12/1 (3)

Town of Acton

Memo

To: The Board of Selectmen

From: John Murray

CC: Board of Assessors, Chamber of Commerce

Date: November 26, 2003

Re: FY '04 Classification Hearing

The Department of Revenue has cited funding cuts and heavy workload as the major reasons for delays in its part of certification process. Due to these delays the Board of Assessors is unable to provide the Board with any current numeric data at this time and as such has postponed the formal Classification Hearing until December 15, 2003.

The Chairman has asked the Board of Assessors to present on Monday evening December 1, 2003, the underlying concepts/theory of the actions the Board must decide upon at the formal classification hearing.

At the closure of the classification hearing discussion, The Board of Assessors oversight meeting will commence. Selectmen Ashton has indicated he wishes to discuss overlay and overlay surplus during the oversight session.

12/1/03 -

3

Town of Acton

Allocation of the Tax Levy - FY 2004

December 1, 2003

Board of Assessors

James Kotanchik, Chairman
Lester Goodridge
Susan Miller
David Brown, Associate Member

Selectmen's Decisions

requiring a vote

- Shift the tax burden between the "R" and the "CIP" classes.
- "Open Space Discount"
- "Residential Exemption"
- "Small Commercial Exemption"

Shifting the Tax Burden

- Under state guidelines, Acton could shift to the "RES" class on one extreme, or to the "C I P" classes at the other.

- Determine percentages of levy to be paid by each property class.
- Acton may shift 50% additional taxes to the "CIP" class
- Acton may shift approximately 5% to the "R" class.

Shifting the Tax Burden

continued ...

- A factor of 100% - all property is taxed at the same rate.
- A factor > 100% results in <u>decreasing</u> the "C I P" proportionate share of the levy.
- Under state guidelines, Acton could shift <u>TO</u> the "RES" class on one extreme, or

  <u>TO</u> the "C I P" classes at the other.

The "Open Space" discount

- Acton has no parcels classified as Open Space.

The "Residential Exemption"

- Reduces the taxable value of a taxpayer's principal residence with certain exclusions.
- May be up to 20% of the average assessed value of all residential parcels. Exemption is recovered by increasing the tax levy on the balance of the residential parcels.

The "Small Commercial Exemption"

- Reduces the taxable value of eligible businesses by up to 10% .
- "Eligible businesses" are determined by the Department of Employment and Training.
- Commercial and Industrial classes given a separate rate of tax from Personal Property.
- Residential and Open Space discounts not affected.
- Exemption is recovered by increasing the tax levy upon the balance of commercial and industrial parcels.

Example Only
Shifting the Tax Burden
A shift within the levy classes

Sample A	Valuation	% Levy	Adopt Res. Factor	Adj % Levy	Annual Amount Levied by class	
Res Val	85,000,000	85.0%	1.00	85.0%	$ 1,062,500	
C & I	12,000,000	12.0%	1.00	12.0%	$ 150,000	
PP	3,000,000	3.0%	1.00	3.0%	$ 37,500	
Totals	100,000,000	100%			$ 1,250,000	Levy

With a Res. Factor of less than 1 (.91) resulting in a maximim 150% shift to CIP

Sample B	Valuation	% Levy	Adopt Res. Factor	Adj % Levy	Annual Amount Levied by class	
Res Val	85,000,000	85.0%	0.91	77.5%	$ 968,750	
C & I	12,000,000	12.0%	1.50	18.0%	$ 225,000	
PP	3,000,000	3.0%	1.50	4.5%	$ 56,250	
Totals	100,000,000	100%		100%	$ 1,250,000	Levy

Example Only
Sample Residential Exemption
A shift within the residential class

Typical Scenario

Sample	Residential Valuation	Less Exemption	Taxable Value Less Exemption	Annual Tax Bill	
1	100,000	0.00	100,000	$ 1,250	
2	200,000	0.00	200,000	$ 2,500	
3	300,000	0.00	300,000	$ 3,750	
Totals	600,000		600,000	$ 7,500	Levy

With a 20% Exemption

Sample	Residential Valuation	Less Exemption	Taxable Value Less Exemption	Annual Tax Bill	
1	100,000	(40,000)	60,000	$ -	
2	200,000	(40,000)	160,000	$ -	Average Value Times 20% = Residential Exemption
3	300,000	(40,000)	260,000	$ -	
Totals	600,000	(120,000)	480,000	$ 7,500	Levy

The Exemption results in a shift to the higher priced homes.

