

Notice Regarding Preliminary Tax Bills

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Fiscal Year 2023 Preliminary Tax Bills (July and October) are likely to seem higher than usual due to property values in Gardner increasing approximately 19% but the City's new tax rate adjusting for these increased valuations cannot be set until December 2022. The Fiscal Year 2023 Actual Tax Bills (January and April) are predicted to be lower than the first two quarters to account for the difference. **This is an issue that all cities and towns in Massachusetts that do quarterly billing are facing, as state law requires valuations to be done on a fiscal year basis and requires tax rates to be changed on a calendar year basis.**

Introduction:

The City's new fiscal year began on July 1, 2022 and runs through June 30, 2023. The City of Gardner bills real estate taxes on a quarterly basis, with bills being issued in July, October, January, and April. However, while there are quarterly bills, the bills are mailed twice a year with the July and October bills mailed out at the same time in July and January and April bills both being mailed in January. The bills for July and October are known as preliminary tax bills. The bills for January and April are known as actual tax bills.

According to Massachusetts General Law and the restrictions of Proposition 2 ½, the City cannot raise taxes more than 2 ½% each year. For the current fiscal year, the total amount of property taxes that Gardner can collect is \$31,271,792.

What is the difference between a Preliminary Tax Bill and an Actual Tax Bill?

Massachusetts Law does not allow the City to set its tax rate until the November/December of each year. This is because the City Assessor's Office and the Massachusetts Department of Revenue have to certify that the previous fiscal year ended correctly and any "New Growth" (new

construction that did not exist when the existing tax rate was set last December) can be accounted for in the City's property records.

As such, the first two bills of the fiscal year are known as "Preliminary Tax Bills," since they are due before the new tax rate is set and are based off of the tax rate of the previous fiscal year. The January and April tax bills are known as "Actual Tax Bills," since they are based off of the new tax rate set by the City Council.

What is the tax rate based off of?

As stated above, the City legally cannot collect more than \$31,271,792 from real estate taxes in the 2023 fiscal year. This number is then divided among the property owners depending how much their property's assessed value is. Per state law, values are based on how the real estate market was performing two years prior.

Since the City is limited in how much it can collect in taxes, as valuations increase, the tax rate decreases, since again, the City cannot go over its legal limit.

In December of 2021, the City Council voted to set the current tax rate at \$18.59 per every thousand dollars that a property is valued at. This was based on property values associated with real estate market trends in 2020. In December 2022, it is expected that the City Council will vote on this year's new tax rate based on how the real estate market was performing in 2021.

What was the difference in real estate values in Gardner in FY2022 versus FY2023?

Real Estate Valuations and Municipal Taxation procedures are heavily regulated by state law and regulations and restrictions issued by the Massachusetts Department of Revenue. Property values issued by the City Assessor's Office must be certified by the Massachusetts Department of Revenue every year through a process known as the LA-4 Process.

Every five (5) years, the City is also required to contract with inspectors known as “Data Collectors” who are required by state law to inspect properties in Gardner to ensure that the City’s property record cards are accurate and up to date. This is currently ongoing in the City as required by state law.

Based on this process, in 2021, the average single-family home in the City of Gardner was valued at \$237,944. This was based on trends in the real estate market from 2020.

Based on this process for 2022, the average single-family home in the City of Gardner is now valued at \$283,445. This is based on trends in the real estate market in 2021. These values are still in the process of being certified and are subject to change.

This represents approximately a 19% increase in valuation.

How does this impact my tax bill?

Since 1) property taxes are based on valuations and 2) the tax rate that gets set by the City Council and approved by the State Department of Revenue, you may see a larger than usual increase in your preliminary tax bills sent in July and October of 2022.

This is because the City is required to issue tax bills on the new higher valuations for these two bill cycles, while at the same time, the City is required to use the tax rate set in December 2022 for these bills as well. As such, we have a situation where we are seeing higher values using a tax rate that was approved when values were substantially lower. Therefore, your preliminary tax bill will likely seem to have a larger increase than usual.

However, again, the City can only collect up to its limit in taxes, so mathematically as valuations increase, the tax rate has to decrease. It is predicted that the new tax rate set by the City and the State in December 2022 – the rate that will be used for the FY2023 actual tax bills in January and April will be much lower.

For Example:

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, the amount collected is still capped at the same amount.