

CITY OF LYNN



FISCAL YEAR 2022 CLASSIFICATION HEARING

**Lynn City Council Meeting
Tuesday, December 14, 2021**

**Prepared by:
City of Lynn Board of Assessors**

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Memorandum

To: Lynn City Council
From: Board of Assessors
Date: December 14, 2021
Subject: Determination of the Residential Factor for Setting the FY2022 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 FY2022 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 must be made to reflect this data for FY2022. These adjustments were made using the Department of Revenue's (DOR) Bureau of Local Assessment (BLA) mandatory standards and practices. 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, 2021. The DOR thoroughly examined this process.

As indicated within this packet, the total taxable assessed value for FY2022 is:

\$10,922,353,650

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 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, unicipal 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, 2021. 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 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, which 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 \$147,954,540. Due to rounding in computing the tax rates, the anticipated final tax levy will be \$147,920,873 once those rates are approved. The increase is \$6,116,560 over the FY2021 levy or 4.3%. The simplified calculation for the levy limit is:

FY2022 Levy Limit Calculation	
FY2021 Levy Limit	141,804,316
+ Amended FY2021 Growth	<u>73,861</u>
Adjusted FY2022 Levy Limit	141,878,177
+ 2.5% Increase	3,546,954
+ FY22 Growth	<u>2,529,409</u>
FY2022 Levy Limit*	147,954,540

*Actual Levy Limit Adjusted for rounding.

CLASSIFICATION

In 1978, voters amended the Massachusetts Constitution to allow a municipality's legislative body to disproportionately allocate a community's tax burden with the executive's approval. The tax burden can be allocated among the four general classes real property and personal property within certain constraints. 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 FY2022. 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 FY2022 taxes will be issued at the end of December once DOR approves the tax rate.

The following is the 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 2020 were analyzed, and if sales were insufficient for specific classes, 2019 sales were used. Factors affecting value, including location, size, age, condition, and type, were studied. For non-residential properties, the Assessors considered rental levels, vacancies, expenses, among other factors. Based on this analysis, property valuations were adjusted to reflect the market on January 1, 2021. 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 amount 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 impact individual bills. However, none of these factors are limited by Proposition 2-1/2.

FISCAL YEAR 2022 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 FY2022. 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 by comparing similar sales. Primarily, adjustments were made by neighborhood, adjusting for observed changes in market values in particular areas of the City.

Information on income, vacancies, and expenses was obtained and analyzed for apartment buildings and larger commercial and industrial properties. Valuations were adjusted 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 FY2022, residential value accounted for 90.13% of the overall value. On a broad basis, the net result of this shift, assuming approval of the minimum residential factor, would change the FY2022 levy percentages of 83% (residential) and 17% (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 81.5%; therefore, an additional 1.5% of the total levy has shifted to the residential tax class.

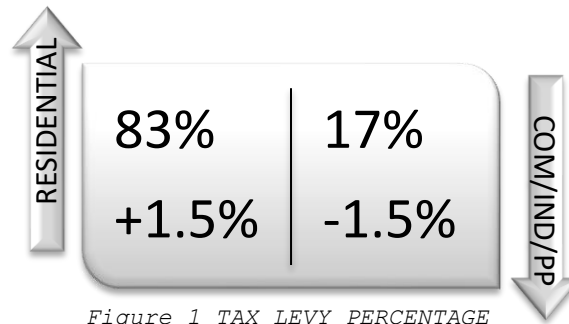


Figure 1 TAX LEVY PERCENTAGE

Within the major classes, the average value of improved residential property types changed within a range of plus 5.40% to plus 11.53%.