The shift can not reduce the taxable value to less than 10%.

"Residence" defined as the principal residence of the property taxpayer for state income tax purposes does not include rental units (unless occupied by the owner), accessory land or second homes.

Example Only
Sample Commercial Exemption
A shift within the Commercial class

No Shift

Sample	Commercial Valuation	Less Exemption	Taxable Value Less Exemption	Annual Tax Bill	
1	800,000	0.00	800,000	$ 10,000	
2	1,200,000	0.00	1,200,000	$ 15,000	
3	3,000,000	0.00	3,000,000	$ 37,500	
Totals	5,000,000		5,000,000	$ 62,500	Levy

With Maximum 10% Exemption

Sample	Commercial Valuation	Less Exemption	Taxable Value Less Exemption	Annual Tax Bill	
1	800,000	(80,000)	720,000	$ 9,146	
2	1,200,000	-	1,200,000	$ 15,244	
3	3,000,000	-	3,000,000	$ 38,110	
Totals	5,000,000	(80,000)	4,920,000	$ 62,500	Levy

The shift can not exceed 10%.

Eligibility: Must have average annual employment of no more than 10 employees during prior calendar year. Must be certified by Commisioner of DOE. Valuation of less than one million dollars. Property must be occupied by eligible business.

Massachusetts Department of Revenue *Division of Local Services*
Alan LeBovidge, Commissioner Gerard D. Perry, Acting Deputy Commissioner

Informational Guideline Release

Bureau of Local Assessment
Informational Guideline Release (IGR) No. 03-401
August 2003

FISCAL YEAR 2004
GUIDELINES FOR ANNUAL ASSESSMENT AND ALLOCATION OF TAX LEVY

(G.L. Ch. 40 §56; Ch. 58 §1A; Ch. 59 §§ 2A, 5C and 5I)

This Informational Guideline Release (IGR) provides assessors and other local officials with information regarding the annual determination of property assessments, classification of property according to usage class, calculation of the minimum residential factor and allocation of the tax levy among the property classes for Fiscal Year 2004.

It addresses the requirements to be met and procedures to be followed by local officials in all communities before setting a FY04 tax rate, including standards for triennial certification and interim year valuation adjustments. For FY04, the IGR has been revised to reflect new procedures regarding the review of state owned land valuations during triennial certification. See Section I-A-2-b(5), page 5. It also notifies assessors of new interim year adjustment reporting requirements that are going into effect in FY05. See Section I-B-2, page 7.

The following forms referenced in the IGR are included in the *FY04 Tax Rate Recap, Pro Forma Recap and Supporting Forms* materials issued by the Bureau of Accounts: "Adjustment of Valuations Between Certification," LA-4 "Assessment/Classification Report," LA-4W "Assessment/Classification Worksheet" (for electric generation plants), LA-5 "Classification Tax Allocation" and LA-7 "Minimum Residential Factor Computation." **Assessors must submit Form LA-4 electronically using the Automated Tax Rate Recapitulation Program, accompanied by a signed printed copy, as explained in the recap program instructions.** Questions should be referred to the Bureau of Local Assessment.

Topical Index Key:

Classification and Taxation by Use

Distribution:

Assessors
Mayors/Selectmen
City/Town Councils

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GUIDELINES FOR ANNUAL ASSESSMENT AND ALLOCATION OF TAX LEVY

(G.L. Ch. 40 §56; Ch. 58 §1A; Ch. 59 §§ 2A, 5C and 5I)

Property is assessed for local tax purposes at its full and fair cash value as of January 1 of each year. Every three years, a community's assessments must be reviewed by the Commissioner of Revenue and certified as meeting legal standards. Adjustments to assessments made in years between this triennial certification to reflect changes in market conditions must also meet legal standards, although they are not subject to annual review by the Commissioner.

Once a community is certified as assessing property at full and fair cash value, local officials are required to determine for the fiscal year of certification, and the next two fiscal years, the percentages of the tax levy to be borne by each class of real property: residential, open space, commercial and industrial, and by personal property for that year. This decision is to be made after holding a public hearing.

