City of Cambridge
Executive Department

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To The Honorable, the City Council:

The establishment of the FY20 property tax rate by the Board of Assessors, subject to the approval of the Massachusetts Department of Revenue, is the final step in the fiscal process that begins in the spring 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 taxes on residential properties. In addition, you will find analyses of the FY20 property tax levy, property values, and other supporting information.

OVERVIEW

I am pleased to inform you that the actual FY20 property tax levy is $438,128,694. This is an increase of $28,318,833 or 6.9% from FY19 and reflects the City Council goal to "Ensure the City's Budget allocates resources responsibly and responsively." As we had anticipated, this actual increase is lower than the estimated increase projected in May 2019, and what was presented to the rating agencies in February. Responsible and responsive fiscal policies and practices are key to addressing the challenge of balancing expansion and investment in new programs and initiatives, while also minimizing the impact of increases in the tax levy.

The FY20 Adopted Operating Budget increased by 5.7% over the FY19 Adjusted Budget. The FY20 Budget adopted by the City Council in May 2019 projected a property tax levy increase of $35.7 million, or 8.7%, to $445,467,720 in order to fund operating and capital expenditures.

With approval of these recommendations, the property tax levy increase of 6.9% will be above the FY19 increase of 5.3%. The property tax levy increase is also above the five-year (FY16-FY20) annual average increase of 5.1%, and the ten-year (FY11-FY20) annual average increase of 5.0%. The fact that the property tax levy increase for FY20 is higher than previous years increases reflects enhanced funding and investment to address important community needs and expressed Council priorities.

The City has been able to control budget growth and property tax levy increases, while at the same time expanding services and adding resources to support the City Council priority to create and preserve affordable housing within the City. The FY20 Budget represents the most significant increase in the City's history of non-CPA resources to create and preserve affordable rental and homeownership opportunities for low, moderate, and middle-income families, including $4.725 million, funded from building permits, which is an increase from $3.45 million in FY19, and an additional $5 million funded through Free Cash. This is in addition to $10.6 million appropriated by the City Council from FY20 Community Preservation Funds, for a total of $20.3 million of direct financial support to the Affordable Housing Trust. This amount is an increase of $6.7 million from FY19 funds to the Affordable Housing Trust ($13.6 million). Looking forward, I am confident that the City will be able to double the FY19 amount of $13.6 million to approximately $27 million of direct support to the Affordable Housing Trust in FY21.

The FY20 Budget also includes significant increases for additional Council priorities. This includes 30 new full-time City positions to provide support for expanded programs and initiatives.

There is $1 million in funding for a new Police Cadet Program. This program is designed to reflect the diversity of the City, and will provide an opportunity for Cambridge residents between the ages of 18-23 to receive a salary and on the job and classroom training. The first class of 14 cadets began in Fall 2019 and, upon completion of the program in 2 years, will be eligible for appointment as a Cambridge Police Officer. There is also funding for 3 additional sergeants and a procedural justice informatics analyst within the Police Department. The City also budgeted two additional dispatchers in the Emergency Communications Department, and two additional Deputy Chiefs in the Fire Department, in order to enhance the Department's strategic planning and efforts in the areas of emergency medical services, special operations/safety initiatives, and community relations, including recruitment.

The Budget includes $1.2 million for urban forestry and the tree canopy in the City. This includes funds for tree planting and maintenance, and after care of new plantings. The City also budgeted a new Assistant Arborist to support planting and permitting programs.

Education is another key priority for the City Council. The City has increased property tax support for schools by 7%, which resulted in an increase of $10,700,755. In addition, there is new City funding for an expanded School Breakfast Program and a new MBTA Pass Program for high school students. There is also $537,000 of funding to hire 8 new preschool teachers through the Department of Human Services Programs.

In addition, the FY20 Budget supports Capital Improvements including funds to implement the winning projects from cycle five of the Participatory Budget program, and major capital projects such as Fire Headquarters construction, a multi-year Municipal Facilities Improvement Plan, technology initiatives, and the design of the Tobin Montessori School and Vassal Lane Upper School.

Based on a property tax levy of $438.1 million, the FY20 residential tax rate will be $5.75 per thousand dollars of value, subject to Department of Revenue approval. This is a decrease of $0.19, or -3.2% from FY19. The commercial tax rate will be $12.68, which is a decrease of $1.03, or -7.5% from FY19. This is the seventh consecutive year that the City has reduced tax rates for both residential and commercial taxpayers, which mitigates the impact of the increase in property values. Establishing the tax rate is a straightforward calculation: the total tax levy divided by the total assessed valuation (less any exemptions), equals the tax rate for FY20.

In May, the City Council was informed that the actual tax levy increase was likely to be lower than what was projected with the adopted budget. This was based on the possible use of additional non-property tax revenues, which would become available based on FY19 actual collections and final Cherry Sheet distributions.

