

Understanding Your Taxes

September 2017

"In FY17, 67% 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."

Louis A. DePasquale, City Manager • Lisa C. Peterson, Deputy City Manager • David J. Kale, Finance Director

Dear Cambridge Residents and Taxpayers:

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

The FY18 Operating Budget of \$605 million and Capital Budget of \$124.8 million align with the City Council goal of maintaining a strong fiscal position and providing high quality City services, while minimizing the impact on taxpayers. The FY18 Budget includes an additional \$2.8 million, funded from building permit fees, to support affordable housing initiatives, which are a City Council priority. The Budget, also includes funding for the expansion of our curbside organics program, additional investment in our comprehensive early childhood system, and support for information technology initiatives and our Municipal Facilities Improvement Plan. These programs have been funded while still maintaining a lower property tax rate and a lower residential property tax bill than surrounding communities. Our ability to generate diverse non-property tax revenues, foster new construction, control budget growth, and plan prudent use of reserves has made this possible.

The projected property tax levy needed to support the FY18 Adopted Budget reflects an increase of 5.99% to \$395 million. The final FY18 property tax levy will not be known until late September.

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.

In FY17, 67% 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 12.7% of residential taxpayers only seeing an increase between \$100-\$250. Over the past 10 years, an average of 75% of residential taxpayers have seen an increase of \$100 or less over the prior year's bill.

Getting residents more engaged in local government, particularly around finance, has been a priority of my administration. Participatory Budgeting (PB) continues to engage thousand of residents. In FY18, the City launched its 4th PB cycle, in which residents will decide how to spend \$800,000 of the City's FY19 Capital Budget.

In February 2017, the City allowed residents to directly invest in Cambridge's infrastructure by purchasing minibonds. The City's \$2 million allotment in minibonds sold out in six days, and it is anticipated that we will offer an expanded program in 2018.

I will be writing to you again next month when the tax rate has been set to explain what the new rates mean for your tax bills.

I encourage you to read this publication, and 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

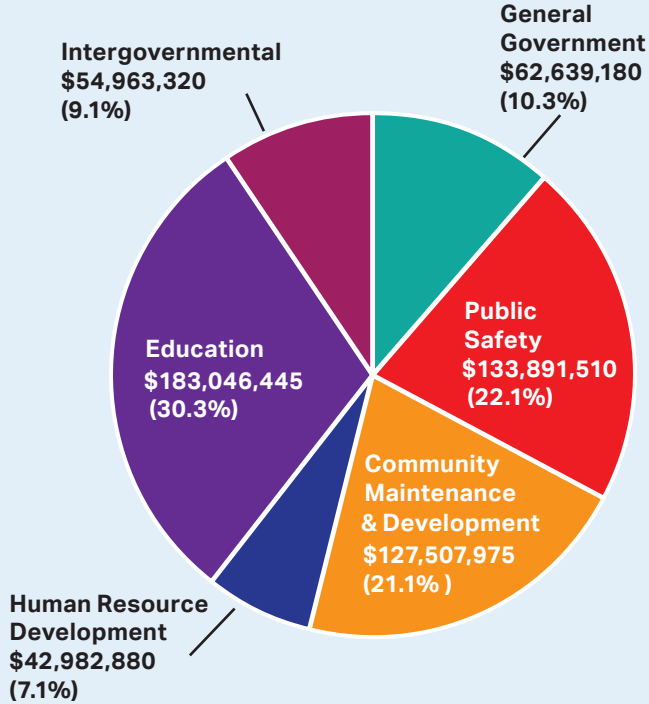
Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and One of the Lowest of Any City in the Commonwealth

	FY17 Tax Rate (per \$1,000)	Tax Bill \$500,000 Home	Tax Bill \$1,000,000 Home
Cambridge*	\$6.49	\$1,199	\$4,444
Brookline*	\$9.88	\$2,671	\$7,611
Boston*	\$10.59	\$2,862	\$8,157
Somerville*	\$11.67	\$3,088	\$8,923
Watertown*	\$13.89	\$5,272	\$12,217
Arlington	\$12.56	\$6,280	\$12,560
Belmont	\$12.69	\$6,345	\$12,690