These guidelines set forth requirements and procedures that provide the Commissioner with a framework within which he may fulfill his responsibility to review local assessments and to determine whether they reflect full and fair cash value as of January 1, 2003 for Fiscal Year 2004. In the performance of this responsibility, the Commissioner may require such information from and action by assessors and may modify these requirements and procedures, as appropriate, in order to recognize circumstances unique to each city and town in the Commonwealth.

These guidelines also establish the requirements and procedures that cities and towns certified by the Commissioner as assessing property at full and fair cash value as of January 1, 2001 for FY02 and as of January 1, 2002 for FY03 must follow for making valuation adjustments and allocating the tax levy in FY04.

I. ESTABLISHMENT OF ASSESSMENTS

The Board of Assessors must determine the assessed value of all taxable real and personal property as of January 1, 2003, as required by G.L. Ch. 59 §38.

A. Triennial Certification

The Bureau of Local Assessment will review proposed FY04 assessments of cities and towns that (1) were certified as assessing property at full and fair cash value as of January 1, 2000 for FY01 and are required by law to meet triennial certification requirements in FY04 and (2) are otherwise scheduled by the Commissioner for certification of values in FY04.

Scheduled communities must take whatever steps are necessary to ensure the timely implementation of values that satisfy certification requirements or be subject to the exercise of the Commissioner's enforcement powers. G.L. Ch. 58 §4-4C. Refer to Division of Local Services Bulletin 2000-7B, *Realistic Planning for Recertification and Tax Rate Setting (June 2000)* for key dates also applicable for FY04.

If a community's assessments do not satisfy minimum certification requirements, the Commissioner may require the city or town to meet those requirements in accordance with an approved program and timetable.

1. Revaluation Plan

All communities scheduled to meet FY04 certification requirements must submit a written plan for meeting those requirements to the Bureau of Local Assessment for review and approval.

2. Certification Review

The certification review will consist of: (a) preliminary field review, (b) procedural audit of valuation practices, (c) statistical analysis, (d) public disclosure program and (e) final certification and classification review.

As a general rule, the review will be conducted in the sequence and manner described below, with the preliminary field review and procedural audit being conducted throughout the revaluation as certain program components are completed.

a. Preliminary Field Review

The Bureau of Local Assessment advisor/appraiser will review with the Board of Assessors or designated staff member the following:

(1) The guidelines for documentation to support proposed assessments and valuation methods.

(2) The assessors' program plan in light of the recommendations from the previous certification review.

(3) The results of any data quality studies conducted.

(4) The advisor's findings on quality of data and adequacy of tax maps.

(5) The assessors' progress in researching market, cost, and income data for use in the reassessment program.

(6) The assessors' progress toward the timely completion of the proposed certification effort.

b. Procedural Audit Review

The Bureau of Local Assessment will conduct an on-site procedural audit review of the appraisal methods used to develop the proposed assessments and of a representative sample of proposed assessments in the major property classes. The purpose of this review is to determine if the assessors have developed and implemented an acceptable mass appraisal system using appropriate and reasonable valuation methods and to ensure the uniform and consistent application of that system.

The assessors must provide documentation to support the methodologies used to develop the proposed assessments. Specifically, the following appraisal documentation may be required during the review:

(1) Residential Property - Documentation would include, but not necessarily be limited to: sales analyses, pricing and depreciation schedules, valuation models with associated performance statistics, valuation system override criteria and field review records.

(2) Land - Documentation must include land sales and/or residuals used to develop the valuation schedules applied to all improved and vacant land parcels.

(3) Commercial and Industrial Property - Documentation must indicate a consideration of the three approaches to value: market, cost and income, and must provide the basis for the methodologies applied. The development and application of a second approach to value will be required for all properties that are purchased and sold based upon an investor's expectations. Those properties include, but are not necessarily limited to, the following: primarily commercial multiple use properties; apartments over four units; hotels and motels; storage, warehouse and distribution facilities; discount and department stores; shopping centers and malls; supermarkets; small retail properties; office buildings, medical office buildings; research and development facilities; and properties within industrial parks.

(4) Personal Property - Documentation must indicate the basis for the valuation methodology employed.

(a) Gas and Electric Transmission and Distribution Systems - Documentation must also address the impact of government regulation on the value of system property. Specifically, relevant data must be presented to support any opinion of value in excess of the net book cost. This supporting data must: (i) identify the existence of special circumstances that might indicate a fair market value in excess of net book cost and (ii) show why, because of the existence of these special circumstances, a buyer would not be influenced by the net book cost of the property and reasonably could be expected to pay the value placed on the property by the assessors when by investing the same dollars elsewhere, the buyer could obtain a better return on its investment. Montaup Electric v. Board of Assessors of Whitman, 390 Mass. 847 (1984).

