



CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager *Richard C. Rossi, Deputy City Manager*

September 24, 2007

To The Honorable, the City Council:

The establishment of the FY08 property tax rate by the Board of Assessors, subject to the approval of the Massachusetts Department of Revenue, is the final step in the annual fiscal process that begins in the Spring of each year with the submission of the annual budget to the City Council. With this memo, I am transmitting to you my recommendations for the required votes necessary to minimize the taxes on residential properties. In addition, you will find an analysis of the FY08 property tax levy, property values and other supporting information.

OVERVIEW

I am pleased to inform you that the actual FY2008 property tax levy of \$242,334,374 reflects a \$10,547,280 or 4.55% increase from FY07. The FY08 Budget adopted by the City Council in May, projected a property tax levy increase of \$13.3 million or 5.75% to \$245,113,349 in order to fund operating and capital expenditures. At that time, I informed the City Council that an actual tax levy increase of approximately 5% was likely, based on potential additional state aid that would be available once the State finalized its FY08 budget and anticipated additional non-property tax revenues that would be available based on FY07 actual collections.

These assumptions proved correct and allowed a reduction of \$2,778,975 from the original projected property tax levy. This is possible because of an increase in state aid, continued growth in non-property tax revenues which has allowed the City to increase its use of the undesignated fund balance (also known as “free cash”) and an increase in the use of the City’s Debt Stabilization Fund. The resulting final property tax levy for FY08 is \$242,334,374, an increase of 4.55%. With approval of these recommendations, the three-year average increase of the property tax levy will be only 2.8%.

Tax Levy Adjustments	Amount
Additional Debt Stabilization	- \$1,500,000
Additional Free Cash	- \$1,000,000
State Aid Adj. –Revenues and Assessments (Actual)	- \$319,271
Overlay Adjustment	+40,296
Net Decrease	- \$2,778,975

This recommendation includes the use of \$8 million in reserve accounts to lower the property tax levy; \$6 million from free cash (\$1.0 million increase) and \$2 million from overlay surplus. In addition, \$3 million in free cash was used in the FY08 Adopted Budget as a revenue source. Also, \$3 million from the Debt Stabilization Fund (\$1.5 million increase) is used to offset increases in debt service costs that would otherwise have been funded from property taxes.

Based on a property tax levy of \$242.3 million, the FY08 residential tax rate will be \$7.36 per thousand of value, which is a decrease of \$0.12, or 1.6% from FY07. The commercial tax rate will be \$17.24, which is a decrease of \$1.06, or 5.8% from FY07.

As a result, approximately 92.5% of residential taxpayers will see a reduction, no increase or an increase of less than \$100 in their FY08 tax bill. In fact, about 79.1% will see a reduction in their tax bill. An additional 13.4% will see either no change or an increase of less than \$100.

TABLE I
Change in the Residential Taxes Bills*

Change in Tax Payment	Number of Parcels	Percentage
Less than \$0	15,077	79.1%
> \$0 and less than \$100.00	2,561	13.4%
>\$100.00 less than \$250.00	635	3.3%
>\$250.00 and less than \$500.00	311	1.6%
Greater than \$500.00	484	2.6%
Totals	19,068	100%

* Based on Single, Two, Three Family and Condominiums and assumes the Residential Exemption for each parcel in both years.

Additionally, I am also recommending that \$8 million from free cash be appropriated to the City's Debt Stabilization Fund to offset anticipated debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center and War Memorial) and potential additional debt service costs as a result of higher construction costs for CRLS renovations. This appropriation will help stabilize tax levy increases related to these projects in future years. For the fiscal year that ended June 30, 2007, the City of Cambridge has a certified Free Cash balance of \$73,785,122, an increase of approximately \$5.8 million, or 8.5%, from FY07.

This strategy of using an increased amount of non-property tax revenues and reserves to lower property taxes will not jeopardize our long-term fiscal health. However, if the City used all of its reserves in one year to artificially reduce property taxes it would mean that in the following year the City would be required to either increase taxes significantly, since the reserves would no longer be available, or dramatically reduce expenditures (services). The City cannot spend its entire reserves twice. The City's prudent and planned use of its reserves has been positively recognized by the three major credit rating agencies and is reflected in our AAA credit rating.

