FINAL MONITOR REPORT
TAX POLICY ANALYSIS AND PLANNING STUDY
THE BOSTON CASE

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Project Monitor

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Introduction

In view of HUD's decision to extend the tax policy action-research demonstration in Boston for another year, this final report of the project monitor is essentially a summary of documented experience and impact during its first 18-month phase (January 1977-June 1978). It draws mainly on findings and observations contained in the prior monitor reports, covering progress during the 1977 calendar year, on documents generated during the first six months of 1978 and on periodic interviews conducted with principal project actors.

Project Goals and Methodology

The project has adhered closely to the mandate in the letter of award from the U. S. Department of Housing and Urban Development (HUD) to the Boston Redevelopment Authority (BRA)--"to develop and implement a policy planning model for evaluating the structure and tax administration modifications in connection with the revaluation of properties within the City of Boston".[1] Moreover, conduct of the project has been consistent with the redesigned methodology, the intent of which was to broaden the scope of the planning/ analytical process, thereby providing greater promise that

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[1] Letter of September 24, 1976 to Robert T. Kenney, Director, BRA, from Charles J. Orlebeke, Assistant Secretary for Policy Development and Research, HUD.

the overall strategy and selective components might be useful and even transferable to other states and cities. According to the revised study focus submitted by the BRA and approved by HUD, the project was

> .....to develop measures of the impact of assessment revaluation and tax policy alternatives on tax burdens, property values, owner equity, property turnover, property maintenance and quality, the potential for abandonment, private investment in existing and new properties, property tax revenue and rates, and business activity.[2]

Abandoning its original dependence on a particular computer model with questionable potential for transferability, the project redirected its strategy to

> .....focus principally on the analysis of the principal tax alternatives, their impacts and burden shifts, their role in broadening the City's revenue base and reducing the role of the property tax, and the potential for lessening the impact of revaluation on home-owners, renters and other property owners.
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> A key aspect of the study centers in testing alternative ways of reducing property tax levies, in terms of assessments and rates, to achieve reduction of disparities while lessening disincentives for residential investment.[3]

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2 Research Department, BRA, "A Prototype Effort in City Tax Policy-Analysis and Planning: The Boston Case", Revised Study Focus, with HUD Research Grant H-2628-RG, April, 1977, p.1.

3 Idem, p.3.

Process Expectations

Key actors in the project identified two systems changes that they hoped the project process would generate: (1) development of an on-going analytical capacity in tax policy at City Hall, buttressed by an adequate data base and professional ability to dissect tax options generated by opportunities and events; and (2) emergence of an interim decision-making mechanism, equivalent to a fiscal policy cabinet, that would evolve eventually into a permanent institution of staff and operating fiscal services.

There is agreement both among tax policy insiders and outside observers of the City's fiscal decision-making processes that the first goal has not only been reached, but to an extent far beyond original hopes and expectations. The City has continued to support the tax policy analytical staff with its own resources even after HUD project funds had run out by mid-March, 1978, and an appropriation of $200,000 for the 1978 fiscal year was authorized by the City Council to pay for the newly-established Office of Fiscal Services under jurisdiction of the Deputy Mayor. The 1978-79 City budget includes a similar appropriation. These are evidence of the commitment to continue and strengthen the analytical capacity in tax policy. Moreover, the growing need to prop up budding educational campaigns in support of property tax classification, state aid/cost shifting legislation and property tax relief has added unanticipated importance

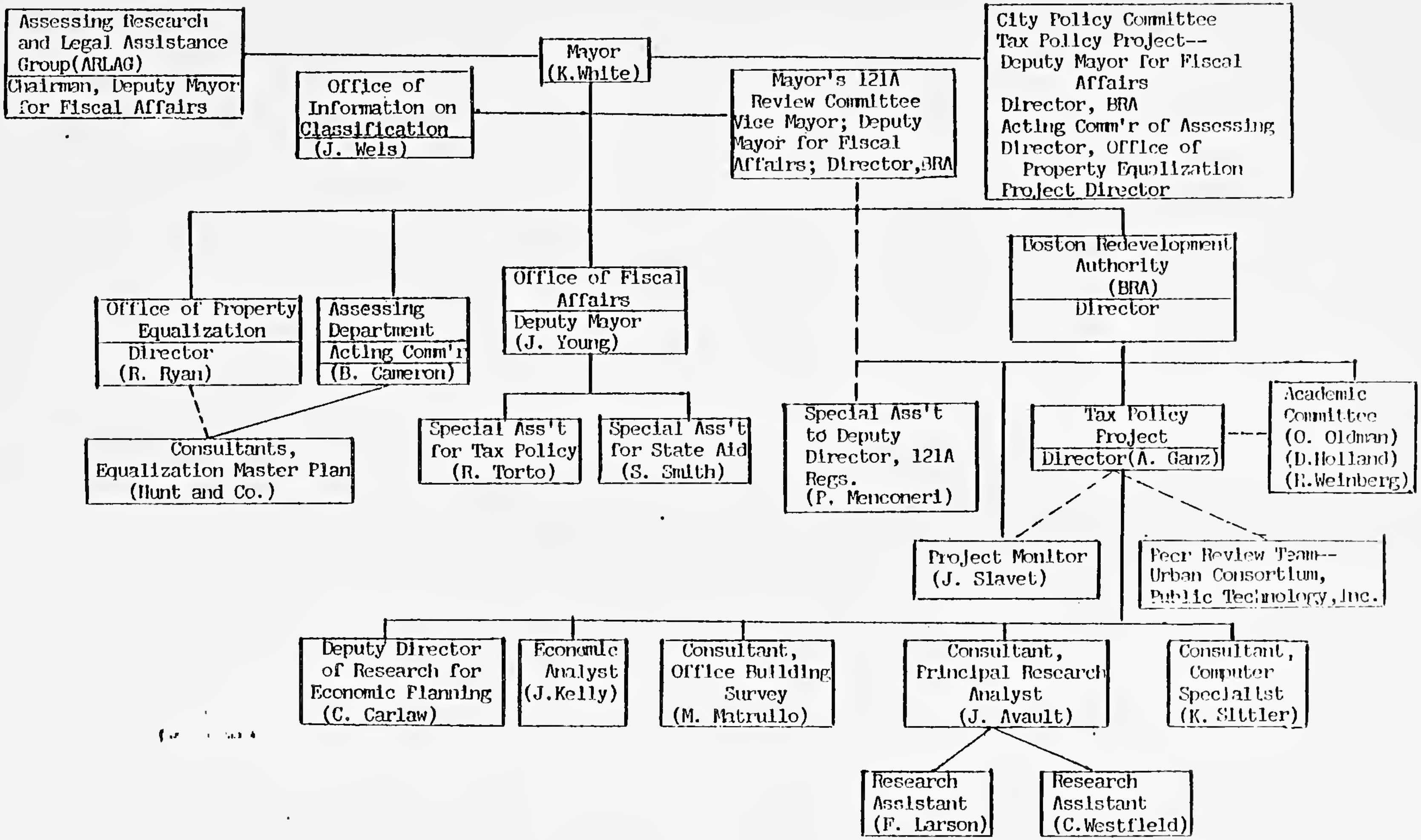
to the work of the tax policy staff initiated under the HUD project.

On the other hand, tax policy insiders and outsiders acknowledge that while there seems to be steady improvement in the quality of fiscal policy decisions, there has been no significant change in how such decisions are made; that current executive style has not encouraged a comprehensive, long-range, orderly approach to fiscal planning and decision-making. It is still too early to determine, for example, whether newly-established linkages between tax policy and physical development policy, a process nurtured by the tax analysis project, will be the precedent for closer ties between tax policy and such interdependent decision-making areas as fiscal planning, equalization, property assessment/abatement policy, operational budgeting and community development programming.

Project Organization, Management and Communications

The accompanying chart shows the organization structure and working relationships of the project at the close of the grant period. No distinction is made between units and staff financed from the HUD grant and those making tangible contributions to tax policy project goals and objectives, but otherwise financed. Perhaps the most significant comment to be made in reviewing the project's operating

TAX POLICY PLANNING/ANALYSIS PROJECT--
ORGANIZATIONAL STRUCTURE AND WORKING RELATIONSHIPS



environment is to note the steady expansion of its network of interest and affiliation. As project staff are drawn into more demanding roles of both short-term and longer-range duration on tax issues of relatively high priority--abatement litigation, tax policy on new construction, state aid options, property tax classification, property tax equalization, property tax limitation--and the timeliness and quality of the staff response draws both favor and recognition, there is a growing tendency for the scope of the project's services to expand and for the dependence of City officials on the project for data collection and analysis to increase substantially.

The chart does not show information panels, originally planned to provide supplementary information on sectors of the property tax base where available data are limited, and/or where expert advice is needed on tentative assumptions concerning relative market values, tax burdens and classification/revaluation impacts. Once the data base for older commercial buildings, retail trade properties and the investor-owned residential sector is in more complete shape, the convening of such specialized panels will be more timely and more useful. Meanwhile, the assistance of specialized groups has been solicited mainly on an informal, individual expert basis rather than through carefully organized informational panels. Moreover, once the classification amendment

election result is determined (November, 1978), the climate will be more favorable for using the talents of such specialists on complicated issues of property tax equalization and property tax relief.

Although not as heavily involved as the project design proposed, the City Policy Committee and Academic Policy Committees have carried out roles substantially in accordance with their original definitions: identifying tax policy issues for project testing; and serving, on request, in a variety of technical assistance capacities.

The Peer Review Team made two on-site visits during the project period--October 3-4, 1977 and June 15-16, 1978. The comments and observations of the first review were generally favorable, suggesting a realistic expectation as to the project's potential for transferability to other jurisdictions and centering major criticism on the City's failure to improve its assessing practices.[4]

One of the underlying strengths of the project is its leadership. Project management has insisted on high quality for its technical work and has been adept in bridging the project's information / analytical capabilities and outputs with the needs of City officials responsible for giving the Mayor advice on tax policy. Project management

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[4] See p.25-28, "Third Project Monitor Report", for summary of first Peer Review Report.

has also effectively tapped on-going work of the BRA's Research Department e.g. the office building survey, and of the BRA's Development Department, e.g. Rules and Regulations Governing 121A Developments, as collateral sources of information and analytical staff to enrich the overall capacity of the tax policy project. Moreover, the close working arrangements between the staff of the tax policy project and the two Special Assistants to the Deputy Mayor for Fiscal Affairs, nucleus of the newly-established Office of Fiscal Affairs, made it possible to carry out required analysis and research in connection with property tax classification and proposals for allocating the state's 1978 revenue surplus, estimated as $350 million, to property tax relief and other purposes.

<u>Project Data Outputs--Marshalling and Improving Tax/Fiscal Data Base</u>

The project has generated two principal data files: (1) A Boston-oriented data base, designed primarily to predict the potential impact of impending revaluation of property in Boston -- to determine the current value of taxable property; to identify and measure the shifts in tax burden that 100 percent valuation would generate, that various alternatives for a property classification statute would generate and that the finally-enacted classification law would generate; and to estimate how market values might

be affected by shifts in tax burden stimulated by classification and/or revaluation; and (2) A statewide municipally-oriented data base, showing for all cities and towns in Massachusetts, except those with assessments at 100 percent of market values, data similar to the information in the Boston data base, although not as detailed, and designed primarily for the orientation and education of municipal leaders and potential voters who may case ballots in the November, 1978 election on ratification of the constitutional amendment authorizing property classification.

Review of the Boston data outputs at the end of the project period indicates a mixed record of development and refinement of essential data base components. The information gathered on one to three-unit residential structures and condominiums is the most complete and reliable, reflecting an early and ongoing project priority and emphasis.[5] Since the Assessing Department's own files, particularly sales data, on this important category of the tax base (accounting for over one-third of the City's real estate values) were rather skimpy, the achievement of this data output objective has both short-term and long-term

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[5]See "Second Project Monitor Report", Nov. 1977, p. 1-5, for a description of summaries of data base management system and information components for residential structures with 1-3 dwelling units.

benefits. Project staff have not, however, de-bugged available market value data on apartment houses, nor have they been able to secure operating data, including net income, for this category from the Boston Rent Control Administration office. The most useful available source of apartment house sales data may be real estate sales information for 1971-74 and 1976 (first six months) computerized under contract by an Assessing Department consultant firm .

For the single largest category of real property in Boston's tax base -- commercial real estate -- with an estimated aggregate market value of $1.7 billion, the collateral in-depth survey of downtown office buildings has been an invaluable source of project data. Three separate but carefully conducted studies undertaken as part of this special effort -- building inventories, office managers' survey and office tenants' survey -- have generated comprehensive and detailed information on four classes of downtown office buildings, grouped according to quality, as described in prior Project Monitor Reports.[6] The final phase, the office tenants' survey, has not yet been completed, but will provide supplementary data on tenant operating costs, office space absorption rates,

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[6] See "First Project Monitor Report", Sept. 1977, p. 10-12; "Second Project Monitor Report", Nov. 1977, p. 5-9; and The Office Industry Survey, Sept. 1977, Interim Report, Research Department, Boston Redevelopment Authority.

employment according to Standard Industry Classification (SIC) and according to allocation (square feet per worker per SIC), gross area by SIC, lease expiration data by SIC and market rents, residency of office workers, perceptions of various office building areas, and locational advantages by SIC. Among the information useful to the tax policy project generated by these special surveys are the average capitalized values for class A, B and C office buildings and capitalization rates for a sample of office building sales.

Despite the comprehensive nature of the office buildings surveys, they do not provide information on office buildings and mixed-use properties containing office space that are located outside of downtown Boston. Other data gaps not yet filled include information on mixed-use residential/commercial properties, industrial properties and such specialized commercial properties as retail stores, hotels and warehouses. The shift toward a statewide data base orientation during the last six months of the project period has meant a lower priority for rounding out the remaining data requirements for the City of Boston itself, as delineated in the original project design.

Most of the data collection activity since January, 1978 has concentrated on development of a statewide

municipally-oriented data file known as MASSTAX. Covering 241 cities and towns whose assessed valuations are not recognized as complying with the 100 percent market value statutory standard and for which data were available, MASSTAX includes the following information by municipality--assessed values, equalized values and number of taxable parcels for 10 categories of property (one-family homes, two-family homes, three-family homes, apartment properties, mixed residential/commercial, commercial, industrial, agricultural/horticultural, vacant land and personal property).[7] In addition the file contains data on property tax levies for the 1978 fiscal year, population statistics derived from U. S. Census Bureau estimates for 1975 and U.S.