(b) Electric Generation Plants - Documentation must meet the requirements set forth in Bureau of Local Assessment guidelines on the valuation of deregulated electric power generation facilities. Refer to Informational Guideline Release (IGR) No. 98-403, *Valuation and Taxation of Electric Generating Property*.

(5) State Owned Land –Documentation must meet the requirements set forth in Bureau of Local Assessment guidelines *Development of a Minimum Reassessment Program (January 2003)* for exempt land owned by the state or held for watershed purposes for which reimbursement is received under G.L. Ch. 58 §§13-15 or Ch. 59 §5G.

c. Statistical Analysis

The Bureau of Local Assessment will conduct a statistical analysis of arms-length residential sales upon completion of the revaluation. For the Bureau to conduct this analysis, the assessors must submit a cover letter requesting review and Forms LA-3 "Property Sales Reports."

A median assessment-sales ratio (ASR) and coefficient of dispersion (COD) about the median will be calculated for single-family residential properties by the Bureau. The Bureau will also calculate a separate median ASR and COD for two family, three family, condominium, apartment and vacant land residential properties if the tax base has a significant number of those types of properties.

In order for the Bureau to complete the preliminary certification review, the sales analysis must indicate the following for each type of property for which there is a sufficient sales sample as described in Bureau of Local Assessment guidelines *Development of a Minimum Reassessment Program* (January 2003):

Type	Use Classes	Median ASR (Range)	COD (Maximum)
Single-family	101, 103	90-110%	10%
Two-family	104	90-110%	12%
Three-family	105	90-110%	12%
Apartments	111-112	90-110%	15%
Condominiums	102	90-110%	10%
Vacant Land	130-132	90-110%	20%
Commercial	300	90-110%	20%
Industrial	400	90-110%	20%
Mixed Use	013-031	90-110%	20%

In addition, the difference in the median ASR of the residential property type with the largest number of parcels and that of any other type of residential property analyzed should be 5% or less.

d. Public Disclosure Program

Upon successful completion of the preliminary field review, the procedural audit review and the statistical analysis, the Bureau of Local Assessment will notify the assessors in writing that they may proceed with an appropriate public disclosure program for providing taxpayers with information on the proposed assessments.

e. Final Certification and Classification Review

After completion of the public disclosure program, the assessors will determine the final assessments and classifications as of January 1, 2003. See Section II-A below. The assessors must then request a final certification and classification review by submitting to the Bureau of Local Assessment:

(1) A list of properties with certain valuation changes resulting from the public disclosure program on Form LA-10 "Assessment Adjustment List " along with a copy of the public disclosure program notice, and

(2) The total valuation of each class of real property and of personal property on Form LA-4 "Assessment/Classification Report." See Section II-B below. The form must be submitted on the Automated Recap program, accompanied by a printed copy signed by the assessors.

The Bureau of Local Assessment will conduct a review to ensure that the final assessments and classifications are uniform and consistent with statutory requirements.

B. Interim Year Valuations

In cities and towns not scheduled for certification review, the assessors must adjust valuations to reflect changes in the tax base due to new construction, alterations, demolitions, etc. If there has been a change in market conditions, after careful evaluation, adjustments should be made to property valuations to reflect full and fair cash value as of January 1, 2003.

1. Valuation Adjustment Plan

The assessors may undertake or complete a valuation adjustment program without the prior review or approval of the Bureau of Local Assessment. Appropriate appraisal methods must be used to develop any valuation adjustments. After completion of the program, the community's FY04 assessments must be equitable and consistent within and between all property classes, as evidenced by conformity with accepted mass appraisal measures of assessment level and uniformity.

Documentation to support any valuation changes must be prepared and retained by the assessors. This documentation might include, for example, income, expense and capitalization rate analyses, sales ratio studies or any other data that support the type and extent of the valuation changes made by the assessors.

