Splitting the Differences: Reviewing Tax Rate Shifts
Susan Whouley - Bureau of Accounts Field Representative

In 1974, the Massachusetts Supreme Judicial Court held in the Sudbury case that the Commissioner of Revenue had both the power and the duty to direct assessors to maintain full and fair cash valuations. After this decision, and given how property was assessed at the time, many predicted a property tax burden shift from business to residential properties. Four years later, Massachusetts voters approved a Constitutional amendment authorizing the Legislature to classify real property into as many as four classes and to tax these classes differently. The following year, the Massachusetts Classification Act allowed cities and towns certified by the Commissioner of Revenue as assessing property at full and fair cash value, to adopt different tax rates for certain classes of property by local option and within certain legal limits. In effect, the property tax burden could then be shifted to the business classes.

Shifting the Property Tax Burden

Selectboards, town councils, and city councils must annually hold a public hearing, known as the classification hearing, to determine the percentages of the tax levy to be paid by each class of taxable property. This hearing must comply with the requirements of the state’s Open Meeting Law, G.L. c. 30A, §§18 - 25, and any other applicable local provisions, by-laws, ordinances or rules. At the hearing, local assessors should
provide information regarding the policy decisions available under property tax classification. They must also provide all information and data relevant to making a decision on adopting a residential factor and determining the percentages of local tax levy to be borne by each class of real and personal property, including the fiscal effect of the available alternatives. Selectboards, town councils, and city councils with mayor’s approval, vote on allocating the tax levy or adopting any other options under property tax classification at this hearing or at a later meeting. They must then adopt a residential factor.

The Residential Factor

The residential factor governs how much the residential and open space classes’ (R/O) property tax burden may decrease and consequently how much the commercial, industrial and personal property classes’ (CIP) property tax burden may increase. There are limits prescribed by law, however. A minimum residential factor (MRF), calculated through DLS Gateway, represents the maximum shift allowed in the tax levy for the fiscal year and establishes the parameters for local decision-making. By adopting a residential factor either at or above the MRF, the tax levies for each class of real property and for personal property will fall within the limits. Adopting a residential factor of “1”, for example, (also called 100%), results in taxation of all property at the same rate; adopting a factor less than “1” to as low as the MRF results in an increasingly greater tax burden shift from the R/O classes to the CIP classes.

Determining the Residential Factor

For the practitioner, calculating a residential factor within legal limits is best accomplished by using DLS Gateway. Completing the LA-4 (Assessment/Classification form) will assist in completing other valuation related forms that will provide the user with further guidance.

The following example from Gateway provides a typical calculation. The residential factor percentages shown in
• review debt authorization and work with treasurers and financial advisors regarding municipal debt.

This is a remote position with occasional in-office collaboration using shared workspace. To learn more about this exciting public service opportunity, qualified candidates interested in this unique opportunity to serve at the forefront of municipal finance administrative policy, procedures and practices should please click here.

Pre-Registration for 2021 "What's New in Municipal Law" Seminars

The Division of Local Services will offer its annual seminar "What's New in Municipal Law" for local officials on Thursday, September 23rd, 2021 at The Lantana in Randolph and Thursday, September 30th, 2021 at the Log Cabin Banquet & Meeting House in Holyoke. The agenda and registration forms will be available shortly. To pre-register for the event, please click here.

Additional information will be available in the coming weeks. If you have any questions about these seminars, please contact disregistration@dor.state.ma.us.

Table 1 are reflective of this community’s assessed values by class. Note that as the shift percentage becomes greater, the resulting tax rate for the R/O classes decreases and the tax rate for the CIP classes increases.