As we previously projected, the use of additional non-property tax revenue and other adjustments have allowed an overall reduction of $7,339,026 from the original projected property tax levy for FY20. This is due to the use of increased non-property tax revenues based on FY19 actuals, which include $2,000,000 in Investment Income, $750,000 in Room Occupancy Excise Taxes, $400,000 in Meals Taxes, $976,090 from increases to building permit revenues, $400,000 in Motor Vehicle Excise Taxes, $750,000 in Public Works Street Permits and the City's Overlay Surplus increased by $500,000. The final Cherry Sheet had a positive impact of $1,392,132 on the property tax levy. Table 1 reflects these changes and other minor adjustments:

TABLE I
Summary of Tax Levy Changes from Adopted Budget

Tax Levy Changes	Amount
Property Tax Levy As Adopted	**$445,467,720**
Net Cherry Sheet	$-1,392,132
Non-Property Tax Revenue & Reserves	$-5,776,090
Overlay Adjustment	$-170,804
Actual Property Tax Levy	**$438,128,694**

This letter includes a recommendation to use $16.5 million in reserve accounts to lower the property tax levy: $2.5 million from overlay surplus and $14 million in Free Cash. The certified Free Cash amount of $246.6 million, an increase of $14.9 million or 6.4% over the previous year's certification, is inflated by $5.5 million in unappropriated mitigation receipts. Per MGL Chapter 144 Section 53, these receipts must flow through the Free Cash certification process before being available for appropriation by the Council. Excluding mitigation receipts, net certified Free Cash is $241.1 million. The City Manager will be coming before the City Council with a recommendation for the appropriation of mitigation receipts later in the fiscal year.

There is a recommendation to use $6 million from the City Debt Stabilization Fund to offset increases in debt service costs that would otherwise have been funded from property taxes. There is also a recommendation to appropriate $6 million from Free Cash into the Debt Stabilization Fund. This amount replenishes the amount recommended for use in FY20 from the Debt Stabilization. Prudent use of reserves allows the City to maintain stability in both current and future property tax increases while investing in significant capital and infrastructure projects. 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 too much 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 or dramatically reduce expenditures.

This prudent and planned use of the City's reserves has been positively recognized by the three major credit rating agencies and is reflected in our AAA credit rating. It is also important to recognize that a healthy balance of development between residential and commercial be continued to ensure homeowner's real estate taxes remain affordable.

IMPACT ON TAXPAYERS

This will be the fifteenth year in a row that a majority of residential taxpayers will see a reduction, no change, or an increase of less than $100 in their tax bill. In fact, in FY20, 61% of residential taxpayers will see a reduction, no increase or an increase of less than $100; and 74% of residential taxpayers will see an average increase of less than $250. This is a decrease from FY19, where 70% of residential taxpayers saw a reduction, no increase, or an increase of less than $100 and a decrease where 83% of residential taxpayers saw an average increase of less than $250 in FY19.

Over the past ten years (FY11-20), the City has seen an average of 69.1% of residential taxpayers see a reduction, no increase, or an increase of less than a $100 to their residential tax bill, and 70.8% over the past five years (FY16-20). We have been able to consistently achieve these results while maintaining and expanding City and school services that citizens have come to expect and while providing a robust capital improvement program.

TABLE II
Change in the Residential Tax Bills*

Change in Tax Payment	FY20 Number of Parcels	FY20 Percentage	FY20 Cumulative %		FY19 Cumulative %	FY18 Cumulative %
Less than $0	4,820	22%	22%		33%	24%
> $0 and less than $100.00	8,568	39%	61%		70%	69%
>$100.00 less than $250.00	2,869	13%	74%		83%	92%
>$250.00 and less than $500.00	2,818	13%	87%		96%	97%
Greater than $500.00	2,871	13%	100%		100%	100%
Totals	**21,946**	**100%**				

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

MEDIAN TAX BILLS

The analysis that follows explains in further detail how the City determined property values and property tax rates for FY20. There are three major factors which determine a property tax bill: 1) the Budget, 2) Commercial-Residential Property Tax Classification, and 3) 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 a 6.9% increase in the property tax levy required to balance the FY20 Budget, which supports the City Council Goal to “Ensure the City’s Budget allocates resources responsibly and responsively.”

Commercial-Residential Property Tax Classification: Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. In FY20, commercial property owners will pay 65.4% of the property tax levy, the same share as in FY19. Consequently, residential property owners’ share of the FY20 tax levy is 34.6%, also the same as in FY19.