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7 Assessed values are figures reported officially by municipal assessors for 1978 fiscal year to State Department of Corporations and Taxation. Equalized values are estimates for July 1, 1978 based on data in the 1978 equalization survey by the State Department of Corporations, covering property sales and appraisals for the 18-month period ending July 1, 1977. The survey data were adjusted to reflect an annual growth rate of 8 percent. For Boston, the estimates were drawn from the 1978 equalization survey (for apartment house properties), the 1975 sales transactions (for one, two and three-family homes) compiled by the tax policy project and the 1976 equalization survey (for all other categories). Those estimates pertaining to July 1, 1976 were inflated for two years of growth, or by 16 percent. The data on numbers of real estate parcels are for the 1976 fiscal year. Although somewhat out of date, they are useful only for estimating average tax bills and do not affect the calculations of aggregate and percentage tax changes. From Estimating the Impact of 100% Valuation and Taxation by Classification in Massachusetts: Part I , Prepared for Massachusetts Mayor's Association, June 14, 1978, Raymond C. Torto , Appendix IV.

Census Bureau income figures for 1974, adjusted for growth to 1977.

To determine the relative reliability of the available data on equalized values extracted from recent equalization surveys conducted by the State Department of Corporations and Taxation, several special studies were conducted: (1) analysis of changes as between the 1974 and 1976 surveys, and as between the 1976 and 1978 surveys; (2) review of survey methodology and assumptions; and (3) comparison of predicted tax bills based on 100 percent valuations as determined by the 1976 equalization survey with actual 1978 tax bills in a sample of 32 towns that shifted assessments to 100 percent valuation during the 1976-78 period.

The conclusions of these data tests were as follows:

(1) Although the average increase in total equalized values as between 1976 and 1978 was 11 percent, divergent trends for property categories in a generally inflated real estate market raised questions about data reliability. While the aggregate values of single and two-family homes and vacant land appreciated in accordance with general real estate market trends, the equalized values of apartment houses, mixed-use residential commercial properties and industrial properties showed declines.

(2) The determination of equalized values in the state surveys is based on several methodological shortcomings;

(a) Sample Size problems--of the sales information used to estimate market value in 1978, 89 percent covered single-family homes, two-family homes and vacant land (appraisals are not used for making equalized value estimates for these classes of property); only 3.3 percent applied to sales of commercial and industrial properties; moreover, 90 percent or more of the real estate sales in municipalities below 25,000 are single-family homes and vacant land; the number and percentage of commercial and industrial property sales are small; whether the samples are representative is one issue; another is that the degree of dispersion around class averages may also affect the validity of the state equalized values; (b) Determination of values for personal property -- there are methodological questions about the two major categories of personal property: "certified" personal property (gas pipe lines, machinery, poles, wires, underground conduits wires and pipes of telephone and telegraph companies) - the equalized values for this category are generally conceded to be on the low side; "other" personal property - all other non-exempt "goods, chattels, money and effects", consisting mainly of non-certified items of personal property owned by utility companies - the assumption in making this estimate is based on the so-called composite real-personal property value ratio, i.e. if the assessment

composite ratio is 35 percent, the A/V ratio for personal property is fixed at 50 percent, a procedure that assumes personal property to be assessed at higher ratios than real property.

(3) According to the comparative analysis, the "predictability" of the equalized value data is not very good. Although the differences between predicted and actual 1978 tax bills on single-family homes were relatively small (an average error of $40), the margins for other classes of property were quite wide, ranging from 26.3 percent on personal property to 138 percent on agricultural/horticultural property. It should be noted, of course, that the sample covered 32 small, primarily residential towns with a large sample of sales data on single-family homes and only limited sales data for other categories of property. The relatively large sample of single-family home sales absorbed the error predictions on other classes of property.[8]

Tax Policy Issues Analysis

The focus of 1978 tax policy choices was shaped by the disappointing experience with the 1977 legislative package of municipal revenue diversification applicable to Boston. Also dictating the nature and direction of 1978

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[8] *Idem*, Appendix III, pp. 45-48.

tax policies were mounting tax abatement litigations and state administrative pressures on Boston for action to comply with court-mandated revaluation and decisions concerning the substance and enactment of a statute implementing the property tax classification amendment if endorsed by the voters in November, 1978.

Except for a few minor bills with relatively limited revenue/cost reduction significance and the 1978 legislation authorizing in lieu tax payments by the Massachusetts Port Authority to the cities of Boston and Chelsea, replacing a prior year's act of doubtful constitutionality (estimated to generate $3.5 million a year in additional revenue to Boston)[9], the relative failure of the 1977 legislative effort showed the political and fiscal difficulties with such a property tax relief strategy and

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[9] Chapter 332, Acts of 1978, replacing Chapter 949, Acts of 1977. The 1978 act, re-affirming the Authority's statutory exemption from property taxes by virtue of its performance of essential governmental functions, authorized and directed the Authority to enter into agreements with the City of Boston and City of Chelsea for annual payments in lieu of taxes to each city, such agreements to extend at least for five years. Among the factors to be considered in arriving at such agreements are (1) the general level of property taxation; (2) effect of Authority projects, facilities or activities on such city; (3) general economic condition of users or other persons paying tolls, rates, fees, rentals or other Authority charges; (4) needs of Authority to maintain or improve its facilities or projects. The annual payments in lieu of taxes may not exceed the revenue balances after payment of current expenses, maintenance reserves and debt service requirements. The act took effect January 10, 1978.

explained the shift in tax scenario emphasis of City decision-makers in 1978 to statewide, comprehensive financial and cost-shifting assistance -- short-term stop-gap relief in 1978; property tax classification, to maintain current tax distribution/burden patterns among the major categories of property and minimizing intra-category tax redistribution; and more fundamental substantial relief during the 1979-81 period when a new gubernatorial term would be in effect and when the implementation impact of revaluation within categories of property (assuming that classification is authorized) could be mitigated through the allocation of larger distributions of state aid and cost reallocations from municipal government to state government.

(1) Short-Term Property Tax Relief

The role of the tax policy project in connection with stop-gap property tax relief proposals enunciated by the Governor and advocated by various legislators in 1978 was to analyze the relative benefits to Boston of such proposals in light of 100 percent valuation prospects and property tax classification alternatives. When the short-term tax relief choices become a bitterly-contested issue between the governor and legislative leaders -- the governor's proposal, based on a revenue surplus estimate of about $200 million, included $150 million for revised school

aid plus a 4-year phased take-over of net county court expenses,as contrasted with legislative preference for immediate assumption of court costs plus some form of municipal revenue sharing in lieu of additional school aid -- the City of Boston's position was to maintain a low profile, not publicly supporting either position, but pressing both sides for an arrangement of maximum benefit to Boston. The compromise, as finally enacted, was based on a more realistic revenue surplus estimate of over $300 million, and satisfied both sides -- $150 million in additional school aid, immediate assumption of county court costs, and a modest increase in municipal revenue sharing, all of which will generate about $60 million more for Boston in state financial assistance during the 1979 fiscal year. Staff of the Office of Fiscal Services provided valuable technical assistance to legislative leaders in working out the final legislative drafts, and materials on the tax impact of such revisions were prepared by the tax policy project as useful supplements to the evaluations of revenue alternatives.

(2) ARLAG Issues Analysis

There have also been several important developments in 1978 following up activities of the Assessing, Research and Legal Assistance Group (ARLAG) to which tax policy project staff had provided technical assistance, as described

in the Third Report of the Project Monitor.[10] ARLAG'S purposes included coping with the growing number of court challenges to Boston's assessment policies and practices. Of particular fiscal significance, with great implications for the future role of ARLAG, was a recent decision of the Supreme Judicial Court (in the so-called Weymouth case)[11] and subsequent action by the State Appellate Tax Board (ATB) on a number of Boston cases that implemented this judicial opinion. Once the Supreme Judicial Court ruled in the Weymouth case that "a taxpayer has a right to have his assessment reduced so that it is 'proportional to the assessments of the class of property valued at the lowest percentage of fair cash value', Shoppers' World, Inc. v. Assessors of Framingham, supra at 377-378, n. 10",[12] the Appellate Tax Board used this conclusion to establish 26.8 percent as the "disproportionate assessment" in hearing together and deciding a consolidated group of 12 Boston appeals on June 30, 1978.[13] If the ATB were to apply this

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10 Pp. 1-12.

11 Board of Assessors vs. Thomas E. Curtis & Others, Trustees, June 20, 1978.

12 Ibid, p. 12.

13 Norman Tregor, Trustee, vs. Board of Assessors of the City of Boston, ATB Decision and Memorandum, June 30, 1978.

calculation of disproportionate assessment to all Boston appeals pending before it, the concern described in a prior monitoring report, the tax refund consequences could exceed $180 million.[14] According to the memorandum attached to the Tregor decision, however, the ATB noted the special Boston circumstances which dictated against wholesale application of the 26.8 percent standard. On the one hand, the parties to the Tregor case agreed (in paragraph 7 of the Stipulation) that the assessment/value ratio of 26.8 percent (the 1976 ratio for single-family homes determined by the State Department of Corporations and Taxation) should be applied to the ATB determination of fair cash value in order to arrive at the assessed calculations of the appellants' properties "only if the appropriate theory of law is that the petitioners' assessments should be reduced to reflect the assessment/value ratio of the lowest substantial class...."[15]

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14 "Third Project Monitor Report", Jan. 1978, pp. 8-9.

15 If the ATB had defined "lowest substantial class" as the assessment/value ratio for all residential properties, not just single-family homes, the abatements granted would have been based on an aggregate weighted ratio (total assessed values divided by total equalized values) of 38.7 percent as contrasted with 26.8 percent, thereby reducing by almost $65 million the estimated cost exposure for appeals pending before the ATB. Moreover, if a citywide average ratio for all taxable property were used, as urged by City of Boston attorneys (see "Third Project Monitor Report", p. 5-9), the assessment/value ratio for 1975 would have been 46.4 percent as compared with 50.2 percent for 1976; either ratio would have reduced by $100 million or more the estimated cost of pending appeals. (From Memorandum of July 7, 1978 to ARLAG from John Avault -- "Further ATB Cost Estimates - Lowest Class: R1($180M) or Residential($116 M).

The ATB Memorandum pointed to the special Boston dilemma in which residential property accounted for the largest number of parcels, but that the aggregate value of commercial/industrial property was about one-third greater than the total value of residential assessments. Thus the ATB concluded:

> To apply the lowest percentage doctrine of Footnote 10 (Shopper's World case) in these circumstances appears to result in reducing the appellant's assessment far below the level of assessment applied to the class of industrial/commercial property which comprises the greater part of the total value of the city. This may result in an undervaluation of the property in a constitutional sense; because the taxpayer would pay less than his share under said Art. 10 (of Bill of Rights of the Constitution of Massachusetts.)[16]

The ATB's Memorandum expressed support for the approach and reasoning used by the Supreme Court of New Jersey in a series of cited cases and in other out-of-state related cases which ruled that appellants were not entitled to have overvalued assessments reduced to the common level of residential property, but only to the common level for all real property, thereby assuring that the appellants pay those shares of the tax burden as if the taxing authorities were faithfully adhering to the clear mandates of statute.[17] Despite this posture, however, the ATB felt

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[16] Tregor vs. Boston Board of Assessors, op.cit., p. 3.

[17] Ibid, p. 4.

"constrained to follow the rule of law set forth in Footnote 10 of the Framingham case and cited in the Weymouth case."[18]

There has been relatively slow movement toward another of ARLAG's goals -- to design and monitor implementation of an equalization plan, in compliance with the court-mandated revaluation directives of the State Department of Corporations and Taxation (legally changed in 1978 to State Department of Revenue). The staff and consultants of the new Office of Property Equalization, consisting of 16 full-time positions and a 1977-78 appropriation of $186,500 reluctantly approved by the Boston City Council, as a transfer from the City's reserve account, has begun to establish contacts with and to use the data sources of the tax policy project, although on a relatively limited basis. While the Superior Court judge, continuing a case pressing for revaluation, indicated satisfaction with progress, as demonstrated by the funding and establishment of the Office of Property Equalization, he also expressed concern over the next year's appropriation to continue operations of this office. Meanwhile, the City's Assessing Department entered into a $98,000 contract on May 30, 1978 with a

[18] Ibid.

consultant firm to design within a six-month period an assessment system users' manual, the implementation of which would produce equalized real and personal property assessments among all property classes as required by law. Included within this manual, along with instructions for implementation and interfacing with existing City assessment systems, would be the following topics: (1) definition of appraisal process as applied to mass equalization, (2) design of valuation models, (3) data base descriptions, organizations and relationships, (4) computer-generated record, (5) procedures for data collection and computer storage, (6) design of electronic data processing flow systems, (7) specifications for computer programs, (8) administrative requirements for initial and continued operation.[19] On August 3, 1978, the Director of the Office of Property Equalization (R. Ryan) was appointed Director of the Boston Redevelopment Authority, succeeding Robert Walsh.

(3) <u>Property Tax Classification Analysis</u>

The major focus of tax issues analysis by project staff during 1978 was the legislative model to implement voter approval of the constitutional amendment authorizing

[19] Contract for Professional Services, City of Boston, acting by its Acting Commissioner of Assessing and Joseph E. Hunt and Co., Inc., Nashville, Tenn.

property classification for tax purposes. Once legal questions relating to language of the amendment were disposed of -- whether personal property had to be included within the restriction of "no more than four classes"; the interpretation of the phrase "according to use"; the scope of authorized "reasonable exemptions; whether municipalities could establish their own classes and tax ratios; and the interpretation of how calculations of different assessment/value ratios and/or different tax rates would be made by class -- the analytical activities of the project staff centered on computer tests of alternative classification scenarios followed by detailed evaluation of the impact of 100 percent valuation within the context of the terms of the classification statute being considered and subsequently enacted by the 1978 legislature and signed by the Governor on June 24, 1978.[20]

The high analytical priority given to the classification amendment and bill was, of course, based on the realization that revaluation could be implemented under a carefully drawn property classification system without drastic shifts of property taxes among categories of properties, thereby minimizing the political, social and economic impacts of revaluation. Sensing that a coalition of cities and towns with assessment disparity patterns and revaluation

[20]Chapter 580, Acts of 1978, "An Act Providing for the Taxation of Real Property by Usage Classification".

consequences roughly similar to those in Boston might be organized around the mutual benefits of a uniform classification model, the Special Assistant to the Mayor for Tax Policy supervised the planning and implementation of computer program tests that compared present tax bills with tax bills based on average assessment/sales ratios for different classes under 100 percent valuation and under a variety of classification mixes. The computer programs also simulated the inclusion of residential exemptions of various scales and the application of equilibrium value assessments. The computer programs analyzed the impacts of these alternatives on different groups of cities and towns. These tests were conducted by the principal research analyst (J. Avault) and the project computer specialist (K. Sittler).[21]

Of primary interest, therefore, was the computer program reflecting the assumptions and substance of the property classification bill filed with the Legislature[22] for implementation of the constitutional amendment if ratified by the voters. The distinctive features of this program were per capita income data, the relationship between

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[21] See "MASSTAX Digest", Feb. 9, 1978, a memorandum from John Avault to the Tax Policy Study Group cataloging and describing the reports that resulted from these program tests.