<table>
<thead>
<tr>
<th>Residential Factor</th>
<th>R/O Share of Levy</th>
<th>CIP Share of Levy</th>
<th>R/O Tax Rate</th>
<th>CIP Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%, No Shift</td>
<td>100.0000</td>
<td>86.2377</td>
<td>13.7623</td>
<td>17.93</td>
</tr>
<tr>
<td>125%</td>
<td>96.0104</td>
<td>82.7972</td>
<td>17.2028</td>
<td>17.21</td>
</tr>
<tr>
<td>150%</td>
<td>94.4145</td>
<td>81.4269</td>
<td>18.5791</td>
<td>16.93</td>
</tr>
<tr>
<td>165%</td>
<td>92.0207</td>
<td>79.3566</td>
<td>20.6434</td>
<td>16.47</td>
</tr>
<tr>
<td>175%</td>
<td>89.6270</td>
<td>77.2922</td>
<td>22.7078</td>
<td>16.07</td>
</tr>
</tbody>
</table>

Adopting the Residential Factor

Selectboards, town councils, and city councils with the mayor’s approval, must determine the percentages of the tax levy each class of real property and personal property will pay by adopting a residential factor.

Their decision may be guided by reviewing their community’s results presented to them in similar form as those shown in Table 1 above, by listening to advice by their board of assessors and by listening to suggestions from other participants at the hearing.

As shown in Table 1, provided the shift percentage does not exceed any legal limit, an intended property tax burden shift from R/O to CIP shown in the first column requires a vote of the residential factor shown in the second column.

Other Options

Other options to shift the property tax burden at the public hearing are:

• a Residential Exemption of not more than 35% of the average assessed value of all class one, residential, parcels applied to residential parcels that are the principal residence of the property taxpayer. This exemption shifts the tax burden within the
Municipal Audits Webinar and Training Materials Now Available

Thank you to all who joined us on June 9th for our Overview of Municipal Audits webinar hosted by the Office of the Inspector General and the Division of Local Services. The recorded webinar is now available on the DLS Municipal Finance Training & Resource Center. The training provides information on the different components of the audit, the benefits of having an audit completed, the best practices for procuring a local audit, and how often a community is required to have an external audit completed. DLS and OIG staff also answered other questions from attendees. The slides from the presentation are also available online.

In addition, you can review the Municipal Audits: FAQs document that provides answers to common questions regarding municipal audits, including procurement and preparing for audits.

We look forward to offering training opportunities on this and other municipal finance topics in the future! Be sure to bookmark the Municipal Finance Training & Resource Center and subscribe to our YouTube channel to stay updated on new items added.

residential class only and was adopted by 15 communities in FY2021

- a Small Commercial Exemption of not more than 10% applied to class three, commercial, parcels that are (1) occupied as of January 1 by a business with an average annual employment of no more than ten during the previous calendar year and (2) have a valuation of less than one million dollars. This exemption shifts the tax burden within the commercial class, adds to the tax burden of the industrial class and was adopted by 14 communities in FY2021

- an Open Space Discount of not less than 25% applied to the full and fair cash value of the entire open space class. This discount shifts the tax burden to the residential class and was adopted by only one community in FY2021.

Adopting any of these options will not affect the calculation of the residential factor.

Table 2 shows the number of cities and towns (including any “city known as the town of” as recognized by the Massachusetts Secretary of State) that either have or have not shifted the property tax burden for the last three fiscal years.

<table>
<thead>
<tr>
<th></th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Shift - Cities</td>
<td>14</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>No Shift - Towns</td>
<td>227</td>
<td>228</td>
<td>226</td>
</tr>
<tr>
<td>Subtotal - No Shift Cities and Towns</td>
<td>241</td>
<td>243</td>
<td>241</td>
</tr>
<tr>
<td>Shift - Cities</td>
<td>44</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Shift - Towns</td>
<td>66</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>Subtotal - Shift Cities and Towns</td>
<td>110</td>
<td>108</td>
<td>108</td>
</tr>
<tr>
<td>Total</td>
<td>351</td>
<td>351</td>
<td>349</td>
</tr>
</tbody>
</table>

Most cities and towns are legally allowed to shift up to 150%
of the R/O property tax burden; several cannot shift even to that extent due to their high percentage of CIP value, while others are legally allowed to shift up to 175%. This is commonly known as the CIP shift.