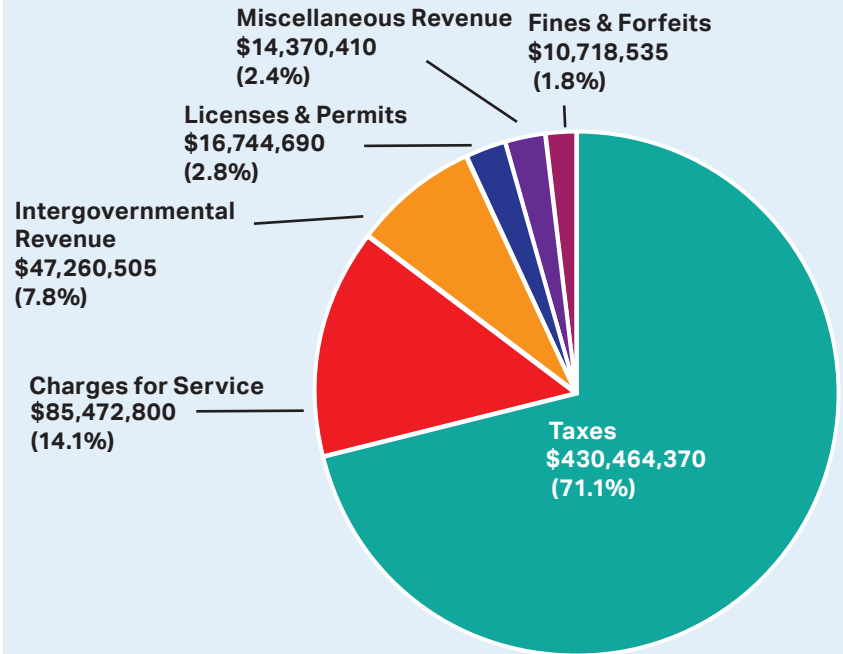
*Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

City Operating Budget (\$605 million)

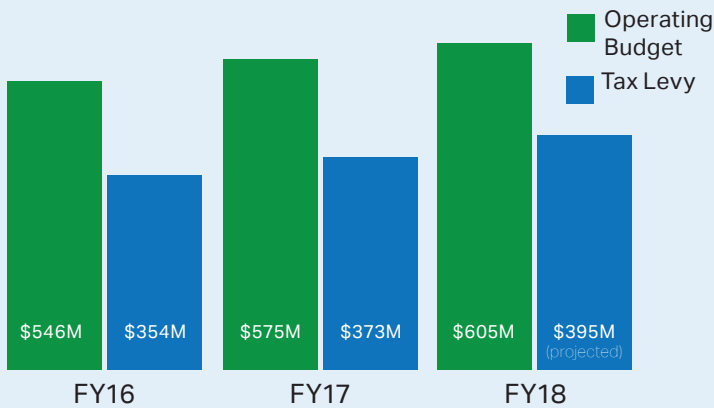
FY18 Expenditures



FY18 Revenues



City Operating Budget and Tax Levy



Approximately 65% of the Operating Budget is supported by property taxes. At the time the FY18 Budget was adopted, the City anticipated that it would need to collect \$395 million in property taxes.

City Council Goal

"Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of impact on taxpayers while providing a high quality of City services."

FY18 Financial Highlights

- Operating Budget increased by 4.97% over the FY17 Adjusted Budget.
- Average increase in the City Budget over the last 10 years has been 3.92%.
- Projected tax levy to support City Budget is \$395 million, which is a 5.99% increase from the previous year.
- Average property tax levy increase over the last 10 years has been 4.87%.
- There has been a 0% increase in the Water rate for the seventh consecutive year.

FY18 Winning Participatory Budgeting Projects (\$706,000)

- Solar Power Shines! (\$260,000)
- Safer Crosswalks for Busy Roads (\$104,000)
- Solar-Powered Real-Time Bus Tracker Displays (\$150,000)
- Kinetic Energy Tiles (\$50,000)
- Hydration Stations in Four Locations (\$37,000)
- Upgrade the Moore Youth Center (\$80,000)
- Cambridge Street Art Trail (\$25,000)

For more information about participatory budgeting visit pb.cambridgema.gov

City Public Investment Budget (\$124.8 million)

Funding for the FY18 Public Investment Budget comes from a variety of 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 roadway systems, we continue to allocate funds to these areas.

