

POLITICAL BUREAU MEETING No. 5, October 16, 1978

Present: Clark, Hawkins, Jenness, Sedwick, Seigle

Chair: Jenness

AGENDA: 1. Massachusetts Referendum on Property Taxes
2. Membership

1. MASSACHUSETTS REFERENDUM ON PROPERTY TAXES

(Jon Britton, Schwarz, and Seidman invited for this point.)

Seigle reported on proposal of Boston Executive Committee to urge a yes vote in a tax referendum on the November ballot in Massachusetts. (See attached materials.)

Discussion

Motion: That Seigle meet with the Boston comrades and recommend that they conduct an energetic campaign around our tax program for working people including advocating abstention on the amendment. This report will be made available to the party membership nationally.

Carried.

2. MEMBERSHIP

Jenness reported that the Seattle branch recommends that W.W. be readmitted to the party.

Discussion

Motion: To concur with the recommendation of the Seattle branch.

Carried.

Meeting adjourned.

OCT 13 1978

To: Political Committee, SWP

From: Boston Branch EC, Mike Pearlman, reporter

RE: Discussion on Question 1 on Massachusetts ballot, the Tax
Classification amendment

Background

Currently, property taxes in Massachusetts are based on relatively old assessments which generally give a small break to residential property as against commercial and industrial property, i.e. residential property is generally assessed at a lower percentage of its real market value than commercial property. A 1974 Massachusetts State Supreme Court ruling declared this practice unconstitutional, as the state constitution had no provision for differential assessment according to use. This ruling mandated taxation according to 100% valuation at current market value of all property. This 100% valuation, which has been accomplished in some smaller towns, but not in the state's largest cities, would end this relative break for homeowners, and give a \$265 million windfall to big business from the pockets of homeowners. It would not affect the amount of taxes collected statewide- only the relative share of residential and commercial taxes collected.

In response to this ruling, the Massachusetts League of Cities and Towns, along with most elements of the Democratic party, liberal reform groups, trade union leaders, etc., have put forward Question 1, the tax classification amendment, on the November ballot. The aim behind Question 1 is to keep the current ratio between residential and commercial property taxes. The mechanism for this is a two-stage one. Question 1 itself simply calls for a revision of the state constitution to allow the classification of property by use, and the differential taxation of different classes of property; residential property, commercial and industrial property. It puts forward no numerical ratio or rates- it merely allows classification. This past July, the Democratic-controlled legislature passed a new property tax law which would go into effect if Question 1 is passed. This bill enacts a ratio of valuation between classes of property, with the aim of maintaining the status quo, in general. Taxes on residential property would be based on 40% of its fair market value (FMV), commercial property on 50% of FMV, industrial property at 55%, and open space at 25%. It also allows for a \$5,000 exemption for owners of residential property, i.e. a 40,000 house would be taxed on the basis of 40% of 35,00 (40,000-5,000)

The tax classification amendment has become a relatively "hot" issue here in Massachusetts, as 100% valuation would mean a major increase in residential property taxes in many areas. Mayor White, in particular, has seized upon the issue, and is organizing meetings around the city, attended by hundreds of angry taxpayers, and is posing as a defender of working people (a la Kucinich). Various local coalitions have been built around the issue, encompassing liberal-trade union forces (including most major industrial and state workers unions). Meanwhile big business is building a major war-chest and running a big media blitz to make sure it gets its windfall.

(over)

State of our discussion

In our EC discussion, we started from the perspective of how to best and most clearly counterpose our program in opposition to this shell game between different sections of the ruling class. We are opposed to the taxation of homeowners, small businesses and small farmers, and counterpose taxing the corporate rich. The EC decided that our program could be best put forward by supporting Question 1 and strongly criticizing the Democratic party politicians and their bill in the legislature. We do support classification of property according to its use, i.e. not taxing homeowners and taxing big business, and it would be difficult to explain why we oppose Question 1 which allows this classification. But we must clearly state that the amendment will only be significant to the working class and the middle classes if the labor movement and its allies fight for a real program of tax relief; i.e. our programmatic demands. We realize the algebraic nature of the amendment, and that it actually could be used to increase residential property taxes, and plan to bring this fact into our statement on the question. But, as with the argument that the ERA could mean the end to protective legislation, we know the real result of such an amendment would be a result of the balance of forces in the class struggle itself.