2. Valuation Adjustment Report

a. If the valuation adjustments result in a change in the total assessed valuation within the community of more than 10% from FY03, excluding increases in valuation due to tax base growth, the assessors will complete their program and report the results to the Bureau of Local Assessment as early as possible during the tax rate process, but no later than the time the Form LA-4 "Assessment/ Classification Report" is submitted. See Section II-B below. The form "Interim Year Adjustment Report" should be sufficient, although more detailed information may be requested by the Bureau if deemed necessary. Beginning in FY05, all communities will be required to submit this report annually.

b. If the valuation adjustments result in a change in the total assessed valuation within the community of 10% or less from FY03, the assessors will complete their program and simply report the total new assessed valuation on Form LA-4 "Assessment/Classification Report" and Form LA-13 "Tax Base Growth Report."

II. DETERMINATION OF USAGE CLASSIFICATION AND TOTAL VALUATION

A. Real Property Classification

The assessors must determine the usage classification of all real property as of January 1, 2003 in accordance with the definitions set forth in G.L. Ch. 59 §2A(b):

Class One,	Residential
Class Two,	Open Space
Class Three,	Commercial
Class Four,	Industrial

1. The assessors must designate an individual property's usage class in accordance with the *Property Type Classification Codes* (November 2002) issued by the Bureau of Local Assessment.

2. Real property of utilities is subject to local property taxation and must be classified as Class Four, Industrial. Personal property of utilities is included in the total valuation of personal property.

   The valuation attributable to a payment in lieu of tax agreement or transition payment for a deregulated electric generating facility must be classified as real or personal property and further designated in accordance with the *Property Type Classification Codes* (November 2002).

3. Forest land as defined in G.L. Ch. 61, agricultural or horticultural land as defined in G.L. Ch. 61A and recreational land as defined in G.L. Ch. 61B must be valued according to the provisions of those statutes. All forest, agricultural, horticultural or recreational land use valuations must be included in the total valuation of the commercial class and taxed at the commercial rate. G.L. Ch. 61 §3; Ch. 61A §4 and Ch. 61B §2.

4. Classification of property as Class Two, Open Space, is determined by the assessors as of January first of each year, and does not require application by the property owner. This class cannot include forest, agricultural, horticultural, or recreational land as defined in G.L. Ch. 61, Ch. 61A and 61B, but may include land not otherwise classified, that is not held for the production of income, but is maintained in an open or natural condition and contributes significantly to the benefit and enjoyment of the public.

5. Where real property is used or held for more than one purpose and those uses result in different classifications, the assessors must allocate to each classification the percentage of the full and fair cash valuation of the property devoted to each use according to the guidelines in the *Property Type Classification Codes*. G.L. Ch. 59 §2A(b).

6. Real property that is exempt from taxation under G.L. Ch. 59 §5 or otherwise, must also be classified according to the same guidelines. G.L. Ch. 59 §2A(b).

B. Total Valuation

After assessments are determined as of January 1, 2003 to reflect changes in value, usage classification and/or tax base, the assessors must submit to the Bureau of Local Assessment:

1. The total valuation of each class of real property and of personal property on Form LA-4 "Assessment/Classification Report." The form must be submitted on the Automated Recap program, accompanied by a printed copy signed by the assessors.

   If an electric generation plant is located in the community, the Form LA-4W "Assessment/Classification Worksheet" must be attached to the Form LA-4 for it to be considered complete.

   At the same time, the assessors may also submit a proposed Tax Rate Recapitulation Sheet and Form LA-5 "Classification Tax Allocation" to the Bureau of Accounts. If submitted at this time, the Form LA-5 and Tax Rate Recapitulation Sheet should indicate the tax levy percentages expected to be adopted by local officials. If not submitted at this time, the Form LA-5 and Tax Rate Recapitulation Sheet will be submitted to the Bureau of Accounts after the public hearing has been held and the levy percentages have been adopted. See Section V-A below.

2. Tax base growth on Forms LA-13 and 13A "Tax Base Growth Report." Refer to Bureau of Local Assessment IGR No. 03-402 *Fiscal Year 2004 Guidelines for Determining Annual Levy Limit Increase for Tax Base Growth* (August 2003) for further instructions.

III. DETERMINATION OF MINIMUM RESIDENTIAL FACTOR AND CERTIFICATION

A. Minimum Residential Factor

1. Based upon the total taxable valuation of each class of real property and of personal property as submitted by the assessors, the Commissioner will determine a minimum residential factor for each city and town that he certified as assessing property at full and fair cash valuation as of January 1, 2001 for FY02, January 1, 2002 for FY03 and January 1, 2003 for FY04. G.L. Ch. 58 §1A.

a. This factor will be 65 percent subject to such adjustment upward as may be required to provide that the percentage of the total tax levy imposed on any class of real or on personal property will not exceed 150 percent of the full and fair cash valuation of its taxable property divided by the full and fair cash valuation of all taxable real and personal property in the city or town, unless the adoption of that minimum residential factor would result in a residential levy percentage higher than that adopted in the prior year.

