

Understanding Your Taxes

September 2018

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“In FY18, 68.9% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year.”

Dear Cambridge Residents and Taxpayers:

This is the first in a series of three newsletters that explains the City’s Operating and Capital Budgets, property classifications, property values, tax bills, and available real estate exemptions and abatements.

The FY19 Operating Budget of \$636.5 million and Capital Budget of \$105.4 million align with the City Council goal of ensuring the City’s budget allocates resources responsibly and responsively. The FY19 Budget includes additional resources to create and preserve affordable housing within the City. It includes funding for a Housing Ombudsman and an Inclusionary Housing Planner, and an additional \$3.5 million, funded from building permit fees. This is in addition to the \$10.1 million appropriated in FY18 from Community Preservation Funds (CPA). The Budget also includes funding for a winter warming center to serve our homeless population, an additional \$1.1 million investment in our comprehensive early childhood system, increased investment citywide for the Science, Technology, Engineering, Arts and Mathematics Initiative (STEAM), and an Office of Procedural Justice. These programs have been funded while still maintaining a lower property tax rate and a lower residential property tax bill than surrounding communities.

In FY18, 68.9% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year, with an additional 22.6% of residential taxpayers only seeing an increase between \$100-\$250. Over the past 10 years, an average of 72.6% of residential taxpayers have seen an increase of \$100 or less over the prior year’s bill.

The City’s ability to generate diverse non-property tax revenues, foster new construction, control budget growth, and plan prudent

use of reserves has made this possible. It is also important that a healthy balance of development between residential and commercial be continued to ensure homeowners’ real estate taxes remain affordable.

The projected property tax levy needed to support the FY19 Adopted Budget reflects an increase of 5.9% to \$412.1 million.

The final FY19 property tax levy will not be known until early October, when the tax rate is set.

As in previous years, the City achieved a lower percentage increase in the property tax levy than originally estimated, and we are working hard to do the same this year.

Getting residents more engaged in local government, particularly around finance, has been a priority of my administration. Participatory Budgeting (PB) continues to engage thousands of residents. In FY19, the City launched its 5th PB cycle, in which residents will decide how to spend \$900,000 of the City’s FY20 Capital Budget. For the second year in a row, the City allowed residents to directly invest in Cambridge’s infrastructure by purchasing minibonds. The City sold \$1.9 million in minibonds and expects to offer the program again in 2019.

I encourage you to read this publication and the following newsletters, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Very truly yours,

