

Understanding Your Taxes

September 2016

Richard C. Rossi, City Manager • Lisa C. Peterson, Deputy City Manager • Louis A. DePasquale, Finance Director

“In FY16, 87% 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.”

Dear Residents and Taxpayers of Cambridge:

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

The FY17 Operating Budget of \$574.6 million and Capital Budget of \$83.9 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 Budget includes 21 new full-time positions to provide appropriate support for the growth in programs and new initiatives throughout the city, as well as \$1.3 million to implement the Early Childhood Task Force’s recommendations to the City Council and School Committee, 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 levy needed to support the FY17 Adopted Budget reflects an increase of 6.21% to \$376.4 million.

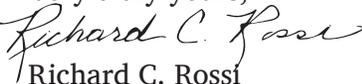
The final FY17 property tax levy will not be known until

late September when the City Council votes on my FY17 property tax and classification recommendations.

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 FY16, 87% 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. In addition, another 8% of residential taxpayers saw an increase between \$100-\$250. Over the past 10 years, an average of 74.7% of residential taxpayers have seen an increase of \$100 or less over the prior year.

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. It has been an honor and a pleasure to serve this great City for 45 years. I am proud that Cambridge will continue to benefit from professional management and dynamic leadership, a strong financial position, sustainable infrastructure, and the spirit of cooperation we have cultivated. It has been my pleasure to work hard to ensure our community’s success, and I want to thank the City Council, City staff, our residents, businesses, universities, community organizations, and other partners for all that we have accomplished together to make Cambridge the truly remarkable community that it is.

Very truly yours,

 Richard C. Rossi
 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!

	FY16 Tax Rate (per \$1,000)	Tax Bill \$400,000 Home	Tax Bill \$800,000 Home
Cambridge*	\$6.99	\$853	\$3,649
Brookline*	\$10.42	\$1,985	\$6,153
Somerville*	\$12.53	\$2,388	\$7,400
Boston*	\$11.00	\$2,438	\$6,838
Watertown*	\$13.68	\$4,056	\$9,528
Belmont	\$12.56	\$5,024	\$10,048
Arlington	\$12.80	\$5,120	\$10,240

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

How Is Your Tax Bill Determined?

Three major factors are responsible for calculating your tax bill:

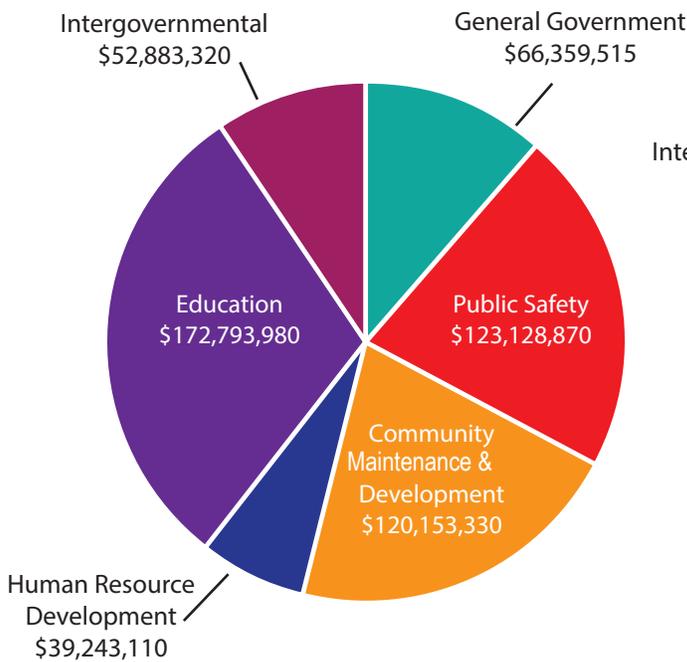
- The City's Operating and Capital Budget
- Commercial & Residential Property Tax Classifications
- Property Values (Assessment)