MEDIAN TAX BILLS

The analysis below explains in further detail how the City determines property values and property tax rates for FY08.

There are three major factors, which determine a property tax bill. These factors are: The Budget, Commercial-Residential Property Tax Classification and Property Values. As discussed below, all three factors contributed to lower tax bills for many homeowners.

The Budget: If the City Council adopts the proposed recommendations, there will be 4.55% increase in the property tax levy required to balance the FY08 Budget.

Commercial-Residential Property Tax Classification: Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. As a result of commercial values increasing more than residential values, the share of property taxes paid by commercial taxpayers will increase. In FY08, the commercial property owners will pay 64.8% of the property tax levy, an increase from the 63.4% share in FY07. Consequently, the residential property owners' share of the FY08 tax levy is 35.2%, down from 36.6% in FY07.

Property Values: Every January 1st the City of Cambridge must meet Department of Revenue requirements to certify that property values represent full and fair market value. Based on market activity in calendar 2006, which is the basis of the FY08 property assessment, increases in total residential property values have moderated (approximately 2.1% overall). Conversely, increases in total commercial property values have increased 13.5%. The majority of the increase in residential property values is due to new construction with approximately one-half of the increase in commercial property values due to new construction. This is the third year in a row during which commercial values have increased more than residential values. These factors, coupled with the City's improved ability to analyze and incorporate adjustments to residential values using the mass appraisal model, have allowed the City to make changes to various assessment districts.

The chart below shows the change in the median tax bills by property class. The median value is the mid-point value, which has an equal number of values below and above it.

TABLE II
Change in the Median Value and Tax Bill by Property Class*

	FY07 Value	FY07 Tax Bill	FY08 Value	FY08 Tax Bill	Dollar Change	Percent Change
Single Family	\$674,800	\$3,522	\$664,750	\$3,405	-\$117	-3.3%
Condominium	\$366,800	\$1,218	\$366,000	\$1,206	-\$12	-0.9%
Two Family	\$669,100	\$3,479	\$664,900	\$3,406	-\$73	-2.1%
Three Family	\$758,500	\$4,148	\$748,200	\$4,019	-\$129	-3.1%

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY08 values are based on market activity that occurred during calendar year 2006, during which the overall valuation of the City's residential property increased by a modest 2.1% and the overall valuation of commercial property increased by 13.5%. The majority of the increase in residential property values is due to new construction with approximately one-half of the increase in commercial property values due to new construction. The commercial market has not only stabilized but has shown an increase in commercial rental rates and a decrease in commercial vacancies. This has had a positive impact on commercial property values. The major component of the increased commercial value, however, continues to be new construction of life science buildings and the personal property associated with these developments.

For several years prior to FY06, escalating residential values outpaced increases in commercial values, resulting in a shift of the tax burden from commercial to residential property owners. However, in FY06, this trend reversed. In FY08, the continued strong commercial market, coupled with a slight decrease in most residential property values, has resulted in a continued tax burden shift back to commercial taxpayers from residential taxpayers, for the third year in a row.

For FY08, the total assessed value of taxable property in the City of Cambridge equals \$23,541,195,566, a 6.2% increase over FY07 values. The tables below break out new construction value and tax base levy growth due to new construction by property type. This new construction growth has resulted in a further shift in taxes for the third year in a row and an increase in the City's excess levy capacity.

