

CITY OF NEWBURYPORT
OFFICE OF THE MAYOR
SEAN R. REARDON, MAYOR

To: President and Members of the City Council
From: Mayor Sean R. Reardon
Date: November 9, 2022
Subject: FY2023 Tax Rate

Establishing the property tax rate is the final step in the annual budget process as it provides funding for the expenditures that were authorized by the Mayor and City Council back in June. The annual budget, and subsequent year forecasting, assumes taxation up to the levy limit provided under the state's Proposition 2½. While the fiscal year 2023 budget submission was built on the full 2.5% increase to the prior year levy limit, the City ended with \$209,272¹ in available revenue that will not need to be raised through taxation; this was generated by City Council budget reductions, as well as higher than estimated state aid and new growth.

Recommendations

To fund the FY'23 adopted budget, \$66,412,998² must be raised through the tax rate setting process. In order to fund that amount, we recommend:

1. That the City Council vote to authorize the use of **\$401,028** in free cash to reduce the FY'23 tax rate.
2. That the City Council votes to adopt a residential factor of **0.9880**.
3. That the City Council votes to adopt a tax rate of **\$10.66** for the residential and open space classes and **\$11.87** for the commercial, industrial and personal property classes.

Why use free cash?

Utilizing \$401,028 in free cash reduces the amount to be raised through taxes from \$66,412,998 to \$66,011,970. While free cash cannot always be relied on to fund the tax rate, there are certain instances where it is warranted; in this year, using free cash would be appropriate.

Firstly, the City experienced a historic free cash certification for FY'23 predominately driven by one-time revenue sources. It is important that a portion of that is used to defray tax increases. Secondly, free cash is needed to help close some of the \$639,637 gap (i.e. excess levy capacity) that existed between the FY'22 tax levy and the FY'22 levy limit.

¹ Budget reductions of \$157,200 plus \$124,590 in state aid plus \$198,882 in higher than estimated new growth less approved supplemental budget of \$271,400

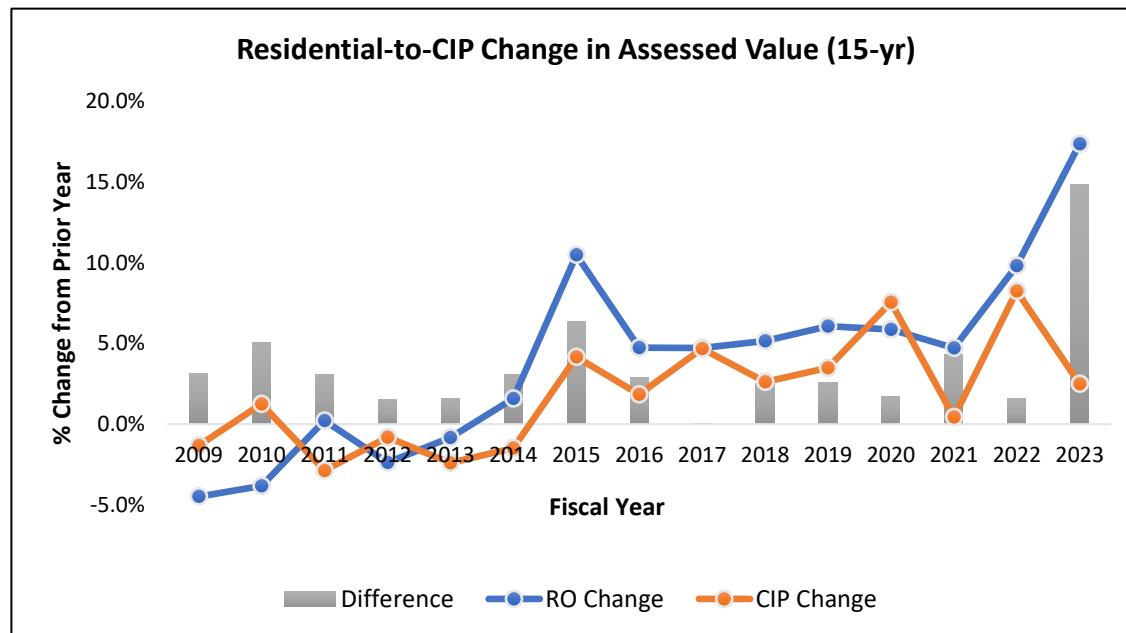
² FY'23 levy limit of \$66,622,270 less \$209,272 in available revenue

While free cash helps to mitigate increases for the current fiscal year, a consequence is that building the annual budget (and subsequent year forecasting) on the full levy limit makes for an even greater increase in the following year. For example, what would normally be a 3.0 to 3.5% increase becomes a 4.0 to 4.5% increase as you work to make up the difference that was left untaxed the prior year. Thus, while I support using a moderate amount of free cash, I would not support any larger allocations to set the tax rate as it potentially sets us up for failure later on.

Why the split tax rate?

