

# Understanding Your Taxes



★ NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

## Dear Residents and Taxpayers of Cambridge:

I am writing to you for the first time as City Manager to update you about the City's budget, property assessments and tax bills.

In May, the City Council adopted the FY14 Budget of \$507.2 million which: 1) maintains City and school services that citizens have come to expect, supports the City Council Goals and provides for a strong capital plan. In addition, it addresses our unfunded pension liability in a prudent and responsible manner; and 2) achieves the above with a moderate increase in the property tax levy and supports the City Council Goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality of City services." Overall, the FY14 Budget has increased by 3.81%.

Approximately 66% of the revenues that fund the City's budget are raised through property taxes. Massachusetts communities are limited in how they can raise revenues, resulting in a greater reliance on the property tax, since it is the largest and most stable revenue. The City of Cambridge has been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities due to its ability to generate diverse non-property tax revenues, foster new construction, control budget growth and plan prudent use of reserves. These qualities benefited the City during good economic times but, equally as important, they have allowed the City to continue to weather the unstable economic climate and recent sequestration impacts more favorably than other communities.

During the past eight fiscal years, the City has produced budgets resulting in an average property tax levy increase of 4.5%. In FY13, 74.9% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than a \$100) than the previous year. In addition, another 15.8% of residential taxpayers saw an increase between \$100-250. For the third consecutive

year the City Council approved a 0% increase in the FY14 Water Rate. The Sewer Rate increase was 4.2% for FY14, which resulted in a 2.9% increase in the combined rate.

A Free Cash appropriation of approximately \$2,000,000 for the second phase of the LED street light replacement program is planned for early FY14, with the remaining funds being appropriated in FY15. Further, based upon the work of the E-Gov Executive Committee and Project Management team, a supplemental appropriation is expected to be made in early FY14 to support e-governance and continued technology innovations. The City is also looking into ways to improve audio visual capabilities for public meetings and presentations at a variety of municipal venues, which will also require a supplemental appropriation. It is projected that these appropriations will have no impact on the tax levy since they will be financed using free cash.

The adopted budget reflects a property tax levy increase of 4.32%, while still maintaining City services and providing for improvements to our infrastructure. However, the final FY14 property tax levy will not be known until late September when the City Council votes on the City Manager's FY14 property tax and classification recommendations. In previous years, the City has been able to achieve a lower percentage increase in the property tax levy than originally estimated and it is working hard to do the same this year.

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

Very truly yours,

RICHARD C. ROSSI, CITY MANAGER

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

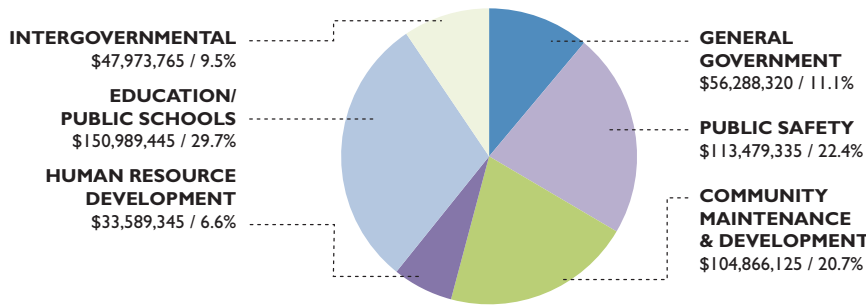
	FY13 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
<b>CAMBRIDGE*</b>	<b>\$ 8.66</b>	<b>\$ 1,709</b>	<b>\$ 5,173</b>
BROOKLINE*	\$ 11.65	\$ 2,706	\$ 7,366
SOMERVILLE*	\$ 13.42	\$ 3,482	\$ 8,850
BOSTON*	\$ 13.14	\$ 3,532	\$ 8,788
WATERTOWN*	\$ 14.68	\$ 4,636	\$10,508
ARLINGTON	\$ 13.61	\$ 5,442	\$10,888
BELMONT	\$ 13.33	\$ 5,332	\$10,664

