential factor either at or above the minimum established by the Commissioner, a city or town is assured that the tax levies set for each class of property will fall within the limits prescribed by law.

2. <u>Certification</u>

The Commissioner shall transmit, in writing, to the Board of Assessors of each city and town that he has previously determined to be assessing at full and fair cash value:

a. The certified total taxable value of each of the four classes of real property and the class of personal property, and

b. The minimum residential factor.

C. <u>Allocation of Local Tax Levy</u>

1. <u>Public Hearing</u>

After receipt by the Board of Assessors of the Commissioner's certifications of the total valuation of each class and the minimum residential factor, the Board of Selectmen or Town Council of each town or the City Council of each city shall conduct a public hearing on the issue of allocating the local property tax levy among the property classes for the fiscal year. (Ch. 40, S. 56 as amended by Ch. 369 of the Acts of 1982 and Ch. 79 of the Acts of 1983).

a. The public hearing called by the Selectmen or City Council shall comply with the requirements of the Open Meeting Law, as supplemented by local by-law or ordinance.

b. Local officials must provide notice of the conduct of the hearing to all taxpayers by a comprehensive public information release in a newspaper of general circulation in the community, as well as in any other appropriate news media. The release should provide the date, time and place of the public hearing, should provide information regarding the policy decisions available, and should indicate the manner by which interested taxpayers may present oral or written information on their views. In providing notice and conducting the public hearing, local officials shall further the legislative intent to provide an open forum for the discussion of local property tax policy.

(1) If property has been reassessed, the assessors must also provide notice of the reassessment program to taxpayers by having included in the release information on the basis of the valuation changes and the program's overall effect on assessments or by issuing a separate release prior to tax billing that provides such information.

c. At the public hearing, the Board of Assessors shall provide all information and data relevant to making a decision on allocating the tax burden including the fiscal effect of the available alternatives.

The statutory formula for determining the allocation of the tax burden among the four classes of real property: residential, open space, commercial and industrial, and the class of personal property is set forth in Ch. 40, S. 56. By adapting the allocation formula to the circumstances of their city or town, the assessors can provide the information required for the public hearing.

2. <u>Adoption of Residential Factor</u>

After holding the public hearing, the Board of Selectmen or Town Council in a town, or the City Council, together with the approval of the Mayor, in a city, shall determine the percentages of the tax levy to be borne by each class of property for the fiscal year. (Ch. 40, S. 56).

a. In determining those percentages, the Selectmen, Town Council or City Council, together with the Mayor's approval, shall first adopt a residential factor. In a city, if the Mayor vetoes the City Council's factor, the City Council may override the veto with a vote equal to two-thirds of the members elected. The residential factor adopted must be an amount not less than the minimum residential factor calculated by the Commissioner. See Section B-1 above.

b. The residential factor adopted by a community governs the percentage of the tax levy to be borne by residential property owners. If local officials choose a low residential factor, (for example, the statutory minimum of 65 percent) residential property will bear a proportionately lower share of the total levy. A residential factor of "1" will result in the taxation of all classes of property at the same rate. The statute permits a city or town to adopt a residential factor greater than 100 percent (Ch. 58, S. 1A), which would have the effect of decreasing the commercial, industrial, and personal property tax rates and increasing the rates for residential and open space property.

c. When determining the residential factor, local officials may select a percentage for Class Two, Open Space, which may not be less than 75 percent of its full and fair cash value percentage. The residential class alone absorbs any discount applied to the open space class.

d. The percentage to be borne by the remaining three classes can be calculated according to the provisions of Ch. 40, S. 56, using the residential and open space factors.

3. <u>Residential Exemption</u>

a. At the option of the Board of Selectmen or Mayor, with the approval of the City Council, an exemption of not more than 10 percent of the average assessed value of all Class One, Residential, parcels may be applied to residential parcels which are <u>the principal residence of the property taxpayer as used by the taxpayer for state income tax purposes as of January first</u>. (Ch. 59, S. 5C as amended by Ch. 369 of the Acts of 1982).

b. Principal residence is ordinarily the residence in which a property taxpayer lives. It is the taxpayer's domicile, that is, his fixed place of habitation, permanent home or legal residence. Therefore, Class One, Residential, parcels not eligible for the residential exemption would include accessory land incidental to a residential use, summer homes, or residential property not occupied by the owner, such as apartments.

c. The application of the residential exemption, in addition to any other exemptions allowable under Ch. 59, S. 5, may not reduce the taxable value of the property to less than 10 percent of its full and fair cash value, except through the application of the hardship exemption found in Ch. 59, S. 5, Cl. 18 and those provisions relating to the severest form of paraplegia.