City Council Goal

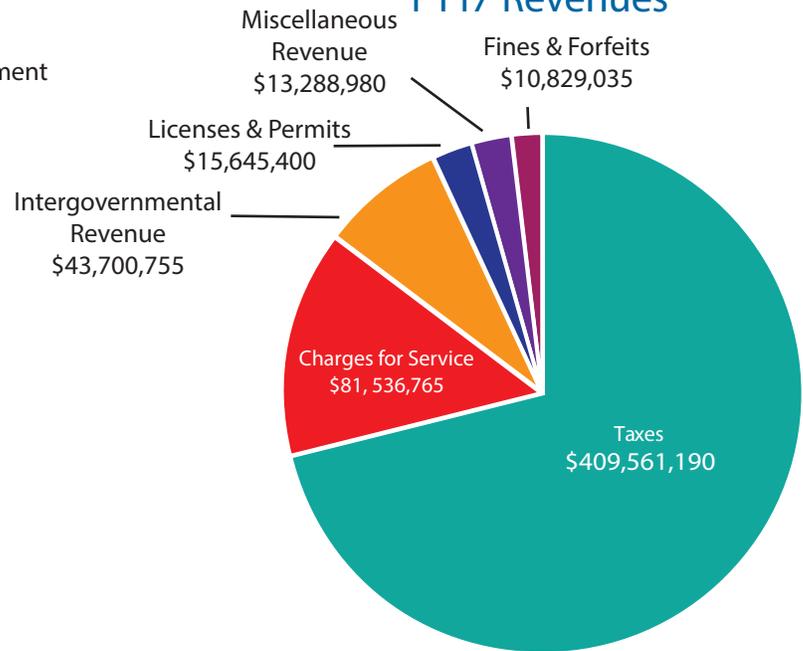
“Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of impact on taxpayers while providing a high quality of City services.”

City Operating Budget (\$574.6 million)

FY17 Expenditures



FY17 Revenues



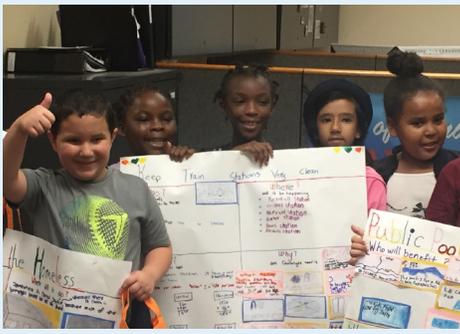
Approximately 66% of the Operating Budget is supported by property taxes. At the time the FY17 Budget was adopted, the City anticipated that it would need to collect \$376.4 million in property taxes.

FY17 Financial Highlights

City Operating Budget and Tax Levy



- Operating Budget increased by 4.8% over the FY16 Adjusted Budget
- Average increase in the City Budget over the last 10 years is 3.8%
- Projected tax levy to support budget is \$376.4 million, which is a 6.2% increase from the previous year
- Average property tax levy increase over the last 10 years is 4.75%
- Water rate increase of 0% for sixth consecutive year



What Do the Rating Agencies Say?

The three major rating services, 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.

"Key rating drivers include: exceptional financial management, above-average reserves and liquidity, economic diversity, new development promotes tax base growth, and moderate debt levels." - Fitch Ratings, February 2016

"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 2016

"The rating reflects the City's very strong economy, very strong budgetary flexibility, very strong liquidity, very strong management team and strong financial policies, strong budgetary performance, strong debt and contingent liabilities position, and strong institutional framework score." - Standard and Poor's, February 2016

FY17 Winning Participatory Budgeting Projects:

- Freezer van to expand prepared food rescue deliveries
- 3 bike safety-related projects
- 5 water bottle fill stations
- Transit signal priority for the MBTA #1 bus route
- New chairs for four Cambridge Public Schools

Visit pb.cambridgema.gov for more information.

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%.**

City Public Investment Budget (\$83.9 million)

Funding for the Public Investment Budget comes from a variety of sources. 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 cover all related water and sewer capital projects.

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 manage an aggressive capital plan. This sound financial management has translated into AAA bond ratings from all three major credit rating agencies, allowing us to pay significantly lower interest rates than surrounding communities.

FY17 Public Investment Highlights

- **Sewer Bond Proceeds (\$25.9 million):** Including \$5.5 million to support completion of street and sidewalk construction through 2017 at Huron and Concord Avenues.
- **Bond Proceeds (\$41.1 million):** Including \$20 million for the design and construction of the King Open and Cambridge Street Upper School & Community Complex.
- **Property Taxes (\$5.7 million):** Including \$3.5 million in Information Technology projects and \$600,000 for winning Participatory Budgeting projects.

