

Understanding Your Taxes

September 2020

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“In FY20, 61% 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 newsletters that explains the City's Operating and Capital Budgets, property classifications, property values, property tax bills, and available exemptions and abatements.

At the time the Fiscal Year 2021 (FY21) Budget was adopted in June 2020, there was still a significant level of uncertainty related to financial impacts due to the COVID-19 pandemic. In particular, the City received lower than anticipated non-property tax revenues from several sources in FY20. To date, the City has also provided over \$13.3 million to date in direct support to individuals and families, small businesses, and non-profits in Cambridge as shown in the table below.

In addition, the impacts from COVID-19 will continue to be felt into FY21, and longer. Reflecting these uncertainties, the FY21 Budget (7/1/20 – 6/30/21) was adjusted so that all new City (not including School Dept.) positions are funded for only 3 months of the fiscal year (April 2021 start). However, Cambridge was still able to present a balanced budget for FY21 that supports a high level of service for the community; includes no current staff or program reductions; and is also anticipated to maintain relatively stable tax bills for homeowners.

The FY21 Budget fulfills a commitment, to double the amount of funding to support affordable housing from FY19 within 3-5 years, which is earlier than anticipated. As part of the FY21 Budget, the City will again use 25% of budgeted Building Permit revenue (approximately \$5 million in FY21) in capital funding for affordable housing. The FY21 Budget also includes \$10 million in property tax revenue for the same purpose. This funding will be combined with \$12.3 million in anticipated Community Preservation Act (CPA) funds and will result in a total of \$27.3 million in FY21 for affordable housing, doubling the \$13.6 million provided for the same purpose in FY19.

The City's FY21 spending plan includes over \$114 million dedicated to the areas affordable housing, early childhood education, sustainability, anti-bias training and programs, and traffic safety/Vision Zero. The City also increased property tax support to the School Department by 5.9% to \$188.4 million. City funds budgeted for the School Department are unchanged due to the COVID-19 crisis, unlike other areas of the budget.

The budget also demonstrates a continued and expanding commitment of resources to address expressed City Council priorities including: library services; urban forestry; community infrastructure and maintenance; enhanced community engagement; diversity and inclusion; arts and culture; and supporting the small business community.

The projected property tax levy needed to support the FY21 Adopted Budget reflects an increase of 8.0% to \$473.3 million. The final FY21 property tax levy will not be known until early October. In years past, the City has typically been able to use non-property tax revenues at a higher level than what was included in the budget, in order to lower the property tax levy. The City will continue to look at these options, however, it will be more challenging for FY21 because several key non-property tax revenues will likely be lower in FY21 due to the COVID-19 crisis. Please note that assessed values for FY21, which are also used to calculate the tax rate, are established **as of January 1, 2020**, using calendar year 2019 market activity.

In FY20, 61% 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 13% of residential taxpayers only seeing an increase between \$100-\$250. Over the past 10 years, an average of 69% of residential taxpayers have seen an increase of \$100 or less over the prior year's bill. For FY21, the City will continue to work to provide stability in homeowner tax bills.

Now, perhaps more than ever, it is important to maintain sound fiscal policies, which have enabled Cambridge to not only respond quickly and effectively to the COVID-19 crisis, but also to continue to be prepared for future and unanticipated impacts. As consistently noted in the credit ratings from the nation's three major rating agencies, Cambridge is particularly suited to demonstrate financial flexibility and resiliency through economic cycles. This is due in large part to our fiscal policies, maintaining reserves, and budget controls.

Continued on next page

City/Community COVID-19 Financial Support at a Glance

\$4.7 Million	Donations from Cambridge residents and corporations (Mayor's Disaster Relief Fund)
\$3.0 Million	City funds used for COVID-19 related food, lodging, and shelter services
\$3.1 Million	Small business grants/loans through CARES Act, Community Development Block Grants, and Cambridge Redevelopment Authority (CRA)
\$1.0 Million	Grants provided by the City to nonprofits for COVID-19 related services to residents
\$1.5 Million	Direct City support provided through Housing Stabilization Program funded by CARES Act and Community Preservation Act
\$13.3 Million	



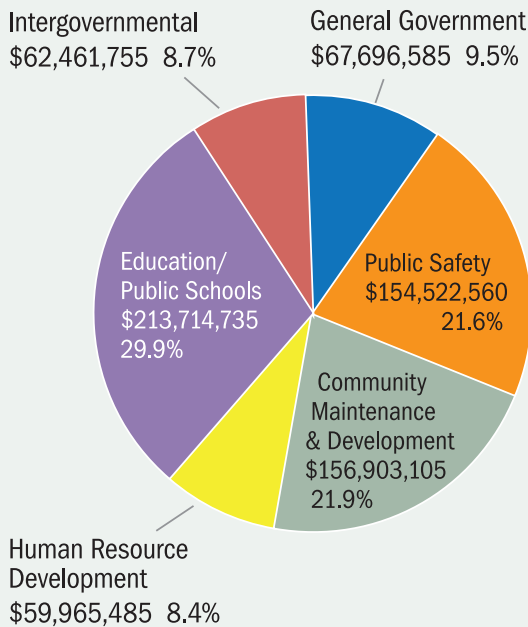
I will be writing to you again next month when the tax rate has been set to explain what the new rates mean for your tax bills. I encourage you to read this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Very truly yours,