For cities and towns that adopted a shift in the last three fiscal years, Table 3 shows how many did so by percentage group. Notice that about half of all shifting communities did so greater than 150%.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; or = 110</td>
<td>2</td>
<td>6</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>&gt; 110 to 120</td>
<td>1</td>
<td>7</td>
<td>1</td>
<td>5</td>
<td>1</td>
<td>6</td>
</tr>
<tr>
<td>&gt; 120 to 130</td>
<td>0</td>
<td>9</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>&gt; 130 to 140</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>4</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>&gt; 140 to 150</td>
<td>3</td>
<td>6</td>
<td>3</td>
<td>9</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>&gt; 150 to 160</td>
<td>5</td>
<td>8</td>
<td>4</td>
<td>7</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>&gt; 160 to 174</td>
<td>13</td>
<td>11</td>
<td>13</td>
<td>11</td>
<td>16</td>
<td>10</td>
</tr>
<tr>
<td>&gt; 174 to 175</td>
<td>19</td>
<td>11</td>
<td>20</td>
<td>11</td>
<td>19</td>
<td>11</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>66</td>
<td>43</td>
<td>65</td>
<td>43</td>
<td>65</td>
</tr>
</tbody>
</table>

Table 4 reveals that for all cities and towns, the statewide property tax burden for R/O and CIP over the last three fiscal years has not changed significantly. It also reveals that the median percentage shift has increased slightly over this time from 158.8% to 161.9%.

<table>
<thead>
<tr>
<th>Percentages of Property Tax Burden</th>
<th>On a Non-Shifted Basis</th>
<th>On a Shifted Basis</th>
</tr>
</thead>
<tbody>
<tr>
<td>RO</td>
<td>81.82</td>
<td>81.85</td>
</tr>
<tr>
<td>CIP</td>
<td>18.18</td>
<td>18.15</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
</tr>
<tr>
<td>Median Shift Percent</td>
<td>158.8%</td>
<td>161.3%</td>
</tr>
</tbody>
</table>

The information shown in Table 1 for your city or town is available in DLS Gateway by entering your community’s information into the correct forms. Gateway and other DLS guidance provide the easiest way to understand how the residential factor works. For more guidance on the residential factor and its requirements, see IGR 2021-9, Fiscal Year 2022 Guidelines for Annual Assessment and...
Allocation of Tax Levy and Property Tax Classification: Classifying Property for Tax Purposes. Also, for budget planning purposes, please see the Budget and Tax Rate Planning Tool.

Data Highlight: Multiple Tax Rates – CIP Shift
Donnette Benvenuto - Data Analytics and Resources Bureau

As noted in the article above, communities may vote to shift more of their tax burden onto the Commercial, Industrial and Personal Property (CIP) classes which then decreases the burden to the Residential and Open Space (R/O) classes. You can see the CIP Tax Shift data here.

Other ways to shift the property tax burden would be to adopt the Residential Exemption, the Small Commercial Exemption or the Open Space Exemption. You can find the communities that have adopted these, as well as other exemptions related to property taxes here.

If your community plans to or has voted to adopt any of these exemptions, we would need to be notified as soon as possible by filling out a Notification of Acceptance form found here.

If you have any questions on our data or on these adoptions, please email us at databank@dor.state.ma.us.

Now Available: Webinar on Yarmouth’s Streamlined Tax Rate Recap Process
DLS Municipal Finance Training and Resource Center

On August 4th, local officials from Yarmouth joined DLS in hosting a webinar to walk through how their financial management team completes prepares the tax rate recap. In their presentation, the team in Yarmouth highlighted not
To access additional IGRs and Bulletins, please visit this [webpage](#).