4. <u>Tax Rate Approval</u>

a. Once the public hearing has been held and the percentages of the tax levy to be borne by each property class have been determined, the assessors shall submit to the Bureau of Local Assessment Form LA-5, "Classification Tax Allocation."

b. Upon the Commissioner's determination that the percentages meet statutory requirements and that the public hearing has been held, the assessors shall submit to the Property Tax Bureau the local tax rates for final approval using the total valuations of each property class, as certified by the Commissioner, and the percentages of the tax levy to be borne by each property class, as determined by local officials.

(1) Tax bills for cities and towns implementing a classified tax system must comply with the requirements of Ch. 60, S. 3 and be in the form approved by the Property Tax Bureau.

(2) The Property Tax Bureau shall not approve the setting of a tax rate until each of the foregoing requirements have been met.

II. ANNUAL DETERMINATION OF LEVY PERCENTAGES: A STEP BY STEP SUMMARY

NOTE: Steps 1 and 2 applicable only if reassessing.

Assessors

1. Request sales analysis and submit Forms LA-3 "Property Sales Reports."

Bureau of Local Assessment

2. Conduct sales analysis and notify assessors of market increase warranted.

Assessors

3. Determine final valuations for all properties.

4. Classify all real property according to use.

5. Submit total valuations for each class of property to Bureau of Local Assessment on Form LA-2 "Total Valuation of All Property" along with supporting documentation if reassessing.

6. Submit tax base growth to Bureau of Local Assessment on Form LA-13 "Assessment Change List," along with all supporting documentation.

Bureau of Local Assessment

7. Calculate Minimum Residential Factor.

8. Submit final certification documents to local assessors (Form LA-5 "Classification Tax Allocation" and LA-7 "Minimum Residential Factor Computation").

Selectmen or City Council

9. Call and hold public hearing on classification.

Assessors

10. Present data on impact of classification options.

Selectmen or City Council with Approval of Mayor

11. Adopt Residential Factor.

12. Decide whether to grant Open Space Discount.

Selectmen or Mayor with approval of City Council

13. Decide whether to grant Residential Exemption.

Assessors

14. Notify Bureau of Local Assessment of local classification decisions by submitting Form LA-5 "Classification Tax Allocation."

15. Submit Tax Rate Recapitulation Sheet to Property Tax Bureau.

Bureau of Local Assessment

16. Calculate and certify the amount of tax base growth.

17. Submit approved Form LA-5 "Classification Tax Allocation" directly to Property Tax Bureau.

Property Tax Bureau

18. Determine levy limit.

19. Certify tax rate.

Massachusetts Department of Revenue

Division of Local Services

Informational GUIDELINE Release

Commissioner Ira A. Jackson
Deputy Commissioner Edward J. Collins, Jr.

Bureau of Local Assessment
Informational Guideline Release (IGR) No. 85-402
June 1985

FISCAL YEAR 1986
GUIDELINES FOR ANNUAL DETERMINATION OF LEVY PERCENTAGES BY CLASS

The enclosed IGR provides Boards of Assessors and other local officials with information regarding the annual assessment and classification of property, calculation of a minimum residential factor and allocation of the tax levy among property classes for fiscal year 1986. An IGR on this topic is issued annually, applicable for the next fiscal year.

The IGR includes:

1. A detailed explanation of the requirements to be met and procedures to be followed by local officials in communities that met triennial certification requirements in fiscal years 1984 and 1985 prior to setting a tax rate in fiscal year 1986;

2. A step by step summary of those requirements and procedures; and

3. A Form LA-2, "Total Valuation of All Property."

This IGR replaces entirely IGR No. 84-402.

Questions should be addressed to the Bureau of Local Assessment, as shown on the first page of the IGR.

Topical Index Key:

Classification and Taxation
of Property According to Use

Distribution:

All Boards of Assessors
In applicable cities/towns:
Boards of Selectmen/Mayors/
Managers/City or Town
Councillors/Aldermen

100 Cambridge Street, Boston, Mass. 02204 (617) 727-4201

8-253

Comm. from the Mass. Dept. of Revenue, Bureau of Local Assessment, transmitting informational guidelines on Chapter 797 of the Acts of 1979 Re: annual determination of levy percentages by class.

Copy sent to the City Manager & Board of Assessors 8/8/85 mh

In City Council,

August 5, 1985

8/5/1985

Referred to the City Manager and Board of Assessors