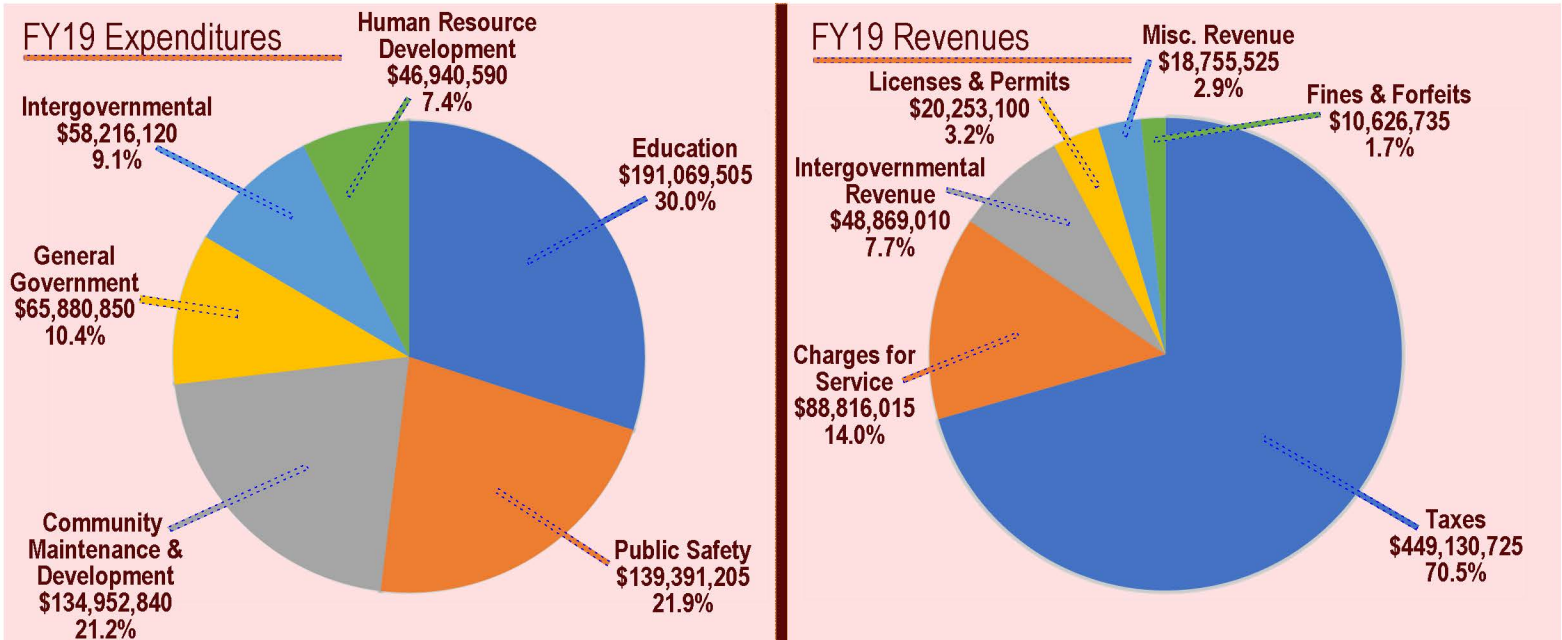
Louis A. DePasquale
City Manager

Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and One of the Lowest of Any City in the Commonwealth

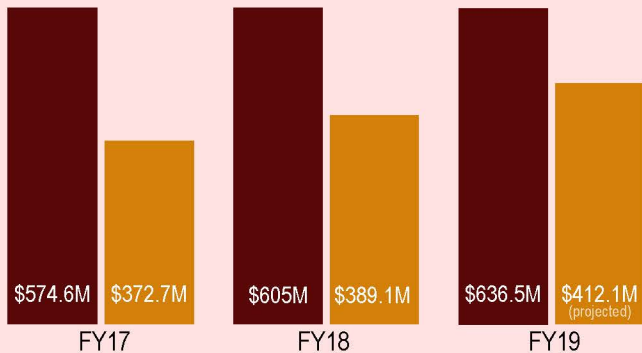
	FY18 Tax Rate (Per \$1,000)	Tax Bill \$500,000 Home	Tax Bill \$1,000,000 Home
Cambridge*	\$6.29	\$1,013	\$4,158
Brookline*	\$9.46	\$2,396	\$7,126
Boston*	\$10.48	\$2,702	\$7,942
Somerville*	\$11.31	\$2,772	\$8,427
Watertown*	\$13.47	\$4,915	\$11,650
Arlington	\$12.13	\$6,065	\$12,130
Belmont	\$12.15	\$6,075	\$12,150

*Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

City Operating Budget (\$636.5 million)



City Operating Budget and Tax Levy



Approximately 65% of the Operating Budget is supported by property taxes. At the time the FY19 Budget was adopted, the City anticipated that it would need to collect \$412.1 million in property taxes.

City Council Goal

“Ensure City’s budget allocates resources responsibly and responsively.”

FY19 Financial Highlights

- Operating Budget increased by 4.22% over the FY18 Adjusted Budget.
- Average increase in the City Budget over the last 10 years has been 3.9%.
- Projected tax levy to support City Budget is \$412.1 million, which is a 5.91% increase from the previous year.
- Average property tax levy increase over the last 10 years is 4.85%.
- There has been a 0% increase in the Water rate for the eighth consecutive year.