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. As a result of the market activity in calendar year 2018, which is the basis of the FY20 property assessment, total residential property values increased by 9.9%. Total commercial property values increased by 15.6%. This year’s increase in total values reflects the robust real estate market, which has been driven by continued new construction in both residential and commercial classes, as well as the continued desirability of the Cambridge market. While the City has no control over the increase in property values, it does have control over levy increases, which ultimately impact taxes paid by property owners. As has been past practice, increases in property values have been mitigated by a decrease in the tax rate, translating into stable tax bills for Cambridge residents. Additionally, a major concern going forward is that if residential value increases outpace commercial/industrial/personal property increases, the City could hit the ceiling for the property tax classification shift. Once the classification ceiling is reached, the residential class will bear the majority of any tax levy increase.

As part of the process, the City must successfully complete the Department of Revenue's (DOR) interim year certification process of the City's real and personal property values, system and methodologies.

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

	FY19 Value	FY19 Tax Bill	FY20 Value	FY20 Tax Bill	Dollar Change	Percent Change
Single Family	$1,228,700	$5,066	$1,370,500	$5,515	$449	8.9%
Condominium	$638,750	$1,562	$690,500	$1,605	$43	2.8%
Two Family	$1,213,100	$4,974	$1,340,050	$5,340	$366	7.4%
Three Family	$1,406,700	$6,124	$1,540,600	$6,493	$369	6.0%

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY20 values are based on market activity that occurred during calendar year 2018, during which the overall valuation of both the City's residential property and commercial property increased. This reflects an increase in commercial rental rates and a slight decrease in commercial vacancies, which has an impact on existing commercial property values. The major components which impact the commercial values are the construction of life science buildings and the personal property associated with these developments.

For FY20, the total assessed value of taxable property in the City equals $54,947,909,223, approximately $6 billion or a 12.2% increase over FY19 values. The actual FY20 total assessed values are greater than the projections presented to the rating agencies in February 2019 due to continued strength in the Cambridge real estate market.

As noted above, the City is required to assess properties at full and fair market value. Therefore, it is extremely important to control the increase in the property tax levy in order to limit the impact on tax bills. While property values have increased significantly, residential tax bills have increased more moderately. As a result, the City has consistently received a limited number of abatement applications annually.

In FY19, the market for both commercial and residential properties increased at a faster pace than most of the Greater Boston area, resulting in the continuation of a tax distribution similar to FY19 between commercial taxpayers and residential taxpayers. Despite this environment of increasing values, it is important to note that due to the City's ability to control taxes and therefore produce tax bills with moderate increases, the City has incurred a limited number of abatement requests annually. This has allowed for a $2.5 million overlay surplus to be applied towards lowering the FY20 property tax levy, as has been our practice in prior years.

The table below breaks out new construction values and tax base levy growth due to new construction by property type. This new construction growth, coupled with moderate budget increases, has allowed the City to maintain the classification of taxes and increase the City’s excess levy capacity.

TABLE IV
New Construction Breakdown

Property Class	New Growth Value	FY20 Tax Base Levy Growth (New Growth)
Residential Property	$374,644,360	$2,225,387
Commercial Property	$541,785,100	$7,427,874
Personal Property	$348,903,706	$4,783,470
Total New Growth	**$1,265,333,166**	**$14,436,731**

TABLE V
Assessed Values (in millions)

	FY16	FY17	FY18	FY19	FY20
Residential Property	$21,584	$24,498	$26,426	$29,419	$32,335
Commercial Property	$11,874	$13,745	$15,719	$17,963	$20,934
Personal Property	$1,222	$1,387	$1,474	$1,595	$1,679
Total Assessed Value	**$34,680**	**$39,630**	**$43,619**	**$48,977**	**$54,948**

For FY20, the City was able to increase its levy limit by approximately $29.3 million, to $628.5 million. Approximately $14.4 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 FY20 value of newly constructed or renovated property, multiplied by the FY19 tax rate. The remaining $14.9 million is the 2.5% increase over the FY19 levy allowed by Proposition 2½. The City’s excess levy capacity increased by approximately $1.0 million, or .52%, to $190.4 million in FY20. This is the lowest increase in excess levy capacity in the last 5 years, which is primarily the result of budget growth and the corresponding levy increase for FY20.

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

	Actual FY16	Actual FY17	Actual FY18	Actual FY19	Estimate FY 20
Levy Limit	$509,473	$540,960	$570,550	$599,171	$628,479
Actual Levy	$354,431	$372,674	$389,080	$409,810	$438,129
% Actual Levy Increase over Prior Year	3.8%	5.2%	4.4%	5.3%	6.9%
Excess Levy Capacity	$155,042	$168,286	$181,470	$189,361	$190,350
% Change of Excess Levy Capacity Over Prior Year	15.7%	8.5%	7.8%	4.4%	.52%

In addition to providing greater flexibility under Proposition 2½, 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.