TABLE III
New Construction Breakdown in FY08

Property Class	New Value	FY08 Tax Base Levy Growth (New Growth)
Commercial Property	\$537,665,343	\$ 9,839,276
Personal Property	\$222,516,425	\$ 4,072,051
Residential Property	\$434,429,591	\$ 3,249,533
Total New Growth	\$1,194,611,359	\$17,160,860

TABLE IV
Assessed Values (in millions)

	FY04	FY05	FY06	FY07	FY08
Commercial Property	\$ 6,625	\$ 7,010	\$ 7,280	\$ 7,372	\$8,378
Personal Property	\$ 444	\$ 467	\$ 605	\$ 659	\$736
Residential Property	\$12,158	\$13,871	\$13,962	\$14,136	\$14,427
Total Assessed Value	\$19,227	\$21,348	\$21,847	\$22,167	\$23,541

For FY08, the City was able to increase its levy limit by approximately \$25.1 million, to \$331 million. Approximately \$17.2 million of this increase was due to new construction. State law allows the City to increase its tax levy limit by an amount equal to the total FY08 value of newly constructed or renovated property multiplied by the FY07 tax rate. The remaining \$7.9 million is the 2.5 percent increase over the FY07 levy allowed by Proposition 2½, plus a revised new value calculation from FY07. The City's excess levy capacity increased by \$14.6 million, or 19.8%, to \$88.3 million in FY08.

TABLE V
Tax Levy/Tax Levy Limit/Excess Levy Capacity
(in thousands)

	Actual FY04	Actual FY05	Actual FY06	Actual FY07	Estimated FY08
Levy Limit	\$251,018	\$267,653	\$288,048	\$305,445	\$330,587
Actual Levy	\$209,599	\$222,953	\$222,960	\$231,787	\$242,334
% Actual Levy Increase over Prior Year	6.01%	6.37%	0%	3.96%	4.55%
Excess Levy Capacity	\$ 41,419	\$ 44,700	\$ 65,088	\$ 73,658	\$88,253
% Actual Excess Levy Capacity Increase Over Prior Year	14.4%	7.9%	45.6%	13.2%	19.8%

In addition to providing greater flexibility under Proposition 2 1/2, tax payments from newly constructed properties also work to mitigate increases on existing properties.

For a detailed listing of assessment changes by district, please see Attachment 1.

FY2008 VALUATION PROCESS

Each year, the Board of Assessors conducts a reappraisal of all property within the City of Cambridge using the residential and commercial valuation models first introduced in FY05. The City chose FY05 to coincide with the Commonwealth of Massachusetts Department of Revenue (DOR) triennial mass appraisal review and certification process to ensure a complete and thorough review of the new valuation models. Since that time the model has been refined each year to reflect market conditions which impacted assessed values. In FY08, the DOR conducted its triennial review and certification and once again it certified the City's valuation models after a vigorous review.

The FY08 valuation model is based upon sales of property that occurred during calendar year 2006 to establish the market value of all property as of January 1, 2007. For FY08, the number of assessing districts has remained unchanged. In prior years, some consolidation of districts was made to create a larger sales sample size.

The ultimate test for any mass appraisal model is the comparison between actual sales not part of the model building process and the predicted value from the model. Comparing the FY07 model to calendar year 2006 sales data, the model showed the following results:

TABLE VI
Residential Sales Price/Assessment Comparison

Property Type	Sale Count	Median Sale Price	Median Assessment
Single Family	128	\$760,000	\$685,000
Two Family	41	\$625,000	\$620,500
Three Family	21	\$730,000	\$648,400
Condominiums	757	\$413,000	\$384,600

The assessment ratios were at 93-95% of calendar 2006 sales, which means that assessed estimate of values for FY07 were below actual market sales.

Although the calendar year 2006 sales demonstrated that the FY07 model was an accurate representation using overall property class statistics, the individual neighborhoods were not as consistent and required review. As a result, the FY08 sales data from calendar year 2006 real estate market has been utilized, along with what was learned from the prior year abatement activity, to establish the FY08 assessed values as of January 1, 2007. Using new technologies, such as the Geographical Information System (GIS), allowed for a more in-depth review of data. Using GIS, the Board of Assessors was able to visually display the market activity and thereby validate the assessing districts using this information. For FY08, the number of assessing districts remained at 17, which allowed for adequate sample sizes for the neighborhoods.