FY19 Winning Participatory Budgeting Projects (\$867,000)

- 100 Trees for a Cleaner, Greener Cambridge (\$141,000)
- Critical Resource Kits for the Homeless (\$50,000)
- Flashing Crosswalks for Safer Streets (\$176,000)
- Drinking Water Across More Parks (\$100,000)
- New Musical Instruments for CRLS (\$200,000)
- Jade Chain: Living Moss Walls to Combat Pollution (\$100,000)
- Upgrade the Gately Youth Center (\$100,000)

For more information about Participatory Budgeting, visit pb.cambridgema.gov

City Public Investment Budget (\$105.4 million)

Funding for the FY19 Public Investment Budget comes from a variety of funding sources: bond proceeds, property taxes, state and federal funds, and parking fund revenues.

Our commitment to investing in infrastructure remains strong. Recognizing the importance of maintaining robust sewer, stormwater, and street and sidewalk systems, we continue to allocate funds to these areas.

Water and Sewer service charges support all related water and sewer capital projects.

FY19 Public Investment Major Projects

- Municipal Facilities Improvements: \$5,000,000
- Public Works: Sewer/Stormwater – The Port \$40,000,000, River Street \$34,000,000
- Public Works: Complete Streets Reconstruction \$6,135,625
- Community Development: Affordable Housing Preservation & Development \$3,450,000
- Information Technology Initiatives: \$1,100,000
- Transportation Improvements: \$933,000
- Participatory Budget Projects: \$867,000

Why do we sell bonds?

The City sells bonds to minimize the tax impact of major capital projects such as the Elementary School Reconstruction Program. The City continues to pursue and manage an aggressive capital plan.

Sound financial management has translated into AAA bond ratings from all three major credit rating agencies, allowing us to receive significantly lower interest rates, resulting in lower financing costs.

The City again plans on allowing residents to directly invest in Cambridge through the purchase of minibonds. For more information, visit: minibonds.cambridgema.gov



King Open and Cambridge Street Upper Schools & Community Complex

What Do the Rating Agencies Say?

The three major credit rating agencies, Fitch, Moody's, and Standard & Poor's, reaffirmed Cambridge's AAA rating, the highest possible. Cambridge is one of approximately 33 cities in the United States with three AAA ratings. The critical factor examined by the rating agencies is whether a city has a prudent balance between incoming revenues and outgoing expenditures.

"Fitch expects the city to maintain strong financial resilience throughout an economic cycle given its historically strong revenue performance, conservative budgeting practices and superior degree of inherent budget flexibility. The city's steady growth in revenues has supported surplus operations over the past five fiscal years and a buildup of reserves to high levels. During times of economic weakness management has controlled spending and staffing levels to offset reductions in revenues. The city's strong budget monitoring practices and financial planning bolster the city's operating environment."

Fitch Ratings, February 2018

"The stable outlook reflects the strong fiscal management team that we expect to maintain a healthy financial position given conservative multi-year budget forecasting and adherence to formal fiscal policies. The outlook also incorporates the stabilizing presence of Harvard University (Aaa stable) and Massachusetts Institute of Technology (Aaa stable) as well as the long historical trend of positive valuation growth in the tax base."

Moody's Investors Service, February 2018

"The stable outlook reflects S&P Global Ratings' opinion of Cambridge's healthy and growing economy, which has aided in continued strong financial performance, supported by very strong management."

Standard and Poor's, February 2018

How Is Your Tax Bill Determined?

Three major factors are responsible for calculating your tax bill:

- The City's Operating and Capital Budget
- Commercial & Residential Property Tax Classifications
- Property Values (Assessment)

Commercial-Residential Property Tax Classification

Each year, the Board of Assessors classifies all real property according to use: Commercial Property, Industrial Property, Personal Property (e.g. business furnishings, tools and equipment), and Residential Property.

Municipalities may choose to tax commercial property at a higher tax rate than residential property. This process is known as property tax classification.