<u>FY20 VALUATION PROCESS</u>

Each year, the Board of Assessors conducts a reappraisal of all property within the City. The residential and commercial valuation models are refined each year to reflect market conditions which have impacted assessed values. This fiscal year, the Department of Revenue (DOR) conducted statistical validation of the models.

The FY20 valuation model is based upon sales of property that occurred during calendar year 2018, to establish the market value of all property as of January 1, 2019. For FY20, the number of assessing districts has remained unchanged. In prior years, some consolidation of districts took place 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 FY19 model to calendar year 2018 sales data, the model showed the following results.

TABLE VII
Residential Sales Price/Prior Assessment Comparison

Property Type	Sale Count	Median Sale Price	Median Assessment
Single Family	**99**	**$1,400,000**	**$1,134,000**
Two Family	**61**	**$1,405,000**	**$1,176,500**
Three Family	**36**	**$1,800,000**	**$1,446,500**
Condominiums	**533**	**$752,000**	**$663,900**

The assessment ratios were between 80%-88% of calendar year 2018 sales, reflecting increasing market values during the last year.

Calendar year 2018 sales demonstrated that the FY19 model needed to be updated based on current market trends and overall property class statistics. The individual neighborhoods also showed some inconsistent growth trends and required review. As a result, sales data from the calendar year 2018 real estate market has been utilized, along with what was learned from the prior year abatement activity, to establish the FY20 assessed values as of January 1, 2019. Using 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 market activity and thereby validate the assessing districts using this information.

Modifications were made to the residential and condominium models, as well as to residential land values. The residential land had adjustments for neighborhood, while the residential model was recalibrated for use, grade, finished basements and condition adjustments. The condominium model was adjusted by neighborhood for market conditions as of the assessment date. In addition, 4,886 inspections were completed along with a detailed field review of property. These inspections served 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 all 24,801 parcels, the Assessing Department uses a state-of-the-art Computer Assisted Mass Appraisal system (CAMA). Market adjusted cost approach models, extracted from residential sales for calendar year 2018, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of over 1,000 houses and condominium units were analyzed to develop these valuation models by property type (one-family, two-family, three-family, and condominium units).

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 open space. The local portion of CPA funding is raised through a 3% surcharge on taxes.

However, the State match has enabled the City to provide additional funding for these initiatives. To date, Cambridge has received more CPA matching funds from the Commonwealth than any other participating community. Consequently, Cambridge residents will continue to benefit from affordable housing, historic preservation and open space initiatives throughout the City for years to come. The

State also recently approved increased fees at the Registry of Deeds, which is anticipated to increase the matching funds that the City receives from the State next fiscal year.

To date, the City has appropriated/reserved a total of $206.3 million in CPA funds, of which $52.7 million can be attributed to the State match.

TABLE VIII
Community Preservation Act Surcharge

	FY19 Median CPA Surcharge Amount	FY20 Median CPA Surcharge Amount	FY20 Median Tax	FY 20 Median Tax & CPA Surcharge Amount
Single Family	$134	$148	$5,515	$5,663
Condominium	$29	$31	$1,605	$1,636
Two Family	$131	$143	$5,340	$5,483
Three Family	$166	$178	$6,493	$6,671

RECOMMENDATIONS

1. That the City Council vote to authorize the use of $14,000,000 in Free Cash to reduce the FY20 tax rate.

2. That the City Council vote to authorize $2,500,000 in overlay surplus/reserves to be used for reducing the FY20 tax rate.

3. That the City Council vote to authorize $6,000,000 from the City Debt Stabilization Fund to be used as a revenue source to the General Fund Budget, which was included in the FY20 Adopted Budget.

4. That the City Council appropriate $6,000,000 from Free Cash to the City Debt Stabilization Fund.

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 58.7316%.

6. That the City Council approve the residential exemption factor of 30% for owner occupied homes, which should result in a residential tax rate of $5.75 upon final approval by the Massachusetts Department of Revenue. In addition, based upon final approval by the Massachusetts Department of Revenue the commercial tax rate is anticipated to be $12.68.

7. That the City Council vote to double the normal value of the statutory exemptions.

8. That the City Council vote to increase the FY19 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from $322 to $333.

9. That the City Council vote to increase the FY19 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from $63,760 to $65,864.

10. That the City Council vote to increase the FY19 income and assets limits for elderly persons (age 65 or older). Income limits of $26,364 to $27,234 for those who are single and $39,547 to $40,852 for those who are married, asset limits of $52,725 to $54,465 for those who are single and $72,498 to $74,890 for those who are married, as allowed under MGL, Chapter 59, Section 5, Clause 41D.