In that case, the factor will be 50 percent subject to such adjustment upward as may be required to provide that the residential levy percentage will not fall below the lowest residential levy percentage imposed since the community was first certified as assessing at full and fair cash value and that the percentage of the total tax levy imposed on any class of real or on personal property will not exceed 175 percent of the full and fair cash valuation of its taxable real and personal property divided by the full and fair cash valuation of all taxable real and personal property in the city or town.

b. In no instance may the minimum residential factor determined by the Commissioner be greater than 100 percent, although a city or town may adopt a residential factor greater than that amount. See Section IV-B below.

2. The statutory formula explained above uses the percentage share of the tax levy that each class of real property and that personal property bears to the total to establish the limits within which a community may shift the tax burden from residential and open space property to commercial, industrial and personal property. By adopting a residential factor either at or above the minimum established by the Commissioner, a city or town is assured that the tax levies for each class of real and for personal property will fall within the limits prescribed by law.

B. Annual Certification

The Commissioner will then certify, in writing, to the Board of Assessors:

1. The total taxable value of each of the four classes of real property and of personal property as of January 1, 2003.

2. The minimum residential factor for FY04.

3. The determination that a majority of the assessors in a community subject to FY04 triennial certification requirements are qualified to classify property. G.L. Ch. 59 §2A(c).

   a. The Board of Assessors will be deemed qualified if a majority of the current board has attended a classification training session conducted by the Bureau of Local Assessment, or completed the computer based training (CBT) version of the classification training session and submits evidence of completion. If not so qualified, the member or members necessary to constitute a majority must complete a training session in order for the Board to be qualified.

   b. The dates, times and locations of the training sessions to be conducted by the Bureau for FY04 will be provided to the Boards of Assessors. The CBT program can be downloaded from the Division of Local Service web site: www.mass.gov/dls or is available on disk from the Bureau of Local Assessment.

IV. ALLOCATION OF LOCAL TAX LEVY

A. Public Hearing

After the assessors receive the Commissioner's certifications, the Board of Selectmen or Town Council of each town or the City Council of each city must conduct a public hearing on the issue of allocating the local property tax levy among the four classes of real property and of personal property for FY04. G.L. Ch. 40 §56.

1. The public hearing called by the Selectmen or City Council must comply with the requirements of the Open Meeting Law, as supplemented by local by-law or ordinance.

2. Local officials must provide notice of the conduct of the hearing to taxpayers by a comprehensive public information release in a newspaper of general circulation in the community, as well as in any other appropriate news media. The release should provide the date, time and place of the public hearing, should provide information regarding the policy decisions available, and should indicate the manner by which interested taxpayers may present oral or written information on their views. In providing notice and conducting the public hearing, local officials should further the legislative intent to provide an open forum for the discussion of local property tax policy.

   The assessors should also provide notice of any reassessment or valuation adjustment program to taxpayers by having included in the release information on the basis of the valuation changes and the program's overall effect on assessments or by issuing a separate release prior to tax billing that provides that information.

3. At the public hearing, the assessors must provide all information and data relevant to making a decision on allocating the tax levy including the fiscal effect of the available alternatives.

   The statutory formula for determining the allocation of the tax levy among the four classes of real property: residential, open space, commercial and industrial, and personal property is set forth in G.L. Ch. 40 §56. By adapting the allocation formula to the circumstances of their city or town, the assessors can provide the information required for the public hearing.

B. <u>Adoption of Residential Factor</u>

After holding the public hearing, the Board of Selectmen or Town Council in a town, or the City Council, together with the approval of the Mayor, in a city, must determine the percentages of the tax levy to be paid by each class of real property and by personal property for FY04. G.L. Ch. 40 §56.

1. In determining those percentages, the Selectmen, Town Council or City Council, together with the Mayor's approval, must first adopt a residential factor. In a city, if the Mayor vetoes the City Council's factor, the City Council may override the veto with a vote equal to two-thirds of the members elected. The residential factor adopted must be an amount not less than the minimum residential factor calculated by the Commissioner. See Section III-A above.