Several other modifications were made including changes in the condominium size adjustment curve and expansion of the difference in the condition factors. In addition, approximately 3,100 inspections were completed along with a detailed field review of property. These inspections serve to ensure consistency within neighborhoods and across the City. The analysis for determining property values depends on several factors: the trends of the real estate market in the areas of sales; property improvements; changes in the economics of real estate finance; and the high demand for real estate in the City. To arrive at full and fair cash values for approximately 23,000 parcels, the Assessing Department uses a state-of-the-art Computer Assisted Mass Appraisal system (CAMA) developed by Vision Appraisal Technology. Market adjusted cost approach models, extracted from residential sales for calendar year 2006, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of 1,479 houses and condominium units were analyzed to develop these valuation models by property type (one-family, two-family, three-family, and condominium units). The FY08 real property assessments reflect the resultant analysis of the real estate market for the calendar year 2006.

COMMUNITY PRESERVATION ACT SURCHARGE

In November 2001, Cambridge voters approved adoption of the Community Preservation Act (CPA), a State law that allows the City to receive matching funds from the State for money raised locally in support of affordable housing, historic preservation and protection of open space. The local portion of CPA funding is raised through a 3% surcharge on taxes. To date, the City has appropriated/reserved a total of \$72.2 million in CPA funds. The City has received \$27.7 million in state matching funds through FY07 and expects to receive an additional \$6.1 million in October 2007.

The CPA surcharge has an essentially neutral impact on tax bills because funding of affordable housing and historic preservation initiatives have been shifted from the tax levy to the surcharge. The City continues to allocate a similar amount of local funds to these initiatives. However, the State match has enabled the City to double the amount of funding appropriated for these initiatives. To date, Cambridge has received more CPA matching funds from the Commonwealth than any other participating community. Consequently, Cambridge residents will benefit from important housing, historic preservation and open space initiatives throughout the City for years to come.

TABLE VII
Community Preservation Act Surcharge

	FY07 Median CPA Surcharge Amount	FY08 Median CPA Surcharge Amount	FY08 Median Tax	FY08 Median Tax & CPA Surcharge Amount
Single Family	\$ 83	\$80	\$3,405	\$3,485
Condominium	\$ 14	\$14	\$1,206	\$1,220
Two Family	\$ 82	\$80	\$3,406	\$3,486
Three Family	\$102	\$98	\$4,019	\$4,117

RECOMMENDATIONS

1. That the City Council appropriate \$8,000,000 from Free Cash to the City's Debt Stabilization Fund.
2. That the City Council authorize the further use of Free Cash of \$17,000,000 to set the 2008 tax rate as follows:
 - a. Operating Budget: \$ 2,000,000 as adopted in the FY08 Budget
 - b. Public Investment: \$ 1,000,000 as adopted in the FY08 Budget
 - c. Tax Support Reduction: \$6,000,000
 - d. Debt Stabilization Fund: \$8,000,000 see appropriation order
3. That the City Council vote to authorize \$2,000,000 in overlay surplus/reserve be used for reducing the FY08 tax levy.
4. That the City Council vote to authorize \$3,000,000 from the Debt Stabilization Fund be used as a revenue source to the General Fund Budget which has been increased from the \$1.5 million included in the FY08 Adopted Budget.
5. That the City Council classify property within the City of Cambridge into the five classes allowed for the purpose of allocating the property tax. It is further recommended that the City Council adopt a minimum residential factor of 57.35%.
6. That the City Council approve the maximum residential exemption factor of 30% for owner occupied homes, which should result in a residential tax rate of \$7.36 and commercial tax rate of \$17.24 upon final approval by the Massachusetts Department of Revenue.
7. That the City Council vote to double the normal value of the statutory exemptions.
8. That the City Council vote to increase the FY08 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from \$251.00 to \$262.00.
9. That the City Council vote to increase the FY08 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from \$49,968 to \$52,117.