In Massachusetts, properties are grouped into two main categories: 1) residential and open space (“RO”) and 2) commercial, industrial and personal property (“CIP”). Typically in Newburyport, the levy is always charged proportionally based on the assessed value of all property, regardless of property class. For example, if the RO classes are 89% of the entire assessed value of the city, then the CIP classes are 11% of the entire assessed value of the city. With a single tax rate, the RO classes would pay 89% of the total tax levy and the CIP classes pay 11% of the total tax levy. In this case, we divide the levy to be raised by the valuation of all properties to get the resulting tax rate. For FY’23, the levy to be raised is \$66,011,970 and the total city-wide valuation is \$6,115,755,868, resulting in tax rate of \$10.79³.

When the annual change in property values generally aligns, or correlates, across all classes of property, it results in most taxpayers experiencing a similar change in tax bill from year-to-year (in percentage terms). For example, last year, as shown in the chart below, RO classes of property (blue line) increased in assessed value by 9.8% while CIP classes of property (orange line) increased by 8.2%; a difference of 1.6%. Slightly more of the tax burden shifted to residential taxpayers, but only by 1.6%; over the past 15 years, the average variance has been +/- 2.8%.



FY’23, however, is not a typical year as the housing market has caused residential assessed values to increase by 17.4% compared to an increase of 2.5% for the CIP classes; a difference of 14.9%. The last time the City experienced an increase in values this large was following the housing bubble in the early

³ Note that the maximum rate allowed under Proposition 2½ is \$10.89, but is reduced due to available revenue and use of free cash.

2000's, which resulted in a 46.7% increase in home assessed values for FY'05 (CIP increased by 23.9% that year). When this happens, it causes a significant shift in taxation from businesses to homeowners.

If taxes were divided proportionally among the much higher residential tax base and the now lower commercial/industrial tax base, for FY'23, the average single family home⁴ experiences a \$530 increase (+6.3%) to their tax bill, while the average business⁵ gets a *tax cut* of -\$1,330 (-8.4%). To address this deviation, state law allows cities and towns to perform a so-called "CIP shift" up to a maximum of 50% of the assessed value of the CIP classes. In this instance, it allows the city to prevent the RO classes of property from seeing a disproportionately large tax increase while CIP classes of property see their taxes go down. The attached analysis shows the resulting tax rate at varying shifts in 5% increments up to 50%. For FY'23, we recommend adopting a shift of 0.1 or 10%, which translates to a "residential factor" of 0.9880 to be voted on by the City Council (see calculation below).

CIP Shift Calculation

With a single tax rate

- RO classes would pay 89.3%
- CIP classes would pay 10.7%

10% shift of the current CIP tax burden of 10.7%

$$10.7\% \times 10\% = 1.1\%$$

$$10.7\% + 1.1\% = 11.8\%$$

After the shift, CIP classes will pay 11.8% of the total tax levy and RO classes will pay 88.2% of the total tax levy

"Residential Factor" = New RO levy share / original levy share

$$88.2\% / 89.3\% = 98.8\%$$

Residential Factor (To Be Voted) = 0.9880

At a residential factor of 0.9880, the resulting tax rate is \$10.66 for the RO classes and \$11.87 for the CIP classes. Commercial establishments see a slight increase in taxes by \$129 per year (0.8%). Homeowners still experience a greater increase, however reduced from \$530 per year (6.3%) to \$422 per year (5.0%) due to the CIP shift.

For context, the last time that the City adopted a CIP shift was in 1986. Additionally, the Division of Local Services provides a helpful synopsis on this topic and comparative data in its [August 19, 2021 edition](#) of *City & Town*. Other municipalities that perform a CIP shift in Essex County, include: Andover, Beverly, Danvers, Gloucester, Haverhill, Lawrence, Lynn, Lynnfield, Methuen, North Andover, Peabody, Salem, Saugus and Swampscott. It is worth noting, however, that most of these entities shift every year, which is not the Administration's intent or recommendation. It is our hope that once home prices stabilize, we can revert back to a single tax rate for all classes of property. Likely, this would happen over several fiscal years to avoid any significant fluctuations in taxes.

⁴ Average single family value was \$702,000 (FY'22) and is now \$830,500 (FY'23)

⁵ Average commercial value was \$1,324,800 (FY'22) and is now \$1,351,300 (FY'23)

Conclusion

Adopting a CIP shift is not a tool that the City often uses and, for good reason, because we support and rely on our business community. That said, it is not realistic or fair to have one group of taxpayers take on a huge tax burden while another group get a tax break. What we are proposing, I believe, is a fair compromise in that commercial and industrial properties see a modest increase to their tax bill rather than having their tax bill go down as a result of even larger increases on the residential side.

I fully appreciate the toll that taxes take on all members of our community, many of whom are struggling and need all of the support they can get. I am also cognizant of the resources that the City needs to provide the public safety, services and education that we deserve and expect from our local government. It is for that reason that I support the use of free cash to help set the tax rate in a manner that balances the burden placed on taxpayers with the city's fiscal stability going forward.