**Annual End-of-Year Letters**

The Division of Local Services has posted on its website the FY2021 Bureau of Accounts (BOA) Annual End-of-Year Letters for:

- Accountant/Auditor
- Treasurer
- Collector
- Clerk
- Regional School Business Official

For information related to the COVID-19 Emergency or American Rescue Plan Act funds, please visit our website.

**Senior Citizen and Veteran Property Tax Work-off Abatement Program IGR**

The Division of Local Services has issued and posted Informational Guideline Release (IGR) 2021-20 informing local officials about two local acceptance statutes that allow cities and towns to establish property tax work-off programs for senior citizens and veterans.

IGR-2021-20 – [SENIOR CITIZEN AND VETERAN PROPERTY TAX](#)

only the technical aspects that streamlines this process, but also how collaboration amongst the financial management team leads to success.

The town is routinely amongst the first communities to submit its tax rate recap to DLS for review each year. The [recorded version](#) of the webinar is now available online. In addition, the slides from their presentation are available for reference [here](#). You can also find [DLS’ Budget and Tax Rate Planning Tool](#), which the team Yarmouth uses as part of their automated process, on our website, along with other helpful [tools and templates](#).

As a reminder, the Bureau of Accounts (BOA) recommends that cities and towns begin completing the tax recap forms as soon as the legislative body has voted its budget for the year and update these forms each time the legislative body meets to make appropriations, until the tax rate is set. This will eliminate the rush to complete forms at submission. Additionally, in those cases where values are approved in the late summer or early fall, we ask that steps are taken locally to set the tax rate as soon as values are certified, a classification hearing is held, and all legislative body appropriations from the tax levy have been made. Doing so helps expedite the setting of tax rates for all cities, towns and districts in the Commonwealth.

Be sure to bookmark the [Municipal Finance Training and Resource Center](#) page and subscribe to our [YouTube channel](#) to stay updated on new items added. As we mentioned during the webinar, we welcome any feedback you have about our training and other resources. Please let us know if there is a topic you would like to see covered by emailing [DARB@dor.state.ma.us](mailto:DARB@dor.state.ma.us).

**MassDOT Releases Chapter 90 Program Guidance Document**

Jonathan L. Gulliver - MassDOT Highway Administrator
For decades, the Chapter 90 Program has served as an integral funding source for municipalities as they invest in their local transportation network. From equipment, to construction, to consultant services, Chapter 90 is a key method through which local transportation improvements are made. Given the importance of this program, I’m pleased to announce that this month, MassDOT released its new *Chapter 90 Program Guidance Document*.

The goal of this new guide is to provide enhanced support to Massachusetts communities as they navigate the Chapter 90 Program and work to use their funding strategically. The guidance provides both new and clarified information on the history of Chapter 90, program operation, and eligible expenses. It also details instructions for project implementation from submitting Project Requests, understanding procurement and prequalification considerations, to requesting reimbursement. In addition, the new guidance includes helpful methods and tools that communities may utilize when planning their transportation investments. Taken together, the guidance seeks to be a one-stop-shop for all things Chapter 90.

The *Chapter 90 Program Guidance Document* is now available for download online at the [Chapter 90 Program webpage](#) or in print at MassDOT offices. To receive a printed copy, contact your District State Aid Engineer. I encourage our municipal partners to take advantage of this new resource and we look forward to continuing to seek opportunities to enhance our support to local governments and transportation.

**Reminder: Community Preservation Forms Due Sept. 15th**

Data Analytics and Resources Bureau

The CP1 and CP3 forms are due by September 15th. This information is necessary to calculate the FY22 CPA State Matching Grants.
The CP1 is completed in Gateway, and it needs to be signed by the Board of Assessors and signed and submitted by the accounting officer. The CP3 is completed in the CPC Inventory Database found here.

Any password questions for the CP3 can be sent to databank@dor.state.ma.us. Questions on how to fill out the CP3 can be sent to chase.mack@communitypreservation.org.

