



UNDERSTANDING YOUR TAXES

SEPTEMBER 2014



RICHARD C. ROSSI,
CITY MANAGER

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Dear Residents and Taxpayers of Cambridge:

This is the first in a series of three newsletters which explains the City's operating and capital budget, property classifications and property values, your tax bills and available exemptions and abatements.

The FY15 Budget of \$524.4 million sets a bold agenda for the upcoming year. The City strives to align the Budget with the City Council goal of maintaining a strong fiscal position and providing a high quality of City services, while minimizing the impact on taxpayers.

We have been able to achieve this with a moderate increase in the property tax levy, and still have a lower property tax rate and a lower residential property tax bill than surrounding communities, due to our ability to generate diverse non-property tax revenues, foster new construction, control budget growth and plan prudent use of reserves.

The projected levy needed to support the FY15 Adopted Budget reflects an increase of 4.62% to \$343.7 million.

The final FY15 property tax levy will not be known until late September when the City Council votes on my FY15 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.

In FY14, 74.1% 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 13.5% of residential taxpayers saw an increase between \$100-\$250.

I will be writing to you again next month once 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,

Richard C. Rossi
City Manager

Photo: Newly Completed Alewife Constructed Wetlands

CAMBRIDGE RESIDENTIAL TAX RATE CONTINUES TO BE THE LOWEST AMONG SURROUNDING COMMUNITIES AND THE LOWEST OF ANY CITY IN THE COMMONWEALTH!

	FY14 TAX RATE (per \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
CAMBRIDGE*	\$8.38	\$1,545	\$4,897
BROOKLINE*	\$11.39	\$2,561	\$7,117
BOSTON*	\$12.58	\$3,268	\$8,300
SOMERVILLE*	\$12.66	\$3,156	\$8,220
BELMONT	\$13.50	\$5,400	\$10,800
ARLINGTON	\$13.79	\$5,516	\$11,032
WATERTOWN*	\$14.96	\$4,756	\$10,740

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

How Is Your Tax Bill Determined?

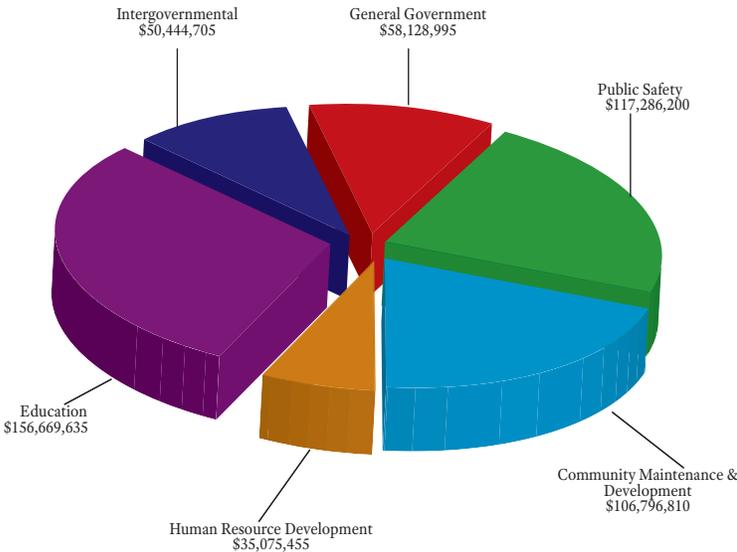
Three major factors are responsible for calculating your tax bill:

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

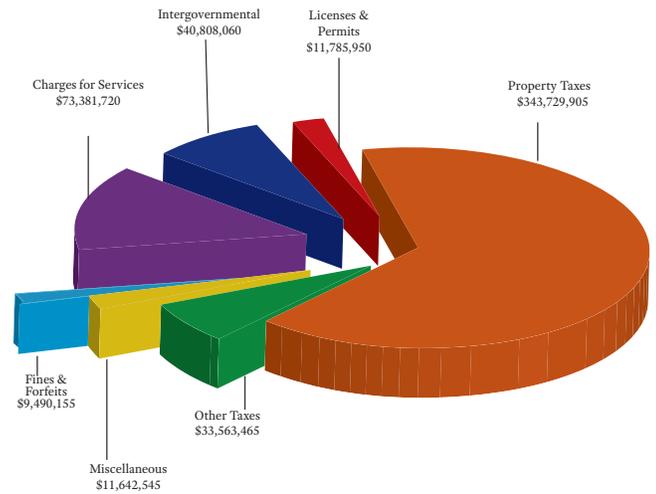
City Operating Budget (\$524.4 million)

While the City has many sources of revenue, approximately 66% of the operating budget is supported by property taxes. In FY15, the City anticipates it will need to collect \$343.7 million in property taxes. This is what the City projects the tax levy will be at the time the budget is adopted.

EXPENDITURES



REVENUES



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.”*

FY15 Operating Budget Highlights

- Operating Budget increased by 2.91% over the FY14 Adjusted Budget
- Average increase in the City Budget over the last ten years is 3.32%
- Projected tax levy to support budget is \$343.7 million, which is an increase of 4.62% from the previous year
- Average property tax levy increase over the last ten years is 4.61%
- Water Rate increase of 0% for the third consecutive year

CITY OPERATING BUDGET AND TAX LEVY



City Public Investment Budget (\$32.0 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 a robust sewer, stormwater and roadway infrastructure, we continue to allocate funds to these areas. Funding from water and sewer service charges cover all related capital projects.