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

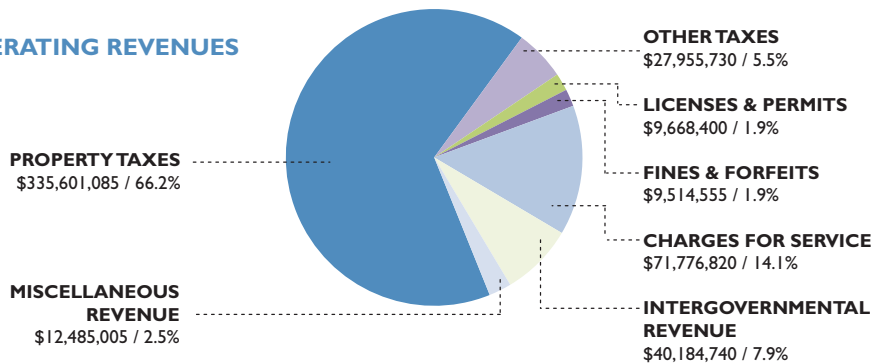
# City of Cambridge FY2014 Budget

**TOTAL OPERATING BUDGET: \$507,186,335**

## OPERATING EXPENDITURES BY FUNCTIONAL GROUP



## OPERATING REVENUES



## DEPARTMENTS BY FUNCTIONAL GROUPS

**General Government**  
(\$56,288,320)

Mayor  
Executive  
City Council  
City Clerk  
Law  
Finance  
Employee Benefits  
General Services  
Election  
Public Celebrations  
Reserve

**Community Maintenance and Development**  
(\$104,866,125)

Public Works  
Water  
Community Development  
Historical Conservation  
Peace Commission  
Cable T.V.  
Debt Service

**Public Safety**  
(\$113,479,335)

Animal Commission  
Fire  
Police  
Traffic, Parking & Transportation  
Police Review & Advisory Board  
Inspectional Services  
License  
Weights & Measures  
Electrical  
Emergency Communications

**Human Resource Development**  
(\$33,589,345)

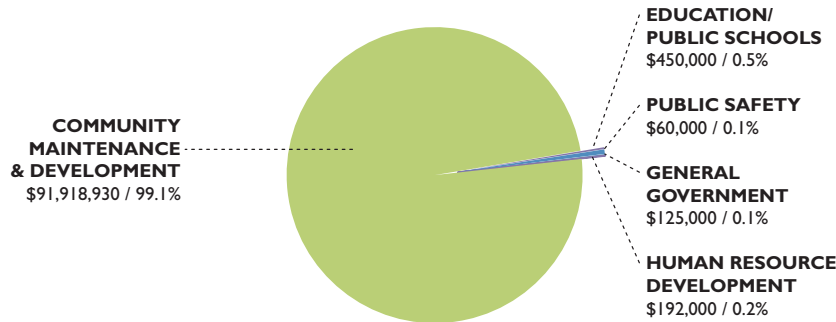
Library  
Women's Commission  
Veterans' Services  
Human Services  
Human Rights Commission

**Intergovernmental**  
(\$47,973,765)

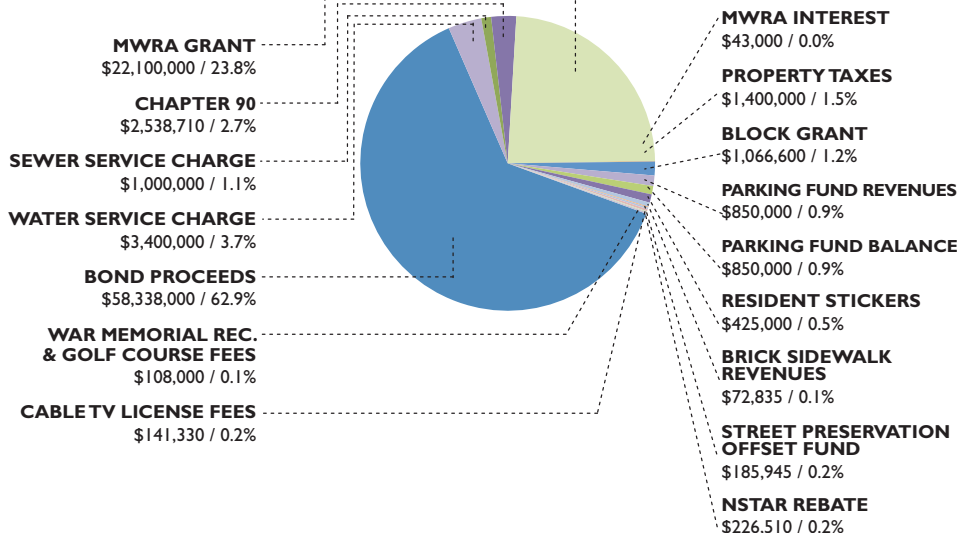
MWRA  
Cambridge Health Alliance  
State Assessments