11. That the City Council vote the income limit for deferral of real estate taxes by elderly persons (at least 65 years old) as determined by the Commissioner of Revenue for the purposes of MGL, Chapter 62, Section 6, subsection (k), for a single person who is not head of household ($58,000) and for a married couple ($88,000), as allowed under MGL Chapter 59, Section 5, Clause 41A. The reduction of the interest rate to 4% for deferred taxes, which was approved by the City Council previously, will continue.

ISSUES/REQUIRED VOTES

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 (less any exemptions), equals the tax rate for FY20.

The following is a summary of the votes required by the City Council.

- **Authorize $14,000,000 in Free Cash to Reduce the FY20 Tax Levy.** For the fiscal year that ended June 30, 2019, the City of Cambridge has a certified Free Cash balance of $246,628,340 an increase of approximately $14.9 million from the previous year. This balance represents the highest amount in the City's history. However, this increase includes approximately $5.5 million in unappropriated mitigation receipts which, according to MGL chapter 44 section 53, must flow through the Free Cash certification process before the receipts are available for appropriation by the Council. After the reduction of mitigation funds, the net certified Free Cash Balance is $241.1 million. The City Manager will be coming before the City Council with a recommendation for the appropriation of mitigation receipts later in the fiscal year.

  The $14 million in the Free Cash authorization is requested at this time from the City's Free Cash balance in order to reduce the property tax levy increase. This year's Free Cash authorization offsets $5 million in additional funding for affordable housing included in the FY20 Adopted Budget.

  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.

- **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 $19.0 million in overlay balances as of June 30, 2019. 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 $2.5 million of this surplus to decrease the tax levy. 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 $6,000,000 in City Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects, the City established a City Debt Stabilization Fund. The Adopted FY20 Budget included $6.0 million from this source to fund debt service costs related to the elementary school reconstruction program.

- **Appropriate $6,000,000 in Free Cash to the City's Debt Stabilization Fund.** This Free Cash appropriation of $6.0 million to the City's Debt Stabilization Fund will be used to mitigate anticipated debt service costs in future years for the City's major capital projects, especially in relation to the School Reconstruction Program.

- **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:

  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 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.

  Under the requirements for classification, 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 58.7316% this year will be a residential property share of the total tax levy of 34.5615%. This means that Commercial property will pay the remainder, 65.4385% of the levy. The commercial portion of the levy is 159.011% of what it would be with a single tax rate, if classification was not adopted.

- **Residential Exemptions.** Home Rule Legislation allowing the City 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 Residential Exemption at 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 FY20, there are approximately 14,600 residential exemptions on the Assessing Department files on owner-occupied homes. The Assessing Department conducts random audits and responds to inquiries about individuals claiming the residential exemption, to ensure the validity of the program.

If Cambridge did not adopt a residential exemption, the residential tax rate would be $4.68 instead of $5.75. The higher tax rate results in a "break-even" value over which the higher valued residential properties are assessed higher taxes than would be the case if there were no residential exemption. In FY20, the break-even assessed value is approximately $2,210,000.

30% Residential Exemption

	FY2018	FY2019	FY2020
Value Exempted	$338,983	$375,800	$411,316
Tax Savings	$2,132	$2,232	$2,365

- **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 amount of exemption for taxpayers whose tax bills have increased over the prior year's bill. The City Council votes annually for this increase. I am recommending that the Council do this for FY20, 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 cost of living adjustment (COLA), as determined by the DOR, is measured by the increase in the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for Urban Consumers, Boston (CPI-U) for the previous calendar year. The percentage increase for this period was 3.3%. Therefore, the FY20 exemption amounts, income limits or asset limits under these local options will increase over the FY19 amounts and limits. Therefore, the FY20 exemption will be $333.

  In addition, under Clause 17E, which Cambridge has already adopted, cities and towns can increase the asset amounts by the CPI percentage for this same group. The FY20 amounts increases to $65,864 from $63,760.

  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. For FY20, the income limits will be $27,234 for those who are single, $40,852 for those who are married, and the asset limits will be $54,465 for those who are single and $74,890 for those who 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 payments until they are deceased or the property is transferred. The statutory income limit for this deferral is $40,000. However, a change in the statute, allows the City Council to vote to increase the income limit for deferral of real estate taxes by elderly persons (at least 65 years old) from $40,000 to the amount determined by the Commissioner of Revenue for the purposes of subsection (k) of section 6 of chapter 62, (currently $58,000 for a single person and $88,000 for a married couple, which may be indexed by Massachusetts DOR for FY18), as allowed under MGL Chapter 59, Section 5, Clause 41A. I am recommending that the

City Council vote to adopt the deferral amount. The City Council has previously voted to reduce the interest percentage to 4% on deferred property tax balances.

