The Annual Analysis of Tax Bill Changes.

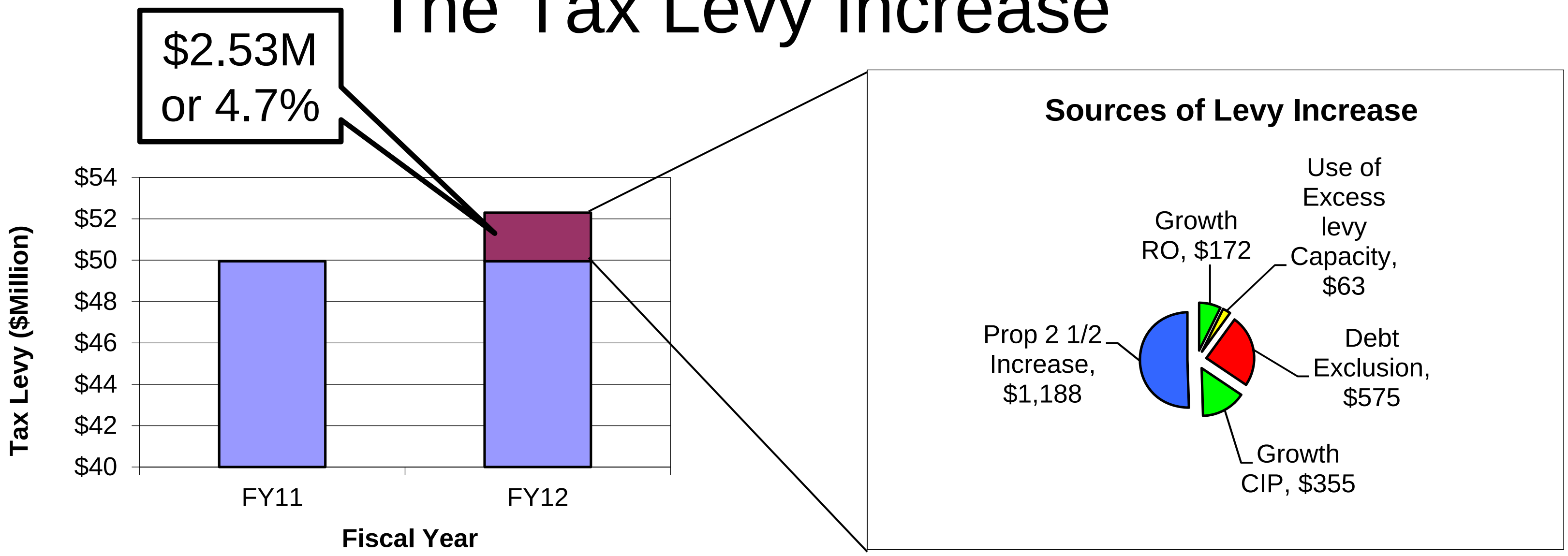
Prepared by the Bedford Board of Assessors

January 6, 2012

What caused the changes I see in my 3rd quarter tax bill?

- Last year the Board of Assessors produced an analysis of the changes in residential tax bills to explain the change in the tax bills from the second quarterly bill to the third. Given the positive feedback we received, we have decided to reprise this presentation for 2012.
- Since 1988 the average percentage year-on-year growth in the tax obligation for a single family residence in Bedford has been 6.3%. It has been as high as 12% (2003) and as low as 1% (1998). For FY12 it is slightly higher than average at 7.1% which translates to an annual increase of about $525 for the average single family home.
- This increase in the tax obligation translates to an average 14.2% increase between the Q2 and Q3 tax bills.
- This increase can largely be explained by three factors.
  - An increase in the Tax Levy from FY11 to FY12
  - A shift in value from the Commercial, Industrial, and Personal Property (CIP) classes to the Residential class.
  - The impact of Quarterly Tax billing.
- Some taxpayers may see more variation in their tax bills than average. There are a number of drivers of this
- The following slides will provide explanations for:
  - The factors that drive the overall changes and a summary of how they impact the tax bill
  - The factors that drive the variability in this years tax bills

