

CITY OF LYNN



FISCAL YEAR 2021 CLASSIFICATION HEARING

**Lynn City Council Meeting
Tuesday, December 8, 2020**

**Prepared by:
Board of Assessors**

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Memorandum

To: Lynn City Council
From: Board of Assessors
Date: December 8, 2020
Subject: Determination of the Residential Factor for Setting the FY2021 Tax Rate

The Board of Assessors respectfully submits the enclosed information for the use of the City Council, with the approval of the Mayor, in determining the residential factor to be used in allocating the FY2021 property tax burden between the residential, commercial, and industrial real property classes, as well as personal property.

The assessors reviewed all relevant market data for the appropriate periods to determine what adjustments to property values need to be made to reflect this data for FY2021. These adjustments were made employing the mandatory standards and practices set by the Department of Revenue's (DOR) Bureau of Local Assessment (BLA). All values in the City have been updated to comply with the statutory requirement of Chapter 59, Section 2A, i.e., that all taxable property annually be assessed at its fair cash value as of the assessment date of January 1, 2020. The DOR thoroughly examined this process.

As indicated within this packet, the total taxable assessed value for FY2021 is:

\$9,918,669,040

The purpose of this hearing is for the City Council to review necessary information from the Board of Assessors and obtain input from the public before deliberating on the appropriate tax classification allocation for the City of Lynn. Once the Council determines the residential factor with the Mayor's approval, we can then move towards the projected tax rates with the DOR.

Please note that the Assessors have not classified any real property within the City as open space. Therefore, the Board recommends that no open space discount be granted since no real property would qualify. Furthermore, as the Mayor has chosen not to exercise his option to recommend a residential exemption or a small commercial exemption, Council action on either item is therefore not required.

Board of Assessors
City of Lynn

INTRODUCTION

COMPUTATION OF A TAX RATE

There are three general components reflected in a taxpayer's property tax bill: **Valuation**, **Municipal Spending**, and **Classification**.

VALUATION

The Board of Assessors determines the assessed value of a property based on a careful and thorough analysis of the real estate market as of January 1, 2020. The buyers and sellers by their actions in the

marketplace, establish value. The Assessors' job is to correctly interpret those actions and assign accurate and equitable assessed values to reflect those market transactions.

MUNICIPAL SPENDING

The level of spending needed to run municipal government establishes the amount of money that must be raised by property taxes (the tax levy), subject to the limitations of Proposition 2-1/2. The Mayor initiates this process through the proposed budget and other appropriation requests. These proposals are submitted to the City Council, who can approve, reduce, or reject these requests. The maximum amount of taxes that can be raised under Proposition 2- 1/2 is called the levy limit. This year that limit is \$141,804,316. Due to rounding in computing the tax rates, the anticipated final tax levy will be \$141,786,610 once those rates are approved. The increase is \$5,357,533 over the FY2020 levy or 3.95%. The simplified calculation for the levy limit is:

FY2021 Levy Limit Calculation	
FY2020 Levy Limit	136,429,137
+ Amended FY2020 Growth	<u>0</u>
Adjusted FY2020 Levy Limit	136,429,137
+ 2.5% Increase	3,410,728
+ FY21 Growth	<u>1,964,451</u>
FY2021 Levy Limit*	141,804,316

*Actual Levy Limit Adjusted for rounding.

CLASSIFICATION

In 1978, voters amended the Massachusetts Constitution to allow a municipality's legislative body, with the executive's approval, to allocate a community's tax burden disproportionately. The tax burden can be allocated within certain constraints, among the four general classes real property, and personal property. After this public hearing, the Council, subject to the Mayor's approval, will determine the relative share of the tax burden each property class will bear for FY2021. Upon final

agreement on these shares, the Board of Assessors will submit them to the Department of Revenue to approve the proposed tax rates. The FY2021 taxes will be issued at the end of December once DOR approves the tax rate.

The following is the simplified formula that provides a tax bill amount:

$$\text{Tax Bill} = \frac{\text{Parcel Value}}{\text{Total Value}} \times \text{Tax Levy} \times \text{Classification Factor}$$

VALUE CHANGES PROPOSITION 2-1/2 AND INDIVIDUAL TAX BILLS

The Assessors adjusted property values to meet the full and fair cash value requirement of the constitution and laws of the Commonwealth. The Bureau of Local Assessment (BLA) of the Department of Revenue establishes the method and practices. As part of this process, properties sold during 2019 and, if sales were insufficient, in late 2018 and early 2020, were analyzed. Factors affecting value, including but not limited to location, size, age, condition, and type were studied. For non-residential properties, The Assessors considered rental levels, vacancies, and expenses. Based on this analysis, property valuations were adjusted to reflect their market levels on January 1, 2020. Across-the-board, adjustments were not made and the degree of change varies from property type and neighborhood. As a result, different properties will see differing impacts on their tax bills.