10. That the City Council vote to increase the FY08 income and assets limits. Income limits of \$20,660 to \$21,548 for those that are single and \$30,990 to \$32,323 for those that are married, asset limits of \$41,320 to \$43,097 for those that are single and \$56,815 to \$59,258 for those that are married, as allowed under MGL, Chapter 59, Section 5, Clause 41D.
11. That the City Council vote to increase the income limit for deferral of real estate taxes by elderly persons (at least 65 years old) from \$20,000 to \$40,000, as allowed under MGL Chapter 59, Section 5, Clause 41A.
12. That the City Council vote to accept Massachusetts General Laws Chapter 59, Section 51 that gives Massachusetts National guardsmen and reservists deployed outside of the state, or their dependents, up to 180 days after that service to pay their property taxes without interest or penalties.

ISSUES/REQUIRED VOTES

- **Authorize the use of \$8,000,000 in Free Cash.** This Free Cash authorization of \$8,000,000 to the City's Stabilization Fund will be used to offset anticipated debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center and War Memorial) and potential additional debt service costs for CRLS renovations. This appropriation will help stabilize tax levy increases related to these projects in future years. It should be noted that the \$17 million authorization detailed below includes this \$8 million.
- **Authorize \$17,000,000 in Free Cash.** For the fiscal year that ended June 30, 2007, the City of Cambridge has a certified Free Cash balance of \$73,785,122, an increase of approximately \$5.8 million from FY2006. This increase in free cash is attributable to another strong year in non-property tax collections, increased investment income and effectively monitoring and controlling expenditures and matching bonding schedules with cash flow requirements in order to minimize temporary capital balance shortfalls which can impact free cash negatively.

The \$17,000,000 in the Free Cash authorization requested at this time includes the appropriation of \$8 million to the City's Stabilization Fund to offset anticipated debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center and War Memorial) and potential additional debt service costs as a result of higher construction costs for CRLS renovations. This appropriation will help stabilize tax levy increases related to these projects in future years. The authorization also includes a \$1 million increase from the initial estimate developed during the budget process because of the increase in the free cash balance. Therefore, this additional \$1 million, when coupled with the \$5 million already planned for, will mean that the City will use \$6 million from its free cash balance in order to reduce the property tax levy increase. In addition, \$3 million in free cash is used in the FY08 Budget as a revenue source.

- **Transfer of Excess Overlay Balances.** The City is authorized to increase each tax levy by up to five percent as an “overlay” to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy or transfers may be made from surplus balances from prior fiscal years.

Overall, the City has approximately \$18.2 million in overlay balances as of June 30, 2007. However, there are cases pending at the Appellate Tax Board for which the City must have sufficient balances to cover abatements if it loses these cases. Based upon the overall size of the overlay surplus, I am recommending that the City use \$2 million of this surplus to decrease the tax levy. Based on the level of the current surplus, the City would continue to use \$2 million for this purpose in future years. This conservative approach will allow the City to maintain a sufficient overlay reserve while reducing older overlay balances to help lower the tax levy.

- **Authorize \$3,000,000 in Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects, the City established a Debt Stabilization Fund and has made contributions to it over the past several years. The balance in this Stabilization Fund is approximately \$14.1 million as of June 30, 2007. The Adopted FY08 Budget included \$1.5 million from this source to fund increases in debt service costs. This amount has been increased by an additional \$1.5 million for a total of \$3.0 million. The recommended increase was planned for based upon actual free cash totals and non-property tax collections.

The Department of Revenue (DOR) does not allow formal authorizations of Free Cash by the City Council until the DOR has certified a Free Cash balance at the conclusion of the fiscal year.

- **Classify Property and Establish Minimum Residential Factor.** Since 1984, the City Council has voted annually to follow State law allowing the classification of property according to use (residential or commercial) and to allocate the legal maximum portion of the tax levy to the commercial class. State law allows the residential portion of the tax levy to be as low as 50% of what it would be if there were single tax rates. However, there are two exceptions to the 50% minimum:
 1. The residential percent of the levy cannot drop to less than its lowest level since classification was initially voted by the City Council (34.5615% in 1985 in Cambridge); and
 2. The 50% level does not cause the commercial class to bear a portion of the levy greater than 175% of what it would be if both classes were taxed equally.