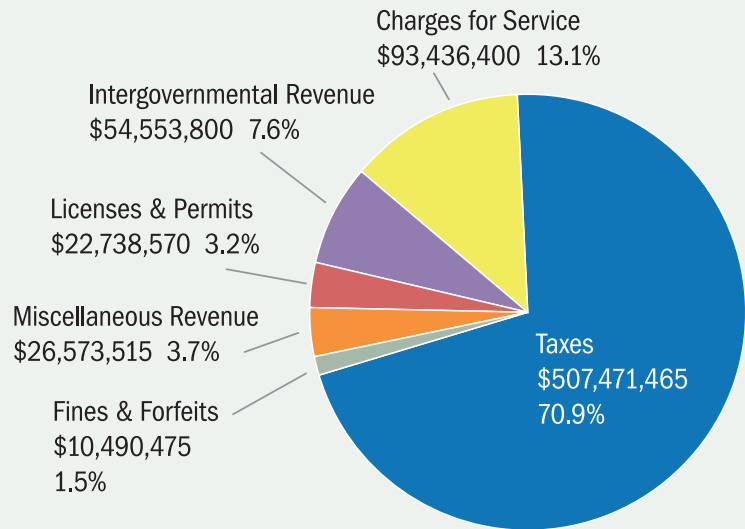
Louis A. DePasquale
City Manager

City Operating Budget (\$715.3 million)

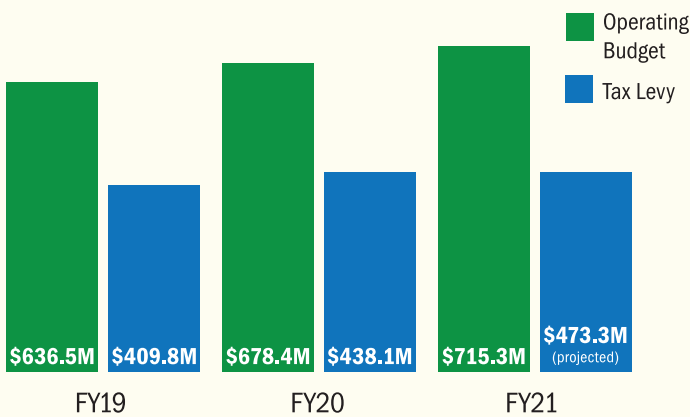
FY21 Expenditures



FY21 Revenues



City Operating Budget and Tax Levy



Approximately 66% of the Operating Budget is supported by property taxes. At the time the FY21 Budget was adopted, the City anticipated that it would need to collect \$473.3 million in property taxes.

FY21 Financial Highlights

- Operating Budget increased by 5.1% over the FY20 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 \$473.3 million, which is a 8.0% increase from the previous year.
- Average property tax levy increase over the last ten years is 5%.
- There has been a 0% increase in the Water rate for the tenth consecutive year.
- The Capital (Public Investment) Budget is \$312,285,940
- The Capital Budget includes property tax support of \$13,825,000

City Public Investment Budget (\$312.3 million)

Funding for the FY21 Public Investment Budget comes from a variety of sources: bond proceeds, property taxes, state and federal funds, and parking fund revenues.

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

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.

FY21 Public Investment Major Projects

- Participatory Budget Projects: \$1,125,000
- Municipal Facilities Improvements: \$16,000,000
- Water and Sewer/Stormwater Improvements \$15,230,000
- Public Works: Complete Streets Reconstruction: \$8,486,530
- Community Development: Affordable Housing Preservation & Development: \$14,998,630
- Information Technology Initiatives: \$1,100,000
- Transportation Improvements: \$533,000
- Fire Station Renovations: \$9,000,000
- Tobin Montessori and Vassal Lane Upper School: \$237,000,000
- Harvard Square Kiosk and Plaza Additional Safety Improvements: \$1,908,250

Why do we sell bonds?

The City sells bonds to minimize the property 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's bond sale on March 5, 2020 resulted in a True Interest Cost of 1.02%



Valente Branch Library

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 32 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 'AAA' general obligation bond rating reflects Fitch's expectation for Cambridge to maintain a high level of financial flexibility through economic cycles, consistent with a history of strong operating performance and budget controls. The ratings further reflect the city's wealthy and growing property tax base, moderate expenditure growth and its demonstrated ability to reduce expenditures during economic downturns." - Fitch Ratings, February 2020

"The stable outlook reflects the city's strong fiscal management that is committed to maintaining a healthy financial position given conservative multi-year budget forecasting and adherence to formally adopted fiscal policies. The outlook also incorporates the stabilizing presence of Harvard University and MIT as well as the long historical trend of positive valuation growth in the tax base." - Moody's Investors Service, February 2020

"We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology, indicating financial practices are strong, well embedded, and likely sustainable." - Standard and Poor's, February 2020

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) – For FY21 is established as of January 1, 2020, based on market activity during calendar year 2019.

