

HOW THE FY 2022 TAX RATE WAS SET

Follow along with this handout to see how the concepts from the training videos were put into practice using actual numbers from Orleans' FY2022 tax recap.

PART 1: THE TAX LEVY

What is Proposition 2½?

All municipalities in Massachusetts must abide by the constraints of Proposition 2½, a state statute that limits the annual allowable increase to a community's levy limit to 2.5% of the prior year's limit.

What is the levy limit? How is it calculated?

The levy limit is the highest dollar amount a community is allowed to raise through property taxes. We began FY2022's levy limit calculation by starting with FY2021's levy limit of \$26,621,552. Proposition 2½ allows us to add 2.5% to this figure:

$$\$26,621,552 \times .025 = \$665,539$$

$$\$26,621,552 + \$665,539 = \$27,287,091$$

How can a community levy above its levy limit?

Prop 2½ allows us to exceed the 2.5% constraint by adding new growth, overrides, and exclusions to the levy limit.

What is New Growth? How is it calculated?

New growth is any increase in the town's assessed valuation that can be attributed to new property that we're assessing for the first time or exempt property coming on to the tax rolls; New growth permanently increases our levy limit for subsequent years.

Orleans recorded \$41,602,750 in new growth value for FY2022. That value is multiplied by the prior year's tax rate to get our new growth:

$$(\$41,602,750 \times \$7.20) \div 1,000 = \underline{\$326,166 \text{ (FY2022 New Growth)}}$$

$$\$27,287,091 + \$326,166 = \underline{\$27,613,257 \text{ (Adjusted Levy Limit)}}$$

What is an override? What is an underride?

Prop 2½ also allows for general overrides to be added into our levy limit calculation. Overrides must be approved by the town's voters at town meeting and by ballot. Overrides permanently increase our levy limit for subsequent years.

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(Side note: this contrasts with overrides, which permanently lower the levy limit for subsequent years where the town finds it necessary to decrease spending. Overrides must also be approved by town voters at a town meeting and by ballot.)

In Oct/Nov 2021, Orleans' citizens voted to approve a \$495,000 Prop 2½ override to fund a universal pre-school support program for FY2022. This override was added to our levy limit:

$$\$27,613,257 + \$495,000 = \underline{\$28,108,257 \text{ (FY2022 Levy Limit)}}$$

(Side note: when we calculate FY2023's levy limit in a few weeks, this will be the figure we start with.)

How is the levy ceiling calculated?

Then we checked that our levy limit didn't exceed our town's levy ceiling. For towns that are running a high levy figure relative to their town's total valuation, the levy ceiling serves as a second cap on how much levy can be raised.

The levy ceiling was calculated by multiplying the town's total taxable assessed value for FY2022 by 2.5%:

$$\$4,682,305,020 \times 2.5\% = \underline{\$117,057,626 \text{ (FY2022 Levy Ceiling)}}$$

Our \$28 million levy limit was well below our \$117 million levy ceiling.

What is a maximum allowable levy?

If the levy limit figure is lower than your levy ceiling, Proposition 2½ now allows you to add a few additional spending items to your levy limit. This creates a new number: your maximum allowable levy.

First, we add in exclusions. Like overrides, debt exclusions are approved by Orleans voters at town meeting and by ballot. Exclusions can only be used for capital spending, last for the life of the bond, and do not permanently raise our levy limit. In FY2022, the town serviced \$5,032,407 of debt exclusions. This figure was added to the maximum allowable levy figure:

$$\$28,108,257 + \$5,032,407 = \$33,140,664$$

Next is our annual share of the Barnstable County Environmental Protection Fund Tax. Our share of the tax corresponds to our share of the county's total assessed value, which for FY2022 is 4.5%, or \$179,295.

$$\$33,140,664 + \$179,295 = \$33,319,959$$

Finally, we added in the sum of two stabilization fund overrides that Orleans voters pass at town meetings each year. One funds the town's pavement management program, the other funds town water drainage improvements. The sum of these for FY2022 was \$576,011.

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$$\$33,319,959 + \$576,011 = \underline{\$33,895,970 \text{ (FY2022 Maximum Allowable Levy)}}$$

This is the maximum amount we were allowed to raise through property taxes for FY2022.

What is excess levy capacity? How is it calculated?

The difference between our maximum allowable levy and the tax levy is called **excess levy capacity**. These are dollars that we technically have room to spend for the fiscal year but have decided not to. Having some excess levy capacity is a good thing as it gives you a bit of breathing room in subsequent years to levy a bit more if you need to.

For FY2022, Orleans voted for \$48,197,738 in total municipal spending at town meetings. We estimated that approximately \$14,485,142 of that would be funded by revenue sources other than property taxes (excise taxes, meal/room taxes, etc.). The remaining spending was our tax levy.

$$\$48,197,738 - \$14,485,142 = \underline{\$33,712,596 \text{ (FY2022 Tax Levy)}}$$

The tax levy was subtracted from the maximum allowable levy to give us our excess capacity:

$$\$33,895,970 - \$33,712,596 = \underline{\$183,374 \text{ (FY2022 Excess Levy Capacity)}}$$

PART 2: ASSESSED VALUES

Once the town has figured out how much it's going to levy in taxes, the assessor's job is to determine how much all real and personal property situated in town is valued. All taxable property in Massachusetts must be valued as of January 1st. To accomplish this, assessors spend most of their time collecting and analyzing market data like sale prices, personal property lists, building material prices and business income data. We then use a set of standardized methods and analysis tools to value all property in town at the same time. New assessed values are typically certified by the end of September.

Assessors classify property based on its use. In Orleans, we have some 9,000 parcels of property classified into four categories: residential, commercial, industrial, and personal. For FY2022, Orleans' assessed values in our four classes of property were certified by the BLA as follows:

CLASS	VALUE	%
Residential	\$4,349,890,942	92.84%
Commercial	\$263,583,638	5.63%
Industrial	\$8,796,900	0.19%
Personal	\$63,033,540	1.35%
TOTAL	\$4,682,305,020	100%

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PART 3: SETTING THE TAX RATE

Once we have our tax levy and our assessed values in hand, we go to the Tax Classification hearing, where the tax rate must be set by the Select Board. At this point, figuring out the tax rate is simple arithmetic; dividing each class's share of the tax levy by its corresponding share of the town's total valuation will give you the rate at which assessed value must be taxed to satisfy the levy. For FY2022, this is what the Select Board approved:

CLASS	VALUE	%	LEVY SHARE	RATE
Residential	\$4,349,890,942	92.84%	\$31,297,615	\$7.20
Commercial	\$263,583,638	5.63%	\$1,897,802	\$7.20
Industrial	\$8,796,900	0.19%	\$63,338	\$7.20
<u>Personal</u>	<u>\$63,033,540</u>	<u>1.35%</u>	<u>\$453,841</u>	<u>\$7.20</u>
TOTAL	\$4,682,305,020	100%	\$33,712,596	\$7.20

Once the Board votes in the new tax rate, the classification hearing is complete. The Assessor then submits the tax rate to the Bureau of Accounts for approval. Once they've approved it, tax bills can be issued for the 3rd and 4th quarters of the fiscal year bearing the new tax rate and assessed values.