The City Council sets the levy distribution each year by voting for a Minimum Residential Factor. The result of voting for the Minimum Residential Factor of 57.3500% this year will be a residential property share of the total tax levy of 35.1461%. Commercial property will pay 64.8539% of the levy, which brings the commercial portion of the levy to 168% of what it would be with a single tax rate

- Residential Exemptions.** Home Rule Legislation allowing the City of Cambridge to increase the residential exemption from 20% to 30% was filed by a unanimous vote of the City Council and signed into law in September 2003. This change enables the City to grant owner occupants of residential properties a deduction of up to 30% of the average residential parcel value before the tax rate is applied. I am recommending that the City Council accept the Maximum Residential Exemption of 30%. This amount is deducted from the assessed value of each owner occupied property prior to applying the tax rate. The residential exemption serves to reduce the effective tax rate on lower valued properties while raising it on higher valued properties. Since the same amount is deducted from every value, its impact is greatest on the lower valued properties. The residential exemption is paid for by raising the residential tax rate sufficiently to cover the number of taxpayers claiming the residential exemption. For FY2008 there are approximately 14,100 residential exemptions on the Assessing Department files. Overall, 89% of the owner occupied homes benefit from the 30% residential exemption.

If Cambridge did not adopt a residential exemption, the residential tax rate would be \$5.90 instead of \$7.36. The higher tax rate results in a "break-even" value over which the higher valued residential properties are assessed for higher taxes than would be the case if there were no residential exemption. In FY08, the break-even value is \$1,030,400

30% Residential Exemption

	<u>FY2006</u>	<u>FY2007</u>	<u>FY2008</u>
Value Exempted	\$209,688.00	\$203,975.00	\$202,151.00
Tax Savings	\$ 1,547.50	\$ 1,525.73	\$ 1,487.83

Although the slowdown in residential values has resulted in commercial property owners paying a larger share of the total real estate tax, it has also reduced the average residential value because of a greater number of units which lowers the residential exemption.

- Double Statutory Exemptions/Exemption Increases.** State legislation requires cities and towns to grant a variety of tax exemptions to elderly taxpayers, blind taxpayers, veterans, and surviving spouses who qualify by virtue of residency, income and assets. There are also two pieces of legislation which authorize cities and towns to increase the amounts of these exemptions.

The first allows cities and towns to double the statutory amounts for taxpayers whose tax bills have increased over the prior year's bill. The City Council must vote annually for this increase. I am recommending that the Council do this for FY08, as it has since FY87.

The second allows cities and towns under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D to increase the amount of the exemption for a senior citizen 70 or older, surviving spouse, or minor with a deceased parent by the increase in the cost-of-living as measured by the Consumer Price Index (CPI).

The CPI increase for FY08, which was published by the DOR for exemption purposes, is 4.3%. Applying this percentage increase to the FY07 exemption of \$251 raises the exemption to \$262. In addition, under Clause 17E, cities and towns can increase the asset amounts by the CPI percentage for this same group which would mean an increase from \$49,968 to \$52,117.

MGL, Chapter 59, Section 5, Clause 41D allows cities and towns to increase the income and assets limits for elderly persons (age 65 or older) by the CPI percentage. This would increase income limits from \$20,660 to \$21,548 for those that are single and \$30,990 to \$32,323 for those that are married, and would increase asset limits of \$41,320 to \$43,097 for those that are single and \$56,815 to \$59,258 for those that are married.

- **Income Limit for Tax Deferral.** Another form of tax relief available to property owners under state law is found in MGL, Chapter 59, Section 3 Clause 41A. This statute allows taxpayers who are at least 65 years old to defer tax payment until they are deceased or the property is transferred. The statutory income limit for this deferral is \$40,000.
- **Massachusetts Military Service Tax Payment Deferral.** Another form of tax relief, under MGL Chapter 59, Section 51, is available to Massachusetts National guardsmen and reservists deployed outside of the state, or their dependents, giving up to 180 days after that service to pay their property taxes without interest or penalties. After 180 days the interest rate is calculated at 6% as opposed to 14% as otherwise required by MGL. This local option statute is patterned after the provisions of the Federal Service members Civil Relief Act, which allows similar benefits for federal, state or local income taxes. Once accepted it would apply to any outstanding property taxes of qualifying guardsmen or reservists and their dependents, regardless of when they fell due.