[22] H. 1900.

income and the current property tax levy (tax levy as percent of income), and impact on tax levy of simulated increases in state aid. For Boston and groups of municipalities, the program analyzed the overall impact and the impact on each of 10 property classes -- both the initial and equilibrium impacts -- calculated from the final classification scheme, residential exemption and assessment equalization within each property class.[23]

The following three applications of the above computer program were carried out in anticipation of tax policy issues that would affect the final version of the classification statute and property tax relief proposals: (1) An application in which the assessment ratio for personal property was estimated as 100 percent; that is, the current state-established equalized valuations were used as the market value total; (2) an application in which personal property was held harmless at 85.6 percent; that is, the actual assessments of personal property to state-established equalized valuations was used as the assessment/value ratio; and (3) an application in which personal property was held harmless at the above ratio and additional state aid of $300 million was simulated, to be distributed according to the lottery receipts formula (based on per capita equalization index).

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[23]This computer program is known as MASSTAX 7.

Except for late-hour amendments affecting the real and personal property of electric and gas utility companies, the substance of the originally filed classification bill remained intact. As finally enacted, the classification statute requires local assessors to classify all taxable real property according to the following uses -- class 1: all real property and improvements thereto, used or held for use for residential purposes; class 2: all real property and improvements thereto, used or held for use for commercial purposes; class 3: all real property and improvements thereto, used or held for use for industrial or manufacturing purposes; and class 4: all open space property, upon approval of an application by the local assessors.[24] According to the statute, in determining the taxation of non-exempt real property, local assessors shall apply the following percentages to the fair cash valuation of such property: class 1 - 40 %, class 2 - 50%, class 3 - 55%, class 4 - 25%. Moreover, the statute exempts $5000 of the taxable valuation of residential real property, not more than one such exemption being allowed to any one residential parcel. This exemption is in addition

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[24] Section 5, Chapter 59A of the General Laws, as amended (Section 38, Chapter 580, Acts of 1978).

to those already granted to certain categories of home owners (disabled veterans, widows, indigent, etc.), except that the taxable valuation of such property may not be less than 10 percent of fair cash valuation.[25]

Under the classification statute, local assessors are required to "determine the fair cash valuation and classification of real property" and to "secure an equitable and uniform valuation of all real property situated in the same class".[26] Finally, the new law on classification exempts all real and personal property of electric and gas utility companies from real and personal property taxes and makes them "subject to a local excise for the privilege of doing business in a city or town".[27] In computing this excise tax, the local assessor is required to multiply the current tax rate by the amount of the assessed value as determined by the State Tax Commissioner and to determine the current assessed value by multiplying the current net book value of such utility property, as certified by the State Department of Public Utilities for rate-setting purposes, by an excise assessment factor computed according to the following formula:

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[25] Section 18, Chapter 59A of the General Laws, as amended (Section 38, Chapter 580, Acts of 1978).

[26] Sections 3 and 4, Chapter 59A of the General Laws, as amended (Section 38, Chapter 580, Acts of 1978).

[27] Section 19A(Chapter 59A of the General Laws, as amended (Section 38, Chapter 580, Acts of 1978).

$$F = \frac{AVU}{CVU} \times \frac{CVN}{AVN}$$

As used in the above formula the following letters have the following meanings:-
F, excise assessment factor;
AVU, actual assessed value for 1978 fiscal year, as finally determined under appeal procedures of all real and personal property of utility companies within the city or town.
CVU, fair cash valuation for 1978 fiscal year (net book value as certified by the department of public utilities for rate making purposes) of all real and personal property of utility companies within the city or town.
CVN, taxable valuation for 1978 fiscal year of all real and personal property of non-utilities within the city or town after classification and exemption in accordance with the applicable sections of the new classification statute.
AVN, actual assessed value for 1978 fiscal year of all real and personal property of non-utilities within the city or town.[28]

Follow-up analysis by tax policy project staff of the implications of the amendments substituting a local excise tax for real and personal property taxes of electric and gas utilities emphasizes the relative importance of the definition of "net book value" of utility property. In 1978 the electric and gas utilities were billed by the City of Boston for $162.9 million in property taxes, 9.3 percent of the total tax levy. The analysis noted that changes in the utilities' share of the overall property tax burden were linked entirely to changes in book value and the combined tax levy. Therefore, with no expansion of facilities, utilities' book value and tax share would

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[28] Ibid.

decline as a result of depreciation. A basic tax issue is that the market value of utility property could increase while the book value declines.[29]

(4) Office Building Values and Taxes

A special analysis of market values and relative tax efforts of newer office buildings (Class A) in downtown Boston has yielded the following conclusions:[30]

1. Their average economic value is $47.08 per square foot; their average property tax, $2.08 per square foot.

2. The above figures are equivalent to an assessment/value ratio of 17.5%, an effective tax rate of 4.4%, and tax bills calculated at 20.5% of gross income.[31]

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29 "The Wheaton Utility Excise Formula", July 21, 1978, Memo from John Avault to Raymond G. Torto; Addendum to Memo July 21, 1978, "A Numeric Example of Changing Utility Tax Share in Response to Changing Book Value", July 24, 1978.

30 John Avault,"Values and Taxes of Boston's Newer Office Properties: Effects of Tax Letter Agreements", June 30, 1978, Memo to Tax Policy Group. Also see John Avault, "Translating Measures of Commercial Property Tax Effort: Percent of Income, Assessment/Value Ratio, Effective Tax Rate, Tax Per Foot", July 11, 1978, Working Notes for the Tax Policy Study Group. Analysis based on data in "The Office Industry Survey", Michael Matrullo, Interim Report, June 7, 1977, Research Department, Boston Redevelopment Authority and unpublished Assessing Department data, See "First Project Monitor Report", p. 10-12, "Second Project Monitor Report", p. 5-9, and "Third Project Monitor Report", p. 22.

31 Value estimate based on income capitalization procedures.

3. If taxed at the citywide average,[32] taxes on these properties (estimated at 70 with annual tax obligations exceeding $40 million), would increase by $18.6 million or 46.6 percent, representing a tax rate saving of over $11. (Citywide assessment/value ratio - 31 percent; citywide effective tax rate - 7.8 percent.)

4. The increases would raise the tax level of such properties to 29.9 percent of gross income.

Analytical Consequences

1. Property Tax Classification

The tangible product that, to date, most clearly demonstrates the analytical utility of the tax policy project is the report entitled Estimating the Impact of 100% Valuation and Taxation by Classification in Massachusetts,[33] which was prepared with the technical and computer assistance of project staff and which acknowledges the special contribution of John Avault and Karl Sittler to this effort. The conclusions of the report may be summarized as follows:

1. Residential property in Massachusetts will be better off under the classification amendment and its implementation statute than under 100 percent valuation.

2. Under 100 percent valuation, property taxes on single-family homes throughout Massachusetts would increase on the average by 17 percent, the most extreme impacts

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[32]Derived from MASSTAX equalization analysis.

[33]Raymond G. Torto, Part I, Prepared for Massachusetts Mayor's Association, June 14, 1978.

occuring in the older, larger industrial cities and towns which have most of the state's multi-family housing and non-residential property. Under the proposed classification law, residential tax bills would remain on the average within a few percentage points of their current levels.

3. Classification, preventing the shift of taxes being paid by business properties to homes, is the first step in a two-stage program of property tax relief. The second step, achievable only through tax reform by state legislative action, is statewide property tax reduction. Property tax reduction without classification means lower tax bills for business properties, not for homes.

2. <u>Short-Term Property Tax Relief</u>

As previously indicated, the tax policy project played important roles in evaluating the impacts of bills that finally culminated in the 1978 package of stop-gap property tax relief. The Commonwealth's general appropriation statute for the 1979 fiscal year contained $633.5 million for so-called Chapter 70 school aid distributions, including replaced grant programs (vocational education, bilingual education, special education, etc.), as compared with total reimbursements of $483.5 million for these same purposes during the prior year, an increase of $150 million. Boston's share of this new comprehensive program of school aid during fiscal 1979 will be $87.5 million, $24.5 million

more than in 1978, and 13.9 percent of the statewide total distribution, as contrasted with $63.0 million, or 13.0 percent of the state total in the 1978 fiscal year.[34]

The state's general appropriation statute for the 1979 fiscal year also included an appropriation reserve of $88 million to cover the Commonwealth's share of the net costs of county courts as determined by the State Commissioner of Administration and verified by the House and Senate Committees on Ways and Means. This appropriation reserve, triggering an immediate take-over of county court expenses by the state, will be distributed to the 14 counties in proportion to their shares of court expenditures for the 1977 fiscal year. Suffolk County's share (benefitting Boston, which finances all Suffolk County costs) is estimated at $26.2 million, or about 30 percent of the total.

The above legislation was the collateral financing mechanism to a basic measure drastically reorganizing the state's judicial system and entitled "An Act Providing for the Orderly Administration of Justice in the Commonwealth".[35] This so-called court reform legislation not only required that operation and maintenance of the judicial branch be

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[34] Chapter 367, Acts of 1978.

[35] Chapter 478, Acts of 1978.

paid by the Commonwealth but also provided that all court fees, fines and other county court income be paid into the state's general fund and that buildings and space occupied by courts and owned by counties be rented from such counties.[36]

The third major component of the stop-gap tax relief program was a supplementary state aid distribution of $30 million based on the lottery distribution formula, which was in addition to the regular allocation of lottery receipts. This action, enacted through the state's supplementary appropriation act for the 1978 fiscal year,[37] meant another $5.3 million for the City of Boston.

3. <u>New Policies Governing Taxation and Development of Limited Dividend Projects</u>

Final approval by the Boston Redevelopment Authority of rules and regulations governing so-called Chapter 121A projects in the City of Boston represented a major step in the continuing effort to update conditions applicable to the granting of limited dividend status and special tax arrangements, including more realistic immediate and future tax revenue payments from such developments.[38] The new rules and regulations are designed to encourage new construction

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[36] *Ibid*, Section 12(Chapter 29A of General Laws, "Financing of the Judicial System").

[37] Item 1599-2100, Chapter 442, Acts of 1978.

[38] See "Second Project Monitor Report", pp. 14-18, and Third Project Monitor Report", pp. 21-22.

but with greater tax returns than under former terms and to tighten up the entire 121A application and approval process.[39] They also provide for more effective monitoring of such developments once they are completed. The new regulations require more detailed information about applicants. They demand more detailed documentation and evidence that the proposed area meets statutory standards of "blight" and "decadence". Finally, the new rules mandate more detailed financial information about the proposed development and the applicants, including a letter of firm commitment as to project financing before filing of the application. In fact, the Mayor's Tax Review Committee and the applicant must have settled on a tax agreement prior to convening of a public hearing on the 121A application. The BRA will be responsible for monitoring the project, including the possibility of audits, to ensure that tax payments are made as required by the agreement. Other provisions of the rules and regulations require affirmative action and hiring preference to City of Boston residents during project construction and operation.

During the seven months between the date of the Mayor's

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[39] "Boston Redevelopment Authority,"Rules and Regulations Governing Chapter 121A Projects in the City of Boston", June 22, 1978; "Boston Redevelopment Authority Handbook, Staff Review of Chapter 121 Proposals"(Undated).

lifting of the moratorium on 121A tax agreements (November 21, 1978) and June 30, 1978, ten 121A tax agreements have been approved by the BRA generally in accordance with terms based on the new rules and regulations and as summarized below:

Project Type and Identity	General Terms	Tax Terms
A. Residential, HUD Section 8 Rental Assistance: 1) Peterborough Street, Fenway (230 d.u.'s-rehab) 2) Edison Green, Dorchester (96 d.u's) 3) Mason Place, Downtown Boston (129 d.u's) 4) Schoolhouse 77, Roxbury-Mattapan (118 d.u.'s) 5) Weld Park, Roslindale (14 d.u.'s) 6) Mount Vernon, Back Bay (5 d.u.'s)	Minimum of 20 Years	10% of gross collec income, including Section 8 subsidies in first two years; 12% of gross collec income in third yea and each subsequent year, increasing by one percent every third year to maxin of 15%; all increas above 12% continger on HUD funding.
B. Market Housing: 1) Exeter Towers, Back Bay	15 Years	Maximum of 23% of effective gross inc during first 3 year based on 30% for re tail, 20% for resi-dential and 35% for commercial parking; thereafter, rate of effective gross inc adjusted in accorda with changes in pro perty tax levy of C
C. Commercial: 1) 175 Federal St. (Financial District)	15 Years	23% of effective gr income.
2) Sanborn Building (Downtown Market District)		30% of effective gross on retail space; 22.5% of effective gross inco on office space dur

Project Type and Identity	General Terms	Tax Terms
		first two years, increasing at prescribed intervals t 30% by 7th year and continuing at this level through 15th year.
D. Mixed Use:		
Charlestown Navy Yard--Residential	15 Years	21.75% of effective gross income plus 25% of net income.
Retail/Commercial		30% of effective gross income.

Peer Group Review

The Management, Finance, and Personnel Task Force of the Urban Consortium/Public Technology, Inc. conducted its second and final review of the tax policy analysis and planning project on June 15-16, 1978. The five-person team[40] that made the two-day site visit transmitted its review report dated July, 1978. Below are selective quotations from the report that represent a synthesis of the Peer Group's comments and conclusions concerning the project's potential for replication, the project's effectiveness, the project's impact, and suggestions for future directions.

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[40] Charles Miller, Chairman, Manager of Maricopa County, Arizona; Robert Cowen, Finance Director, Seattle City Light Co., Seattle, Wash.; Robert King, Financial Economist, Wash., D.C.; Dr. Dean Vanderbilt, Director of Management Services, Dallas, Texas; Carol Whitcomb, Staff Director, Management, Finance, and Personnel Task Force, Urban Consortium/Public Technology, Inc., Wash., D. C.

.....After examining the project work of the last nine months, bearing in mind that processes and broad approaches more than products or specific strategies should be the focus, it is evident that the efforts of the Tax Policy Planning Study can be of interest to a number of urban jurisdictions. The Peer Review Panel was highly impressed with the quality and direction of the research efforts during these past months, with several of these having particular interest.

....

Boston's difficulties with tax letters of agreement and the Chapter 121A agreements are of interest to other jurisdictions which are seeking greater business investments, but do not want to find the tax burden shifted to residential property. The in-lieu tax payments of these exempt properties, usually specified as a per cent of gross income, were reportedly low due to inadequate information collected and inadequate monitoring efforts by the city. A means to correct these deficiencies would be of interest to other cities with tax incentive plans for commercial and industrial concerns.

....

.....Meaningful questions include; how can these instruments best be designed to allow for effective administration and accurate audits, and what are some secondary impacts of instruments such as the tax letters.

....

The Peer Group would also be interested in determining whether the lack of preferential tax treatment has caused locational changes among older office buildings that are paying a higher effective gross income in real estate taxes and thus placed in a competetive disadvantage.....the Group is interested in the much larger issue of

whether the city receives a net benefit or net loss in providing exemptions to commercial and industrial property. How much tax incentive is necessary to attract or maintain businesses in the City?

....

The Peer Group would also be interested in knowing any strategies developed in dealing with another type of tax exemption-university and college property.