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.

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

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

- Commercial property owners traditionally have paid approximately two-thirds of total property taxes.
- In FY20, residential property comprised 59% of total assessed value, but residential property owners paid only 35% of total property taxes. This is similar to prior years.
- Preliminary projections for FY21 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, FY21 property tax bills are based on the assessed value as of January 1, 2020, using calendar 2019 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 49.8% as compared to a 76.3% 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 FY20, the residential exemption reduced an owner-occupied residential property assessed value by \$411,316, which equals \$2,365 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. For FY21, homeowners must own and occupy their primary residence as of January 1, 2020. 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.

FY20 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	12.68	Needham	24.55
Brookline	15.53	Boston	24.92
Somerville	16.32	Waltham	24.36
Medford	17.57	Burlington	25.54
Newton	19.92	Lexington	27.22
Watertown	22.53	Framingham	32.30

Cambridge Residential Tax Rate Continues to be the Lowest of Any City in the Commonwealth!

Cambridge and Surrounding Communities	FY 20 Tax Rate (per \$1,000)	Tax Bill \$500,000 Home	Tax Bill \$1,000,000 Home
Cambridge*	\$5.75	\$510	\$3,385
Brookline*	\$9.45	\$1,965	\$6,690
Somerville*	\$10.09	\$1,776	\$6,821
Boston*	\$10.56	\$2,400	\$7,680
Watertown*	\$12.14	\$3,962	\$10,032
Arlington	\$11.06	\$5,530	\$11,060
Belmont	\$11.00	\$5,500	\$11,000

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

Top Ten Taxpayers in FY20

Property Owner	Nature of Business	Assessed Valuation**	Real Property Taxes	% of Tax Levy
Mass. Institute of Technology*	Education	\$5,019,163,400	\$61,171,974	13.96%
Alexandria Real Estate	Commercial	\$2,085,375,800	\$26,442,565	6.04%
BioMed Realty Trust	Commercial	\$1,585,747,400	\$20,018,114	4.57%
Boston Properties	Commercial	\$1,099,171,900	\$13,307,615	3.04%
MBA-Rogers Street, LLC	Commercial	\$564,623,900	\$7,051,360	1.61%
President and Fellows of Harvard College*	Education	\$718,745,200	\$6,188,980	1.41%
RREEF American Reit II Corp	Commercial	\$426,417,700	\$5,406,976	1.23%
Novartis Pharmaceuticals	Commercial	\$355,629,700	\$4,509,385	1.03%
DivcoWest	Commercial	\$395,684,200	\$4,079,467	0.93%
New England Development	Commercial	\$309,159,270	\$3,920,140	0.89%
		\$12,559,718,470	\$152,096,576	34.71%

*Does not include Payments in Lieu of Taxes; ** Assessed valuations include both commercial and residential property; Source: City of Cambridge, Assessing Department

Submit Ideas for Participatory Budgeting!



Do you have an idea for a project that could improve Cambridge? Submit your idea for the next cycle of Participatory Budgeting, a democratic process in which community members directly decide how to spend part of a public budget. To be eligible, a project must:

- Be a capital project, which usually involves infrastructure improvements the City can buy or build
- Be a one-time expenditure that costs less than \$500,000
- Benefit the public
- Be implemented by the City on City property (streets, sidewalks, libraries, schools, youth centers, senior centers, municipal buildings, etc.)

Submit your ideas five ways:

1. Visit pb.cambridgema.gov
2. Email pb@cambridgema.gov
3. Call 617-349-4270
4. Drop off in the Payment Drop Box in the rear of City Hall
5. Write to City of Cambridge Budget Office, 795 Massachusetts Ave., Cambridge, MA 02139

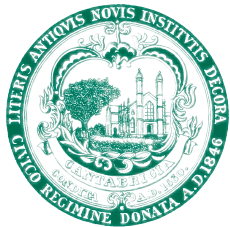
Cambridge Awards \$237,000 in City Scholarships



2019 Scholarship Recipients

This year, the City awarded 79 scholarships of \$3,000 each for a total of \$237,000 to Cambridge high school seniors and others pursuing higher education. Since the program's inception in 1993, the city has awarded 1,108 scholarships totaling \$2.6 million.

Taxpayers receive a separate envelope with their property tax bill to make a donation to the Scholarship Fund. In addition, individuals can make an online scholarship donation by going to Cambridgema.gov/paybill or mail a donation to City of Cambridge, P.O. Box 2005, Cambridge, MA 02139



A publication of the Office of the City Manager, City of Cambridge
795 Massachusetts Avenue • Cambridge, MA 02139
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Newsletter #1

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Vision Zero/ Traffic Safety



Affordable Housing



Equity/Anti-Bias



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

Important Meeting Dates

October 2020

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

October and November 2020

Community Q&A meetings scheduled
at various locations

Upcoming Mailings Dates

October 2020

2nd Tax Newsletter mailed

FY21 Tax Bills mailed

November 2020

Exemptions Newsletter mailed



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