CONCLUSION

Cambridge continues to face the same challenges as every other community in the Commonwealth with regard to municipal financing and reliance on the property tax. The City receives approximately 60% of its revenues from the property tax. Massachusetts communities are limited in the ways they can raise their own revenues, which results in a greater reliance on the property tax since it is the largest and most stable revenue available to a city or town. Cambridge has been able to achieve a lower property tax rate and an overall lower residential property tax bill than other surrounding communities because of its ability to generate non-property tax revenues, new construction growth, controlled budget growth and the prudent use of reserves. However, the pressures of rising health insurance and pension costs, energy costs and debt service increases to fund infrastructure improvements continue to be a major concern.

Last year, through our collective efforts, we were able to produce an FY07 Budget which achieved a 3.96% increase in the property tax levy when the City Council adopted the City Manager's property tax and classification recommendations in September 2006. The City administration and department heads worked hard during the budget process to produce an FY08 Budget with a modest increase in the property tax levy as part of our continuing effort to focus our attention on the City Council Goals which include the goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers."

The FY08 property tax levy of \$242,334,374 reflects a 4.55% increase. With approval of these recommendations, the three-year average increase of the property tax levy will be only 2.8%.

As a result, approximately 92.5% of residential taxpayers will see a reduction, no increase or an increase of less than \$100 in their FY08 tax bill. In fact, about 79.1% will see a reduction in their tax bill. An additional 13.4% will see either no change or an increase of less than \$100.

As the City Council is aware, by the time the classification vote is taken in the Fall of each year, the options for the City are fairly limited. Failure to approve the recommended classification, residential exemption and the doubling of statutory exemptions would result in significantly higher taxes for residential property owners. After the classification vote is taken, the establishment of the tax rate is a fairly simple mathematical calculation: the tax levy required to support the City budget divided by the total assessed valuation equals the tax rate for FY08.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of the residential property taxes. In addition, with City Council approval the City will use \$11 million of free cash, overlay reserve and debt stabilization in FY08 to lessen the amount to be raised from the property tax levy, which translates into a lower property tax burden for the taxpayers of the City. This is in addition to the \$3 million in free cash used in the FY08 Budget as a revenue source.

In addition, the appropriation of \$8 million to the Debt Stabilization Fund will allow the City to continue its investment in its infrastructure. This appropriation will help stabilize tax levy increases related to these projects in future years.

Also, in recognition of the City Council's request for additional funding for street and sidewalk repairs, I will be forwarding an appropriation recommendation shortly for this purpose, as well as a recommendation for increased funding for tree planting.

I believe that lessening the tax burden on our taxpayers is a prudent use of the City's reserve balances that we have created over the years, while maintaining our fiscal flexibility and continuing to position Cambridge as a favorable place to live and do business.

FY07 was another strong year for the finances of the City: with the excess levy capacity and free cash again increasing; actual revenues above projections; and increased total assessed values.

These strong financial indicators combined with a AAA credit rating provide the City with enormous flexibility to respond to the many needs facing this community, and to provide the services that the majority of our residents expect from the City without sacrificing our fiscal stability and flexibility.

By adhering to the proven fiscal policies that have served us so well in the past, we can continue to ensure a stable fiscal future for Cambridge.

It is my belief that we have again collectively listened to the taxpayers and residents through these actions and have responded effectively.