Property tax classification law limits the maximum shift from the residential tax levy to the commercial tax levy, which Cambridge takes advantage of each year.

Neither the City Council nor the City administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above this limit.

Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by State law in FY04, primarily due to escalating residential values, which out-paced commercial property values.

The percentage of the tax levy paid by commercial property owners has remained fairly constant at 65%, while residential owners pay 35%.

The Cambridge residential market has shown a 15.9% increase in condominium units during the 10-year period between FY09 and FY18. This demand for housing units has resulted in commercial property being converted to residential use, further eroding the commercial base while increasing the residential base.

Residential Exemptions

Cambridge remains a highly desirable place to live, with low crime, a highly educated workforce, and expansive cultural and business amenities, which support property values.

- Commercial property owners traditionally have paid approximately two-thirds of total property taxes.
- In FY18, residential property comprised 60.6% of total assessed value, but residential property owners paid only 34.6% of total property taxes. This is similar to prior years.
- Preliminary projections for FY19 indicate that commercial property owners will pay a similar portion of the tax levy as they have in previous years.

Assessed Property Values

Property values are established independently of the City Budget and Property Tax Classification.

The Massachusetts Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques, at 100% of full and fair cash value. Individual assessments may rise or fall based upon market activities for similar properties and capital improvements. Fiscal year assessments are property values as of the previous January 1st. Therefore, FY19 property tax bills are based on the assessed value as of January 1, 2018, using calendar 2017 market activity.

The tax rate is established by dividing the tax levy by total property values once adjustments for the residential exemption have been accounted for.

During the past five years, the total residential value has increased by 58.8% as compared to a 66.5% increase for commercial property over the same period.

The City offers a residential exemption program with a discount equal to 30% of the average residential assessed value. In FY18, the residential exemption reduced an owner occupied residential property assessed value by \$338,983, which equals \$2,132.20 in reduced real estate taxes.

To receive the residential exemption, homeowners must provide a Massachusetts tax return showing that they occupy their property as their primary residence. Homeowners must own and occupy their primary residence as of January 1, 2018 for FY19. The Assessors conduct random audits and respond to inquiries about individuals claiming residential exemptions to ensure the validity of the program.

For information on how to sign up for the exemption program or report concerns, please visit our website at cambridgema.gov/assessor or contact the Assessor's Office at 617-349-4343.

FY18 Commercial Tax Rates for Communities with Split Rates (Different Rate for Residential and Commercial Property)

Cambridge has a favorable commercial tax rate compared to surrounding communities

Cambridge	\$14.81	Watertown	\$24.63
Brookline	\$15.72	Boston	\$25.20
Somerville	\$18.21	Burlington	\$27.56
Medford	\$19.76	Lexington	\$27.69
Newton	\$20.62	Waltham	\$27.97
Needham	\$23.46	Framingham	\$35.39

Top 10 Taxpayers in FY18

Property Owner	Nature of Business	Assessed Valuation**	Real Property Taxes <small>(Based on Residential & Commercial Rates)</small>	% of Tax Levy
Massachusetts Institute of Technology*	Education	\$3,192,744,500	\$46,517,795	11.96%
BioMed Realty Trust	Commercial	\$1,284,063,700	\$18,999,999	4.88%
Alexandria Real Estate	Commercial	\$1,187,858,600	\$17,590,562	4.52%
Boston Properties	Commercial	\$647,854,200	\$8,742,286	2.25%
Presidents & Fellows of Harvard College*	Education	\$428,869,100	\$6,351,551	1.63%
MBA-Rogers Street, LLC	Commercial	\$581,021,500	\$5,745,301	1.48%
Equity Partners	Commercial	\$325,453,300	\$4,819,963	1.23%
PREF American Reit II Corp	Commercial	\$318,416,000	\$4,715,741	1.21%
Novartis Pharmaceuticals	Commercial	\$271,089,600	\$4,014,837	1.03%
New England Development	Commercial	\$512,379,400	\$3,294,340	0.85%
TOTAL FOR TOP 10 TAXPAYERS		\$8,749,749,900	\$120,792,375	31.05%

*Does not include Payments in Lieu of Taxes; Source: City of Cambridge, Assessing Department

**Assessed valuations include both commercial and residential property

Slow down to 20MPH for Safer Squares



Motor Vehicle Excise Tax

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise tax.