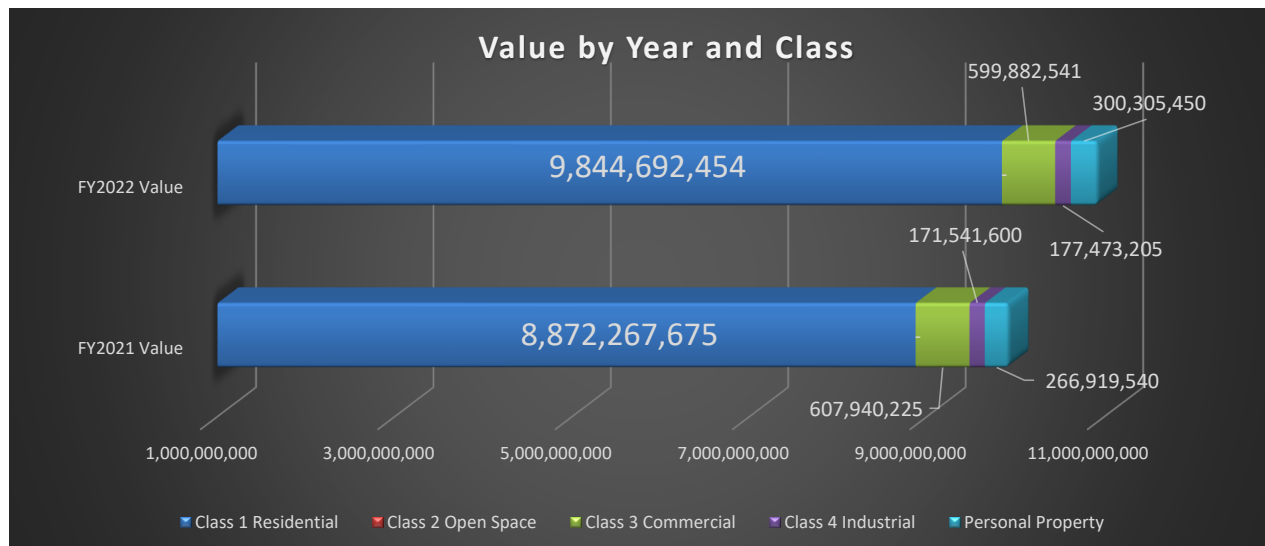
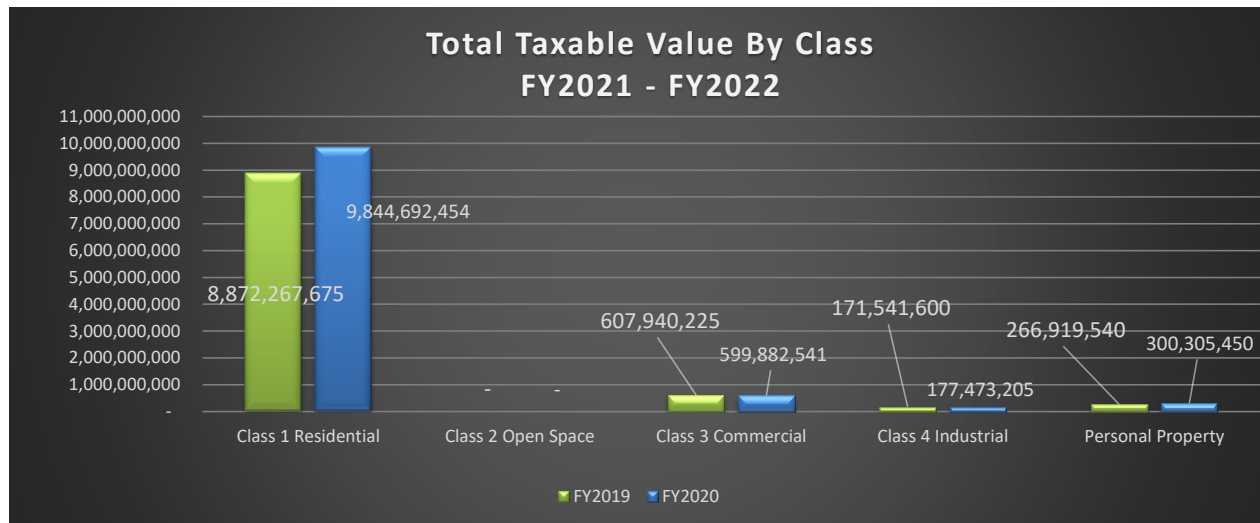
<i>Property Type</i>	<i>Average Value</i>	<i>Percent Change from FY21</i>
<i>Single Family</i>	417,900	11.53%
<i>Condominium</i>	257,600	5.40%
<i>2-3 Family</i>	606,700	10.91%

With regards to CIP properties, median commercial and industrial values changed modestly from FY2022 levels. The median value for commercial properties increased by 5.78% and 1.04% 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, 2021, using primarily 2020 sales. The changes seen in the current real estate market will be addressed in FY2023 when we analyze 2021 sales. However, preliminary indications are that residential values continue to show a considerable increase.

Total Taxable Value

	FY2021 Value	FY2022 Value	% Change	% of Total FY2021	% of Total FY2022
Class 1 Residential	8,872,267,675	9,844,692,454	10.96%	89.45%	90.13%
Class 2 Open Space	-	-	0.00%	0.00%	0.00%
Class 3 Commercial	607,940,225	599,882,541	-1.33%	6.13%	5.49%
Class 4 Industrial	171,541,600	177,473,205	3.46%	1.73%	1.62%
Personal Property	266,919,540	300,305,450	12.51%	2.69%	2.75%
Totals	9,918,669,040	10,922,353,650	10.12%	100%	100%