.....The Panel views all these alternatives (classification and revenue) as having potential interest to most jurisdictions. We feel that further exploration of these alternatives would not only be of value to other local governments, but also potentially useful to the city of Boston, especially if property tax classification is defeated by Massachusetts voters. Transferring total or partial responsibility for the delivery of particular services is becoming commonplace among municipalities nationwide......the Group would be interested in knowing what criteria they select for deciding what functions or components of a function will be transferred and what mechanism was used for transferring the functions.

....

The Peer Group found the paper written by Richard Syron and Raymond Torto on the incidence effects of broadening the sales tax in Massachusetts, an excellent analysis of an alternative means of generating additional local revenue. The conclusions reached in this paper may spur other jurisdictions to look at the actual economic impact of increased

sales taxes on their residents, rather than simply assuming that this tax would be regressive for poorer residents.

....

.....Since the passage of the Jarvis-Gann Initiative in California last June, increased attention has been paid to reducing property tax burdens on homeowners. Assessing different classes of property at different established percentages of market value is one means of accomplishing this. Since only eight states have adopted comprehensive classified property systems, (most non-densely populated and all non-east coast) the Peer Review Group sees the Massachusetts experience as being a possible example for states examining the option of a classification system.

....

In a political context the Group is interested in the strategy which is used to sell the voters on the classified property concept. Observing the public education thrust of the Massachusetts Mayors Association in the face of stiff opposition from the business community, should be relevant to local officials attempting to pass measures which can easily be distorted such as tax reform or home rule provisions.

....

The use of extensive computer-based data which is being used in the policy-making process was of more interest to the group than the technique and methods used to arrive at this data. The Peer Review Group is particularly interested

in the development and maintenance costs of the data base which will result after the assessment of each parcel of property.

....

In the last Peer Group Report we mentioned that a great deal of work needed to be done to improve the assessment function in Boston. Unless substantial improvements were made, we think the city would clearly be in a difficult position to implement any systematic valuation policy whether it be 100% equalization or valuation based on classification......it appears that very little has been done in this nine-month period to remedy the situation. We believe that the anticipated five year period to complete full assessments, even with physical inspections of each piece of property, is excessive. We urge that the highest priority be placed on expediting the equalization process. Recognizing the necessity of a complete, accurate equalization effort with an effective classification system, we perceive the need for the project to become more involved with the assessment/revaluation process.

....

Since it is agreed that property tax classification is largely a temporary measure..........this Panel is somewhat concerned that more immediate attention has not been paid to other local option revenue sources, or the transfer of particular functions to the Commonwealth for financing. ....these strategies would appear to be desirable whether or not the classification scheme passes.

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FIRST PROJECT MONITOR REPORT
TAX POLICY ANALYSIS AND PLANNING STUDY
THE BOSTON CASE

Joseph Slavet
Project Monitor

September 1977

HUD Research Grant H-2628-RG

Boston Redevelopment Authority
Research Department

BIND

Preliminary(First) Monitoring Report
Tax Policy Analysis and Planning Study

Introduction

This first monitoring report is designed to coincide with target dates in the original work schedule for completion of the preliminary phase and most of Phase I of the project work program--the selection and programming of model inputs. Thus the description of project activities and events covers (1) the start-up and organizational period from January through mid-April, 1977 and (2) the subsequent period through June 30, 1977 in which the staff's central concern was to develop the required data base and the anlytical model.

During the preliminary phase, agreements were negotiated between BRA project management and HUD program representatives for a shift in project focus and strategy. Budget and staff revisions reflecting these agreements were carried out and consultant contracts were executed. The most significant event of this start-up period was to redirect the central thrust of the project away from the so-called Cooper-Weinberg DYNAMO model toward a tax policy planning and analytical process. The consensus of key actors in the project and of responsible HUD officials, a view ratified by the academic consultants, was that the shift in project strategy was more appropriate to the needs and priorities of City decision-makers in tax and fiscal policy. Of particular concern to HUD's Government Technical Representative was the (1) the proposed computer language (DYNAMO) was not compatible with the City's existing computer capability, and (2) the use of DYNAMO cast doubt on the replicability potential of the project since few public jurisdictions, like Boston, had the capability to use such computer language.[1]

Also covered by this preliminary report is a description of progress made in achieving the following objectives derived from major tasks identified in the revised work schedule for Phase I: (1) development of the data base; (2) development of the analytical model; (3) review by Academic Consultants and City Policy Committee of data needs, resources and data base outputs; (4) the organization and convening of panel sessions; (5) expansion of the data base; and (6) expansion of the analytic model.[2]

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[1] Letter of February 23, 1977 from Michael F. Schneider, GTA, to Alexander Ganz.

[2] From "Work Schedule Chart for Tax Policy Study", April 12, 1977, by John Avault, Principal Research Analyst.

Preliminary observations are made in this report about the project's organizational structure, communication flow and management system, including comments about the impact of these factors on the tax policy/analytical process. Finally, expectations for the project articulated by the project actors are identified as check-points for subsequent monitoring reports.

Sources of data used in preparing this monitoring report are: (1) original and revised project proposals, including explanatory memoranda and related correspondence; (2) reports from project staff to project director and from project director to BRA director on project status and progress; (3) documents prepared for meetings of City Policy Committee and Academic Policy Committee and distributed to participants therein; (4) observation and recording of dialogues at meetings of project staff, City Policy Committee and Academic Policy Committee attended by the monitor; and (5) monitor interviews with project principals conducted during June, 1977.

Since full-scale operations of the project were not under way until early April, 1977, when negotiations for revision of project goals and emphasis were finally completed, the prevailing assumption of project management and staff is that the 12-month effort, originally scheduled to run from January through December, 1977, is now based on an April, 1977 to March, 1978 operating period.

Finally, the shift in project direction and strategy to development of a prototype tax policy planning and analysis model that may be useful to other cities dictated the articulation of a revised project goals:

> .....to develop measures of the impact of assessment revaluation and tax policy alternatives on tax burdens, property values, owner equity, property turnover, property maintenance and quality, the potential for abandonment, private investment in existing and new properties, property tax revenue and rates, and business activity.[3]

This fundamental shift in the statement of a project goal also necessitated changes in the nature and scope of the project design itself:

> .....the revised study design will focus principally on the analysis of the principal tax alternatives, their impacts and burden shifts, their role in broadening the City's revenue base and reducing the role of the property tax, and the potential for lessening the impact of revaluation on home-owners, renters and other property owners.
>
> A key aspect of the study centers in testing alternative ways of reducing property tax levies, in terms of assessments and rates, to achieve reduction of disparities while lessening disincentives for residential investment.[4]

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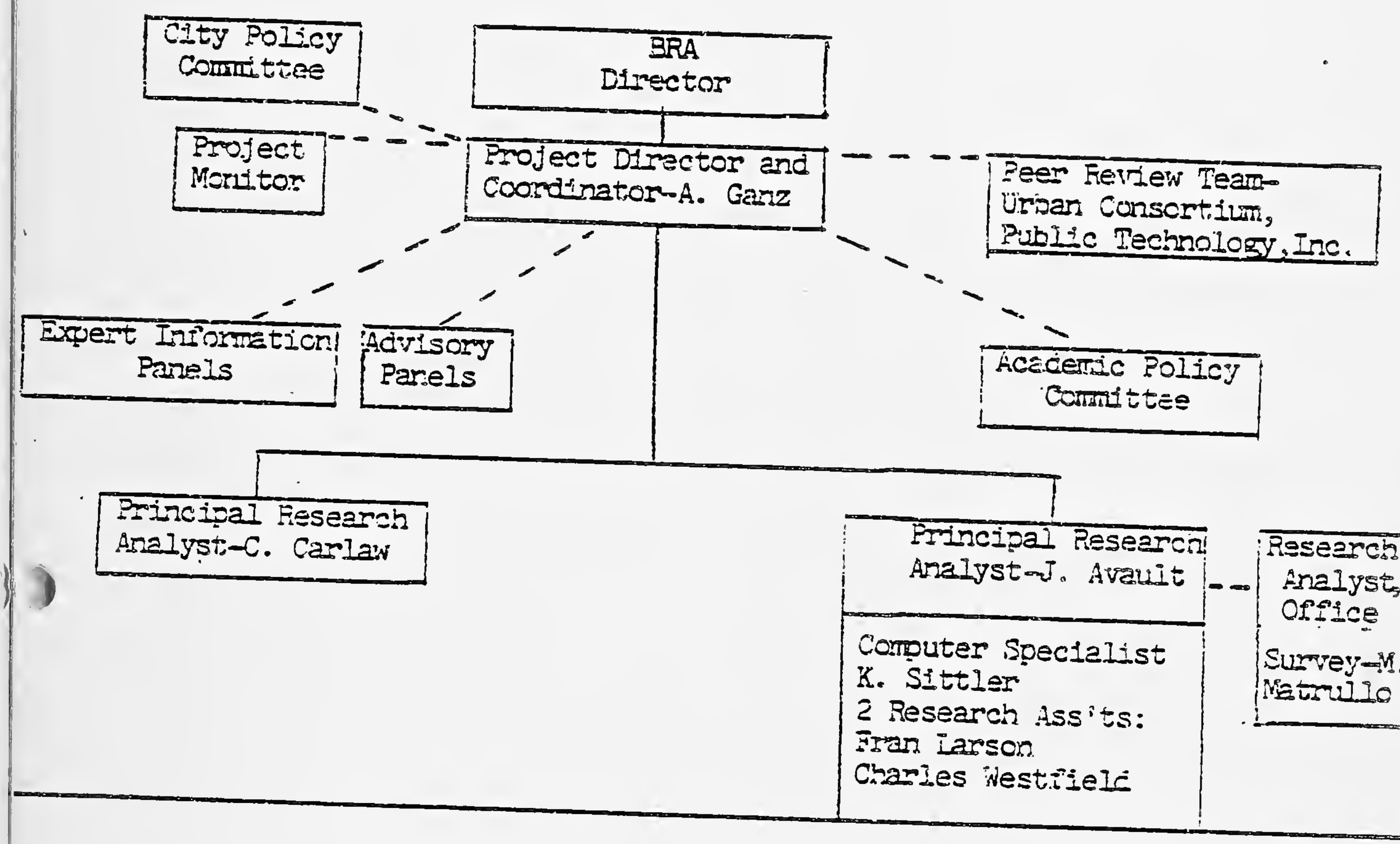
[3] Research Department, BRA, "A Prototype Effort in City Tax Policy-Analysis and Planning: The Boston Case", Revised Study Focus, with HUD Research Grant H-2628-RG, April, 1977, p.1.

[4] _Idem_ p.3.

Project Organization

The following chart shows the organization structure and working relationships of the project:



Below are brief descriptions of the assignments for staff operating units shown in the organization chart and committee groups designed to provide outside and specialized project support:

1. Principal Research Analyst(J. Avault)-responsible, with the aid of two Research Assistants, for development of the data base and for analysis of the data, including the

calculation of market values, relative tax burdens and impacts of various tax policy alternatives. This data gathering and analytical task(assessed and market values of all types of property, by neighborhood) has been the major focus of Phase I. A Computer Programmer(Karl Sittler) is providing specialized assistance with the computer requirements of the data base development phase and will be providing similar assistance for testing the impacts of revaluation and tax policy alternatives during subsequent phases of the project.

2. Principal Research Analyst(Michael Matrullo)-in charge of office industry survey being undertaken by the BRA Research Department as a related effort to the tax policy process. This is to be the principal source of information on the assessments and market values of office buildings--inventory of space, average rents, operating costs and taxes.

3. Principal Research Analyst(C. Carlaw)-responsible for tax policy analysis, working closely with the chairman of the City Policy Committee and the Special Assistant to the Mayor on Tax Policy, and supplementing impact analysis activity of J. Avault.

The City Policy Committee, chaired by the City's Deputy Mayor for Fiscal Affairs(James Young), consists of the City's Commissioner of Assessing(Barbara Cameron), the Deputy Commissioner of Assessing and Director of Revaluation(Robert Ryan), the Director of the Boston Redevelopment Authority(Robert F. Walsh) and the project director. The City Policy Committee met on April 20, 1977 for an orientation session with the project staff and subsequently(on May 24, 1977) participated in a joint meeting with the Academic Policy Committee. This Committee's major purpose is to identify tax policy alternatives for testing by the project's analytical model, i.e. pending constitutional amendment on property tax classification, national and state property tax relief proposals, changes in state aid due to revisions in equalized valuations, City's legislative program of tax relief, Chapter 121A tax policy.

The Academic Policy Committee consists of Daniel M. Holland, Professor, Sloan School of Management, M.I.T.; Oliver Oldman, Professor, Harvard Law School; Raymond Torto, on leave from Economics Department, University of Massachusetts at Boston and Special Assistant to Mayor of Boston on Tax Policy, 1976-78; Robert M. Weinberg, Director, Public Management Program, Boston University. During Phase I this Committee met on April 7, 1977, again on May 24, 1977 and joined the City Policy Committee at its meeting on May 24th. The Academic Policy Committee's role is to review staff papers covering technical matters prior to project committee meetings and to serve in a variety of technical assistance capacities as requested by the project staff.

The expert information panels, not yet convened but in the organization stage and planned for the fall of 1977, are designed to provide supplementary information on sectors of the property tax base where available data are limited, and/or where specialized advice is needed on tentative assumptions concerning relative values, burdens and impacts. Plans call for using panels for such complicated areas as the older commercial sector, the retail trade sector, and the investor-owned residential sector. In addition, advisory groups with special interests in tax policy, i.e. Massachusetts Taxpayers Foundation and Greater Boston Chamber of Commerce(Tax Policy Committee) will also be convened during the fall/winter of 1977 to elicit additional feed-back on tax policy alternatives and impacts.

A Peer Review Team will conduct two reviews of the project--at the end of September and early in December--through a group consisting of several members of the Urban Consortium representing Public Technology, Inc.(PTI), supplemented by PTI staff members. The Peer Review Team will be submitting written reports to the project director following these two-day meetings indicating its reactions and recommendations.

Project Progress

The data collection/analytical activity that dominated Phase I was designed primarily to predict the potential impact of the impending revaluation of real estate in Boston[5]--to indicate the current value of taxable property; to identify and measure the shifts in tax burden that 100 percent valuation of property would generate; and to project how market values of property will be affected by such shifts in tax burdens.

Each of the data base components is at a different stage of development and refinement. The expectation is that by the end of July, 1977, the required data for residential property will have been gathered and analyzed. As of the end of June, 1977 the following data for one to three-unit residential structures and condominiums had been

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[5] On December 24, 1974, the Massachusetts Supreme Judicial Court handed down a decision in the case of the Town of Sudbury et al vs. Commissioner of Corporations and Taxation et al, upholding the petition of the plaintiff that the State Tax Commission "has the power and duty to direct local assessors to take such action as will tend to produce uniformity throughout the Commonwealth in valuation and assessments." In implementing the resulting interlocutory decree of the court, the Massachusetts Commissioner of Corporations and Taxation has ordered local assessors in each city and town to submit a plan indicating how they will proceed to furnish the Commissioner with accurate statements of fair cash value for all taxable property.

tabulated by ward--number of taxable properties(1977), average and total assessed values(1977), and average and total market values and average and total assessment/value ratios(based on 1975 sales data). Project emphasis on this phase of the data base is explained by the fact that the Assessing Department's own information on this category of the tax base is particularly unreliable.