PROPOSITION 2-1/2 AND INDIVIDUAL TAX BILLS

Many people are under the misconception that their tax bills are limited in increase by Proposition 2-1/2. Proposition 2-1/2 enforces no such control. The law limits the maximum total amount of property taxes that the City can raise in a single year. The allocation of taxes among individual properties is based on the property's value and the classification factor. In simple terms, Proposition 2-1/2 only limits the size of the City's total tax amount; those other factors determine the size of each property's tax. Specific tax bills can increase by substantially more than 2-1/2% as long as the City does not exceed the total tax levy limit imposed by the law. Factors such as improvements to the property, market factors, a change in the distribution of the tax base, spending decisions by City officials, changes in the classification rate, tax abatements, and non-tax revenues can all have an impact on individual bills. However, none of these factors are limited by Proposition 2-1/2.

FISCAL YEAR 2021 VALUATION CHANGES

To bring the City's property assessments in line with the statutory mandate of full and fair cash value, the Board developed values for all properties in the City for FY2021. The sales on which these changes are reviewed, and assessments adjusted to conform with statistical standards set by

the Commissioner of Revenue. The adjustments made for these sales are applied to all other taxable properties, and their values are adjusted accordingly. For residential properties (excluding apartment buildings), all aspects contributing to a property’s value were considered, based on an analysis of similar properties’ sales. Primarily, adjustments were made by neighborhood, adjusting for observed changes in market values in particular areas of the City.

For apartment buildings and larger commercial and industrial properties, information on income, vacancies, and expenses was obtained and analyzed. Valuations were adjused as a result of the study of sales that occurred for all income-producing properties. Lastly, through field inspections and a full review of personal property returns, the Assessors reviewed all business personal property accounts. Any additional assets or changes in reporting were made to the appropriate accounts.

In FY2021, residential value accounted for 89.45% of the overall value. On a broad basis, the net result of this shift, assuming approval of the minimum residential factor, would change the FY2021 levy percentages of 81.5% (residential) and 18.5% (CIP). The shift towards a higher residential proportion is consistent with past years and likely will continue in the future. Last year, the residential levy percentage was 80.5%; therefore, an additional 1% of the total levy is placed on the residential tax class.

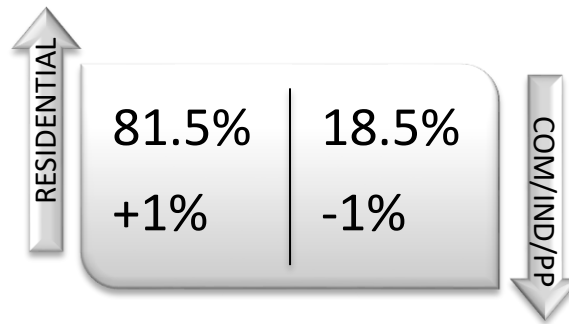


Figure 1 TAX LEVY PERCENTAGE

Within the major classes, the average value of improved residential property types changed within a range of plus 6.36% to plus 10.61%.

