**Criteria for Examining Residential Exemptions**

A challenge the Committee faced was how to evaluate the impact of residential exemptions, in particular evaluating the phrase “if adopting the exemption could help reduce the property tax burden and make it easier for residents to remain in their homes.” We worked to define the criteria by which we would evaluate the many effects of adopting residential exemptions and decided that the following criteria would best guide our investigation.

**Property Tax Related Housing Stress**

Determining which groups feel high housing stress would enable the Committee to examine whether residential exemptions could provide meaningful property tax relief to the residents who are the most stressed without adding stress to other already stressed groups. Residential exemptions are evaluated with regard to how well they target groups with high property tax related stress.

**Budgetary Impact**

Both the State’s Residential Exemption and most other versions of residential exemptions are revenue-neutral to the municipality--they create a shift in property tax burden among all taxpayers rather increasing or decreasing the existing tax levy. The Committee examined whether residential exemptions could have indirect impacts on the Town budget due to demographic changes in housing turn-over that affect usage of town services or changes in incentives to build new housing which expands the Town’s tax base.

**Housing Market Impact**

The State’s Residential Exemption (SRE) option reduces property taxes for lower valued owner-occupied homes, and increases taxes on higher valued homes, non-owner-occupied homes, apartment buildings, and vacant land. The Committee considered the possible effects of changes in property tax levels on property values and rents, and on incentives to sell rental properties or convert them to condominiums.

To further understand housing market impacts, the Committee examined how property tax bills for Lexington homes compare to those of similarly valued homes in our peer communities, both at current tax rates and projecting differences after an adoption of the State’s Residential Exemption in Lexington.

The extent to which the SRE changes the housing market is a criteria used in understanding the value of the SRE to the Town.

**Equitable Taxation**An objective of taxation is typically to collect taxes from those able to pay. This concept underpins the typical property tax system which taxes residents proportionally to the value of their real estate investment, but other ways of looking at equitability are also represented in the community. Through the two public hearings and from comments on the Survey, the Committee sought to understand how people of various philosophical/political viewpoints, such as Libertarians and Progressives, and constituencies such as seniors viewed the effects of residential exemptions on property taxation. How well various property tax exemptions can conform to the views of the various constituencies in Lexington was considered.

**Psychological Impacts**

Among Lexington’s growing senior cohort (currently 25% of the population), residents express concern that the Town doesn’t value their input in Town spending and project planning and takes their demographic for granted. A residential exemption that provides only modest financial benefit to those residents yet signals Town commitment to seniors and lower income residents may provide psychological benefit that makes it easier for residents to remain in their homes. The Committee considers this psychological benefit to be an evaluation criterion.

**Effects on Migration**

While many Lexington residents have expressed concern that high property taxes are “forcing” some residents, particularly seniors, to migrate from Lexington, the Committee looked for evidence whether residents were, in fact, making out-migration decisions based on property taxes, and examined other factors that influence migration as well. We sought to answer the question of whether shifting some measure of property tax burden off of target populations would actually change decisions to leave Lexington.

**Evaluative framework**

Any potential policy tool created to address the criteria we have described above should be evaluated for how well it will help target residents, and how well it avoids assisting those outside the target. Giving tax relief to those struggling is the goal; giving tax relief to those who are not struggling is not. It may not be possible to meaningfully assist all of the former at the exclusion of the latter. Evaluating the merits of a particular approach can be considered by how well it achieves the former without maximizing the latter. This can also help us compare among potential tools. In the interpretive portions of this report, we will use the terms **precision** and **recall** as a framework for evaluation.

**Precision** = The percentage people within the beneficiary group who are actually members of the target group.

**Recall** = The percentage of people in the target group who actually end up in the beneficiary group.

Precision is how well your fishing net caught the kind of fish you wanted, versus other fish you caught inadvertently. Recall is how well your net caught the fish you wanted, versus the fish you wanted who were left behind in the ocean.

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**Conclusions: This doesn’t go in this section.. It’s just here for writing reference.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Massachusetts Residential Exemption | Means-Tested RE | Age-and-Means Tested RE |
| **Property Tax Related** **Housing Stress**: Precision | Low and Adverse Consequences | Fair Precision | Low Precision? |
| **Property Tax Related Housing Stress**: Recall | Medium | Low Recall | Low Recall |
| Total budgetary impact - Lexington budget | None | None | None |
| Short term Housing Market Impact (Prices / Rents) | High | None | None |
| Optimal Allocation of Housing (& flexibility for future) - who’s in it and ownership assumption, condoizing, tear down | High | None | None |
| Equitable Taxation | High | Small | Debatable |
| **Migration** | ? | ? | ? |
| **Psychological Benefits** |  |  |  |