Similar data for multi-dwelling properties are being compiled and analyzed at a rate of progress only slightly behind that for the one to three-unit residential groups. As of the end of June, 1977, work on assessment/sales ratios for this category had been finished; estimates of the number of properties were being finalized; and average sales prices for dwelling unit by ward were being calculated.

In addition to average sales prices, assessment/sales ratios and numbers of properties, the analysis of residential data will cover turnover trends(by ward and type of property, including default conveyances) and market strength indicators for each class of property in each ward, information that will be useful to estimate how property values might react to tax shifts due to revaluation.

A collateral in-depth survey of the office industry under way in the BRA's Research Department is viewed as the project's primary source of required information on office buildings in the four downtown areas of Boston--the

Back Bay, Midtown area, Financial area and Government area.[6]. This survey--to be completed by August, 1977--consisted of three phases--building inventories, office managers' survey and office tenants' survey. It contains comprehensive detailed information on the downtown office building stock, age of structure, gross square feet of space, office vacancy rates, average rents, operating expenses, property taxes, and sales prices in addition to data on future needs, plans, preferences and the current market for office space in four classes of buildings.[7] The project will be using capitalized income data based on net income

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[6] Michael Matrullo, "The Office Industry Survey". Interim Report, Third Draft, June 7, 1977, Research Department, BRA.

[7] Buildings are grouped according to quality in the following four categories: Class A - new space(of recent construction) or rehabilitated old space; characterized by open floor area of few obstructions or completely modernized interior; Class B-space in buildings constructed before 1960, continually maintained and in very good condition; characterized by modernized or excellently maintained lobby and access ways; may or may not be modernized, depending on lease arrangements; Class C-buildings constructed before 1960 with only superficial and essential maintenance of office space, lobbies and hallways; some modernization of office may have occurred but buildings generally not equivalent to those in Class B, even though of same age and construction type; Class D-buildings of similar age to those in Class B and C, but with no interior space modernization and little upkeep. From Appendix B, Matrullo, "The Office Industry Survey", op.cit.

figures to estimate market value and tax-generated value changes.

Despite the comprehensive nature of the office building survey, it does not provide information on office buildings and mixed-use properties containing office space that are located outside of downtown Boston. Among the approaches being considered by project staff for estimating the values of such properties are (1) to assume that their assessments are at the same proportion of value as older downtown office buildings; or (2) to assume that their economic and tax characteristics are similar to so-called Class B buildings downtown or an average of Class B and Class C buildings.

Project staff will also be looking at the results of a special BRA study of tax agreements with so-called 121 A Corporations that constructed multi-residential buildings (mainly projects assisted by Massachusetts Housing Finance Agency), office buildings or mixed residential-commercial buildings under special legal provisions authorizing payments in lieu of taxes for limited dividend corporations.[8]

Still uncertain is the selection of methodology to

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[8]Report being prepared under direction of Peter Menconeri, to be completed by fall of 1977.

estimate the values of retail stores, hotels and warehouses. Assessment/sales ratios compiled for 1975 on industrial and vacant properties are likely to be used for estimating values in this category. As of the end of June, 1977 the project staff was predicting that the data base phase would be completed by mid-August, 1977.

Project staff also hope to tap the advice and counsel of several expert panels to fill in some of the extant data gaps (retail stores, office buildings outside downtown areas, etc.) and to solve certain methodological problems, i.e. income capitalization rate formulas for estimating office building values.

In addition to reviewing progress being made on developing the data base for tax policy analysis--assessed valuations, sales price data, property turnover data, market strength data, etc.-and on staff approaches for overcoming certain shortcomings of available information, participants at the several meetings of the Academic Policy Committee and City Policy Committee(April 7, April 20, May 24 and May 25) discussed the following tax policy issues that would impact on revaluation, scheduled for implementation in 1981:

1. The state constitutional amendment on classification of property that will be on the statewide ballot for final approval by the voters in November, 1978;

2. The comprehensive package of property tax replacement filed by the Massachusetts Taxpayers Foundation with the Legislature in 1977, and designed to raise state-wide revenues available to cities and towns by a net total of about $143 million and by another $100 million for municipalities in the metropolitan transit district;

3. The selective package of property tax relief filed by the City of Boston with the Legislature in 1977, estimated to reduce property taxes by almost $150 million.

The significance of the relative impact and timing of these initial tax policy issues lies in the projection (1) that the City can probably get through the 1978 fiscal year with little or no increase in property taxes, through a combination of deep budget reductions and higher than anticipated increases in state aid and federal assistance; (2) that supplementary City revenues ranging from $7-10 million(through authorization of the parking facility excise tax, higher traffic fines and taxes on properties of the Massachusetts Port Authority) combined with continued holding of the budget line and approval of the property tax classification amendment in 1978 could mean another year of temporary stabilization of the current level and distributional patterns of property taxes; and (3) a large-scale package of property tax relief, similar to that offered in 1977, will be critical for 1981, the year in which the revaluation is scheduled for installation, since the $70 million in estimated property tax reduction for Boston will be timed to offset the drastic shifts of property tax burden among property tax categories and income groups, as predicted by the Oldman-Holland report of 1974.[9]

Also reviewed by the Academic Policy Committee and City Policy Committee at its meetings was the proposition, urged by Professor Oldman of the Academic Committee, and analyzed by the project staff,[10] that interim steps toward revaluation be taken within specific categories of property to correct extreme cases of under-valuation by making upward adjustments in such cases, temporarily foregoing assessment decreases. The staff tested out this proposition by estimating the impact on one to three-unit residential structures of revaluation based on alternative assessment/value ratios of .267(the citywide average for residential property) and .304(the citywide average for all property). According to the staff analysis, at the current property tax rate, reassessment of some of the more under-valued

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[9] Boston Urban Observatory, Estimating the Impact of 100% Property Tax Assessments of Boston Real Estate(August, 1974).

[10] See John Avault, Research Department, BRA, "Raising Property Tax Revenues and Reducing Assessment Disparities, for Fiscal Year 1978", A Working Paper of the Tax Policy Analysis and Planning Group, April 1977. According to this analysis there are some 66,000 properties in this group, with a current total assessed valuation of about $365 million, representing about one-quarter of the City's real estate assessments.

properties in selected wards in accordance with this suggestion would generate $13 million to $31 million in additional taxes, while correcting extreme assessment disparities.

The reaction of the Deputy Commissioner of Assessing, since appointed by the Mayor as Director of the Equalization Program to reassess all real estate in accordance with the directive of the State Tax Commission, was not to favor a partial implementation strategy on revaluation, citing the importance of enough property tax relief to counteract the negative effects on market values of such interim reassessment and emphasizing the difficulties of pursuing revaluation within the present capacity of the Assessing Department. According to tentative revaluation plans, an operation separate from regular activities of the Assessing Department and supplemented by outside consultants will carry out the reassessment process. Its first task, to be completed in 6 - 8 months, is to satisfy the State Tax Commission and the court through submission of a new plan, that the technical requirements of the court order on revaluation are being complied with. Despite this difference of opinion on strategy and time, the Deputy Commissioner of Assessing expressed satisfaction with progress of the tax policy project and emphasized the importance to revaluation implementation of the project data on alternative tax policy consequences.

Project staff also discussed plans to test out the impacts of revaluation on property market values, suggesting that a capitalization factor might be introduced reflecting anticipated reductions in values and thereby avoiding another round of reassessment by setting reassessment figures at levels lower than those required by full market value. Experience in other cities such as San Francisco with equilibrium assessments will be explored. Analysis of market behavior generated by revaluation will also include special categories of tax exemptions such as statutory abatements for widows, the elderly and disabled veterans.

Project Management

Steady progress in achieving project objectives and in observing the outlines of the original project design attest to the soundness of the project's organizational structure, to the effectiveness of its management, and to the conscientious efforts of principal staff. Although the project process is somewhat complex, the delivery of certain important outputs being in the hands of persons outside the project's regular organizational structure, the project director has the required sophistication and access to make the system work. Moreover, two factors, unanticipated when the project was being designed, give the tax policy process special strength and stature--elevation of the Collector-Treasurer(James Young), to the newly-created position of Deputy Mayor; and continuance for a second year of the Mayor's Special Assistant on Tax Policy(Raymond Torto). The Deputy Mayor's jurisdiction includes the Assessing Department, the special revaluation program, the Office of Management and Budget and other City agencies with responsibilities in fiscal affairs, thereby giving greater assurance that the most sensitive issues affecting tax policy and revaluation policy will come under the purview of the project process. Moreover, it also increases the likelihood that the project process will become more institutionalized and grow in usefulness as a mechanism for policy review. As for Raymond Torto's continuance, his role is shifting, with the approval of James Young, from one of academic advisor to principal policy advisor to the Deputy Mayor on tax policy choices.

<u>Project Expectations</u>

For the most part, project principals express pragmatic hopes for the project. Their expectations include (1) development of an institutional <u>analytical capacity</u> in tax policy at City Hall, assisted by an adequate data base and ability to dissect tax options created by opportunities and circumstances; and (2) development of an interim institutional decision-making mechanism, equivalent to a fiscal policy cabinet, that would evolve eventually into a more permanent arrangement of staff and operating fiscal services. Project principals also look to the tax policy process as one that forces decision-makers to discuss tax policy issues on a regular basis and one that encourages longer-term perspectives than City officials tend to use. By forcing and encouraging interaction, their hope is that tax issues will reach the policy agenda and that the process will increase the number of tax policy options that are likely to be considered. Although the timetables of the tax policy project and of revaluation do not coincide, the hope is that the tax policy process will continue after the federal grant terminates, thereby serving the tax policy analysis requirements of the revaluation program on a continuing basis. That the Deputy Mayor for Fiscal Affairs is also the chairman of the City Policy Committee strengthens the likelihood that this kind of institutionalization might take place. Moreover, there is great expectation that the tax policy project will yield an informational base that is so essential to massive educational needs of any future property tax reform effort.

One operating disappointment of the project is the failure of the Assessing Department to institutionalze the recording of property sales through joint arrangements between the Department and project staff. The result is that the project must rely on 1975 sales data rather than more up-to-date sales information. Thus, project staff are quite realistic about the extent to which they can use their own tasks and needs to influence Assessing Department policies, procedures and behavior.

Project staff are equally realistic that, at least during the limited period of federal assistance, the project is unlikely to influence to any significant degree the City's assessment policies on revaluation plans. Hopes continue to be strong, however, that the revaluation planning and implementation program, geared to a scenario of property tax relief by 1981, will become increasingly dependent on the informational base and analytical outputs of the tax policy project.

SECOND PROJECT MONITOR REPORT
TAX POLICY ANALYSIS AND PLANNING STUDY
THE BOSTON CASE

Joseph Slavet
Project Monitor

November 1977

HUD Research Grant H-2628-RG

Boston Redevelopment Authority
Research Department

Second Monitoring Report
Tax Policy Analysis and Planning Study

Introduction

This second monitoring report covers project activities during the period July - September, 1977. Since the primary focus of the work program during this phase was on marshalling and improving the data base and on selective analytic efforts for estimating the potential impacts of revaluation, this interim monitoring report will (1) synthesize the significant data base components developed to date during the planning process and (2) summarize the objectives and findings of the analytical applications undertaken since the initiation of the planning process.

The monitor would also like to clarify that part of the introduction to the first monitoring report that explained the shift in project strategy. Since the letter of award from HUD to the BRA clearly called upon the BRA "to develop and implement a policy planning model for evaluating the structure and tax administration modifications in connection with the revaluation of properties within the City of Boston",[1] the subsequent negotiated shift was more

1. Letter of September 24, 1976 to Robert T. Kenney, Director, BRA, from Charles J. Orlebeke, Assistant Secretary for Policy Development and Research, HUD.

clearly one of a revision in methodology that was consistent with the original intent of the grant, rather than a change in project goals as indicated in the first monitoring report. Detailing of the revised project design reflected a broadening of the scope for the tax policy planning/analytical model and a break with the complete dependence on a methodology tied to a particular computer model with questionable potential replicability.

Summaries of Data Base Management System and Information Components

(1) Data Management and Processing System - known as a Sales System, to be used for preparing required reports for Commonwealth of Massachusetts and for tax policy analysis as part of project process. Two sets of market data files: (a) sales 75 data - information on sales of Boston property during first six months of 1975, showing ward number, planning district number, land area (square feet), property classification, total sales price, total assessed value, acceptibility of sale, and (b) sales (Hierarchic Management System - HMS) - information on sales of Boston property during second six months of 1975; maintained in three files -- ward, assessor's parcel(subfile of ward, parcel)owner's parcel(subfile of assessor's parcel; assessor's parcel contains following data: assessor's parcel number, planning district number, assessor's parcel

address, property classification, total assessed value and area of land in square feet; owner's parcel contains following data: buyer's name, seller's name, total sales price, mortgage amount, date sale recorded, book and page number (County Registry of Deeds records), and acceptibility of sale; data processing for tax policy analysis via PL/I programming language. Sales System capable of generating special data files for use with other programming languages or software packages; HMS System also manages other data files being used in tax policy analytic process: office building data; data on manufacturing firms, etc.

(2) Inventory, Market Values, Assessment/Sales Ratios: Taxable Residential Properties, 1-3 Dwelling Units - Numbers of taxable parcels of residential properties containing one to three dwelling units (as of January 1, 1976), by ward and by type (1,2 or 3-family); average assessed values of such properties (as of January 1, 1976) by ward, including city averages by type and citywide totals; average market values of such properties for 1975 by ward and by type, including city averages by type and citywide totals; and assessment/value ratios, including standard deviations of such properties for 1975 by ward and by type, including city averages and citywide totals; and histogram distributions of assessment/sales ratios and market values for properties of 1-3 dwelling units.