FY2022 Levy Limit Calculation

FY2021 Levy Limit	\$	141,804,316
+ Amended FY2021 Growth	\$	73,861
Adjusted FY2021 Levy Limit	\$	141,878,177
+ 2.5% Increase	\$	3,546,954
+ FY22 Growth	\$	2,529,409
FY2022 Levy Limit	\$	147,954,540
FY2022 Levy Ceiling (Total Value X 2.5%)	\$	273,058,841
FY2021 Actual Levy	\$	141,786,610
FY2022 Maximum Levy	\$	147,954,540
% Increase at Maximum Levy		4.35%
FY2022 Proposed Levy (at 175% CIP Factor)	\$	147,920,873
% Increase at Proposed Levy		4.33%
Excess Levy Capacity (at 175% CIP Factor)	\$	33,667

Impact on Residential Bills at Proposed Levy

	FY2021	FY2022	% Change
Average Single Family Value	374,700	417,900	11.53%
Average Condominium Value	244,400	257,600	5.40%
Average 2-3 Family Value	547,000	606,700	10.91%

	Res Factor	CIP Factor	FY21 Tax	Tax Rate	FY22 Tax	% Change	\$ Incr.
1-Fam	100.00	100.00	\$ 4,882	\$ 13.55	\$ 5,663	15.99%	\$ 781
	94.53	150.00	\$ 4,882	\$ 12.80	\$ 5,349	9.57%	\$ 467
	93.43	160.00	\$ 4,882	\$ 12.66	\$ 5,291	8.37%	\$ 409
	92.34	170.00	\$ 4,882	\$ 12.51	\$ 5,228	7.09%	\$ 346
	92.06	172.50	\$ 4,882	\$ 12.47	\$ 5,211	6.74%	\$ 329
	91.79	175.00	\$ 4,882	\$ 12.43	\$ 5,194	6.40%	\$ 312

Condo	100.00	100.00	\$ 3,184	\$ 13.55	\$ 3,490	9.63%	\$ 306
	94.53	150.00	\$ 3,184	\$ 12.80	\$ 3,297	3.56%	\$ 113
	93.43	160.00	\$ 3,184	\$ 12.66	\$ 3,261	2.43%	\$ 77
	92.34	170.00	\$ 3,184	\$ 12.51	\$ 3,223	1.21%	\$ 39
	92.06	172.50	\$ 3,184	\$ 12.47	\$ 3,212	0.89%	\$ 28
	91.79	175.00	\$ 3,184	\$ 12.43	\$ 3,202	0.56%	\$ 18

2-3 Fam	100.00	100.00	\$ 7,127	\$ 13.55	\$ 8,221	15.35%	\$ 1,094
	94.53	150.00	\$ 7,127	\$ 12.80	\$ 7,766	8.96%	\$ 639
	93.43	160.00	\$ 7,127	\$ 12.66	\$ 7,681	7.77%	\$ 554
	92.34	170.00	\$ 7,127	\$ 12.51	\$ 7,590	6.49%	\$ 463
	92.06	172.50	\$ 7,127	\$ 12.47	\$ 7,566	6.15%	\$ 439
	91.79	175.00	\$ 7,127	\$ 12.43	\$ 7,541	5.81%	\$ 414

Impact on CIP Bills At Proposed Levy

	FY2021	FY2022	% Change
Median Commercial Value	372,200	393,700	5.78%
Median Industrial Value	418,450	422,800	1.04%

	Res Factor	CIP Factor	FY21 Tax	Tax Rate	FY22 Tax	% Change	\$ Incr.
Comm	100.00	100.00	\$ 9,352	\$ 13.55	\$ 5,335	-42.96%	\$ (4,017)
	94.53	150.00	\$ 9,352	\$ 20.32	\$ 8,000	-14.46%	\$ (1,352)
	93.43	160.00	\$ 9,352	\$ 21.67	\$ 8,531	-8.77%	\$ (821)
	92.34	170.00	\$ 9,352	\$ 23.03	\$ 9,067	-3.05%	\$ (285)
	92.06	172.50	\$ 9,352	\$ 23.37	\$ 9,201	-1.62%	\$ (151)
	91.79	175.00	\$ 9,352	\$ 23.71	\$ 9,335	-0.19%	\$ (17)

Indust	100.00	100.00	\$ 10,470	\$ 13.55	\$ 5,729	-45.28%	\$ (4,741)
	94.53	150.00	\$ 10,470	\$ 20.32	\$ 8,591	-17.94%	\$ (1,879)
	93.43	160.00	\$ 10,470	\$ 21.67	\$ 9,162	-12.49%	\$ (1,308)
	92.34	170.00	\$ 10,470	\$ 23.03	\$ 9,737	-7.00%	\$ (733)
	92.06	172.50	\$ 10,470	\$ 23.37	\$ 9,881	-5.63%	\$ (589)
	91.79	175.00	\$ 10,470	\$ 23.71	\$ 10,025	-4.25%	\$ (445)