Thank you for your review and consideration.

**City of Newburyport Fiscal Year 2023 Tax Levy
Residential-to-CIP Shift Analysis**

Proposition 2 ½ Levy Limit Calculation

	FY'23 Levy Limit	FY'23 Recommended	
Prior Year Levy Limit	\$61,029,959	\$61,029,959	
2 ½ % Increase	\$1,525,749	\$915,449	1.50% Increase
New Growth	\$898,882	\$898,882	
FY'23 Levy	\$63,454,590	\$62,844,290	
Excluded Debt	\$3,167,680	\$3,167,680	
Total Tax Levy	\$66,622,270	\$66,011,970	

Decrease from Max. Levy Limit **\$610,300**

Offset by Available Revenue:

Budget Reductions	\$157,200
Additional State Aid	\$124,590
Supplemental Budget	-\$271,400
New Growth Over Estimate	\$198,882
Free Cash	\$401,028
Total Available Revenue	\$610,300

Class		Assessed	% of Total
		Value	Valuation
Residential	1	5,459,918,769	89.2763%
Open Space	2	274,300	0.0045%
Total Classes 1,2 (R&O)		5,460,193,069	89.2808%
Commercial	3,7,8	363,260,831	5.9398%
Industrial	4	223,592,200	3.6560%
Personal	5	68,709,768	1.1235%
Total Class 3,4,5,7,8 (CIP)		655,562,799	10.7192%
Total All Classes		6,115,755,868	100.0000%

Max. Tax Rate (\$66,622,270 / 6,115,755,868 X 1000)	\$10.89
Recommended Tax Rate Before CIP Shift	\$10.79
Maximum Share of Levy for CIP (CIP Shift = 1.5)	16.0788%
Minimum Share of Levy for R&O (CIP Shift = 1.5)	83.9212%
Minimum Residential Factor (MRF)	93.9969%

Shift Analysis - At Recommended Tax Rate of \$10.79 Per Thousand

Shift	Res. Factor	R & O Rate	C,I & P Rate
0.00	1.0000	10.79	10.79
0.05	0.9940	10.73	11.33
0.10	0.9880	10.66	11.87
0.15	0.9820	10.60	12.41
0.20	0.9760	10.53	12.95
0.25	0.9700	10.47	13.49
0.30	0.9640	10.40	14.03
0.35	0.9580	10.34	14.57
0.40	0.9520	10.28	15.11
0.45	0.9460	10.21	15.65
0.50	0.9400	10.15	16.19

FY2023 Annual Tax Bill

Shift	Avg. Single Family	Avg. Commercial*	Avg. Industrial.*
Shift	830,500	1,351,300	2,303,300
0.00	\$8,961	\$14,581	\$24,853
0.05	\$8,911	\$15,310	\$26,096
0.10	\$8,853	\$16,040	\$27,340
0.15	\$8,803	\$16,770	\$28,584
0.20	\$8,745	\$17,499	\$29,828
0.25	\$8,695	\$18,229	\$31,072
0.30	\$8,637	\$18,959	\$32,315
0.35	\$8,587	\$19,688	\$33,559
0.40	\$8,538	\$20,418	\$34,803
0.45	\$8,479	\$21,148	\$36,047
0.50	\$8,430	\$21,878	\$37,290

*Excludes Condos and Vacant Land

\$ Change in Tax Bill from FY2022:

	Avg. Single Family	Avg. Commercial*	Avg. Industrial.*
FY2022 Value	702,000	1,324,800	2,217,400
FY2022 Tax Bill	8,431	15,911	26,631
0.00	\$530	(\$1,330)	(\$1,778)
0.05	\$480	(\$601)	(\$535)
0.10	\$422	\$129	\$709
0.15	\$372	\$859	\$1,953
0.20	\$314	\$1,588	\$3,197
0.25	\$264	\$2,318	\$4,441
0.30	\$206	\$3,048	\$5,684
0.35	\$156	\$3,778	\$6,928
0.40	\$107	\$4,507	\$8,172
0.45	\$48	\$5,237	\$9,416
0.50	(\$1)	\$5,967	\$10,659

% Change in Tax Bill from FY2022:

	Avg. Single Family	Avg. Commercial*	Avg. Industrial.*
0.00	6.3%	-8.4%	-6.7%
0.05	5.7%	-3.8%	-2.0%
0.10	5.0%	0.8%	2.7%
0.15	4.4%	5.4%	7.3%
0.20	3.7%	10.0%	12.0%
0.25	3.1%	14.6%	16.7%
0.30	2.4%	19.2%	21.3%
0.35	1.9%	23.7%	26.0%
0.40	1.3%	28.3%	30.7%
0.45	0.6%	32.9%	35.4%
0.50	0.0%	37.5%	40.0%

*Excludes Condos and Vacant Land