**TOTAL CAPITAL BUDGET: \$92,745,930**

## CAPITAL EXPENDITURES BY FUNCTIONAL GROUP



## CAPITAL REVENUES



## FY14 CAPITAL PROJECTS LIST

- Sewer System Reconstruction
- Street/Sidewalk Reconstruction
- Water System Improvements
- Public Building Improvements
- Parks and Recreation Facility Improvements
- Cambridge Common Enhancement Project
- Housing Rehab & Development
- Parking and Traffic Improvements/Traffic Calming
- Energy/Transportation Improvements
- Public Safety Building Renovations and Equipment
- Cable Equipment
- Bike Rack Program
- Acquisition of Personal Computers/Technology Improvements
- Employment Program Fund
- Kendall Square Surface Improvements
- Neighborhood Business Development/Façade Improvements
- Park and Cemetery Tree Pruning
- Accessibility Improvements
- Public Art Conservation
- School Renovations

# Motor Vehicle Excise

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise. The excise is levied by the city or town in which the vehicle is principally garaged. Motor excise bills are created from vehicle registration data collected by the Registry of Motor Vehicles (RMV). The RMV sends billing information to the city or town, which is then responsible for mailing the bills and collecting the tax.

**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 the State of Massachusetts. Thereafter, you will receive your bill in February.

**HOW IS MY EXCISE BILL CALCULATED?** Each motor vehicle is levied a tax at the rate of \$25 per one thousand dollars of 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 year:	25%
In the fifth and succeeding years:	10%

**IF I MOVE, WHOM DO I CONTACT TO GIVE CHANGE OF ADDRESS INFORMATION?** You must inform the Registry of Motor Vehicles of any change in address. Prompt notification of address changes will help ensure that you receive your bill. It is important to note that where you live on Jan 1 of each year dictates where the bill will be sent. If you move after that date, you must contact the community in which you resided on Jan. 1 to make sure that you get that year's bill.

**WHOM DO I CONTACT IF I DO NOT RECEIVE A BILL?** 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 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.

**WHAT ARE THE PENALTIES FOR LATE PAYMENT OR FOR NOT PAYING MY EXCISE BILL?** If excise 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.

## DID YOU KNOW THAT CAMBRIDGE ALSO HAS A FAVORABLE COMMERCIAL TAX RATE?

### FY2013 COMMERCIAL TAX RATES FOR COMMUNITIES WITH SPLIT RATES (DIFFERENT RATE FOR RESIDENTIAL AND COMMERCIAL PROPERTY)

Brookline	\$18.97	Somerville	\$22.38	Watertown	\$27.15	Boston	\$31.96
Cambridge	\$21.50	Needham	\$22.18	Lexington	\$28.97	Burlington	\$31.70
Newton	\$21.93	Medford	\$24.39	Waltham	\$31.77	Framingham	\$39.98

TOP TEN CITY REAL ESTATE TAXPAYERS (FY13)	NATURE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	% OF TOTAL TAX LEVY
Mass. Institute of Technology	Education*	\$1,811,175,900	\$36,490,355	11.51%
BioMed Realty Trust	Commercial	935,211,800	20,012,641	6.31
Boston Properties	Commercial	559,733,000	12,034,260	3.80
Equity Partners	Commercial	364,188,000	7,351,557	2.32
President & Fellows of Harvard College	Education*	377,125,700	5,435,269	1.71
New England Development	Commercial	232,700,000	5,003,050	1.58
Novartis Pharmaceuticals	Commercial	222,727,600	4,788,643	1.51
PREEF American Reit II Corp.	Commercial	198,976,500	4,277,995	1.35
RB Kendall Fee LLC	Commercial	179,527,300	3,846,386	1.21
Alexandria Real Estate	Commercial	162,993,400	3,440,417	1.09
		<b>\$5,044,359,200</b>	<b>\$102,680,573</b>	<b>32.39%</b>

\*Does not include Payments in Lieu of Taxes

# How Your Tax Bill is Determined

## Basic facts about the real estate tax levy

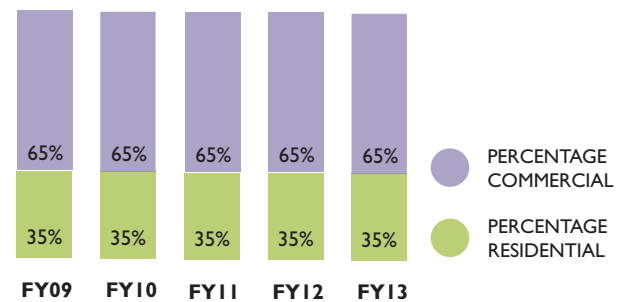
Three major factors are responsible for calculating a tax bill:

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT)

**CITY BUDGET.** The adopted FY14 Budget of \$507.2 million is 3.81% greater than the FY13 adjusted budget. While the City has many sources of revenue, property taxes support about 66% of the operating budget. For FY14, the City projects that it must collect about \$330.6 million in property taxes. This is called the tax levy. Last year, the City administration produced an FY13 Budget with a 5.97% property tax levy increase, which was adopted by the City Council. However, this meant that 74.9% of the residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year. In addition, another 15.8% of residential taxpayers saw an increase between \$100-\$250 in their FY13 property tax bill. The City Council and City administration worked hard during the budget process to produce an FY14 Budget with a modest increase in the property tax levy. As a result, the property tax levy is projected to increase by 4.32% with the ultimate goal of a smaller increase. The final percentage increase will be determined in late September.