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

FY18 Public Investment Major Projects

- Participatory Budget Projects: \$706,000
- Municipal Facilities Improvements: \$7,000,000
- Public Works: Sewer/Stormwater - The Port \$12,934,000
- Public Works: Complete Streets Reconstruction \$7,089,540
- Community Development: Affordable Housing Preservation \$2,800,000
- Information Technology Initiatives: \$2,300,000
- King Open School Construction: \$60,000,000 (Partial Funding)
- Traffic Improvements: \$3,046,500

Why do we sell bonds & minibonds?

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 purchasing of minibonds. For more information about minibonds, visit:

minibonds.cambridgema.gov



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 36 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.

"The city's superior financial profile reflects a wealthy property tax base, moderate expenditure growth, and a demonstrated ability to reduce expenditures during economic downturns."

Fitch Ratings, February 2017

"The stable outlook represents our expectation that the city's prudent management team will maintain the city's healthy financial position given conservative multi-year budget forecasting and adherence to formal fiscal policies. Additionally, given the stability of Harvard University (Aaa) and Massachusetts Institute of Technology (Aaa stable), as well as ongoing commercial development, the diverse tax base will continue to enhance Cambridge's credit profile."

Moody's Investors Service, February 2017

"The rating reflects the City's very strong economy, very strong management, with "strong" financial policies and practices, strong budgetary performance, very strong budgetary flexibility, and very strong liquidity."

Standard and Poor's, February 2017

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 19% increase in condominium units during the 10-year period between FY08 and FY17. 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.

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

- Commercial property owners traditionally have paid approximately two-thirds of total property taxes.
- In FY17, residential property comprised 61.8% 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 FY18 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, FY18 property tax bills are based on the assessed value as of January 1, 2017, using calendar year 2016 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 57.4% as compared to a 60.3% increase for commercial property over the same period.

Residential Exemptions

The City offers a residential exemption program with a discount equal to 30% of the average residential assessed value. In FY17, the residential exemption reduced an owner occupied residential property assessed value by \$315,191, which equals \$2,045.59 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, 2017. 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.

FY17 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	\$16.12	Watertown	\$25.32
Brookline	\$16.20	Boston	\$25.37
Somerville	\$18.81	Burlington	\$28.10
Medford	\$20.46	Lexington	\$28.13
Newton	\$21.27	Waltham	\$29.04
Needham	\$23.63	Framingham	\$36.52

Top 10 Taxpayers in FY17

Property Owner	Assessed Valuation**	Real Property Taxes (Based on Residential & Commercial Rates)	% of Tax Levy
Massachusetts Institute of Technology*	\$3,185,602,400	\$49,047,637	13.16
BioMed Realty Trust	\$1,273,332,600	\$20,414,275	5.48
Alexandria Real Estate	\$838,434,200	\$13,486,845	3.62
Boston Properties	\$759,074,000	\$11,987,435	3.22
Presidents & Fellows of Harvard College*	\$534,694,100	\$5,568,010	1.49
MBA-Rogers Street, LLC	\$382,231,100	\$6,161,565	1.65
Equity Partners	\$353,562,800	\$2,475,169	0.66
PREF American Reit II Corp	\$288,738,300	\$4,654,461	1.25
Novartis Pharmaceuticals	\$285,533,600	\$4,602,802	1.24
New England Development	\$254,311,800	\$4,099,506	1.10
	\$8,155,514,900	\$122,497,705	32.87%

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

**Assessed valuations include both commercial and residential property

Cambridge Residents Participate in a Group Bike Ride



Demonstration Separated Bicycle Lane on Massachusetts Avenue



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 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%

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, 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 live in Cambridge, 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.



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Participatory Budgeting - PB.Cambridgema.Gov Vote for FY19 Projects: December 2-8, 2017

Investing in Sustainable Transportation



Tax Related Questions or Need More Information?

Property Value Information
Assessing Department, 617-349-4343

Tax Bill Information
Finance Department, 617-349-4220

Expenditure/Revenue Information
Budget Office, 617-349-4270

General Information
City Manager's Office, 617-349-4300

Envision Cambridge



Important Meeting Dates

September 2017
City Council votes on classifications
as part of the tax rate process

October and November 2017
Community Q&A sessions scheduled
at various locations

City Scholarship Awards Ceremony



Upcoming Mailings Dates

October 2017
2nd Tax Newsletter mailed
FY18 Tax Bills mailed

November 2017
Exemptions Newsletter mailed