The Tax Levy Increase



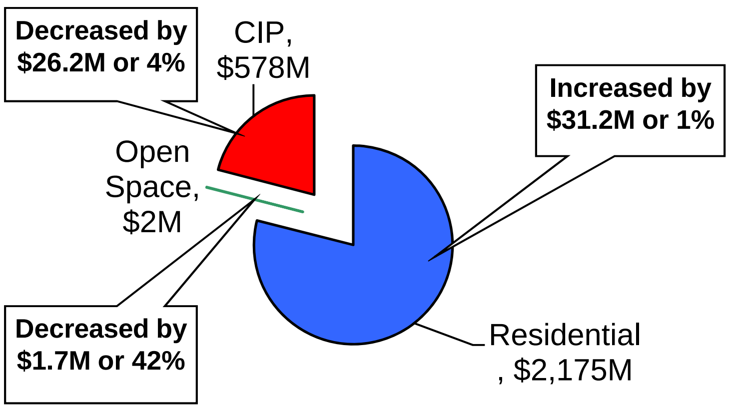
• Each year towns are allowed to increase their tax levy limit under Proposition 2½ . This year that increase accounts for about $1.2M.

• New Growth: Growth in value due to property improvements is another allowable increase under Proposition 2½. This year New Growth for all classes accounts for about $527K. In 2012 New Growth was off significantly this year; about half of the ten year average.

• It has been the Town's policy to ask voters to approve Debt Exclusions under Proposition 2½ for large capital infrastructure projects. Excluded debt that the voters approved contributes about $575K to this year's Levy increase. The High School project accounts for 68% of the Town's exempt debt load for FY12, the DPW project 18%, and the Middle School Project 14%.

• In 2002 the Mitre property came off the tax rolls because their auditors determined it was improper for Mitre to voluntarily pay property taxes as they had been since the 1950's. When that occurred, Mitre and the Town negotiated a Payment in Lieu of Taxes (PILOT) agreement that generates $1M -1.5M in additional revenue for the Town annually. This agreement had the side effect of creating an Excess Levy Capacity under the rules of Proposition 2 ½ of the same amount Last year was the first year that the town utilized this tax capability This year the Town is opting to utilize about $567K of this tax capability.

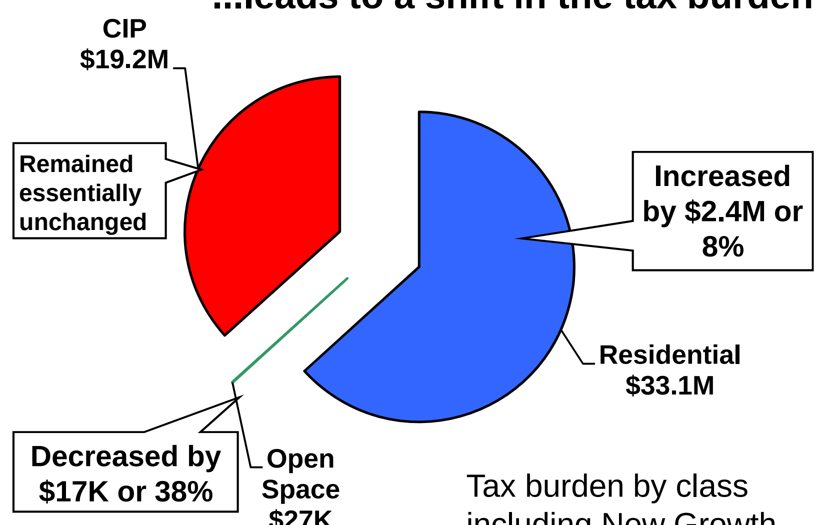
The Shift of Value to the Residential Property Class



A shift in property values….

The property tax burden is in proportion to the value of the property. This year the value of the existing residential property base in Bedford increased slightly (1%) while the values for the existing CIP class properties fell (-4%). New Growth for all classes represents 0.8% of the tax base and contributes about $554K in taxes.