**Assessment IGRs**

The Division of Local Services (DLS) has issued and posted Informational Guideline Releases (IGR) 2021-18 and 2021-19 informing local officials that assessors no longer are required to obtain prior written approval from the Commissioner of Revenue to assess taxes on commonland in cluster developments or planned unit developments to owners of individual lots in the development and about the requirements for local assessors to assess partially completed construction improvements in common areas of phased unit condominium developments.”

IGR-2021-18: ASSESSMENT OF CLUSTER DEVELOPMENT COMMONLAND

IGR-2021-19: ASSESSMENT OF PRESENT INTERESTS IN PARTIALLY-COMPLETED CONDOMINIUM CONSTRUCTION

2022 State Revolving Fund Project Solicitation Offering Loan Forgiveness for Lead in Drinking Water, Zero Interest Loans for PFAS and Expanded Financing Offerings

The Massachusetts Clean Water Trust (the Trust), in collaboration with Massachusetts Department of
Environmental Protection (MassDEP), administers the Commonwealth’s State Revolving Fund (SRF) programs that help communities build or replace water infrastructure that enhances ground and surface water resources, ensures the safety of drinking water, protects public health, and develops resilient communities.

MassDEP has launched its annual SRF project solicitation. Between July 1 and August 20, MassDEP will accept applications for the CY 2022 round of SRF financing. For 2022, the SRF program has detailed a number of program expansions and incentives beyond the standard 2% interest rate subsidized loans, including:

- Loan forgiveness for projects addressing lead in drinking water
- Incentivized Lead Service Line Replacement program
- Zero interest loans for projects addressing Per- and polyfluoroalkyl substances (PFAS) in drinking water
- Asset Management Planning (AMP) grants expanded eligibility to include cybersecurity risk
assessments

- **Housing Choice loan program**

- Zero interest loan for clean water projects removing nitrogen from wastewater

- Fixed percentage loan forgiveness for disadvantaged communities

The Trust administers two SRF programs, the Clean Water and Drinking Water SRFs. These programs provide subsidized loans to cities, towns, and water utilities. Since its establishment in 1989, the SRFs have finance approximately $7.9 billion of water infrastructure projects serving an estimate 97% of the residents of the Commonwealth.

For questions about the 2022 SRF solicitation or program please feel free to contact Robin McNamara (Robin.McNamara@mass.gov), or visit MassDEP’s webpage.

**Special Injury Leave Indemnity Fund IGR**

The Division of Local Services (DLS) has issued and posted Informational Guideline Release (IGR) 2021-16 informing local
officials about a local option provision allowing the establishment of a Special Injury Leave Indemnity Fund for the payment of injury leave compensation and medical bills of police officers and firefighters injured on duty.”

**IGR-2021-16: Special Injury Leave Indemnity Fund**

To access additional IGRs and Bulletins, please visit this [webpage](#).

**Owners Unknown IGR**

The Division of Local Services (DLS) has issued and posted Informational Guideline Release (IGR) 2021-15 informing local officials about assessing property to an owner unknown.

**IGR-2021-15 – Owners Unknown Assessments**

To access additional IGRs and Bulletins, please visit this [webpage](#).

**Cybersecurity and IT Health Check Programs**

The Office of Municipal and School Technology has announced the following programs available to Massachusetts municipalities and schools. If you have any questions, please contact
Cybersecurity Health Check

The Cybersecurity Health Check Program provides opportunities for local government to access basic cyber security services at no cost.

These services can be a good first step in discovering, assessing and identifying cybersecurity gaps that could impact IT systems that support essential business functions. This is a rolling application.

IT Health Check

An IT Health Check is a high-level assessment of current IT assets. A Health Check can be a good first step in discovering, assessing and identifying gaps that could impact IT systems that support essential business functions.

The discovery will results in a completed score card that will identify the current state of critical IT systems, and platform and vendor agnostic suggestions. This is a rolling application.

DLS Links:

COVID-19 Resources and Guidance for Municipal Officials