Report of the Clinton Board of Selectmen's Tax Classification Subcommittee

November 15, 2018

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Background

The Clinton Board of Selectmen's Tax Classification Subcommittee was made up of Selectman Michael Dziokonski, Selectman Sean Kerrigan, Principal Assessor David Baird, Paul Cherubini and Stephen Philbin. Town Administrator Michael Ward and Community and Economic Development Director Philip Duffy attended some meetings in advisory roles.

The subcommittee met four times, on April 25, May 10, May 30 and October 30, 2018. The subcommittee's charge was to review the town's split tax rate and make recommendations, if any, on how to proceed with tax classification moving forward.

Tax split history

In 1978, Massachusetts voters approved an amendment to the state constitution authorizing the Legislature to split real property into as many as four classes, and to tax these classes differently, provided a community was certified as assessing property at a full and fair cash value. Thus, the split tax rate was born.

> *The determination to implement differential tax rates is a local option that is made each year by the selectmen in a town or the mayor and city council in a city. After the Commissioner certifies that the municipality's values represent full and fair cash values and the property is classified according to use, local officials are permitted to determine the proportion of the tax burden to be borne by each class of property. The Commissioner of Revenue determines the allowable limits of this shift for each community on an annual basis.*
>
> SOURCE: Tax Classification Report, Mass DOR, December 2004

Under a split tax rate, a community can shift its total tax burden among classes. Normally, the burden is shifted from residential property owners to commercial and industrial property owners, to provide taxpayer relief.

Since it was first adopted in 1982, Clinton's tax rate split has been at or near the maximum allowed (175 percent), meaning commercial and industrial property owners have paid significantly more than their residential counterparts here. In FY16 (the most recent data available from the state's Department of Revenue), the town ranked among the top third of cities and towns with split tax rates.

The split dipped below 165 percent for the first time in 2016 and, after a 3 percent decrease in 2015, the board has voted to decrease the split by 2 percent each year from 2016 to 2018. This four-year period represents the only sustained reduction of the split in town history.

The current tax split (FY18) is 158 percent, resulting in a residential tax rate of 16.98 per $1,000 of valuation and a commercial/industrial rate of 30.73. The average single-family home in Clinton is $251,960 (FY18), resulting in an average residential tax bill of $4,278.

Not every community splits its tax rate. In fact, a majority of cities in towns in Massachusetts (242 of 351) have a single tax rate, where residential property owners pay the same rate as commercial and industrial property owners.

How Clinton sets its property tax rate
Each December, a public hearing on the town's property tax rate is held with the Assessors Office, after which the Board of Selectmen votes to set the property tax rate for the fiscal year.

The basic formula for setting a tax rate divides the tax levy (the amount needed to be raised in a fiscal year) by the current value of properties (which can go up or down based on the market and local assessments). Assuming the same levy, as values go up, the rate goes down. As values go down, the rate goes up.

To determine a split tax rate, a single rate is first determined (levy/value x 1,000). Then that single rate is multiplied by the shift percentage (currently 158 percent) to determine the rate for commercial, industrial and personal properties (CIP). The CIP tax is then calculated and subtracted from the overall levy. The balance is distributed to the residential valuation, upon which a residential rate is set.

Exemptions
Clinton has a robust tax exemption program that takes full advantage of what is allowed by law, including relief programs for the elderly, the blind and disabled veterans. At the 2108 Town Meeting, voters approved an expansion of this exemption program by adding a 41C program, reducing the minimum age of those eligible to apply.

Other relief is available through tax deferrals and a senior work program, although the latter is not commonly utilized.

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Comparable towns

Comparing Clinton to other towns in the region is difficult, as its demographics and geography are unlike most neighbors.

Surrounding Community Comparisons

	Rate(s)	Average Residential Tax
Clinton	$16.98/30.73	$4,278
Berlin	$14.60/23.36	$5,770
Bolton	$20.66	$10,623
Boylston	$16.73	$6,486
Lancaster	$19.98	$6,350
Sterling	$17.54	$5,675
West Boylston	$18.72	$5,428

Similar Community Comparisons

	Rate(s)	Average Residential Tax
Clinton	$16.98/30.73	$4,278
Athol	$19.57	$2,883
Ayer	$14.43/31.00	$4,514
Holden	$17.61	$5,426
Hudson	$17.50/35.18	$6,114
Leominster	$19.33	$4,794
Maynard	$22.64/31.10	$7,440
Millbury	$16.34	$4,395
Ware	$20.71	$3,708
Worcester	$18.97/34.03	$4,029

SOURCE: Clinton Assessors Office

Trends

Over the past few years, residential property values west of Boston have risen. Worcester County, and Clinton, are no exception.

According to the Board of Assessors, residential value in Clinton has grown at a considerable rate over the past two years and should continue to grow. Another key indicator, average days on market, is at a 15-year low in Clinton at 51 days. Commercial/industrial growth has been slow over the same two-year period, but has increased for FY19. 2020 is expected to have some considerable growth in this area.

