

How Marblehead's 2018 Property Tax Rate is calculated

In my [Marblehead announces 2018 Property Tax rate](#) post this week I promised to write another article explaining exactly how the tax rate was calculated. This is it.

The formula is actually very simple: take the \$ amount of the previous year's tax levy, add 2.5% for Proposition 2 1/2, and also add any new growth (such as new construction or a condo conversion). This figure is the new tax levy. To this figure is added debt service - the Principal and Interest payable on the town's debt.

Here are the numbers for FY 2017 and 2018, remembering that the FY runs from July to June.

FY 2017	Assessed Value	\$5,808,259,957	
	FY 2016 tax levy	\$55,875,187	
	2.5% increase	\$1,396,880	
	New growth	<u>\$507,739</u>	
	FY 2017 tax levy	\$57,779,806	\$9.94
	Debt exclusions	\$6,208,216	\$1.07
	Total 2017 Tax	\$63,988,022	\$11.01
FY 2018	Assessed Value	\$6,017,735,687	
	FY 2017 tax levy	\$57,779,806	
	2.5% increase	\$1,444,495	
	New growth	<u>\$368,624</u>	
	FY 2018 tax levy	\$59,592,925	\$9.90
	Debt exclusions	\$6,726,010	\$1.12
	Total 2018 Tax	\$66,318,935	\$11.02

The Tax Levy calculation

The \$ amount raised by the property tax will increase year by year. That is because of the formula: last year's number plus 2.5% plus new growth. In the table above you can see how the FY 2017 tax levy of \$57,779,806 becomes the base for FY 2018. Add 2.5% and new growth and the new figure is \$59,592,925. To both these numbers is added the debt service - Principal and Interest on the town's debt, much as homeowners pay P&I on their mortgage.

The Tax Rate

The actual tax rate depends upon the total Assessed Value of all property: residential, commercial and personal. The **tax rate** is calculated by dividing the total dollar amount to be raised by the total Assessed value of all property. Thus, while the \$ amount raised by the tax (and therefore the average tax bill) will increase each year, the headline tax rate will fluctuate depending upon the direction of Assessed Values.

In simplistic terms, the \$ amount raised before debt service will increase by a little more than 2 1/2% each year, so if the median Assessed Value also increases by a little more than 2 1/2% the tax rate will be unchanged. If the increase in Assessed Values is less than 2 1/2%, then the tax rate will rise. And if the increase in Assessed Values is more than 2 1/2% then the tax rate will rise.

In FY 2017 the tax rate was \$11.02, achieved by dividing the almost \$64 million to be raised by the \$5.8 billion of Assessed value. And in FY 2018 the calculation is \$66.3 million divided by \$6 billion.

How does debt service affect the tax rate?

The announced property tax rate announced each year includes the cost of debt service. As can be seen in the table below, while the tax rate from the levy to pay for town services has declined in recent years as property prices have increased, the cost of debt service has increased steadily, as we are paying for large ticket items such as the Glover School and Transfer Station.

	<u>FY 2013</u>	<u>FY 2014</u>	<u>FY 2015</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>
Levy	\$10.04	\$10.25	\$10.16	\$10.11	\$9.94	\$9.90
Debt service	<u>\$0.81</u>	<u>\$0.84</u>	<u>\$0.92</u>	<u>\$0.99</u>	<u>\$1.07</u>	<u>\$1.12</u>
Total	\$10.85	\$11.09	\$11.08	\$11.10	\$11.01	11.02

What is the outlook for FY 2019?

The residential real estate market in Marblehead has been very strong in 2017 (and the 2017 median price will be the basis for the FY 2019 tax rate). At this stage it looks as though the median price will be around \$660,000, an increase of over 6% from 2016's \$620,000. But bear in mind this is the median price of the roughly 230 SFHs that will sell this year out of the more than 6,200 SFHs in Marblehead, so does not imply that the Town's Assessed Value will increase by 6%.

Nevertheless, with debt service at this time forecast to be similar to the FY 2018 level, it seems reasonable to expect a modest decline in the tax rate for FY 2019. But tax bills will continue to go up!

If you – or somebody you know – are considering buying or selling a home and have questions about the market and/or current home prices, please contact Andrew Oliver on 617.834.8205 or Kathleen Murphy on 603.498.6817.

If you are looking to buy, we will contact you immediately when a house that meets your needs is available. In this market you need to have somebody looking after your interests.

Are you thinking about selling? Read [Which broker should I choose to sell my house?](#)

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