FY15 Public Investment Budget Highlights

- Information Technology Initiatives (\$3,800,000)
- Water System Improvements(\$3,400,000)
- Street/Sidewalk Reconstruction (\$4,588,140)
- Sewer Reconstruction (\$10,955,655)
- Building Renovations (\$3,068,000)

Bond Supported Projects

Each year the City also sells General Obligation Bonds to finance major capital projects. Our sound financial management has translated into three AAA bond ratings from the major credit rating agencies; allowing us to pay significantly lower interest rates than surrounding communities. As a result, we are able to minimize the tax impact of major capital projects such as the Elementary School Reconstruction Program on your tax bill.

Last year the City sold Bonds to finance capital projects such as the M.L. King, Jr. Elementary School and Putnam Ave. Upper School renovations, sewer reconstruction, Harvard Square Tunnel improvements, street and sidewalk improvements and Cambridge Common improvements.



M.L. KING, JR. ELEMENTARY SCHOOL & PUTNAM AVE. UPPER SCHOOL

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 the rating agencies is whether a city has a prudent balance between incoming revenues and outgoing expenditures.

"The key rating drivers include: exceptional financial management, above-average reserves and liquidity, economic diversity which promotes stability, new development growth, and moderate debt levels."

- Fitch Ratings, February 2014

"The Aaa rating reflects the city's sizable, diverse and stable tax base, anchored by world renowned higher education institutions and a growing research and development sector; historically stable financial position with significant reserves; a strong professional management team and a favorable debt profile supported by healthy enterprise systems."

- Moody's Investors Service, February 2014

"The rating reflects the City's very strong economy, very strong budgetary flexibility and performance, strong liquidity, very strong management team and strong financial policies, and strong debt and contingent liabilities position."

- Standard and Poor's, February 2014

Commercial-Residential Property Tax Classification

Each year, the Board of Assessors classifies all real property according to use:

- Commercial Property
- Industrial Buildings
- Personal Property (e.g. business furnishings, tools and equipment)
- 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.

The 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 Cambridge residential market has shown a 43% increase in condominium units during the ten year period between FY05 and FY14. 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 desirable cultural and business amenities, which support property values.

- **Commercial property owners traditionally have paid approximately two-thirds of total property taxes.**
- **In FY14, residential property comprised 61.3% 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 FY15 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, FY15 property tax bills are based on the assessed value as of January 1, 2014, using calendar 2013 market activity.

The tax rate is established by dividing the tax levy by total property values once adjustments for exemptions have been accounted for:

Residential Exemptions

The City offers a residential exemption program with a discount equal to 30% of the average residential assessed value.

In FY14, **the residential exemption reduced an owner occupied residential property assessed value by \$215,649** which equals \$1,807.14 in real estate taxes.

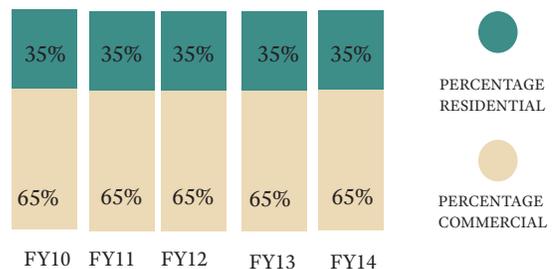
To receive the residential exemption, homeowners must provide documentation that they occupy their property as their primary residence and are not claiming more than one residential exemption. **Homeowners must own and occupy their primary residence as of January 1, 2014.** The Assessors do random audits 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 www.cambridgema.gov or contact the Assessors Office at 617-349-4343.

$$\text{Tax Rate} = \frac{\text{Property Tax Levy}}{\text{Property Tax Values- Exemptions}}$$

During the past five years, the total residential value has increased by 11.7% as compared to a 12.2% increase for commercial property over the same period.

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



DID YOU KNOW THAT CAMBRIDGE HAS A FAVORABLE COMMERCIAL TAX RATE COMPARED TO SURROUNDING COMMUNITIES?

FY14 COMMERCIAL TAX RATES FOR COMMUNITIES WITH SPLIT RATES

(DIFFERENT RATE FOR RESIDENTIAL AND COMMERCIAL PROPERTY)

Brookline	\$18.50	Needham	\$22.99	Watertown	\$27.96	Waltham	\$31.97
Cambridge	\$20.44	Newton	\$23.18	Lexington	\$29.56	Burlington	\$32.24
Somerville	\$21.51	Medford	\$24.01	Boston	\$31.18	Framingham	\$40.92

TOP TEN TAX PAYERS IN FY14

Tax Payer	Nature of	Assessed		% of Tax
	Business	Valuation	Taxes	Levy
Massachusetts Institute of Technology	Education*	\$2,051,720,900	\$39,790,002	12.11
BioMed Realty Trust	Commercial	\$1,014,742,900	\$20,650,287	6.29
Equity Partners	Commercial	\$759,766,500	\$18,003,462	5.48
Boston Properties	Commercial	\$652,771,700	\$13,342,654	4.06
Presidents & Fellows of Harvard College	Education*	\$405,801,000	\$5,584,719	1.70
New England Development	Commercial	\$234,975,500	\$4,802,899	1.46
Novartis Pharmaceuticals	Commercial	\$233,908,600	\$4,781,092	1.46
PREEF American Reit II Corp.	Commercial	\$209,200,900	\$4,276,066	1.30
RB Kendall Fee LLC	Commercial	\$202,797,500	\$4,130,001	1.26
Alexandria Real Estate	Commercial	\$180,324,100	\$3,619,744	1.10
		\$5,946,009,600	\$118,980,926	36.22%

*Does not include Payments in Lieu of Taxes

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 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.

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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Newly Completed Alewife Constructed Wetlands



Economic Development in Central Square



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

Important Meeting Dates

September 2014
 City Council votes on tax rates & classification recommendations

October 2014
 Community Q&A meeting scheduled at various locations

Upcoming Mailings Dates

October 2014
 2nd Tax Newsletter mailed
 FY15 Tax Bills mailed

November 2014
 Exemptions Newsletter mailed