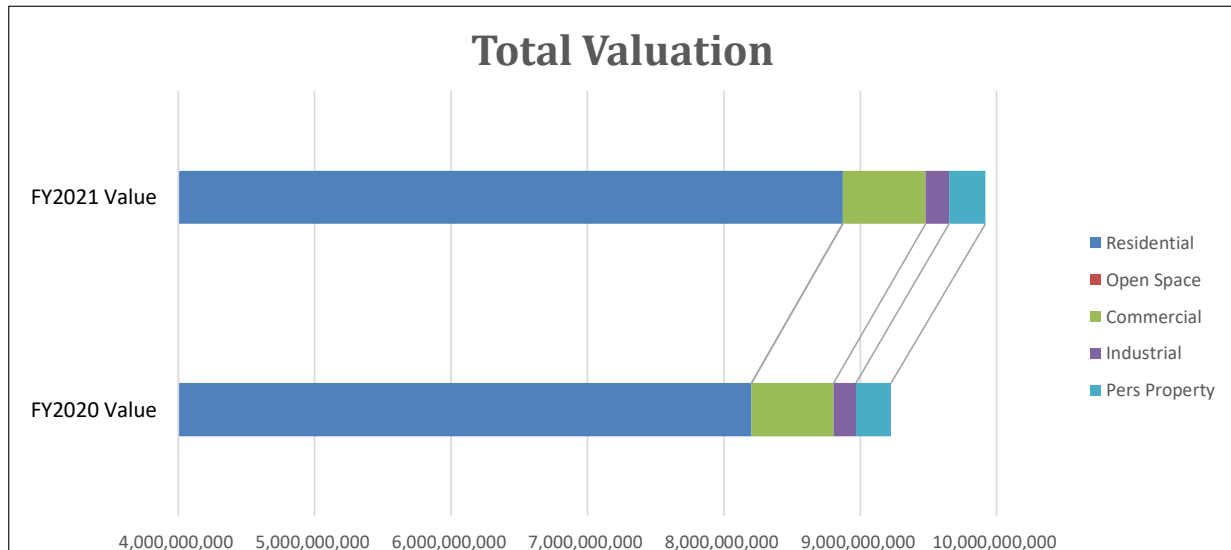
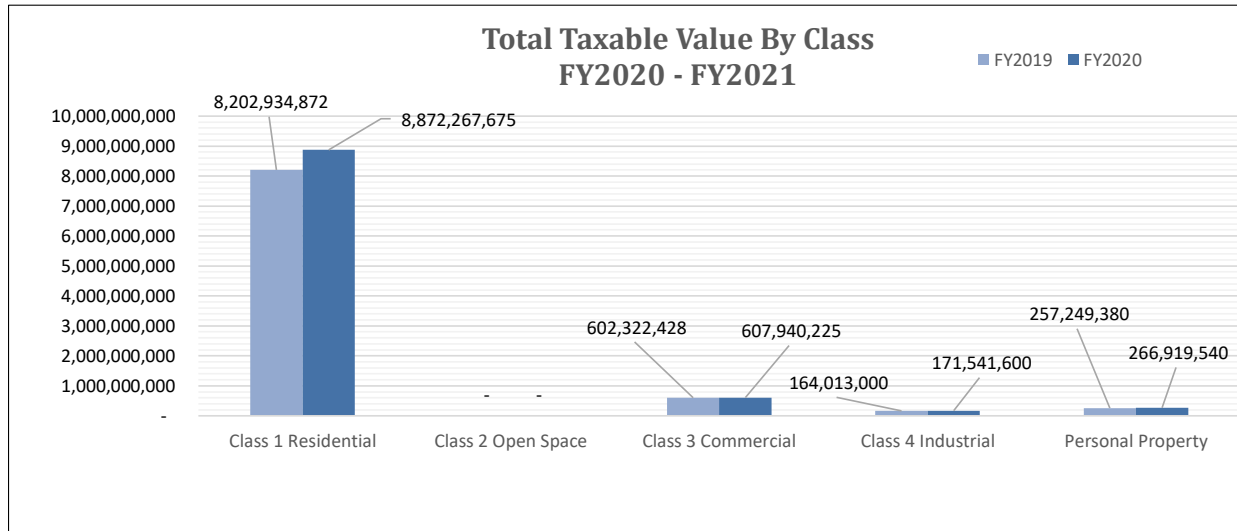
<i>Property Type</i>	<i>Average Value</i>	<i>Percent Change</i>
<i>Single Family</i>	374,650	6.36%
<i>Condominium</i>	244,352	8.59%
<i>2-3 Faimly</i>	547,000	10.61%

With regards to CIP properties, median commercial and industrial values changed modestly from FY2020 levels. The median value for commercial properties increased by 2.97% and 5.94% for industrial properties.

In conclusion, the overall result of the adjustments was that residential values increased significantly compared to a modest increase in commercial/industrial properties. The new values reflect the market as of January 1, 2020, using primarily 2019 sales. The changes seen in the current real estate market will be addressed in FY2022 when we analyze 2020 sales. However, preliminary indications are that residential values continue to show a substantial increase. It is unknown to the extent that the Covid-19 pandemic will have on values in FY2022. The Assessors will have a better understanding of the impact on the markets when a full analysis occurs next year.