CONCLUSION

In May, the City Council adopted an FY20 Budget that continues to provide stability and reinvests in our community. The Budget expands City and school services, includes new programs and 30 new City positions (excluding School Department), which help support a variety of new initiatives and City Council priorities, and provides for a robust capital plan, including funding to continue the multi-year school reconstruction program and increased funding for affordable housing initiatives. This has been achieved by our strong fiscal practices, which control budget growth and property tax levy increases.

Approximately 65% of the revenues that fund the City's budget are raised through property taxes. Massachusetts communities are limited in how they can raise revenues, resulting in a greater reliance on the property tax, since it is the largest and most stable revenue. The City has been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities due to its ability to generate diverse non-property tax revenues, foster new construction, control budget growth, and plan prudent use of reserves. In addition, a strong, stable commercial tax base is a key component of our ability to limit impacts on residential taxpayers.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of residential property taxes in FY20. In addition, with City Council approval, the City will use $16.5 million of reserves (free cash/overlay surplus) in FY20 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.

I am recommending the appropriation of $6.0 million from Free Cash to the City's Debt Stabilization Fund, which will be used to offset anticipated debt service costs in future years for the City's major capital projects, especially in relation to the school reconstruction program. This is an increase from previous years and is in recognition of future capital projects and the importance of stabilizing tax levy increases in future years.

With the approval of this recommendation, the Debt Stabilization Fund is projected to have a FY20 year-end balance of $57.2 million to help offset some of the future debt service costs of the school reconstruction program and other municipal projects. The City will continue to pursue opportunities for reimbursement through the Massachusetts School Building Authority (MSBA) program for smaller repair projects; these funds are not included in our current financial projections.

Our current five-year debt schedule (FY20-24) is projected to be over $528.6 million, which is comprised of $378.6 million in tax supported debt and $150 million of sewer debt. The multi-year school reconstruction program makes up $224.6 million of this total and includes the construction of the King Open and Cambridge Street Upper Schools and Community Complex, as well as a portion of the Tobin Montessori and Vassal Lane Upper School project. However, it should be noted that with this projected debt issuance, the City's ability to fund additional major projects is limited.

Based upon discussions with the City Council, we have amended our bonding schedule, which resulted in a recommendation to fund the renovation of the Fire Department Headquarters. The City will also continue to explore additional funding for improvements to other fire stations.

The past fiscal year was very strong financially, with total assessed values and excess levy capacity continuing to increase; actual revenues which exceeded projections and prior year collections; and controlled expenditures. However, it would not be prudent for the City to expect or project future revenues based on FY19 actuals.

These strong financial indicators, combined with an 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. It is also important to recognize that a healthy balance of development between residential and commercial be continued to ensure homeowner's real estate taxes remain affordable.

The City used $45.6 million in Free Cash in FY19. With the approval of this recommendation, the City will use $20 million in Free Cash, reducing the net Free Cash balance to $226.6 million. The City has used an average of $43.6 million in Free Cash annually over the last 5 years. The strategic use of Free Cash is not only used to reduce the current tax levy and stabilize the impact of future debt supported capital projects, but is also available to fund one-time items. This planned approach has allowed us to maintain our Free Cash balances, enabled us to weather uncertain economic times, and is the City's insurance policy against unforeseen catastrophes.

As in the past, the City is currently compiling a list of prioritized projects. Subject to City Manager recommendation and City Council approval, a partial list of the items that are anticipated to be recommended for appropriation from Free Cash include: Foundry Building construction; open space/recreation projects, including Glacken Field, additional tree funding, a new Universal Design playground; public safety radio equipment; preservation of "expiring use" properties; the Green Line Extension payment; E-Gov projects; Central Square Branch Library improvements; implementing recommendations of the Mayor's Arts Task Force and the Blue-Ribbon Task Force for Tenant Displacement; school building feasibility plan; and snowstorm related expenses. Based on the current estimates of appropriations from Free Cash during FY20, the City projects a significant decrease in next year's certified Free Cash Balance.

The long-term outlook for Cambridge continues to be very strong and reinforces the City's practice of managing our resources wisely. We will continue to use our five-year financial and capital plan, debt and reserve policies, and the City Council goals as a blue print for our long-range planning. Our current financial projections indicate that we will be able to continue to produce future budgets that will reflect a moderate growth in the property tax levy, which is slightly above our 5-year annual average increase.

The prudent use of the City's reserve balances that we have created over the years, has allowed us to lessen the tax burden of our tax payers while maintaining our fiscal flexibility and continuing to position Cambridge as a favorable place to live and do business. In addition, our reserves allow us to fund one-time capital projects and other programmatic initiatives that reflect City Council priorities.

I would like to thank the City Council for their continued guidance and support as well as staff for their hard work, that makes Cambridge the most fiscally sound city in the Commonwealth, while at the same time being able to provide increased support for important City priorities such as schools, housing, public safety, sustainability, infrastructure, and other City programs and Capital Improvements.