We also realize the party's general selective attitude toward referenda questions. But this issue has turned into a major focus of debate on the tax question, and should be addressed by our party. We could enter into the discussion by proposing our own program as a constitutional amendment and a ballot proposition, but feel that our best intervention would be through associating ourselves with the idea of classification by supporting the amendment, and in this context putting forward our program.

Question 1

PROPOSED AMENDMENT TO THE CONSTITUTION

Property Classification for Tax Purposes

Do you approve of the adoption of an amendment to the Constitution summarized below, which was approved by the General Court in joint sessions of the House of Representatives and Senate on May 28, 1975, by a vote of 220-53, and on September 7, 1977, by a vote of 243-20?

This is the constitutional amendment, not the July 1978 bill passed by legislature
YES
NO

Summary

The proposed constitutional amendment would permit the legislature to establish as many as four different classes of real property for tax purposes. Property in any one class would be required to be assessed, rated and taxed proportionately but property in different classes could be assessed,

rated and taxed differently. The legislature could grant reasonable exemptions. The constitution presently requires all property (other than wild lands, forest lands, and certain agricultural and horticultural lands) to be assessed and rated equally at full value for tax purposes.

A **YES** vote would permit the legislature to establish up to four classes of property which could be treated differently for tax purposes.

A **NO** vote would leave the state constitution as it is.

Argument For

An opinion written by a person supporting the amendment

A YES VOTE ON QUESTION #1 WILL STOP 100% VALUATION. That's the only reason Question #1 is on the ballot. If Question #1 doesn't pass, every city and town in the Commonwealth must go to 100% valuation.

100% valuation means that residential property taxes will go up by \$265 million statewide; and property taxes on insurance companies, real estate interests, commercial banks and other big businesses will be cut by \$265 million. Taxes paid by those least able to pay—the elderly, for example—will go up by as much as 700%.

Nobody can blame businessmen for wanting a \$265 million windfall profit; but no homeowner or renter would willingly agree to pay for those profits with a \$265 million increase in residential property taxes.

A YES VOTE will stop 100% valuation statewide, continuing the present practice of taxing homes less than businesses.

A NO VOTE will enforce 100% valuation, and increase residential property taxes by \$265 million.

Argument Against

An opinion written by a person opposing the amendment

History has shown that the Massachusetts Legislature cannot always be depended on to make sound and fair tax decisions. The Massachusetts Constitution now gives the Legislature no chance to favor one class of property taxpayer over any other. It requires all property to be taxed alike according to its real value. If Question #1 is approved, this Constitutional protection now enjoyed by all taxpayers—homeowners and businessmen alike—will be lost. The Amendment, if passed, would give the Legislature unlimited power to define and redefine classes of property for tax purposes and to assign to each class whatever rate of tax suited its political whim of the moment. Anyone who values his job as well as his home will vote against Question #1 and in favor of continuing the present equal treatment of all property.

See Full Text of Amendment on Page 13

REBUTTAL ON PROPERTY TAX CLASSIFICATION

WBZ editorials in the past week have urged a "no" vote on Ballot Question No. 1--the property tax classification amendment. The station feels this proposal evades the need for spending controls and real property tax reform. Here speaking for the vote "yes" on Question No. 1 is William Cleary, President of the Massachusetts State Labor Council, AFL-CIO.

Mr. Cleary: Let's look at what WBZ's position against classification means to homeowners. The station concedes that 100 per cent valuation will shift--"a substantial portion of the property tax burden from business and industry to residential property. Plainly that's a critical problem." A critical problem is right. We estimate that \$265 million in additional tax burden will be picked up by homeowners if 100 per cent valuation is implemented. That means enormous tax increases for you and me.

The classification amendment will stop those increases. But WBZ says vote against it. They are saying: we need 100 per cent to cause turmoil in our neighborhoods. They say: we homeowners must suffer under enormous new taxes while long-term relief is worked out. We say that unless you vote yes on Question 1, no long term relief will help you. Homeowners cannot afford to shoulder a new tax burden caused by 100 per cent. We need classification as the first step.