The Cambridge residential market has shown a 26% increase in condominium units during the ten-year period between FY07 and FY16. 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 FY16, residential property comprised 62.2% 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 FY17 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, FY17 property tax bills are based on the assessed value as of January 1, 2016, using calendar year 2015 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 43.7% as compared to a 40.1% 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 FY16, the residential exemption reduced an owner occupied residential property assessed value by \$277,937, which equals \$1,942.78 in 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, 2016. 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 report concerns, please visit our website at cambridgema.gov or contact the Assessor’s Office at 617-349-4343.

FY16 Commercial Tax Rates for Communities with Split Rates (Different Rate for Residential and Commercial Property)

Did you know that Cambridge has a favorable commercial tax rate compared to surrounding communities?

Brookline	\$16.99	Watertown	\$25.40
Cambridge	\$17.71	Boston	\$26.81
Somerville	\$20.18	Burlington	\$28.28
Medford	\$21.82	Lexington	\$28.40
Newton	\$21.94	Waltham	\$29.53
Needham	\$23.02	Framingham	\$37.98



Top 10 Taxpayers in FY16

Property Owner	Assessed Valuation**	Real Property Taxes (Based on Residential & Commercial Rates)	% of Tax Levy
Massachusetts Institute of Technology*	\$2,689,098,400	\$45,336,346	12.79
BioMed Realty Trust	\$1,269,118,400	\$22,474,044	6.34
Boston Properties	\$928,819,900	\$16,449,400	4.64
Alexandria Real Estate	\$471,842,800	\$8,128,414	2.29
Presidents & Fellows of Harvard College*	\$473,348,700	\$5,227,789	1.48
Novartis Pharmaceuticals	\$266,343,700	\$4,716,947	1.33
PREEF American Reit II Corp	\$257,030,300	\$4,552,007	1.28
New England Development	\$237,732,140	\$4,210,236	1.19
RB Kendall Fee LLC	\$233,213,700	\$4,115,770	1.16
Equity Partners	\$537,773,000	\$3,792,447	1.07
	\$7,364,321,040	\$119,003,400	33.57%

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

**Assessed valuations include both commercial and residential property

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 (RMV).

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.

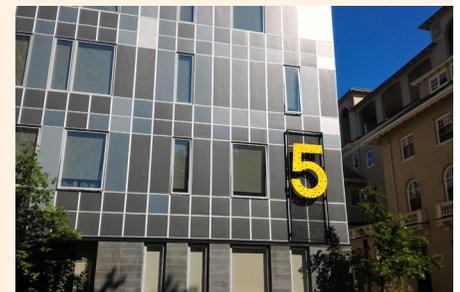
If you don't receive a bill, contact the City's Finance Department at 617-349-4220. According to Chapter 60A, Section 2 of Massachusetts General Laws, a person who does not receive a bill is still liable for the excise tax plus any interest charges and penalties that accrue. Therefore, it is the responsibility 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, 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.

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.



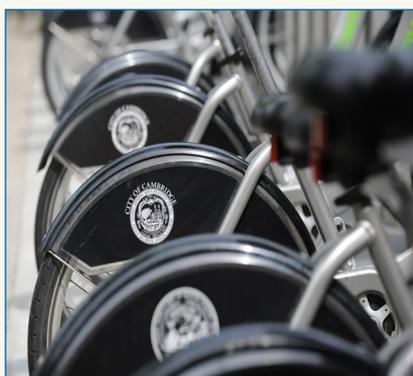


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Newsletter #1

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***Tax Related Questions or
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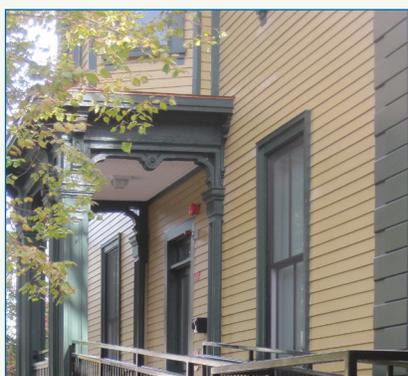
Property Value Information:
Assessing Department, 617-349-4343

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

Affordable Housing



Important Meeting Dates

September 2016
City Council votes on classifications
as part of the tax rate process

October and November 2016
Community Q&A sessions scheduled
at various locations

*Connecting to
Human Services*



Upcoming Mailings Dates

October 2016
2nd Tax Newsletter mailed
FY17 Tax Bills mailed

November 2016
Exemptions Newsletter mailed