Very truly yours,

Louis DePasquale

Louis A. DePasquale
City Manager

Attachments

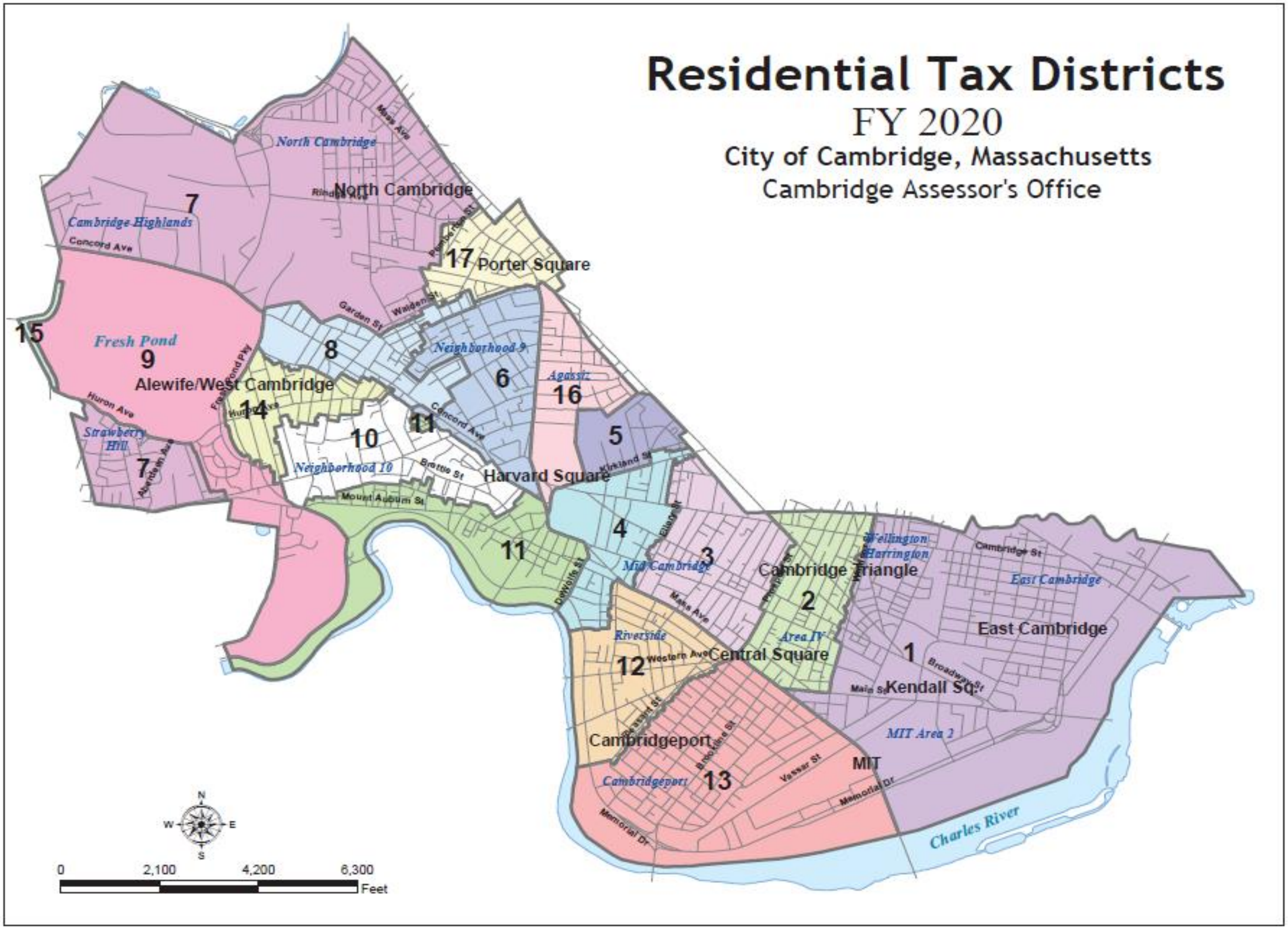
ATTACHMENT 1

FY2020 Single Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY19 Median Value	FY20 Median Value	Change
R1	387	$ 843,700	$ 880,500	4%
R2	205	$ 955,200	$ 1,074,600	13%
R3	237	$ 1,355,100	$ 1,511,500	12%
R4	84	$ 1,320,250	$ 1,495,300	13%
R5	62	$ 2,950,550	$ 3,404,550	15%
R6	372	$ 2,115,900	$ 2,241,000	6%
R7	658	$ 814,950	$ 905,550	11%
R8	202	$ 1,157,800	$ 1,234,650	7%
R9	205	$ 1,712,700	$ 1,818,400	6%
R10	338	$ 3,533,800	$ 4,085,650	16%
R11	171	$ 1,708,100	$ 1,923,300	13%
R12	181	$ 1,004,000	$ 1,143,500	14%
R13	234	$ 1,104,200	$ 1,247,050	13%
R14	174	$ 1,713,600	$ 1,935,050	13%
R15	33	$ 1,364,300	$ 1,490,000	9%
R16	156	$ 1,524,300	$ 1,723,950	13%
R17	194	$ 1,060,250	$ 1,197,500	13%