Summary tables for above data are shown below:

	1-Family	2-Family	3-Family
No. of taxable properties, city total	29,579	19,541	16,603
Assessed values, city total	$147.8 Million	$113.3 Million	$104.0 Million
Market values, city total	$733.7 Million	$467.8 Million	$338.3 Million
Average assessed values, city averages	$4,996	$5,797	$6,228
Average market values, city averages	$24,805	$23,937	$20,267
Assessment/sales ratios, city averages	.201	.242	.307

The low-high ranges among wards in average assessed values, average market values and assessment/sales ratios are summarized below:

	1-Family		2-Family		3-Family	
	Low	High	Low	High	Low	High
Average assessed values	$2363 (Ward 6)	$16,664 (Ward 5)	$3171 (Ward 2)	$16,539 (Ward 5)	$4438 (Ward 2)	$17,926 (Ward 5)
Average market values	$5000 (Ward 9)	$76,100 (Ward 5)	$7800 (Ward 8)	$64,600 (Ward 5)	$11,200 (Ward 9)	$74,400 (Ward 5)
Average assessment/ sales ratios	.108 (Ward 2)	.577 (Ward 8)	.131 (Ward 2)	.475 (Ward 8)	.149 (Ward 2)	.506 (Ward 14)

(3) Turnover of Real Estate(1975)

Property Type	No. Sold	Sales as % of Property Type
1-Family	1416	4.8
2-Family	995	5.1
3-Family	1124	6.7
Apartments	507	6.6
Condominiums	422	21.1
Land	389	3.6
Mixed Use	36	1.4
Mercantile	463	7.7
Industrial	34	3.4
Other	74	-

The low-high ranges among wards in turnover of 1-3 family residential structures are summarized below:

	1-Family		2-Family		3-Family	
	Low	High	Low	High	Low	High
Sales as % of Property Type	3.7% (Ward 16)	18.0% (Ward 9)	1.6% (Ward 3)	20.7% (Ward 4)	1.7% (Ward 4)	11.5% (Ward 17)

(4) Data on Downtown Office Buildings

Information on office buildings located in the downtown area of Boston to be used for estimating market values and assessment/value ratios drawn principally from two phases of BRA's comprehensive Office Industry Survey:[2] building inventory and office building managers survey. Provides detailed data on characteristics of office building stock, vacancy rates, operating costs, rents, markets and future needs, plans and preferences.

Inventory of buildings: 44 million gross square feet of office space in 378 buildings of downtown Boston - 85% privately owned; 15% government owned and occupied;

Private office space by building class: class A-40% (15.1 million square feet); class B-15%(5.7 million square feet); class C-43%(15.9 million square feet); class D-2% (715,000 square feet);

Vacant space - 5.6 million square feet(15.3% of office space); vacancy ratios by class of buildings: class A-10.3%; class B-8.4%; class C-20.0%; class D-9.0%.

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2. Research Department, Boston Redevelopment Authority, The Office Industry Survey, Sept. 1977, Interim Report, Prepared by Michael Matrullo.

Rent levels - Class A-$9.92 per square foot, class B-$7.35 per square foot, class C-$5.22 per square foot.

Operating costs - quite uniform for buildings within classes: class A-$2.97 per square foot, class B-$2.76 per square foot, class C-$2.33 per square foot, class B-$1.65 to $2.01 per square foot.

Real estate taxes - narrow differences in real estate taxes as between class A and C office space attributable to special tax agreements, uneven assessments and use of so-called 121 Corporation device - class A-$1.84 in real estate taxes per square foot, class B-$2.24 in real estate taxes per square foot, class C-$1.69 in real estate taxes per square foot, class D-$.95 to $1.72 in real estate taxes per square foot.

Average Rent, Operational Costs, Real Estate Tax By Market Areas for Buildings By Class

	Rent	Operating Costs	Real Estate Taxes
		Class A	
Midtown	*	*	*
Back Bay	$10.84	**	**
Financial	9.85	$2.41	$1.87
Government	9.90	3.53	1.81
Downtown Summary	9.92	2.97	1.84
		Class B	
Midtown	*	*	*
Back Bay	7.14	2.63	2.26
Financial	7.85	2.94	2.63
Government	6.42	2.68	1.74
Downtown Summary	7.35	2.76	2.24
		Class C	
Midtown	4.84	2.63	1.93
Back Bay	5.28	2.16	1.47
Financial	5.44	2.71	1.88
Government	5.49	1.40	1.39
Downtown Summary	5.22	2.33	1.69

Note: Figures are per square foot per year.

* Buildings not surveyed in this class.

** No answer.

Source: BRA, The Office Industry Survey, op.cit., p. 13.

Market Area Profiles:

(1) Financial Market Area - largest of the four downtown office building market areas (20.8 million square feet in 123 office buildings; over half private downtown office space) - average vacancy rate: 13.4%; two percentage points lower than overall downtown vacancy rate but second highest vacancy rate of four market areas. High degree of optimism over market conditions in this area.

(2) Back Bay Market Area - second largest office building market area (8 million square feet in 103 office buildings - second lowest average vacancy rate: 12.7%. Vacancy rates vary greatly - from 7.4% in Newbury Street subarea to 56.0% in Massachusetts Avenue subarea. Relatively high degree of pessimism about market due to two factors: (a) opening of Hancock Tower with 2 million square feet of space generated fear of shifting of office tenants in Back Bay, (b) perception of gradual dispersal of advertising and visual arts firms out of Back Bay to new office buildings in Financial and Government market areas and to suburbs.

(3) Government Market Area - third largest market area for office space (4.8 million square feet in 44 buildings - 13% of total downtown office space). Contrast in quality - half of office space is Class A(attributable

to urban renewal development) while containing half of all downtown Class D building space, mostly in North Station subarea. Lowest vacancy rate: 7.8%. Uncertainties of this market: fears of BRA's developmental plans for North Station subarea; concerns over plans for depression of Central Artery.

(4) <u>Midtown Market Area</u> - smallest market area for office space (4.4 million square feet in 93 buildings - 12% of downtown total). Very little new. Much of space is Class C. Vacancy rate - 32.9%; twice the City average. Factors explaining high vacancy rates: Park Square - problems and delays with urban renewal; Leather District and Chinatown - gradual outmigration of leather and garment industries; many buildings previously used for commercial purposes now being classified as office structures; changing use from commercial-industrial to other purposes suggests deteriorating office building pattern in these areas. Because of changing market orientation and declining demand for Class C office space, there is uncertainty as to future prospects. Little private investment by present owners. Property taxes relatively high and income relatively low due to high vacancy rates.

<u>Analytical Applications</u>

(1) <u>Assessment of Family Homes Using Income Capitalization Methodology</u>

In response to request of Assessing Department, tax policy project undertook an analysis of the revaluation consequences for single-family homes if capitalization of income were used as the basis for determining value rather than actual sales data. Calculations in this analysis, using 75% as the ratio of net to gross income and a cap rate of .10, indicated that for single-family homes, the aggregate assessment/capitalization value ratio was .39. While this was about 2-1/2 times the aggregate assessment/sales ratio (about .20), there is a consistent relationship between this ratio and unweighted assessment/sales ratios. Also pertinent to any comparison between results from applying the two methods are the inconsistencies among current assessment/sales ratios for individual properties.

The analysis conceded the methodological weakness of estimating gross rent on the basis of a fixed percentage of sales price (i.e. 1% of sales price), since the sales price really emerged from balancing imputed rent, taxes, operating expenses, discount rates, etc. In Boston, where the average price for single-family homes is $25,000, this method for estimating rent would imply an average rental of $250 per month. Increasing the imputed rent, for example, from $250 to $375 more than doubles the capitalization value, showing the consequences of raising income and lowering the effective tax rate.

Although this analysis disposed of some conventional wisdom in certain quarters that income-capitalization would show residential properties to be assessed at levels close to market values, the exercise does raise some questions for revaluation impact: (a) Are the proportional differences between sales values and capitalization values a constant relationship reflecting differences between two patterns of market behavior? (b) Should the capitalization value be interpreted as an equilibrium level that sales values will eventually reach? (c) Will the assumptions used to calculate income capitalization -- imputation of gross income, determination of net expenses and capitalization ratios -- change over time?

(2) <u>Impact of Court-Mandated Revaluation on Municipalities Other than Boston and Constitutional Amendment Affecting Property Classification</u>

A 1974 study of the initial consequences of a court-mandated revaluation for 257 of the 351 cities and towns in Massachusetts concluded that, on average, the property tax bills of residential property owners would increase by over 16% while tax bills for industrial, commercial and personal property would decline by 23%, 12% and 32%

respectively.[3] The most significant finding of this report, however, was that the larger, older industrial cities would be most seriously affected by revaluation because of their relatively large concentrations of industrial and commercial property and disproportionate numbers of low-income residents. Thus, the result would be to make the property tax in Massachusetts even more regressive than it now is.

An update of the Wheaton report using 1976 data for a sample of 35 cities and 14 towns found that the residential tax bill would increase by 16% on average in the cities and by just over 5% in the towns. For the cities the average increases would range from 0% to 49%. Almost all the older cities would experience increases of over 20%. Within the residential sector, the single-family home would be most adversely affected by revaluation.[4]

The Torto update gave particular attention to the constitutional amendment for property classification as an alternative for lessening the impact of revaluation. This classification proposal, approved by two legislative sessions,

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3. William Wheaton <u>The State-wide Impact of Full Property Valuation in Mass.</u>, Federal Reserve Bank of Boston, May, 1975.

4. Raymond G. Torto, "Property Revaluation in Massachusetts: A Look At Its Consequences", Draft, August 15, 1977.

will be on the November 1978 ballot for voter consideration. It authorizes the Legislature to classify real property according to use in "no more than four classes", thereby permitting different assessment/market values and, in effect, making legal the present pattern of fractionalized assessments.

The Torto memorandum, after citing several arguments in support of classification, raised the following questions of implementation:

(a) Is the "personal property" category to be a fifth classification, and how, if at all, is it affected by the amendment?

(b) Which types of real property will be grouped under each of the four classes to be designated by statute? i.e. Will structures of more than 4-6 units be in the residential or commercial category?

(c) What should the assessment ratios be for each class? What data should such ratios be based on? Are different municipal ranges of ratios possible?

(d) Should the implementation legislation delineate assessment methodologies or different methodologies for separate classes?

(e) What should the implementation legislation say about administrative discretion over classes, assessment ratios?

(f) Will the classes and rates affect municipal debt limits?[5]

(3) <u>Evaluation of Tax Consequences of 121A Corporations and Tax Letters of Agreement</u>[6]

For almost 20 years the City of Boston has been pursuing a tax policy affecting new construction that has become an increasingly controversial issue in assessing practices. As property taxes have escalated and assessment inequities have expanded, there has been growing concern that tax arrangements applicable to so-called 121A Corporations (authorized under Chapter 121 of the Massachusetts General Laws) and under extra-legal Tax Letters of Agreement authorized by the Assessing Department are exacerbating already difficult conditions. Since 1958 the Boston Redevelopment Authority has approved <u>67</u> 121A Corporations and the Assessing Department has issued <u>84</u> Tax Letters of Agreement covering over $2 billion worth of new construction in the City. Under these special arrangements, property taxes have been calculated on the basis of "effective gross income" anticipated from the new developments. Taxes due through these tax arrangements

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5. <u>Ibid</u>, p. 9-10.

6. Boston Redevelopment Authority, "121 A Corporations and Tax Letters of Agreement: An Analytical Evaluation, A Summary of Findings and Recommendations", A Draft Report, Prepared by Peter Menconeri with assistance of Edward Blaine and Elizabeth Comer, July, 1977.

are below levels that would prevail if normal assessment standards would apply. The primary issue has become whether the original justification of 121A Corporations and Tax Letters of Agreements -- tax incentives to attract new development--was still cogent and whether their continuation was adversely affecting the City's limited, eroding property tax base.

Findings of evaluation:

(a) Most of 121A Corporations are subsidized residential developments located outside the downtown business district and covering over 10,000 dwelling units constructed since 1961; most of Tax Letters of Agreement, by contrast, are commercial developments located downtown, covering 12.5 million square feet of the 16 million square feet of new office space built since 1960 and over half the retail and hotel establishments built since 1960.

(b) Inadequate information is collected and inadequate monitoring is maintained of finances of 121 A's and Tax Letters of Agreement so that the City can bill and collect the real estate taxes or "in lieu of tax" payments(usually specified as 20-25% of gross income) to which it is entitled; if the data were adequately analyzed and the calculations adjusted in accordance with the 20-25% formula, the City could receive an additional \$2.5-\$4.0 million in taxes from present tax agreements.

(c) Special tax agreements are an essential policy for attracting new development because of the need for certainty in determining future tax liability and because of the importance of maintaining competitiveness in downtown office markets as between Boston and other cities, including the suburbs--property taxes on office space in Boston average $2.10 per square foot (26.5% of rental income) compared with a U.S. average for office space downtown of $1.20 per square foot (15.6% of rental income); since the tax subsidy is most critical during early years of a new development, it is possible to gradually increase tax arrangements after first 3-5 years of a project.

(d) Because properties owned by 121A Corporations and covered by Tax Letters of Agreement are effectively insulated from property tax increases, there has been a gradual but growing shift in the property tax burden from downtown commercial areas to the residential neighborhoods; proportion of tax revenues attributable to downtown commercial area declined from 31.5% in 1950 to a low of 23% in 1970; since 1970 there has been a reversal of this trend because of the office building boom that has restored the downtown proportion to 25.5% in 1976, still substantially below the 1950 level; from a tax revenue perspective, City has not been able to capitalize fully on the extraordinary level of downtown commercial growth; if the new office buildings built under Tax Letters of Agreement and worth about $600 million were taxed under assessing standards applicable to older similar properties, they would generate about $45 million in tax revenues as compared with actual revenues of $23.5 million.

(e) Since it costs the City approximately $1.25 per square foot of a modern office building for direct and indirect services, the "break -even" tax point is equivalent to about 14% of effective gross income.

(f) Because of preferential tax treatment provided to 121A's and under Tax Letters of Agreement, older office buildings are at competitive disadvantage, paying from 30-45% of effective gross income in real estate taxes.

(g) There are significant real estate tax differentials among commercial developments constructed under Tax Letters of Agreement that are difficult to explain; such inequities may be rationalized as the results of inadequate monitoring of rental income and the lack of standardized definitions of components of the equation used to effective gross income.

Summary of recommendations:

(a) Improve and centralize data collection activities in administration of 121 A's and Tax Letters of Agreement; establish more effective and current monitoring of finances of developments constructed under special tax arrangements.

(b) Continue special tax arrangements to prospective developers until there is basic tax reform and reduction in property tax burden.

(c) New 121A's and Tax Letters of Agreement and existing Tax Letters of Agreement should be renegotiated for 5-7 year periods with automatic renewal options; if legally possible, replace Tax Letters of Agreement with legally-binding tax agreements.

(d) Tax basis for 121A's and Tax Letters of Agreement should be on a sliding scale of 20-30%, with initial tax negotiated on a proportional return basis and with gradual increase toward maximum provided the development is financially viable.

(e) City should provide for pass-through of increases in tax rate in future and renegotiated tax agreements to prevent further shifting of tax burden from downtown to residential neighborhoods.

(f) City should begin reducing tax inequities between older and newer commercial properties through special tax incentives under a tax abatement program to stimulate conversion or upgrading of older Class C and D office buildings.

Final Note

The analytical applications summarized to date are not only significant for their intrinsic policy importance, but they represent the kind of politically sensitive issues that tend to be the grist of cocktail party conversation, rather than problems dealt with through hard-nosed independent evaluation. That the tax policy project has the will and capacity to come to grips with such questions is a strong indicator of its relevance and strong leadership.

