

Dear Madam President and City Councilors,

I am writing to give you all a heads up regarding the upcoming issuance of the FY2023 Preliminary Tax Bills for the first quarter (July 2022) and second quarter (October 2022) of the fiscal year.

As you may be aware, the Municipal Modernization Bill of 2016 extended when Cities and Towns were required to perform revaluation work from every three (3) years to every five (5) years. Gardner's re-evaluation process for real property took place last year. These values are considered active per the regulations and provisions of this statute. The Assessor's Department did confirm with the Department of Revenue that these are the valuations that we must use as part of the preliminary tax bills for the first two quarters of FY2023.

However, there is a slight conflict in the way the laws regulating municipal taxation are set up, which many of our constituents may experience for these two bills of this fiscal year- which is why I am writing this email to you all.

The current tax rate that the preliminary bills are based on is the rate that was set by the City Council in December of 2021, which was based on last year's valuations. This was set at \$18.59 per every thousand dollars that a property is valued at. The new valuations that are now being required for us utilize both 1) the re-valuations that were required every five years and 2) the statutorily required market trend two year look back. Thus, not only are valuations going up right now because of the re-evaluation process, but the assessor's office is also required to adjust values based on how the market sales went during Calendar Year 2021. This causes a MUCH larger increase in valuation because of how much of a spike the housing market saw during that year.

Valuations of properties issued by the Assessor's Office legally must be verified by the Department of Revenue every year through the LA-4 Process. In the FY2022 LA-4 Process, the average home in Gardner was valued at \$237,944. The FY2023 LA-4 process shows the average home in Gardner to now be valued at \$283,445 – an approximate 19% increase in valuation.

Now, per the provisions of Proposition 2 ½, the City can only collect a certain amount in real estate taxes, no matter what the valuation trends are. As a result, as valuations increase, the tax rate decreases (and vice versa) due because the bottom-line number is legally required to remain the same no matter what the market trends take. **For FY2023, the limit we can collect in property taxes is \$31,271,792 – the equivalent amount of a 2.5% increase over last year's real estate tax collections.**

However, until the new tax rate is set by the City Council after new growth and free cash are both certified (in the November/December date range) the preliminary tax bills for this year are operating with a higher tax rate from the last fiscal year and higher valuations due to the reasons mentioned above. This will likely make it so that **the first two quarter tax bills will artificially seem much larger than usual**. However, the bills for the **third and fourth quarter are expected to be much lower due to the new tax rate being in effect by that point in time**- making up the difference. **But again, we can only collect \$31,271,792 in taxes no matter what the changes in market trends or valuations are.** Mathematically, if the rates are higher now resulting in larger tax bills, they have to go down when the new tax rate is set because we cannot go over that number even if we wanted to.

By means of example with lower numbers that are round and easily divisible used for simplicity's sake, if a property in the City pays \$12,000 a year in taxes, one could assume that because tax bills are issued on

a quarterly basis, that the house would pay \$3,000 a quarter in taxes as that is the total they pay for the year divided by four. However, when you look at the way this year's tax rate systems are working, it could likely mean that the property would pay \$4,000 for quarter 1 (July Bill) and \$4,000 for quarter two (October Bill), with only \$2,000 for quarter three (January Bill) and \$2,000 for quarter four (April bill). The first two quarters are higher due to last year's tax rate, the second two quarters are lower because the tax rate was adjusted in December to meet the valuation trends. **However, in the end, the amount collected is still capped at the same amount.**

This is just a process issue due to the current way municipal taxes are regulated by the Commonwealth as a result of 1) the Municipal Modernization Act changing the timeframe for re-evaluations and 2) the market trend and collection caps imposed by Proposition 2 ½ which was implemented through a citizens ballot initiative in the Commonwealth in the 1980s.

As such, it is likely that we will all hear from our constituents about questions regarding the amounts they are being billed on for the first quarter tax bills that are being issues on July 1st.

Please let me know if you have any questions.

Best,

Mike

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