FY2020 Two Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY19 Median Value	FY20 Median Value	Change
R1	282	$ 995,400	$ 1,037,600	4%
R2	167	$ 1,072,200	$ 1,199,200	12%
R3	204	$ 1,508,800	$ 1,676,300	11%
R4	45	$ 1,602,500	$ 1,807,100	13%
R5	6	$ 2,391,650	$ 2,728,550	14%
R6	71	$ 1,890,200	$ 1,946,600	3%
R7	589	$ 1,028,200	$ 1,124,700	9%
R8	183	$ 1,274,500	$ 1,408,000	10%
R9	10	$ 1,312,450	$ 1,367,250	4%
R10	10	$ 2,907,400	$ 3,308,550	14%
R11	31	$ 1,864,300	$ 2,083,200	12%
R12	154	$ 1,117,950	$ 1,265,350	13%
R13	214	$ 1,303,350	$ 1,469,250	13%
R14	205	$ 1,473,500	$ 1,686,700	14%
R16	85	$ 1,539,900	$ 1,737,200	13%
R17	134	$ 1,240,050	$ 1,375,300	11%

FY2020 Three Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY19 Median Value	FY20 Median Value	Change
R1	223	$ 1,205,800	$ 1,269,700	5%
R2	139	$ 1,369,400	$ 1,504,100	10%
R3	120	$ 1,787,150	$ 1,972,100	10%
R4	33	$ 2,116,200	$ 2,406,100	14%
R5	3	$ 4,669,000	$ 5,177,100	11%
R6	32	$ 2,197,700	$ 2,342,650	7%
R7	168	$ 1,248,400	$ 1,358,800	9%
R8	42	$ 1,516,350	$ 1,579,350	4%
R9	1	$ 1,072,800	$ 1,123,500	5%
R10	1	$ 4,807,900	$ 5,410,500	13%
R11	15	$ 1,816,200	$ 2,024,500	11%
R12	118	$ 1,323,950	$ 1,478,900	12%
R13	150	$ 1,430,450	$ 1,595,700	12%
R14	47	$ 1,668,300	$ 1,842,300	10%
R16	45	$ 1,729,300	$ 1,939,100	12%
R17	64	$ 1,439,350	$ 1,593,150	11%

FY2020 Condominium Assessment Data				
Median Assessed Values				
NBHD	Count	FY19 Median Value	FY20 Median Value	Change
R1	2821	$ 651,100	$ 705,700	8%
R2	716	$ 617,600	$ 665,400	8%
R3	2074	$ 616,400	$ 664,100	8%
R4	663	$ 584,700	$ 631,100	8%
R5	17	$ 2,529,600	$ 2,724,400	8%
R6	1634	$ 579,200	$ 624,200	8%
R7	1824	$ 576,400	$ 619,850	8%
R8	433	$ 748,200	$ 805,000	8%
R9	50	$ 734,350	$ 791,250	8%
R10	39	$ 2,367,000	$ 2,538,700	7%
R11	516	$ 1,047,100	$ 1,135,350	8%
R12	1125	$ 613,400	$ 656,200	7%
R13	1202	$ 686,000	$ 740,750	8%
R14	384	$ 806,050	$ 858,450	7%
R16	385	$ 646,700	$ 697,700	8%
R17	579	$ 749,500	$ 799,900	7%



Residential Tax Districts
FY 2020
City of Cambridge, Massachusetts
Cambridge Assessor's Office
North Cambridge
Cambridge Highlands
Concord Ave
7
17 Porter Square
15
Fresh Pond
9
Alewife/West Cambridge
8
Neighborhood 9
6
Agassiz
16
14
11
10
Neighborhood 10
Strawberry Hill
Huron Ave
Garden St
Concord Ave
Brattle St
Mount Auburn St
Harvard Square
5
Kirkland St
4
Mid Cambridge
3
Cambridge Triangle
Wellington Harrington
2
East Cambridge
Cambridge St
1
Area IV
Central Square
Riverside
Western Ave
12
Kendall Sq.
Main St
Broadway St
MIT Area 2
Cambridgeport
13
Vassar St
MIT
Memorial Dr
Charles River
N
S
E
W
0
2,100
4,200
6,300
Feet