Very truly yours,

Robert W. Healy
City Manager

Attachment

Attachment 1**FY08 Single Family Assessment Data**

<u>NBHD</u>	<u>Count</u>	<u>FY07</u>	<u>FY08</u>	<u>Change</u>
R1	391	\$412,400	\$405,200	-1.75%
R2	208	\$428,300	\$417,050	-2.63%
R3	218	\$725,200	\$703,650	-2.97%
R4	83	\$812,300	\$805,600	-0.82%
R5	56	\$2,178,900	\$2,134,300	-2.05%
R6	334	\$1,322,700	\$1,297,650	-1.89%
R7	647	\$459,200	\$465,100	1.28%
R8	224	\$641,600	\$621,850	-3.08%
R9	203	\$1,055,500	\$1,030,100	-2.41%
R10	330	\$2,500,500	\$2,477,050	-0.94%
R11	165	\$1,114,750	\$1,100,500	-1.28%
R12	176	\$547,500	\$541,150	-1.16%
R13	234	\$554,200	\$556,450	0.41%
R14	119	\$970,600	\$960,900	-1.00%
R15	33	\$719,200	\$708,400	-1.50%
R16	147	\$842,400	\$830,600	-1.40%
R17	177	\$620,200	\$619,600	-0.10%

FY08 Two Family Assessment Data

<u>NBHD</u>	<u>Count</u>	<u>FY07</u>	<u>FY08</u>	<u>Change</u>
R1	308	\$467,350	\$461,400	-1.27%
R2	188	\$501,700	\$497,400	-0.86%
R3	229	\$842,650	\$831,200	-1.36%
R4	49	\$1,000,950	\$987,300	-1.36%
R5	14	\$2,218,150	\$2,181,700	-1.64%
R6	94	\$1,144,200	\$1,144,550	0.03%
R7	655	\$598,700	\$601,300	0.43%
R8	230	\$703,250	\$694,000	-1.32%
R9	13	\$901,300	\$908,000	0.74%
R10	16	\$2,058,900	\$2,025,850	-1.61%
R11	38	\$1,225,850	\$1,204,050	-1.78%
R12	180	\$625,800	\$621,050	-0.76%
R13	241	\$680,800	\$674,700	-0.90%
R14	242	\$885,600	\$856,400	-3.30%
R16	93	\$925,750	\$898,400	-2.95%
R17	151	\$712,700	\$695,300	-2.44%

FY08 Three Family Assessment Data

<u>NBHD</u>	<u>Count</u>	<u>FY07</u>	<u>FY08</u>	<u>Change</u>
R1	249	\$585,500	\$571,800	-2.34%
R2	163	\$677,000	\$659,900	-2.53%
R3	133	\$984,750	\$964,600	-2.05%
R4	37	\$1,112,850	\$1,099,300	-1.22%
R5	4	\$2,718,300	\$2,546,800	-6.31%
R6	42	\$1,373,000	\$1,289,350	-6.09%
R7	204	\$716,100	\$711,250	-0.68%
R8	65	\$905,900	\$898,700	-0.79%
R9	1	\$609,200	\$596,200	-2.13%
R10	1	\$3,153,900	\$3,141,600	-0.39%
R11	18	\$1,157,200	\$1,200,550	3.75%
R12	124	\$735,600	\$724,300	-1.54%
R13	168	\$752,000	\$738,450	-1.80%
R14	48	\$942,600	\$917,350	-2.68%
R16	49	\$978,550	\$936,800	-4.27%
R17	72	\$828,000	\$803,400	-2.97%

FY08 Condominium Assessment Data

<u>NBHD</u>	<u>Count</u>	<u>FY07</u>	<u>FY08</u>	<u>Change</u>
R1	1995	\$379,450	\$423,500	11.61%
R2	537	\$328,950	\$326,400	-0.78%
R3	1943	\$356,000	\$354,200	-0.51%
R4	645	\$315,200	\$310,100	-1.62%
R5	9	\$921,800	\$1,244,300	34.99%
R6	1589	\$335,400	\$330,600	-1.43%
R7	1342	\$336,100	\$333,100	-0.89%
R8	322	\$445,500	\$443,900	-0.36%
R9	48	\$474,550	\$453,700	-4.39%
R10	37	\$1,300,700	\$1,281,400	-1.48%
R11	513	\$578,800	\$565,800	-2.25%
R12	905	\$358,750	\$354,800	-1.10%
R13	953	\$358,600	\$355,700	-0.81%
R14	302	\$475,000	\$466,250	-1.84%
R16	343	\$375,200	\$364,100	-2.96%
R17	430	\$437,250	\$425,500	-2.69%