2. The residential factor adopted by a community governs the percentage of the tax levy to be paid by residential property owners. If local officials choose a low residential factor, (for example, the statutory minimum) residential property owners will pay a proportionately lower share of the total levy. A residential factor of "1" will result in the taxation of all property at the same rate. The statute permits a city or town to adopt a residential factor greater than 100 percent, which would have the effect of decreasing the commercial, industrial, and personal property tax rates and increasing the rates for residential and open space property. G.L. Ch. 58 §1A.

3. When determining the residential factor, local officials may select a percentage for Class Two, Open Space, that may not be less than 75 percent of its full and fair cash value percentage. The residential class alone absorbs any discount applied to the open space class.

4. The percentages to be paid by the remaining classes of real and by personal property owners can be calculated according to the provisions of G.L. Ch. 40 §56, using the residential and open space factors.

C. Residential Exemption

1. At the option of the Board of Selectmen or Mayor, with the approval of the City Council, an exemption of not more than 20 percent of the average assessed value of all Class One, Residential, parcels may be applied to residential parcels that are the principal residence of the property taxpayer as used by the taxpayer for state income tax purposes as of January 1, 2003. G.L. Ch. 59 §5C.

2. Principal residence is ordinarily the residence in which a property taxpayer lives. It is the taxpayer's domicile, that is, his fixed place of habitation, permanent home or legal residence. Therefore, Class One, Residential, parcels not eligible for the residential exemption would include accessory land incidental to a residential use, summer homes, or residential property not occupied by the owner, such as apartments.

3. The application of the residential exemption, in addition to any other exemptions allowable under G.L. Ch. 59 §5, may not reduce the taxable value of the property to less than 10 percent of its full and fair cash value, except through the application of the hardship exemption found in G.L. Ch. 59 §5 Cl. 18 and the exemption for paraplegic veterans and their surviving spouses provided under G.L. Ch. 58 §8A.

D. Small Commercial Exemption

1. At the option of the Board of Selectmen or Mayor, with the approval of the City Council, an exemption of any percentage up to 10 may be applied to Class Three, Commercial, parcels that are (1) occupied as of January 1, 2003 by a business with an average annual employment of no more than ten during calendar year 2002, and (2) have a valuation of less than one million dollars. G.L. Ch. 59 §5I.

2. Businesses certified by the Director of the Department of Workforce Development as having had an average annual employment of ten or fewer people at all locations during calendar year 2002 qualify for the exemption. If a sole proprietorship or partnership occupying the parcel on January 1, 2003 does not appear on the certified list, the assessors may determine whether it met the employment criterion for calendar year 2002. In all other cases, however, the assessors must rely exclusively on the Director's certification in determining whether a business qualifies for the exemption.

   The Director will provide the assessors with a list of businesses that met the employment criterion for calendar year 2002 by July 1, 2003. G.L. Ch. 151A §64A. The list of eligible businesses is not a public record. It may be used by the assessors and their staff only to administer the small commercial exemption. If any of the assessors or their staff uses the list for other purposes or discloses any of the listed businesses to people outside the assessors' office, they may be fined one hundred dollars.

3. The commercial parcel does not have to be owned by the occupying business or any other eligible business. If a parcel has multiple commercial occupants or tenants, all occupants must be eligible businesses. If a parcel is multiple use, such as a residential and commercial property, all occupants of the commercial portion must be eligible businesses.

4. The parcel must have a valuation of less than one million dollars before the application of any small commercial exemption. The exemption applies to a specific parcel occupied by an eligible business, not to the eligible business itself. Therefore, if any particular eligible business occupies more than one parcel, each under one million dollars in value, each parcel would qualify for the exemption.

V. APPROVAL OF LOCAL TAX RATE

A. Submission of Final Reports

Once the public hearing has been held and the percentages of the tax levy to be paid by each class of real property and by personal property have been determined, the assessors must submit Form LA-5, "Classification Tax Allocation," and a copy of the notice of the public hearing, to the Bureau of Accounts.

If the assessors had submitted a proposed Form LA-5 indicating the tax levy percentages expected to be adopted by local officials, the assessors should telephone the Bureau of Accounts after the percentages have been adopted to confirm the levy percentages and then submit a final, signed LA-5 and a copy of the notice of the public hearing.