Total Taxable Value

	FY2020 Value	FY2021 Value	% Change	% of Total FY2020	% of Total FY2021
Class 1 Residential	8,202,934,872	8,872,267,675	8.16%	88.91%	89.45%
Class 2 Open Space	-	-	0.00%	0.00%	0.00%
Class 3 Commercial	602,322,428	607,940,225	0.93%	6.53%	6.13%
Class 4 Industrial	164,013,000	171,541,600	4.59%	1.78%	1.73%
Personal Property	257,249,380	266,919,540	3.76%	2.79%	2.69%
Totals	9,226,519,680	9,918,669,040	7.50%	100.00%	100.00%



FY2021 Levy Limit Calculation

FY2020 Levy Limit	\$	136,429,137
+ Amended FY2020 Growth	\$	-
Adjusted FY2020 Levy Limit	\$	136,429,137
+ 2.5% Increase	\$	3,410,728
+ FY21 Growth	\$	1,964,451
FY2021 Levy Limit	\$	141,804,316
FY2021 Levy Ceiling (Total Value X 2.5%)	\$	247,966,726
FY2020 Actual Levy	\$	136,399,466
FY2021 Maximum Levy	\$	141,804,316
% Increase at Maximum Levy		3.96%
FY2021 Proposed Levy (at 175% CIP Factor))	\$	141,786,610
% Increase at Proposed Levy		3.95%
Excess Levy Capacity (at 175% CIP Factor)	\$	17,706

Impact on Residential Bills at Proposed Levy

	FY2020	FY2021	% Change
Average Single Family Value	352,253	374,650	6.36%
Average Condominium Value	225,030	244,352	8.59%
Average 2-3 Family Value	494,527	547,000	10.61%

	Res Factor	CIP Factor	FY20 Tax	FY2020	FY2021	% Change	\$ Incr.
1-Fam	100.00	100.00	\$ 4,720	14.29	\$ 5,354	13.43%	\$ 634
	93.76	150.00	\$ 4,720	13.45	\$ 5,039	6.76%	\$ 319
	92.92	160.00	\$ 4,720	13.28	\$ 4,975	5.41%	\$ 255
	91.74	170.00	\$ 4,720	13.11	\$ 4,912	4.06%	\$ 192
	91.45	172.50	\$ 4,720	13.07	\$ 4,897	3.74%	\$ 177
	91.15	175.00	\$ 4,720	13.03	\$ 4,882	3.43%	\$ 162

Condo	100.00	100.00	\$ 3,015	14.29	\$ 3,492	15.81%	\$ 477
	93.76	150.00	\$ 3,015	13.45	\$ 3,287	9.01%	\$ 272
	92.92	160.00	\$ 3,015	13.28	\$ 3,245	7.63%	\$ 230
	91.74	170.00	\$ 3,015	13.11	\$ 3,203	6.25%	\$ 188
	91.45	172.50	\$ 3,015	13.07	\$ 3,194	5.93%	\$ 179
	91.15	175.00	\$ 3,015	13.03	\$ 3,184	5.60%	\$ 169

2-3 Fam	100.00	100.00	\$ 6,627	14.29	\$ 7,817	17.96%	\$ 1,190
	93.76	150.00	\$ 6,627	13.45	\$ 7,357	11.02%	\$ 730
	92.92	160.00	\$ 6,627	13.28	\$ 7,264	9.62%	\$ 637
	91.74	170.00	\$ 6,627	13.11	\$ 7,171	8.22%	\$ 545
	91.45	172.50	\$ 6,627	13.07	\$ 7,149	7.89%	\$ 523
	91.15	175.00	\$ 6,627	13.03	\$ 7,127	7.56%	\$ 501

Impact on CIP Bills At Proposed Levy

	FY2020	FY2021	% Change
Median Commercial Value	361,500	372,250	2.97%
Median Industrial Value	395,000	418,450	5.94%

	Res Factor	CIP Factor	FY20 Tax	FY2020	FY2021	% Change	\$ Incr.
Comm	100.00	100.00	\$ 9,352	14.29	\$ 5,319	-43.12%	\$ (4,033)
	93.76	150.00	\$ 9,352	21.44	\$ 7,981	-14.66%	\$ (1,371)
	92.92	160.00	\$ 9,352	22.87	\$ 8,513	-8.97%	\$ (839)
	91.74	170.00	\$ 9,352	24.30	\$ 9,046	-3.28%	\$ (306)
	91.45	172.50	\$ 9,352	24.66	\$ 9,180	-1.84%	\$ (172)
	91.15	175.00	\$ 9,352	25.02	\$ 9,314	-0.41%	\$ (38)

Indust	100.00	100.00	\$ 10,219	14.29	\$ 5,980	-41.48%	\$ (4,239)
	93.76	150.00	\$ 10,219	21.44	\$ 8,972	-12.21%	\$ (1,247)
	92.92	160.00	\$ 10,219	22.87	\$ 9,570	-6.35%	\$ (649)
	91.74	170.00	\$ 10,219	24.30	\$ 10,168	-0.50%	\$ (51)
	91.45	172.50	\$ 10,219	24.66	\$ 10,319	0.98%	\$ 100
	91.15	175.00	\$ 10,219	25.02	\$ 10,470	2.45%	\$ 251