The classification of residential and commercial property, as noted, is complex and has limits, which impacts the overall percentage of taxes paid by residential and commercial property owners. For example, in FY04, the City of Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by the State. Escalating residential values, which out-paced commercial property values, were the primary reason that Cambridge reached the state imposed limit on its ability to shift the tax burden from residential taxpayers to commercial taxpayers. As a result, not as much of the property tax levy was able to be shifted to commercial owners.

**PERCENTAGE OF PROPERTY TAX LEVY PAID BY RESIDENTIAL & COMMERCIAL PROPERTY OWNERS**



This trend has continued from FY06 through FY13. Commercial property owners as a group were required to pay 65.4% of the property tax levy in FY13, up from 63.2% in FY06, with the share paid by residential owners going down to 34.6% in FY13, from 36.8% in FY06. Preliminary projections for FY14 indicate that the portion of the tax levy to be paid by commercial property owners will be similar to recent fiscal years. The Cambridge residential market has shown a 49% increase in condominium units during the ten year period between FY04 and FY13, from 9,360 units in FY04 to 13,896 units in FY13. The demand for housing units has resulted in commercial property being converted to residential use, which has further eroded the commercial base while increasing the residential base. Cambridge remains a highly attractive, desirable place to live, with low crime, a highly educated workforce and desirable cultural and business amenities, which support the property values. The chart below shows the percentage of total value of residential and commercial property. In FY13, residential property comprised 61.7% of total value, but residential owners paid only 34.6% of total property taxes.

**CAMBRIDGE OPERATING BUDGET**  
(in millions)

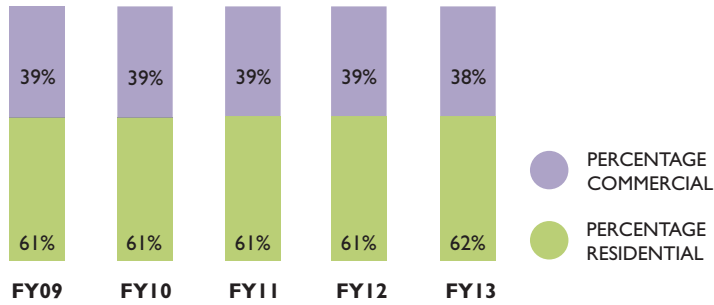
**CAMBRIDGE TAX LEVY**  
(in millions)

FY 12	FY 13	FY 14	FY 12	FY 13	FY 14
\$472.2M	\$488.2M	\$507.2M	\$299.1M	\$317.0M	\$330.6M (projected)

## COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION

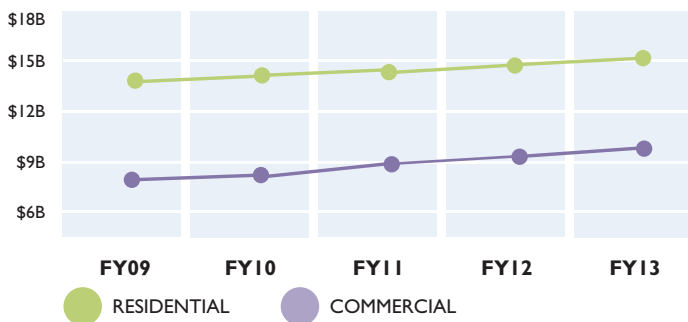
Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from residential and commercial property owners. The property tax classification law limits the maximum shift from the residential tax rate to the commercial tax rate, which Cambridge has taken 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 under Massachusetts General Laws. The property tax classification process has meant that commercial property owners traditionally have paid approximately two-thirds of the total property taxes.

## PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES



**PROPERTY VALUES.** Property values are established independent of the City Budget and 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 the property values as of the previous January 1st. The FY14 property tax bills are based on the assessed value as of January 1, 2013, using calendar 2012 market activity. The tax rate is established by dividing the tax levy by total property value. Your property tax bill is calculated by multiplying your property's value by the tax rate. The chart below illustrates that the total residential value has increased at a slightly higher rate than the total commercial value. During the past five years, the total residential value has increased by 6.3% as compared to a 4.6% increase for commercial property value.

## FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



**City Council Goal: Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality of City services.**

## WHAT DO THE RATING AGENCIES SAY?

Wall Street's three major rating services, Fitch, Moody's, and Standard & Poor's, reaffirmed Cambridge's AAA rating, the highest possible. Cambridge is one of approximately 37 cities in the United States with three AAA ratings. The critical factor examined by rating services is whether a city has a prudent balance between incoming revenues and outgoing expenditures. Many communities pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects.

*"The Key Rating Drivers include: Exceptional Financial Management: Management's conservative budgeting practices and prudent use of reserves has helped keep tax levy increases at moderate levels while the city faces growing employee related costs. Above-Average Liquidity Levels: The city's positive financial profile is characterized by large reserves and ample liquidity. Additionally, the city's levy margin continues to grow favorably to the highest level in the city's history. Economic Diversity Promotes Stability: The stable presence of higher education, healthcare, biotechnology, and life sciences industries supports the well-diversified economy with low unemployment and above-average wealth levels. New Development Continues: Ongoing development within the city is projected to promote growth in assessed value, providing the city with tax levy flexibility for operations and debt service. Moderate Debt Levels: Debt levels are moderate and expected to remain manageable, aided by the city's rapid amortization rate."*

- Fitch Ratings, February 2013

*"The Aaa rating reflects the city's large, diverse and stable tax base, which is anchored by world renowned higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are a healthy financial position which has remained historically stable, management's consistently conservative approach to budgeting and expenditure management and a favorable debt profile supported by healthy enterprise systems. Strengths include; a large and diverse tax base anchored by stable universities, a robust financial position guided by sound management policies, very ample excess levy capacity under Proposition 2 1/2 and a very well managed debt profile."*

- Moody's Investors Service, February 2013

*"The rating reflects the City's: Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms; Above-average wealth and income factors, including an extremely strong market value per capita; Very strong financial position, despite general fund decreases in fiscals 2010 and 2011, coupled with an experienced management team and strong management policies; and Low debt burden and manageable capital plan. Standard & Poor's considers Cambridge's financial management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable."*

- Standard and Poor's, February 2013

## RESIDENTIAL EXEMPTION

The City of Cambridge offers the highest allowable residential exemption program in the Commonwealth with a discount equal to 30% of the average residential assessed value. In FY13 the residential exemption reduced an owner occupied residential property assessed value by \$202,699 which equals \$1,755.37 in real estate taxes. In order to receive the residential exemption homeowners must provide documentation that they occupy their property as their primary residence and are not claiming more than one residential exemption. The Assessors do random audits and respond to inquiries about individuals claiming residential exemption to ensure the validity of the program. Anyone with concerns about someone falsely claiming the residential exemption is strongly encouraged to contact the Assessors who will conduct an investigation. Anonymous concerns by telephone, mail or delivered to the Assessor's office are accepted to assure that your identity is kept confidential.

## Important Dates & Publications

### SEPTEMBER 2013

- City Council votes on City Manager's Recommendations to minimize, to the fullest extent legally possible, the taxes on residential and commercial properties (subject to the approval of the Massachusetts Department of Revenue)

### OCTOBER 2013

- FY14 Tax Newsletter mailed (including info on Abatements and Exemptions)
- FY14 Tax Bills Mailed

### NOVEMBER 2013

- Community Q&A meetings scheduled at various locations
- Exemptions Newsletter Mailed

5 Western Avenue

## What If I Have a Tax Related Question or Want More Information?

### Ask The Treasurer

E-MAIL: [treasurer@cambridgema.gov](mailto:treasurer@cambridgema.gov)

### SEND MAIL TO:

The City Treasurer  
Cambridge City Hall  
795 Massachusetts Avenue  
Cambridge, MA 02139

VISIT THE CITY'S WEBSITE: [www.cambridgema.gov](http://www.cambridgema.gov)

Sign up for E-Line to receive periodic electronic newsletters, alerts and City publications

### CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343

Budget Office for Expenditure/Revenue Info. 617 349 4270

Finance Department for Tax Bill Info. 617 349 4220

City Manager's Office for General Info. 617 349 4300

[www.cambridgema.gov](http://www.cambridgema.gov)

### ★ NEWSLETTER #1 ★

[www.cambridgema.gov](http://www.cambridgema.gov)

Tel 617 349 4300

Cambridge, Massachusetts 02139

795 Massachusetts Avenue

City of Cambridge

A Publication of the Office of the City Manager



PRSRKT STD  
U.S. POSTAGE  
PAID  
BURLINGTON, VT  
PERMIT NO. 601