I live in Woburn, which has implemented 100 per cent valuation. Many of my neighbors were hard hit by their new tax bills. The average increase for homeowners was a staggering 53 per cent. Now that's a critical problem. We must end the threat of 100 per cent. Every homeowner, every working person in this state will be better off under classification than 100 per cent valuation. I urge you to join us, and fight for your home. Vote yes on Question No. 1 on November 7th.

Radio: 10/3/78 7:05 pm, 11:05 pm
10/4/78 2:05 am, 6:35 am, 9:10 am

TV: 10/3/78 2:00 am
10/4/78 6:10 am, Noon, 6:00 pm

QUESTIONS AND ANSWERS ABOUT 100% VALUATION AND CLASSIFICATION

Massachusetts Mayors' Association
James E. Milano, President

Statewide Committee On Classification
Kevin H. White, Chairman

100% Valuation. Sudbury Decision. Revaluation. Equalization. Property Tax. Classification.

If these terms sound confusing, you are not alone. The details of the issue *are complex*. But 100% valuation is one of the most critical issues facing Massachusetts residents today, and its effects boil down to a few hard facts:

- 100% valuation will affect every property owner and renter in the state.
- It will significantly raise residential property taxes and rents.

These effects, in many cases, will be disastrous and unfair. However, they are not inevitable. There is something called the 'classification amendment' coming up on the statewide referenda ballot in November which offers an alternative to 100% valuation.

There is one other hard fact: You will be hearing a lot more about this issue in the coming months. Here are the answers to some of the questions you might be asking about 100% valuation and classification.

Q. What do the terms 100% valuation and revaluation mean?

A. Every property owner knows that tax bills are figured out based on what the city assessor says the property is worth. 100% valuation means that, for taxation purposes, the assessor *must* value property at its full market value (or how much it would sell for on the open market.)

For example: Say you could sell your home tomorrow for \$40,000. Under 100% valuation, you would be assessed and taxed on \$40,000.

Revaluation refers to the *process* by which a city or town goes about assigning full market value to property.

Q. How is that different from what happens now?

A. Historically, cities and towns in Massachusetts have assessed property in the way that makes the most sense locally. Generally, residential property has been assessed at lower percentages of its market value than income-producing business and industrial property. For instance, your \$40,000 house might now be assessed and taxed at \$20,000 — one-half of its market value; while a \$40,000 industrial building might be assessed at \$30,000, three-quarters of its market value.

Q. Why is that system being changed?

A. On Christmas Eve, 1974, the Massachusetts Supreme Court ordered that every city and town in the state *must* value all its property at 100%. This order is generally known as the "Sudbury Decision." The court was enforcing the provision of the Massachusetts Constitution which requires 100% valuation. Enforcement of the Constitution will wipe out what historically has been in practice — although not in law — preferential treatment for residential property by local assessors.

Q. What will happen to me under 100% valuation?

A. If you are a homeowner, you can expect your property taxes to increase substantially.

Tenants can expect their rents to increase considerably as landlords pass along their tax increases.

Elderly, widowed and disabled veteran homeowners will lose substantial amounts of the property tax abatements they now receive.

(over)

Q. What would happen across Massachusetts under 100% valuation?

A. The major effect of 100% valuation will be a shift of the property tax burden off of business and on to residential homeowners.

In an independent study in 1975, the Federal Reserve Bank of Boston found that 251 of the 257 largest communities in Massachusetts would be forced to raise the amounts collected from homeowners, while lowering the amounts collected from business. This shift would be felt hardest by the homeowners in older cities where there are great numbers of both lower-income housing and industrial properties.

Q. Would my city raise a lot more money under 100% valuation?

A. No. Cities and towns would still be collecting the same amount of money they need to operate. The total revenue would not change. The change would be in who pays how much of it.

Q. Does a community at 100% valuation lose state aid?

A. No. A city or town at 100% valuation does not lose state aid. (Before 1974, cities that went to 100% would lose aid, but since 1974, state aid has not been affected by whether or not a city was at 100% valuation.)