THIRD PROJECT MONITOR REPORT
TAX POLICY ANALYSIS AND PLANNING STUDY
THE BOSTON CASE

Joseph Slavet
Project Monitor

January 1978

HUD Research Grant H-2628-RG

Boston Redevelopment Authority
Research Department

Third Monitoring Report
Tax Policy Analysis and Planning Study

Introduction

This third monitoring report covers project activities during the period, October - December, 1977. Project staff concentrated on the following efforts: (1) participation in and technical services to the Assessing, Research and Legal Assistance Group (ARLAG) established late in September, 1977 at the initiative of the Deputy Mayor for Fiscal Affairs; (2) expansion of the project analytical model, particular attention being devoted to state tax policy options and to the consequences/opportunities of the property classification constitutional amendment to be voted upon in November, 1978; (3) selective work toward achieving the data base development goals of the project; and (4) preparations for the first peer group review of the project conducted by the Urban Consortium Public Technology, Inc., as required by the project contract.

Assessing, Research and Legal Assistance Group (ARLAG)

The project director (A. Ganz) and the principal research analysis responsible for data base development and analysis (J. Avault), assisted by the project's computer specialist (K. Sittler), were involved in varying degrees in the work of ARLAG throughout the quarterly report period. Set up to cope with immediate and longer-range problems anticipated in making the transition to a new assessing system, ARLAG, an inter-agency task force, assumed responsibility for designing a comprehensive plan for revaluation of the city's property and for dealing with pressing current legal challenges to the City's current assessment practices. Chaired by the Deputy Mayor for Fiscal Affairs (J. Young) and with the Director of Office of Management and Budget (J. Mechling) as Executive Secretary, ARLAG includes the following members: Commissioner of Assessing (B. Cameron), Associate Commissioner of Assessing (R. Ryan), project director (A. Ganz), Special Assistant to the Mayor for Tax Policy (R. Torto), the Corporation Counsel (H. Gleason) and Special Assistant to the Mayor for Housing and Development (A. Olins). ARLAG's specific functions are: (1) to develop a formal property equalization proposal for consideration of the Mayor and to oversee implementation of such authorized plan, (2) to serve as a Litigation Task Force, with the assistance of a specially-appointed chief counsel, in reviewing the nature and consequences of suits based on so-called "disproportionate" findings by the Appellate Tax Board and the courts, and in developing alternative strategies for dealing with such findings, (3) to press for City Council funding of the new Office of Property Equalization, (4) to review the fiscal impact of pending state legislative proposals for property tax relief and their potential impact on the implementation of revaluation, and (5) to consider the statutory adaptation of so-called Tax Letters of Agreement--

these are similar in principle to legally-authorized Chapter 121A agreements--either as part of revaluation policy or under a property classification system, if approved by the voters, and as subsequently enacted through legislation.

ARLAG emerged from growing concern over the consequences of two major challenges of Boston's assessment policies and practices: (1) an unanticipated flood of abatement applications and (2) renewed pressure by the state for revaluation in accordance with the Massachusetts Supreme Judicial Court's decision of December, 1974.*

Abatement applications for the 1977 tax year alone had climbed to fiscally dangerous levels, reaching a total of 13,000 petitions which accounted for over $700 million in assessed valuations. Abatement petitions for 1977 were 50 percent over the total number filed during the prior year and threatened to bring the total volume of approved abatements for 1977 to a record high of $45 million. As serious as the skyrocketing abatement trend, however, is the tenacious tone of the suits, the growing tendency of property owners' lawyers to resist settlement with the Assessing Department's Board of Review and to take their client's cases directly to the Superior Court and the Boston Housing Court, and

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*Town of Sudbury v. Commissioner of Corporations and Taxation, 74 Mass. Adv. Sh. 2405, 321 N.E. 2d 641(1974).

the spreading claim of unconstitutionally disproportionate assessments, as contrasted with their prior emphasis on overvaluation as documented by operating data on disputed assessments. Not only are there growing fears among the City's assessing officials that the cumulative effect of court decisions on behalf of property owner plaintiffs will be to weaken Assessing Department control over assessment policies, but that the "disproportionate" argument is providing additional leverage to taxpayers in abatement petitions filed with the Board of Review simply through the threat of their lawyers to convert their overvaluation petitions before the City's own appellate agency to disproportionate cases to be filed with the courts.

Added to the disturbing trend in abatement litigation is the growing pressure being applied on municipal assessors by officials of the State Department of Corporations and Taxation for more substantial progress by cities and towns toward revaluation in accordance with the mandate of the Supreme Judicial Court in the so-called Sudbury case.* A central concern of officials within Boston's Assessing Department is that a court finding of inadequate compliance with revaluation directives of the State Department of Corporations and Taxation could trigger court assignment of a master to carry out full value assessment, thereby

*See "First Project Monitor Report, Tax Policy Analysis and Planning Study", Footnote 5, p. 9.

divesting the responsible City officials of any real control over the revaluation process and over assessment policies.

Thus, ARLAG has both short-term and long-term goals: (1) providing the time frame necessary (a) for establishing the legal basis for a classification system of assessment, (not achievable until 1979) (b) for designing/establishing a new assessment system and (c) for equalizing assessments, in advance of full-scale revaluation, by successfully challenging the rising tide of abatement applications and class action suits; and (2) strengthening the City's position with state supervisory assessment agencies and the courts by demonstrating satisfactory movement toward revaluation and a revised assessment system.*

The tax policy project director participated in sessions of ARLAG through meetings held on September 27, October 25, October 26 and December 2. At the request of ARLAG the project director authorized the project's principal research analyst (J. Avault) to provide statistical and analytical services to the new advisory group, as requested. The latter's role consisted of several principal assignments: (1) An analysis of the initial impact of full value assessments on property values; (2) an analysis of the estimated cost of abatements on City of Boston tax appeals pending

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*"Proposal for the Acquisition of Special Skills to Assist in the Transition to a New Assessment System", prepared by Assessing Department under guidelines by the Office of Management and Budget, Sept. 1977.

before the State Appellate Tax Board (ATB)--this data was presented at the ATB hearing by a staff member of the Assessing Department on December 20, 1977; (3) testimony on December 20, 1977 to the ATB on tax capitalization analysis to support the City's case for a citywide average equalized value ratio as contrasted with the appellant's claim that assessment should be based on the "lowest-class" standard, a standard that would require far more substantial taxpayer relief.*

The first assignment, which included a computer printout covering all arms-length real estate sales for 1975 contained in the project's data base, was designed to measure the possible initial effects on property values of full value assessments. The following assumptions and methodology were used in this analysis: (1) all taxable real estate is being assessed according to values measured by sales prices; (2) personal property assessments (currently $246.8 million) are assumed to equal full value and to remain unchanged; (3) the tax rate will decline in proportion to the increase in tax base, with property tax requirements remaining unchanged; (4) the equalized value of taxable realty in Boston is estimated at $3.6 billion, as determined by the Appellate Tax Board; (5) the revaluation tax base is

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*See Footnote 10 in Shoppers' World Inc. v. Board of Assessors, 348 Mass. 366, 203 N.E. 2d 811(1965), cited by plaintiffs' attorney in ATB hearings of December 19-22, 1977 as precedent for lowest class standard.

$3,846,788,000; (6) the new tax rate is $116.04 (old rate x ratio of old tax base to new tax base); (7) the new (full value) tax bills are equal to the new tax rate of $116.04 x the recorded sales price; (8) the new property (sales) values are calculated by capitalizing the values of the tax bill changes--new price = old price-(full value tax bill-old tax bill) x M, where M is the inverse of 1 divided by the appropriate capitalization rate--for 1-3 family residential properties a capitalization rate of .104 is assumed (since the entire purchase price is considered to be mortgaged --8-1/2% mortgage for 20 years--the annual payments toward principal and interest are equivalent to 10.4% of mortgage total; for other classes of property, a capitalization rate of .12 is assumed.*

Under the second assignment, three standards for fair property taxation were applied to the 1976 figures on values, assessments and ratios used in the equalization study of the Massachusetts Department of Corporations and Taxation to estimate the costs of ATB decisions affecting assessments being appealed. (It was estimated that these disputed assessments involved total tax payments of about $326 million based on an

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*John Avault, "Example Estimates of 100% Valuation Impact on Property Values", Oct. 19, 1977, Memorandum to Commissioner Barbara Cameron, Bob Ryan, Arthur Shea, Assessing Department.

assumption that the affected properties were being assessed at 60 percent of market values.)

These three standards included: (1) lowest class standard, established at the effective tax rate level enjoyed by the most under-assessed class of properties; (2) equalized tax rate standard, established at the tax level that would have been established had all properties been assessed at full market value - this standard is equivalent to the average effective tax rate applied to all taxable property in city, which makes critically important the city-wide average assessment/value ratio; and (3) equilibrium value standard, taking into account the probability that, because of tax shifts and varying tax capitalization rates, the tax base of market values might have declined as a result of full value assessment of all properties. It should be noted that the 1976 state equalization study had established .268 as the lowest class ratio--for single-family properties; it calculated the average citywide assessment/value ratio at .500, based on a total value aggregate of $3.6 billion.

The following table summarizes essential conclusions concerning assessment/sales ratios, effective tax rates and estimated costs to the City based on the three standards of property taxes:

	Lowest Class Standard	Equalized Tax Rate Standard	Equilibrium Tax Base Standard
A/S Ratio	26.8%	50.0%	53.0%
Effective Tax Rate	$52.70	$98.40	$104.00
Estimated Cost to City	$180.4M	$54.3M	$38.0M

The estimated costs of adverse ATB findings range from $38.0 million to $180.4 million. Note that the "lowest class" standard, being argued on behalf of a group of appellants before the ATB, would be the most costly in terms of tax refunds.*

The final contribution of the principal research analyst (J. Avault) to ARLAG efforts was his testimony at the ATB hearing of December 20, 1977 on how property taxes affect property values. Since tax capitalization is the theoretical basis for equilibrium tax base calculation and can be used in support of a citywide equalized tax rate standard, requiring less property tax relief and smaller abatements than the "lowest class" standard, ARLAG representatives were particularly interested in having such testimony presented by the staff member of the tax policy project.

Using three examples to explain the calculation of tax capitalization--two single-family homes, one assessed at less

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*John Avault, "ATB Summary Analysis and Tentative Projection of Costs", Nov. 8, 1977, Memorandum to ARLAG.

than 10 percent of sales price and the other at 20 percent of sales price, and a commercial property assessed at about 35 percent of sales price--Avault pointed out that the theory of tax capitalization was grounded in the fact that income limits the availability of funds to meet housing costs required by home owners and that owners of commercial properties invest in such opportunities in the expectation of yields comparable to those from other investments. Therefore both mortgage payments and property taxes represented combined limits on housing outlays from income. According to Avault's testimony, when tax bills increase, there is an equivalent smaller sum of money available for mortgage payments, dictating a lower acceptable purchase price if he desires to sell.*

It should also be noted that in addition to serving with ARLAG, the tax policy project director (A. Ganz) testified at the December 19, 1977 hearing of the ATB, presenting comparative data for Boston (including its neighborhoods), the metropolitan area, the state and the nation that demonstrated the city's vulnerability to higher tax and economic burdens--per capita personal income data, housing cost and family budget data and standard of living data.

Leadership of the tax policy project is well aware of the opportunities that ARLAG provides for linking goals and

* Summary of Testimony of John Avault on Tax Capitalization Calculations before the Appellate Tax Board on December 20, 1977.

activities of the tax policy project more closely with the short-term and long-term requirements of Boston's fiscal and tax policy decision-makers. This leadership, including the Deputy Mayor for Fiscal Affairs, who heads up both ARLAG and the tax policy project, is also sensitive to the possibility, however, that the tax policy project could be de-railed and even consumed by a flood of data and analytical demands that are primarily expedient and defensive, designed to avert or delay a pressing court or state administrative edict, not to hew closely to the carefully-conceived project design. It should also be noted that the professional focus of ARLAG is heavily legal whereas economic and statistical analyses are the central thrusts of the tax policy project. Although the tax policy project shares the equity (legal and constitutional) goals of ARLAG's lawyers, its framework for achieving these goals are built into a more comprehensive design for correcting long-standing abuses of an entire fiscal, tax and administrative system.* Meeting the legitimate and priority data collection/analytical needs of ARLAG without adversely affecting the integrity or impeding

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*The tax policy project has billed the City for special activities in support of the Assessing Department and ARLAG in the amount of $39,173. (Memo of Dec. 14, 1977 to Alex Ganz from J. Avault and K. Sittler).

the goals of the tax policy project did emerge as an important issue of the study process during the reporting period. Although project staff do not anticipate significant future roles in ARLAG activities that are related to assessment litigation before the ATB and the courts, they do expect heavier involvement in ARLAG's revaluation planning/implementation processes once the City Council authorizes funds for carrying out initial steps in reassessment. This prediction comes from the fact that the Superior Court Justice hearing class action suits based on alleged lack of compliance with state orders on revaluation has included the Mayor and City Council, in addition to Boston assessors, in the list of defendants in such cases.

Expansion of Analytic Model

Several events affecting tax policy choices and the priority assigned to the constitutional amendment authorizing differential assessment and taxation of property gave more definitive shape during the reporting period to the content and scope of the project's analytic model.

Final results of the City's fiscal legislative package of 1977--some 27 bills that were designed to generate about $146 million through local revenue diversification, improved revenue collection and a variety of property tax relief measures--demonstrated the futility of a unilateral municipal tax reform strategy, even on the part of a large central city.

Most of the "big ticket" items--municipal payroll excise, excise tax on parking facilities, excise tax on institutions of higher education, elimination of statutory tax exemptions on dormitories, restoration of General Relief reimbursements to cities and towns for medically indigent, state reimbursements for tax-exempt property, etc.--were defeated. A few minor bills with relatively limited fiscal impact were enacted--additional penalty for nonpayment of parking fines, increased collection fees in tax delinquency, increased charges for municipal lien statements, and property tax priority from fire insurance proceeds on tax delinquent buildings. The most significant legislation authorized by the Legislature, which faces litigation and replacement with a new bill in 1978, requires the Massachusetts Port Authority to make tax payments to Boston and Chelsea amounting to five percent of the Authority's annual income. Estimated to mean about $3.5 million to Boston, this is a revised version of the original filed by Boston and is likely to be superseded by legislation limiting such taxes to certain lands at Logan airport and authorizing payments in lieu of taxes to Boston and Chelsea. The substitute statute is likely to generate lower revenue yields than those under the enacted legislation of 1977.