B. Approval of Tax Rates

Upon the Commissioner's determination that the percentages meet statutory requirements and the public hearing has been held, the assessors will submit to the Bureau of Accounts the local tax rates for final approval using the total valuations, as certified by the Commissioner, and the percentages of the tax levy, as determined by local officials.

1. The Bureau of Accounts will approve the setting of a FY04 tax rate when all of the requirements explained above and all other requirements applicable to the setting of the tax rate have been met.

2. The form and content of tax bills for cities and towns using a classified tax system must conform to the requirements established by the Commissioner of Revenue

    a. Cities and towns using a quarterly tax payment system should refer to Property Tax Bureau IGR No. 03-201, *Fiscal Year 2004 Quarterly Tax Payments* (March 2003).

    b. Cities and towns using a semi-annual payment system and issuing preliminary tax bills should refer to Property Tax Bureau IGR No. 03-203, *Fiscal Year 2004 Guidelines for Issuing Preliminary Tax Bills* (March 2003).

    c. All other cities and towns using a semi-annual payment system should refer to Property Tax Bureau IGR No. 03-202, *Fiscal Year 2004 Tax Bills* (March 2003).

ANNUAL ASSESSMENT AND LEVY ALLOCATION PROCESS: STEP BY STEP SUMMARY

NOTE: ** Step applies only in a triennial certification year.

Assessors

** 1. Submit reassessment plan, including any related professional services contracts, to the Bureau of Local Assessment for review and approval.

** 2. Meet with certification advisor.

3. Vote to request authorization to issue semi-annual preliminary tax bills by August 15, if needed.

4. Establish full and fair cash values for all properties.

** 5. Request certification from Bureau of Local Assessment by submitting a cover letter and Forms LA-3 "Property Sales Reports."

Bureau of Local Assessment

** 6. Conduct statistical analysis of sales and determine if minimum statistical certification requirements are met.

** 7. Conduct preliminary field review.

** 8. Notify assessors whether valuation system and proposed assessments are in compliance with minimum certification requirements and if so, authorize them to mail impact notices and hold informal hearings, or conduct another appropriate public disclosure program.

Assessors

** 9. Conduct appropriate public disclosure program.

10. Determine final valuations for all properties.

11. Classify all real property according to use.

12. Submit to the Bureau of Local Assessment "Adjustment of Valuations Between Certification" if certain interim year valuation adjustments were made.

** 13. Submit to the Bureau of Local Assessment a list of properties with certain valuation changes resulting from public disclosure program on Form LA-10 "Assessment Adjustment List" along with copy of public disclosure notice.

14. Submit to the Bureau of Local Assessment the total valuations for each class of real property and for personal property on Form LA-4 "Assessment/ Classification Report" on the Automated Recap program. May also submit to the Bureau of Accounts a proposed Form LA-5 "Classification Tax Allocation" and "Tax Rate Recapitulation Sheet."

15. Submit to the Bureau of Local Assessment tax base growth on Forms LA-13 and 13A "Tax Base Growth Report" on the automated recap program.

Bureau of Local Assessment

** 16. Review assessment changes and classifications.

** 17. Determine that proposed property assessments meet minimum certification requirements of full and fair cash value, real property has been classified according to use and a majority of the assessors are qualified to classify property.

18. Certify tax base growth and notify assessors.

Assessors

19. Determine the minimum residential factor on the automated recap program.

Selectmen or City Council

20. Call and hold public hearing on classification.

Assessors

21. Present data on impact of classification options.

22. Notify selectmen or mayor and city council of any excess levy capacity.

Selectmen or City Council with Approval of Mayor

23. Adopt residential factor.

24. Decide whether to grant open space discount.

25. Determine whether excess levy capacity is consistent with community fiscal affairs.

Selectmen or Mayor with Approval of City Council

26. Decide whether to grant residential exemption.

27. Decide whether to grant small commercial exemption.

Assessors

28. Notify Bureau of Accounts of local classification decisions by telephoning to confirm levy percentages adopted by local officials and by submitting a final Form LA-5 "Classification Tax Allocation."

29. Submit tax rate recapitulation sheet to Bureau of Accounts if not done previously.

Bureau of Accounts

30. Certify tax rate(s).

Assessors

31. Prepare tax commitment and verify total value for each class reconciles with tax rate recapitulation sheet.

32. Issue commitment, with warrant to collect taxes, to the collector.