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	2018 value change	2019 value change
Single family	10.5	6.2
Condominiums	7.9	6.5
Two and three family	5.2	4.6
Multi-family	2.0	12.4
Commercial	unchanged/stable	3.7
Industrial	unchanged/stable	8.8

SOURCE: Clinton Assessors Office

Personal property equipment is showing signs of strong continued growth but is more volatile than real estate and should not be considered for funding of ongoing/operating expenses.

Despite these increases, current sales data from Multiple Listing Services show that local valuations are still below that of market value, suggesting that residential property values could continue to rise into the FY20 valuation cycle. Another key indicator, average days on market, is at a 15-year low in Clinton at 51 days. According to the Assessors Office, a further increase of 6 to 13 percent can be expected in residential properties.

While Clinton's commercial/industrial tax base makes up 10.6 percent of the FY18 valuation, commercial/industrial property owners paid 16.7 percent of the FY18 levy as a result of the town's split tax rate. The town's residential taxpayers accounted for 71.6 percent of the FY18 levy, despite making up 82 percent of the FY18 valuation.

FY18 valuation:	$1,311,656,461
Residential:	$1,076,067,370 (82 percent)
Commercial/industrial:	$70,149,204/68,439,661 (10.6 percent)
Personal:	$97,000,226 (7.4 percent)

FY18 Levy:	$25,511,277
Residential:	$18,271,624 (71.6 percent)
Commercial/industrial:	$2,155,685/2,103,151 (16.7 percent)
Personal:	$2,980,817 (11.7 percent)

SOURCE: Clinton Assessors Office

Advantages and disadvantages

We could find no reliable source of a direct correlation between lower commercial/industrial tax rates and communities with a successful business sector.

Most "success stories" of luring business to a community are anecdotal, and opinions are often split along the lines of common biases toward lower taxes for residential owners at any costs or doing whatever it takes to attract businesses. For every story of an ABC Corporation moving to take advantage of lower taxes, there's another where a company simply preferred a certain parcel or building.

Lower taxes is undeniably a factor in attracting business, but how far up the list it ranks depends on the company, the community and a whole host of other things.

An October 2014 report in the Worcester Business Journal cites economist Barry Bluestone, director of the Dukakis Center for Urban and Regional Policy at Northeastern University, who said data suggest local tax rates don't usually make or break the local economy:

> *In 2013, Bluestone published a report following a survey of 240 members of the National Association of Industrial & Office properties, who weighed in on the most important factors in finding new locations. The top three? Parking, rental rates and availability of qualified workers. Property taxes came in ninth.*
>
> SOURCE: Worcester Business Journal, October 27, 2014

Philip Duffy, director of the town's Community and Economic Development Office, provided a similar opinion, pointing to the costs of energy, retaining employees and health insurance as some other contributing factors.

While certainly providing an immediate reduction of residents' tax bills, adjusting the split to create a lower residential rate might be creating long-term negatives that go beyond suppression of business development.

The town's master plan, updated most recently in April 2012, points out that the split tax rate offers Clinton "both advantages and disadvantages":

> *Its traditional tax policy helps to keep the cost of living low for residents but also makes it more difficult to do business. Clinton's approach to property tax rates is more like that of the Commonwealth's cities and larger, maturely developed suburbs than the small towns in its area . . . Most of the nearby cities, including Worcester, Fitchburg and Marlborough, have split tax rates, too. While Clinton has more commercial and industrial development than its neighbors, it does not have the amenities or transportation access found in the cities with which it competes for labor.*
>
> SOURCE: Clinton Master Plan, Page 31, April 2012

A lower residential rate also costs the town in undertaxed new growth, a great deal of which comes from residential development, and by creating real and perceived impediments to attracting business.

> *On one hand, Clinton has benefited from this aspect of Proposition 2½ because its "new growth" tax revenue has been fairly strong, often equaling or slightly exceeding the state average for new growth revenue as a percentage of the previous year's tax levy limit. On the other hand, Clinton's new growth revenue has come with some costs. With few exceptions, a substantial majority of each year's new-growth tax revenue has been generated by residential development. Since Clinton taxes residential property at a much lower rate than businesses, the town does not gain from residential growth to the same extent as other towns. Moreover, Clinton may be making it more difficult to attract and retain businesses, particularly small businesses, because the tax rate for business property is very high relative to the surrounding region.*
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> SOURCE: Clinton Master Plan, Page 103, April 2012

Affordability is a major selling point in Clinton, as housing trends clearly show. But lower residential tax rates could serve as a disincentive to residential maintenance and improvements, as well, robbing the town of the character that makes it so special — and attractive to new residents.