Having demonstrated the geographical, political, constitutional and fiscal limitations of legislativelyauthorized municipal revenue diversification, City decision-makers have shifted their tax scenario emphasis entirely to state financial assistance (including selective shifting of municipal functions/costs to the Commonwealth), as the only feasible political and economic option for property tax relief. Prospects that the Governor is considering the allocation of some $200 million in surplus funds for property tax relief by the beginning of the 1978-79 fiscal year lends encouragement for some short-term, stop-gap assistance. Boston's allocation, depending on the specific details, could range between $30 and $40 million. Equally encouraging is the longer-term commitment of the Commonwealth for sharing a substantial portion of increases in state tax revenues due to economic growth and inflation for local property tax assistance and for using funds that may be freed up through the assumption of state welfare costs by the national government "to help equalize the ability of communities to provide an adequate level of services to their residents".*

Not only do Boston decision-makers seem to be closing ranks behind state financial assistance as the pragmatic approach for bringing property taxes in Boston down by as much

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*Massachusetts Office of State Planning, City and Town Centers: A Program for Growth, Sept. 1977, Submitted to the Special Commission on the Effects of Growth Patterns on the Quality of Life in the Commonwealth, p. 85.

as $200 million a year, the long-range goal, but they are settling on (1) broadening of the state sales tax (including a regional sales tax piggy-back for financing the operating deficit of the Massachusetts Bay Transportation Authority) as the logical financing mechanism for large-scale replacement of local property taxes with broad-based state tax levies,* and (2) enactment of legislation that would mandate Commonwealth sharing of state tax growth with its cities and towns.

To generate support for the selection of a broadened sales tax as the financing source for property tax relief, the project's analytic model has been expanded to include an evaluation of the incidence effects of such a proposal.** The conclusions of this analysis are:

(1) Converting the state sales tax to a more general tax on consumption, exempting food, utilities and prescription medicine, " makes the sales tax neither more regressive nor progressive. If anything, there is some flattening of the incidence over income. Certainly there is no increase in regressivity..."***

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*In a 10-part series of editorials on "The Property Tax" dated Dec. 12-23, 1977, The Boston Globe endorsed this proposal provided it were offset by tax credits for low income taxpayers.

**As contained in H. 2476(1977) filed by the Massachusetts Taxpayers Foundation.

***Richard Syron and Raymond G. Torto, "The Incidence Effects of Broadening the Sales Tax for Property Tax Relief in Massachusetts", Dec. 1977, p.6.

(2) Comparison of the incidence of the present tax system to the proposed tax system for different income classes in a sample of 21 cities and towns "indicates that the present Massachusetts state and local tax burden has a regressive impact across income classes in both central cities and wealthy suburbs".* Adoption of a broadened sales tax base at a four percent rate and increased local aid, similar to the 1977 property tax relief proposals of the Massachusetts Taxpayers Foundation, would generate "a modest reduction in the tax burden of the lower income families living in cities. This reduction would be financed principally by a small increase in the tax burden of high income families living in wealthy suburbs. For lower income families living in wealthy suburbs, the increase in sales tax burden would be offset by their reduction in property taxes. Overall, the proposal is progressive due to the progressive distribution of state aid. Our calculations indicate that, even though the (Taxpayers Foundation) plan relies heavily on sales taxes, its overall effect would be to diminish the regressive incidence of state and local taxes in Massachusetts."**

Concern over the legislative model that would implement voter approval of the constitutional amendment authorizing property classification intensified during the reporting

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*Ibid.

**Ibid, p. 6-7.

period. The Special Assistant to the Mayor for Tax Policy (R. Torto) followed up the August 15, 1977 memorandum to the City's Corporation Counsel (H. Gleason) with a more definitive series of questions concerning the legal implications of the classification amendment as summarized below:

(1) Since the language of the amendment dictates "no more than four classes of real property", can a legislative scheme be devised containing <u>four</u> classes of real property and <u>one</u> of personal property, or should personal property be included in one of the four classes?

(2) What interpretation should be given to the phrase "according to use" e.g. land use classifications(residential, commercial, vacant land); social/economic uses(investment income, shelter)? Whether apartment houses should be classified as "commercial" or "residential" is the best example of this dilemma.

(3) Does the language authorizing "reasonable exemptions" extend to exemptions beyond those authorized by current law, such as a homestead exemption for a separate class of single-family houses?

(4) Does the amendment authorize the Legislature to empower municipalities to establish their own classes and tax ratios?

(5) Does the language in the amendment "to assess, rate and tax such property differently in the classes"

authorize calculation of effective tax rates that vary from class to class in either of two ways: (a) through <u>different ratios of assessed value to market value</u> for each class, while holding the tax rate constant, thereby generating differential effective tax rates, (b) through <u>different tax rates</u> for each class, while holding constant the ratio of assessed value to market value for all classes, thereby generating differential effective tax rates.

The high priority being given to the classification amendment is, of course, based on the realization that revaluation could be implemented under a property classification system without drastic shifts of property taxes among categories of properties, thereby minimizing the political, social and economic impacts of revaluation. Sensing that a coalition of cities and towns with assessment disparity patterns and revaluation consequences roughly similar to those in Boston might be organized around the mutual benefits of a uniform classification model, the Special Assistant to the Mayor for Tax Policy has been supervising the planning and implementation of computer run tests that compare present tax bills with tax bills based on average assessment/sales ratios for different classes under a variety of classification mixes. These are being conducted by the principal research analyst (J. Avault) and the project computer specialist (K.Sittler). The computer runs are being organized around the following groupings of municipalities: (1) all cities,

(2) all cities and all towns with over 10,000 population, (3) all towns, (4) towns with over 10,000 population, (5) towns under 10,000 population, and (6) all cities and towns.

Under the initial computer runs analyses were generated for the above groupings of municipalities based on the following classification scenarios (not more than 4 classes in each):

(1) Scenario A:
R1, R2, R3
R4 RC
C, I
L, AH

(2) Scenario B:
R1
R2, R3, R4
RC, C, I,
L, AH

(3) Scenario C:
R1, R2, R3, R4
RC, C, I
L, AH

(4) Scenario D:
R1, R2, R3
R4, RC, C
I
L, AH

(5) Scenario E:
R1, R2, R3, R4, RC
C
I
L, AH

(6) Scenario F:
R1, R2, R3, R4
RC, C, I, L, AH

For each designated group of municipalities aggregate figures were calculated showing by property type (e.g. R.1) and for each class within each classification scenario the following data: (1) present assessments, (2) estimated full values and (3) assessment/value ratios. For each municipality under each grouping, the classification analysis displayed the present tax rate, the full value tax rate, the present aggregate tax bills and adjusted (full value) aggregate tax bills under each class of property and the percentage change in such aggregate tax bills; it also displayed for each of the six classification scenarios the present tax rate (hypothetical) and for each property type within each scenario the hypothetical present aggregate tax bills, the adjusted (full value) aggregate tax bills and the percentage changes in such hypothetical aggregate tax bills from the present aggregate tax bills and the percentage changes in the hypothetical adjusted (full value) aggregate tax bills from the present aggregate tax bills.

Considerable expansion of the current work on classification model analysis is being planned along the following general lines: (1) holding constant the current level of total tax payments being made within each class and evaluating the shifting of taxes as between property types within each class--thereby measuring the dollar change in tax burden as compared with the present level, the percentage change in the tax burden from the present level and the percentage change in the tax burden generated by full value assessment; (2) applying a $7,000 homestead exemption to a residential class (R1, R2, RC) and a 50 percent assessment/sales ratio to a

L/AH class under the following classification mix:

R1, R2, RC
R3, R4
C, I
L, AH
Personal

The above computer runs are designed to show that these classification scenario assumptions and special tax exemption arrangements can keep within reasonable limits the tax shifting impact of revaluation on home owners and owners of vacant land.

Evaluation of the consequences of tax agreements governing 121 A corporations and of Tax Letters of Agreement, through an analytical research effort* linked closely to the tax policy project, generated some important decisions announced by the Mayor on November 21, 1977, decisions that generally coincided with recommendations in the research report: (1) The one-year moratorium on authorizing 121 A tax agreements was lifted and guidelines issued imposing tighter conditions on granting such agreements, (2) the terms for such agreements will be 13-15 years instead of the prior policy of 40 years, (3) in lieu tax payments will fluctuate at established percentages of gross income designed to facilitate initial financing and to permit adjustments under escalator clauses to reflect development maturity and

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*See "Second Project Monitor Report", Nov. 1977, p. 14-18.

changing demands. The first 121 A tax agreement approved under these new guidelines was negotiated for 15 years with in lieu taxes calculated at 23 percent of gross income, but with no escalator arrangements. More detailed guidelines based on continuing evaluation by an inter-agency committee will be forthcoming.

Expansion of Data Base

The project made relatively little additional progress during the quarter in completing the data base. One major data gap continues to be the apartment house category; little has been done with the residential-commercial group or with the industrial group. Still underway is tax analysis for the critical commercial (office building) category.

One interesting finding of this analytical phase of office buildings is that Class A buildings show relatively high income capitalization rates and Class C properties are displaying low income capitalization rates, indicating that owners of Class C properties are anticipating lower taxes from revaluation, resulting in higher sales prices, while Class A properties are expecting higher taxes as a consequence of revaluation.

Despite the accumulation of inventory data by ward on apartment houses--numbers of properties (Assessing Department), number of dwelling units (update of special report by BRA's Research and Planning Departments)*, assessed values

*Boston Redevelopment Authority, "Multi-Family Investor-Owned Housing: A Reconnaissance", Unpublished, May 1976.

(Assessing Department), market values (1975 sales data), and aggregate assessment/full value ratios--several wards show unbelievable ratios requiring further analysis; some sales price data can hardly be considered typical. Moreover, operating data, including data on net income useful for calculating market values based on income capitalization which might then be compared with available sales price data, have not yet been made available by the Boston Rent Control Administration Office. The latter agency did, after considerable pressure, finally agree to punch and analyze requested data for review by project staff.

Upon the initiative of the Assessing Department, to assist it in abatement litigation, outside consultant services were engaged to computerize available real estate sales data for 1971-74 and 1976 to supplement the computerized data for 1975. Although funds ran out before the 1976 data could be completed, what has been done under this $16,000 contract enriches the data base available to the tax policy project.

The timetable for completing the data base has obviously fallen behind, mainly because of the unanticipated staff demands attributable to ARLAG. Since the expansion of the analytic model and the testing of tax policy applications depend on the timeliness and richness of the detailed data base as originally conceptualized in the project design, this lag must be overcome if the project is to achieve its targets within a reasonable time frame. On the other hand, as the reporting period ended, it had become apparent that if the tax policy project were to keep abreast of and coordinated with pending tax policy deliberations and negotiations, it had to slow down and revise its work schedule accordingly. Many of these pending decisions, already discussed in this report, are closely related to the gubernatorial election of 1978 and the tax policy commitments it generates, the constitutional amendment for property classification to be considered by the voters in November 1978, the governor's budget proposals and legislative action during 1978 on short-term property tax relief, state administrative and court pressures during 1978 to implement revaluation.

<u>Peer Group Review</u>

The Management, Finance and Personnel Task Force of the Urban Consortium/Public Technology, Inc. conducted its first review of the tax policy analysis and planning project on October 3-4, 1977. The five-person team* that made the two-day site visit transmitted its review report dated December 9, 1977. Below are selective quotations from the report that represent a synthesis of the Peer Group's

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*Charles Miller, Chairman, Manager of Maricopa County, Arizona; Robert Cowen, Assistant Director, Office of Management and Budget, Seattle, Washington; Dr. Dean Vanderbilt, Director of Management Services, Dallas, Texas; Carol Whitcomb, Staff Director, Management, Finance and Personnel Task Force, Urban Consortium, Public Technology, Inc., Wash., D.C.; Chris Tomasides, Management Director, City-County of Denver, Colorado.

preliminary comments and conclusions:

> The Peer Review group was most impressed both with the high quality of staff expertise and the apparent level of commitment to the project by the Mayor, the Project Director, and staff. The Project Director, who is eminently qualified for his position, is commended for bringing together an expert staff representing the disciplines necessary to accomplish the work program of the study.
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> ....
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> Having recognized the value of this study for Boston's purposes, the Peer Review group wishes on the basis of one meeting to sound a cautionary note on the relative importance of project transferability. The Group remains interested in and positive about potential for transfer of many of the project's elements.....but notes that Boston's study should and must tailor solutions to a critical and deteriorating situation facing Boston. We would hope the Federal funding agency's concerns for transferability are tempered by these comments.
>
> ....
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> The information relative to the problems associated with the property tax, the process of developing some of the alternatives and the impacts of these alternatives will be useful to other jurisdictions. Further, the following may be useful to other urban jurisdictions as case studies: analyzing taxing properties of the Massachusetts Port Authority; evaluating the effects of the comprehensive tax package of the Massachusetts Taxpayers Foundation, including its redistribution formulas; and establishing a model for transferring functions such as courts to the state.
>
> ......The Peer Review group was unanimous in its opinion that the techniques being developed to project the impacts of alternative tax policies, including changes to

the existing property tax, should be useful. ....

....

The peer Review Committee does not visualize any immediate transfer potential of the techniques for establishing an "equilibrium" property value. At best this approach might have some transfer potential in the long term. ....

......................But we should note that on the basis of staff reports, the Peer Review group somewhat questions the reliability of the output of the equilibrium technique for predicting property values in Boston because of the extremes in dispersion that exist in the assessed versus market values of properties.

The Peer Review group also had reservations as to advisability of implementing an assessment program using the equilibrium technique. ....considerable difficulty will be encountered in administering a program which is predicated on projected property values that could very well not materialize within an acceptable tolerance.

....

......the extensive experience Boston has had, in using abatements, to provide incentives for economic development and growth can provide valuable information to other jurisdictions on the potential effects of such a program.

....

In summary, it is the Peer Review Committee's opinion that the specific models developed in Boston will not likely be directly transferable, because Boston seems to represent a situation of extremes in tax inequities and burden, but the approaches and process that will be used have significant potential for transfer. ....

. . . .

A great deal of effort must yet be done to improve the assessment function in Boston. . . . . .many of the recommendations of the Jacobs Company have yet to be implemented. Too, the group has concern that approximately 75% of the assessor's office effort is spent processing and administering abatements on a continuous basis. . . . . .

. . . . .The Panel would suggest that substantially more emphasis be made to improve assessment practices; otherwise, Boston will clearly be in a difficult position to implement any systematic valuation policy, whether it be 100% revaluation or valuation based on classification. . . . .

. . . .

. . . . .the tax policy issues in the study, as well as the study's goals and objectives, do not seem to have been widely communicated to the City staff and to the public. It is suggested that such information be communicated as early as feasible through the information panels presently being formed as well as any other means seen appropriate by the project and Mayor's staff. . . . .

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It is also suggested that possible fallback positions be considered should Boston's tax plan run into insurmountable difficulties in the State legislature, the courts, or from voters in a referendum. Consideration could be given to such items as homestead provision in helping reduce the burden of the property tax.

. . . .

The Peer Review group was favorably impressed by the spirit of cooperation that the Academic Committee and the City Policy Committee showed in providing not only strong support, but also making a significant contribution to the tax policy planning study research. ... .in this instance, the academics are serving as an important resource from which other jurisdictions can learn. It is the opinion of the Peer Review group that this type of relationship works best when specific issues are identified by city officials to which the academic community can respond specifically.