Q. If the Sudbury decision was in 1974, why all the furor now?

A. Revaluation is a time-consuming, complicated process. Some cities have complied with the court order, but they are generally small communities that have mostly residential property, and where the tax shifts are not as profound. The majority of cities are avoiding compliance because they anticipate the disastrous effect on homeowners. Here are a few specific examples of what has happened in some cities:

- Woburn went to 100% valuation in 1977. Property taxes there increased an average of

40% for single-family homeowners. Many residents, especially the elderly, were forced to sell their homes.

- In Worcester, when city assessors sent out preliminary estimates of new tax bills based on 100% valuation, it was immediately clear that homeowners would face serious increases while many businesses saw a drop in their property tax bills. Because of the impending crisis, a concerned city councilor announced, "I am personally prepared to go to the U.S. Supreme Court on this because too many people stand to lose their homes and face economic ruin." The city was granted an extension of the implementation.
- Newton, also, had delayed the timetable for implementation having found what the new 100% valuation would actually mean. There would be huge tax increases for its homeowners who would have to pick up \$2 million of the share of taxes that utility companies have been paying.

Some communities are waiting to see the outcome of the "classification amendment" on the ballot next November.

Q. What is the classification amendment?

A. In 1975, a constitutional amendment was filed calling for classification of property in Massachusetts. The idea behind classification is both simple and fair. All property would be divided into four classes according to its use.

These different classes of property would be treated in different ways for tax purposes. Business property, which is income-producing could then be taxed at a higher rate than residential property.

Q. What will be the 4 classes of real property?

A. The Massachusetts Mayors' Association has proposed that the classes be residential, commercial, industrial, and open space.

Each of these classes would be taxed on a different percentage of market value:

- Residential — 40% of market value
- Commercial — 50% of market value
- Industrial — 55% of market value
- Open Space — 25% of market value

Within the residential class, all residential parcels would be given a \$5000 exemption.

Q. What will happen under this proposal?

- A. This proposal will stop the shift of taxes from business onto residential property. The proposal will *not* increase property taxes for homeowners or businesses.

Q. Was the classification amendment on the ballot previously?

- A. Yes, in 1970. At that time it lost 2-1. However, at that time there was not the threat of 100% valuation facing each city and town.

Q. Will Cape Cod and rural communities be interested in classification?

- A. Yes. They do not have much industrial and commercial property, but they do have lots of open space. When they go to 100% valuation, owners of the open space are faced with huge tax bills and, therefore, are forced to sell their land to developers. Many of these towns want open space, not development, and classification will help them to maintain this open space.

Q. Will classification solve the problem in some communities of similar homes having different tax bills?

- A. Yes. With classification, assessors will be able to equalize assessments within the residential class.

Q. What will 100% valuation and classification do to the "business climate" (especially prices and jobs) in Massachusetts?

- A. With 100% valuation, business taxes will fall. With classification business taxes will remain unchanged. The attempt of classification is to keep tax bills now paid by business from falling and to keep them where they are. Therefore, business costs and consumer prices should not rise because of classification. By the same reasoning, jobs should not be lost.

Q. What have other states done about this issue?

- A. Since, 1961, 14 states have eliminated 100% valuation from their constitutions because they have found it to be unreasonable, unworkable and unfair.

19 states have constitutional provisions that allow classification of real property.

Q. What would be the effect of classification?

- A. Classification would, in essence, preserve the current, informal system of giving preferential tax treatment to residential homeowners. It would also create uniformity *within* classes.

Classification will not lower property taxes. It is not the answer to Massachusetts' need for property tax relief for home-owners and business. But it will soften the blow of 100% valuation and provide for fair taxation of property.

Q. How will all this be decided?

- A. The public *has* to make a choice on this issue. Nobody can stay neutral and hope it will all go away. The choice is 100% valuation — with the resulting shift of tax burden on to homeowners — or classification, which will give preferential treatment to homeowners.

The classification amendment is going to be on the November 7, 1978 referendum ballot in Massachusetts.