> *Clinton's affordability is an asset for continuing to attract a diverse population. Planning now for market recovery would make sense, along with creating the regulatory framework to prevent the razing of residential structures to make way for larger housing that is incompatible with neighborhood character. Most reasonably priced houses will*

> *sell, and Clinton is one of the remaining nodes of reasonably priced housing in the region. At the same time, its affordability and extremely low residential tax rate serve as disincentives to maintain and improve residential properties, particularly in neighborhoods with low property values. The cumulative effects of razing older homes, neglecting the quality of historic multi-family housing, and permitting infill development without adequate design controls could mean a loss of character and fundamental change in the physical form of Clinton's established neighborhoods.*
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> SOURCE: Clinton Master Plan, Page 90, April 2012

Recommendations

Clinton's split tax rate may have been intended to provide a benefit to residential taxpayers but, over time, the practice has cost the town long-term growth and improvement at the expense of immediate relief.

Clinton is a town founded on industry and, to reach its fullest potential, we believe it must nurture a vibrant and varied business community. Even if we can't point to concrete examples of the shift hurting business, it has undoubtedly contributed to the perception that Clinton isn't doing everything it can to attract business or support those already here.

Surely, expanding Clinton's commercial/industrial tax base is a challenge involving many factors that go well beyond setting the tax rate. However, we feel the town cannot afford to leave any options on the table in this area.

As a result, we recommend a slow, steady move toward a more equitable tax burden for all property owners, whether residential, commercial or industrial.

1. **Reduce the town's tax rate split at the rate of 2 percentage points a year until a single rate is achieved.** Making an all-at-once leap to a single rate of $19.45 would result in a jarring increase of $883 to the average residential taxpayer. Chipping away at the split would spread out that impact to residential property owners over time, and demonstrate that the town is committed to improving the climate for businesses here.

2. **Continue to expand exemption programs as allowed by law.** Publicize the availability of these programs, and the senior work program, to increase participation among those potentially affected by a tax increase.

Conclusion

In 2004, the state Department of Revenue prepared a report to the state Legislature on property tax classification. It reads in part:

> *While we have serious doubts about a property tax system that allows the CIP classes to be taxed at such high rates, we recognize that classification is firmly entrenched in Massachusetts. However, we found that there is little justification for classification other than the politically expedient outcome of keeping the residential tax burden low. Clearly, authorizing ever-increasing shifts to the CIP classes is not good public policy and, at some point, raises constitutional issues. Though not the primary factor when businesses make locational decisions, higher CIP taxes also serve as an impediment to attracting and retaining business in certain communities.*
>
> SOURCE: Tax Classification Report, Mass DOR, December 2004

No one wants higher taxes. And making tough choices now that might not benefit the town until later takes courage, especially when an increase in the tax split provides immediate relief to every residential taxpayer (and potential voter) who lives here.

Clinton isn't alone. Many towns use the tax split as a way to soften the blow of normal increases in value, or to placate residents with lower taxes. It doesn't mean it's right, or that we can't correct past practice and do the right thing.

> *It appears that variations in the "split," over time, have been used to mitigate fluctuations in the residential tax burden that might otherwise occur because of differences in rate of change between residential and non-residential real estate values and the resulting change in shares of the Town's assessed valuation. Those annually reconsidered shifts also send a signal to business, and influence the kinds of business that can prosper in Lexington.*
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> SOURCE: Town of Lexington 2003 Comprehensive Plan, Page 82

We feel that, by continuing the Board of Selectmen's recent efforts to reduce the property tax split, the town will be taking another step toward improving the opportunities and quality of life for all Clintonians, not just today but for years to come.

Selectman Michael Dziokonski
Selectman Sean Kerrigan
Principal Assessor David Baird

Paul Cherubini
Stephen Philbin

Related articles

Some communities wrestle with property tax rates, but how key are they to business growth? (Worcester Business Journal, October 27, 2014)

Why a dual tax rate is bad for the local economy (The Sun Chronicle, November 10, 2015)

Worcester's split tax rate doesn't add up (Editorial, Worcester Business Journal, November 21, 2016)

Split Roll Property Taxes (Institute on Taxation and Economic Policy, September 1, 2011)

The Case for a Single Tax Rate (The Research Bureau)

Split-Tax Rate Research (National Association of Realtors, September 17, 2012)

Restraining the Leviathan: Property Tax Limitation in Massachusetts (Federal Reserve Board)

Massachusetts Dual Tax Rates: A Case Study in Worcester (MassLandlords.net, December 9, 2014)

Municipal Corporations, Homeowners and the Benefit View of the Property Tax (William A. Fischel, Professor of Economics, Dartmouth College, April 2, 2000)

Property Taxes under "Classification": Why do firms pay more? (Nai Jia Lee, National University of Singapore and William C. Wheaton, MIT)

Homevoters, Municipal Corporate Governance, and the Benefit View of the Property Tax (National Tax Journal, March 2001)

Property Tax Facts & Figures (City of Boston Assessing Department)

Property tax deferral: A proposal to help Massachusetts' seniors (Center for Retirement Research at Boston College)

Senior circuit breaker tax credit (Mass.gov)

Mayor's task force wants Worcester control over tax policy (Telegram & Gazette, November 4, 2016)

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Mayor's Tax Policy Committee: A Report of the Discussions (Worcester Mayor's Office, October 2016)

Economic Development (Town of Lexington)