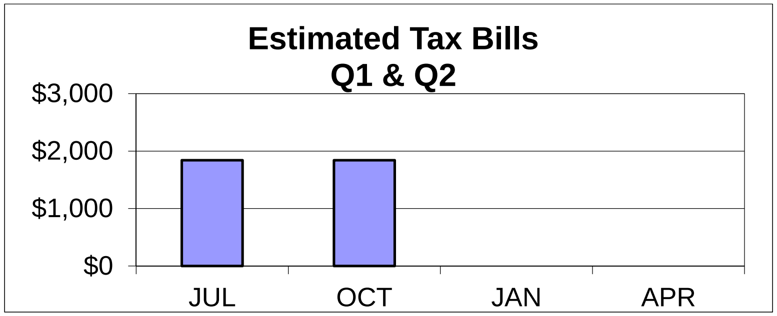
...leads to a shift in the tax burden



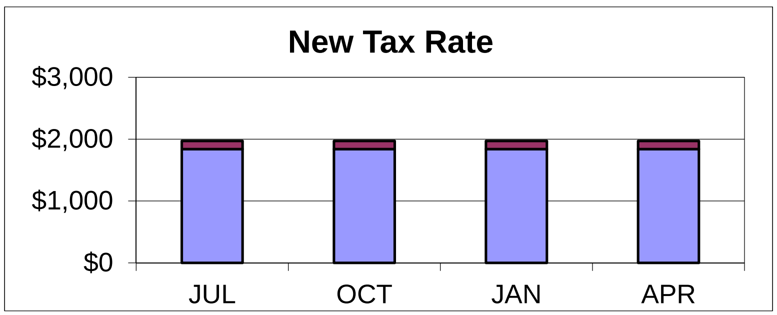
Tax burden by class including New Growth

Bedford utilizes differential tax rates for CIP and Residential property. Doing so reduces the tax obligation for the average single family home in Bedford by $1,954 in FY12. The down side of differential tax rates is that when the CIP sector loses value relative to the Residential sector as it has in FY 12, the shift of the tax burden is multiplied by the ratio of the two rates.

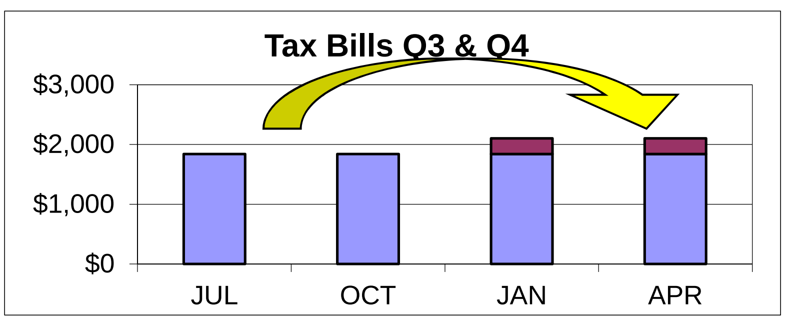
Quarterly Tax Bill Impact



Because the tax rate is set in November the first two tax bills of the year are estimated tax bills; estimated based on last year's tax bill.



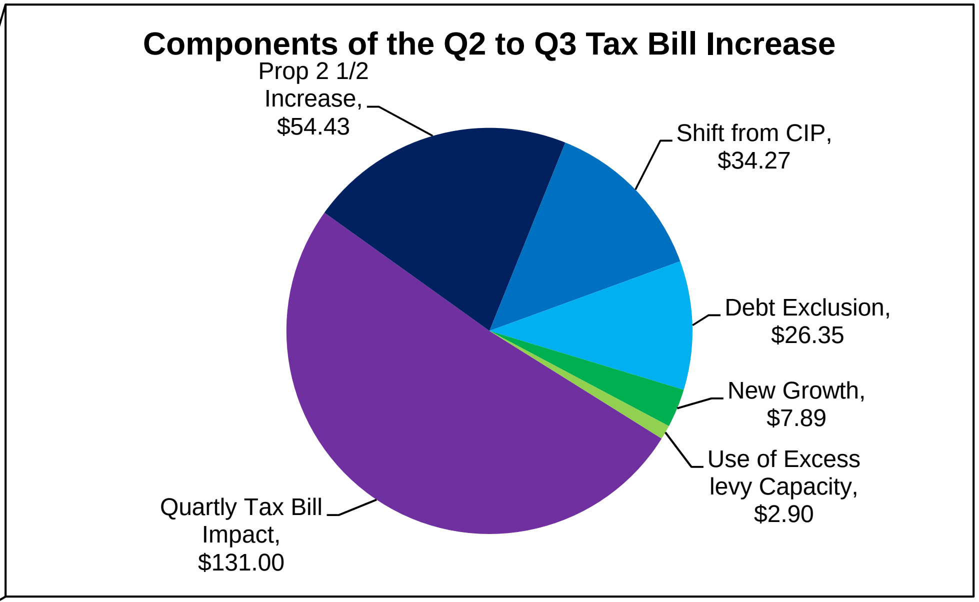
When the new tax rate is set, the actual tax quarterly tax obligation is calculated.

