

TO: Heather A. Hamilton, Chair
Members of Brookline Land Bank Study Committee

FROM: Marilyn Newman

RE: Transfer Tax Issues and Potential Impacts

DATE: June 13, 2019

Thank you very much for keeping me apprised of your various discussions and materials circulated in the recent months. (My apologies for not being able to join these last two meetings.)

I understand that the Committee is now considering two versions of draft home rule legislation for potential presentation to the Town (Select Board and Town Meeting) and the State Legislature to establish a real estate transfer tax as an alternative revenue mechanism supporting existing Town housing trust and open space funds. (See drafts circulated by H. Hamilton to the Committee May 10, 2019 email.)

These proposals, since they would for the most part use existing Town processes and financial policies to distribute and spend any such new revenues, can helpfully re-focus our attention on the first (of several) tasks listed in the Land Bank Study Committee charge. That task asked the Study Committee to evaluate the pros and cons of a real estate transfer tax itself as a funding source.¹ The Advisory Committee report on Article 24 of 2018 expanded on several concerns and details with respect to a transfer tax that the AC felt warranted further investigation, e.g.:

- Is a transfer tax, which is a form of asset tax, less progressive than other revenue sources? [Would the burden of the tax fall more heavily on homeowners especially those of moderate incomes?]
- Would this form of new tax adversely affect demand by and investment in commercial uses within Brookline?
- Since collections from this type of tax necessarily vary up and down by year, is such a revenue source sufficiently predictable to be helpful?
- Are the exemptions proposed by Article 24 as drafted too complex to administer?
- Would potential borrowing in anticipation of estimated transfer tax revenues, if feasible, affect the Town's credit rating?

These and other issues concerning the broader economic impact of a transfer tax have not yet been studied in depth by the Study Committee. I believe that, before deciding whether to recommend a real estate transfer tax as a new revenue mechanism, the Committee needs fuller information concerning transfer tax merits and impacts.

¹ The Study Committee charge was for the Committee to study the value to the Town of establishing a Land Bank as contemplated under Article 24 of the 2018 Annual Town Meeting, including [the] "1. Advantages of using a transfer tax as a mechanism to provide alternative revenue to Brookline."

As a Committee we have looked at two items relevant to the potential economic and community impacts of a transfer tax. For convenient reference, I have summarized these below. These items give us a start on the question of transfer tax impacts, but they do not answer the questions raised by the Advisory Committee, nor do they appear to support a positive recommendation to adopt a transfer tax.

I believe we need to develop a fuller understanding of potential transfer tax economic impacts before reaching a Committee conclusion whether a transfer tax would be a good revenue source for Brookline. Perhaps Planning Department staff or other Committee contacts could help us look into other sources, for example, relevant peer-reviewed academic literature and/or broad-based quantitative studies, which address these issues.

Summary of information reviewed to date re transfer tax economic and related impacts

- (i) Report by Harold Petersen, January 23, 2019, to the Study Committee Regarding Land Banks in Nantucket, Martha's Vineyard, and Cape Cod²

This report included Committee member Harold Petersen's analysis of whether the transfer taxes instituted in the 1980's in Nantucket and Martha's Vineyard (each adopted a land bank funded by a 2% property transfer fee) tended to increase or decrease equalized total real estate tax assessments in the subject municipalities. (The report used this metric as a rough proxy to look at whether a transfer tax might increase or decrease real property prices, as a potential effect of reducing or increasing property demand and/or deterring development and new growth.)

Based on statistical analyses to compare total town-wide assessed values before and after adoption of the transfer fee, the report observed no statistically significant changes in equalized total valuation on Nantucket, and a statistically significant decrease in the six Martha's Vineyard towns' total equalized valuations. While the Martha's Vineyard calculation results suggested a negative impact in the short term of new transfer taxes on real estate prices, the report noted that such results should be interpreted with caution, since any immediate impact may be reversed within a few years.

- (ii) Terri Sexton/ Lincoln Institute paper, *Taxing Property Transactions versus Taxing Property Ownership*, 2008³

This paper surveyed transfer tax programs then in use in the U.S., and sought to compare such transfer taxes to traditional "ad valorem" real property taxes with respect to their:

² Provided to the Study Committee on January 23, 2019 and discussed at the Committee meeting of February 27, 2019.

³ A link to this paper was provided to the Study Committee by member David Lescohier. Full citation of the paper is: Terri A. Sexton (Professor of Economics, California State University, Sacramento), *Taxing Property Transactions versus Taxing Property Ownership*, Paper prepared for the Lincoln Institute Conference on Property Taxation, Atlanta, GA, April 27-29, 2008.

- equity (distributional impact, whether tax was regressive or progressive with respect to income);
- efficiency (excess burden of the tax and effect on household mobility); and
- revenue potential and stability/volatility.

The paper's discussions are largely qualitative and theoretical rather than quantitatively supported.⁴

The paper generally concluded that local property transfer taxes appear to have several disadvantages compared to traditional property taxes. According to this author's summary:

- transfer taxes reduce the number of real estate sales;
- the tax is capitalized into lower sales proceeds with the burden of the tax usually falling most heavily on those owning property at the time the tax is imposed;
- the amount of a transfer tax is unrelated to either a household's ability to pay or benefits received from public services;
- transfer tax revenues are volatile and thus do not provide a stable revenue source to fund on-going programs; and
- transfer taxes discourage mobility among current homeowners and discourage frequent movers from becoming homeowners.

⁴ The paper reported a few selected data analysis efforts. A National Association of Realtors (2003) analysis estimated, based on homeowner survey data, that a hypothetical transfer tax would tend to be regressive because the value of owned property constitutes a higher proportion of income for average lower income homeowners, and that this regressivity would not be offset by the extent of more frequent moves by higher income households. The paper's author Professor Sexton investigated, using US Census economic data, whether higher transfer tax rates across the jurisdictions using them in 2005 were correlated with lower rates of homeownership. She reported a small correlation effect, suggesting that transfer taxes are associated with lower rates of homeownership, but noted that the result was not statistically significant.