The excise tax is levied by the city or town in which the vehicle is principally garaged. Motor vehicle excise tax bills are created from vehicle registration data collected by the Registry of Motor Vehicles.

How is My Excise Tax Bill Calculated?

Each motor vehicle is levied a tax at the rate of \$25 per \$1,000 valuation.

The value of the vehicle is determined by the State using a formula that considers the manufacturer's list price for vehicles in their year of manufacture and the age of the vehicle.

The State formula is as follows:

- In the year preceding the designated year of manufacture: 50%
- In the designated year of manufacture: 90%
- In the second year: 60%
- In the third year: 40%
- In the fourth years: 25%
- In the fifth and succeeding years: 10%

When are Motor Vehicle Excise Bills Sent?

Most people receive their excise bill in February. However, if you buy a car or move into the state during the year, you will receive your first excise tax bill a few months after the car is registered.

This bill will be pro-rated for the portion of the year that you own and operate that vehicle in Massachusetts.

If you don't receive a bill, please contact the City's Finance Department at 617-349-4220.

According to Chapter 60A, Section 2 of Massachusetts General Laws, a person who does not receive a bill is still liable for the excise tax plus any interest charges and penalties that accrue. Therefore, it is the responsibility of the owner to contact the City in the event that a bill is not received or forwarded from a former address.

If I Move or Replace My Car, What Do I Need to Do?

Where you live on January 1 of each year dictates where your bill will be sent.

If you move after that date, you must contact the community in which you resided on January 1 to make sure that you get that year's bill.

If you no longer own your vehicle or moved out of the state, you can find abatement information online at:

cambridgema.gov/assessor

What are the Penalties for Late Payment or for not Paying My Excise Bill?

If the excise tax is not paid within 30 days, interest will accrue on the overdue bill at an annual rate of 12% from the day after the due date. Additional fees of up to \$64 may be added to an unpaid excise bill.

If the bill is not paid within a year of issue, the City will notify the Registry of Motor Vehicles and the owner will be unable to renew the car's registration and/or renew a driver's license until the bill has been paid.



Cambridge Awards Record \$234K in City Scholarships

This year, the City awarded 78 scholarships of \$3,000 each for a total \$234,000 to Cambridge high school seniors and others pursuing higher education. This is the highest amount ever awarded in a single year.

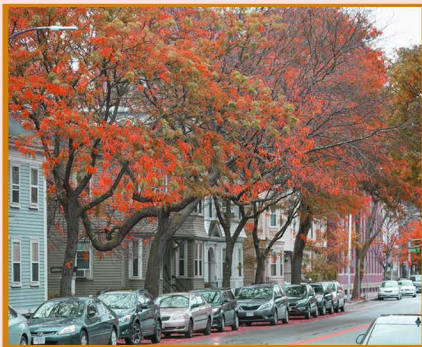


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Participatory Budgeting - www.pb.cambridgema.gov **Vote for FY20 Projects: December 1 - 7, 2018**

Commitment to Affordable Housing



Tax Related Questions or
Need More Information?

Property Value Information

Assessing Department, 617-349-4343

Tax Bill Information

Finance Department, 617-349-4220

Budget Information

Budget Office, 617-349-4270

General Information

City Manager's Office, 617-349-4300

Investing in Sustainable Transportation



Important Meeting Dates

October 2018

City Council votes on classifications
as part of the tax rate process

October and November 2018

Community Q&A sessions scheduled
at various locations

Envision Cambridge



Upcoming Mailing Dates

October 2018

2nd Tax Newsletter mailed

FY19 Tax Bills mailed

November 2018

Exemptions Newsletter mailed