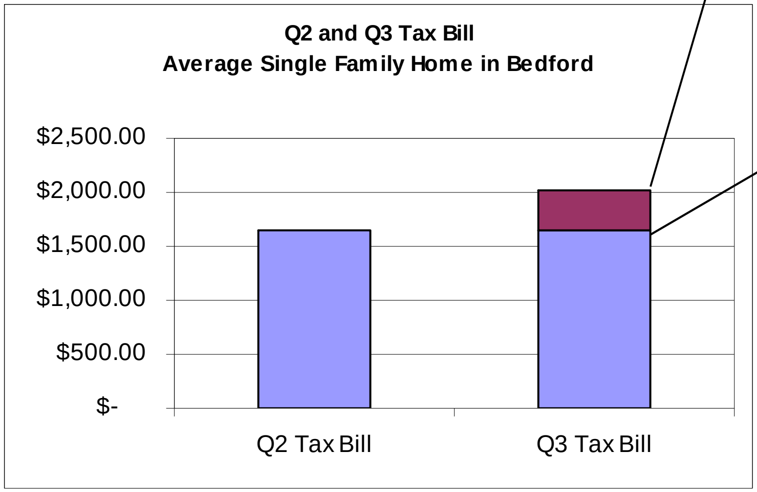


The unpaid obligation for Q1 & Q2 is spilt evenly across the Q3 & Q4 bills. As a consequence an 7% increase in the tax obligation appears to be a 14% increase when comparing the Q2 and Q3 tax bills.

Summary:
Changes in the FYQ2 and Q3 Tax Bill for the Average Single Family Home

The average value of the Single Family Home in Bedford increased from $513,500 to $518,300 from FY11 to FY12. This reflects both changes in the market and investments people have made in their homes. This change in values is recognized when the Town's tax rate is certified by the Department of Revenue and the impact is seen for the first time in the Q3 tax bill. Individual home values will vary from this average because the market impacts different neighborhoods and housing types differently.





Tax Bill Variability

- This year some homeowners may see that the changes in their tax bill varies from what has been described above. Some will see lower tax bills; some higher. A certain amount of variation from the average can be expected; market forces impact housing stock of differing ages, styles, and location differently. There are a number of factors unique to this year that serve to amplify the normal variation we see from property to property.
  - **This is a revaluation year**. State Law requires a triennial revaluation process based a comprehensive comparison of assessed values and actual sales. This revaluation is designed to capture all of the market driven changes in real estate values since the last reevaluation. It is designed to be the major adjustment in a community's assessment of its real estate values. In the two years between, revaluations Boards of Assessors conduct interim adjustments which will drive some changes in values but the triennial revaluation will drive the major changes. The impact of the triennial revaluation will vary from property to property.
  - **Bedford's triennial revaluation was delayed a year.** The Massachusetts Department of Revenue (DOR) is the state agency charged with regulating all aspects of municipal finance, including property value assessment, in the Commonwealth. In order to better balance the workload of their certification analysts , DOR determined that it was necessary to reschedule the triennial revaluations of a number of communities. The revaluations for these communities were delayed a year. Bedford was one of those communities. This means that this year's revaluation id covering four years of market change rather than three. This extended period will tend to amplify changes identified in the values of individual properties.
  - **The market for starter homes has been volatile:** Over the last few years Bedford has experienced a spate of "tear-downs" - a developer will buy a 1950's Cape or Ranch, tear it down and build a much larger home on the site. During our interim adjustments over the last four years the Board approved of a valuation approach for candidate tear-downs based largely on their land value. This approach was applied to about 125 homes. The comprehensive study of sales values that was part of the revaluation process indicated that instead we there still is a relatively robust market for starter homes in Bedford. The revaluation process showed us that we were under-assessing the homes that had been identified as "tear-downs".
- As part of the revaluation process, the Board carries out a number of quality assurance exercises. One of these exercises is to examine outliers based on a number of variables. One of the variables we use is year-on-year value change. Based on our quality assurance exercises we are convinced that the variability we see is not in anyway a systematic error. In fact, we believe the converse is true. This year's revaluation process has produced more accurate, fairer values.

We hope this helps to clarify your third quarter tax bill. If you have any remaining questions please do not hesitate to contact:

the Assessors Office at 781-275-0046 or,
the Finance Department at 781-275-1517

This report was based on the analysis Board member John Linz prepared for the FY11 Tax Classification Hearings with the Selectmen and the data in the Massachusetts Department of Revenue Tax Certification system.