



Understanding Your Taxes

September 2021

Louis A. DePasquale, City Manager • David J. Kale, Finance Director

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Dear Cambridge Residents and Taxpayers:

This is the first in a series of newsletters that explains the City’s Operating and Capital Budgets, property classifications, property values, tax bills, and available exemptions and abatements. For much of FY21, one of the City’s top priorities has been to mitigate the spread of the COVID-19 virus, and to provide critical services to our most vulnerable residents. The FY22 Budget reflects this ongoing commitment, and also provides continued and expanding support to other important City priorities and initiatives.

The City has expended over \$45 million, from all sources, on COVID-19 mitigation and relief for housing stabilization, the small business community, nonprofit partners, the arts sector, homeless support programs, and Cambridge Public Schools. In addition, the City has waived fees and extended payment deadlines to provide flexibility to residents, businesses, and taxpayers experiencing financial difficulties during the pandemic. Our comprehensive pandemic response was made possible in large part because of strong City management and sound fiscal policies set by the City Council, and because the City is in a financial position to strategically use reserves to help address significant COVID-19 impacts on our community.

At the same time, we have demonstrated our ability to continue to provide, and in many cases expand, city services and programs related to City Council priorities, including housing; early childhood; community infrastructure and maintenance; schools; public libraries; urban forestry; equity and inclusion; the small business community; and open space.

In FY19, in response to stated City Council goals, I made a commitment to double the amount of funding to support affordable housing within 3-5 years. Last year, I announced that we were able to accomplish that in two years within the FY21 budget. I am proud to share that the FY22 Budget includes even more funding for affordable housing. The City has again committed to using 25% of building permit revenue (\$5.85 million) in capital funding to the Affordable Housing Trust. The FY22 budget also includes \$12.5

million of property tax revenue for the Affordable Housing Trust, an increase of \$2.5 million from last year. This funding combined with anticipated FY22 Community Preservation Act (CPA) funds are estimated to total over \$32.35 million in direct financial support for the Affordable Housing Trust in FY22, an increase of 18.5% (or \$5.1 million) from last year.

The FY22 Budget includes over \$127 million in total expenditures (including city operating and capital funds and grants) in key City Council priority areas, including: affordable housing and homelessness; early childhood education; sustainability; Vision Zero/traffic safety efforts; and anti-bias/diversity training and programs. The FY22 Budget also identifies over \$85 million in expenditures on programs and services related to addressing issues of anti-racism, equity, diversity, and inclusion.

The projected property tax levy needed to support the FY22 Adopted Budget reflects an increase of 8.95% to \$514.8 million. The final FY22 property tax levy will not be known until early October. In years past, the City has typically been able to use non-property tax revenues at a higher level than what was included in the budget, in order to lower the property tax levy. However, there is still some uncertainty regarding many non-property tax revenue projections due to the COVID-19 crisis. The City will likely not be able to use past levels of additional non-property tax revenues when determining the actual tax levy for FY22. In addition, assessed values for FY22, which are also used to calculate the tax rate, are established **as of January 1, 2021**, using calendar year 2020 market activity.

In FY21, 59% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year, with an additional 18% of residential taxpayers only seeing an increase between \$100-\$250. Over the past 10 years, an average of 69.8% of residential taxpayers have seen an increase of \$100 or less over the prior year’s bill. For FY22, the City will continue to work to provide stability in homeowner tax bills.

Continued on next page

COVID-19 Mitigation and Relief since March 2020 from all sources (Federal Grants, Donations, City Funds)

\$9.3 million	City funds for food, lodging, shelter, and washing stations related to COVID-19
\$9.4 million	COVID-19 community testing supplies, and staffing
\$4.4 million	Spaulding Transitional Wellness Shelter
\$5.0 million	Small Business COVID-19 programs, grants, and loans
\$2.0 million	City grants to nonprofits for COVID-19 related services to residents
\$5.9 million	Housing Stabilization Program
\$500,000	City support for Artist Relief Fund through Mayor’s Disaster Relief Fund
\$9.3 million	Additional City funds to School Dept. for COVID-19 health/safety mitigations, staff, technology, and instructional supports.
\$45.8 million	Expenditures to date from all sources



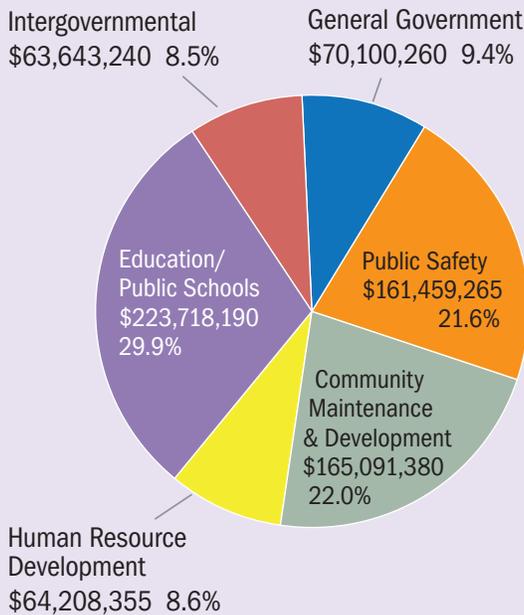
While much of our focus over the past year has been on addressing impacts of COVID-19, and municipal budgeting and management has become more complex during the pandemic, we have been able to work together and take proactive steps to keep our community safe and the City operating; expand on certain initiatives; and provide the high level of service that everyone has come to expect; while also minimizing the tax burden placed on our residents. I will be writing to you again next month when the tax rate has been set to explain what the new rates mean for your tax bills. I encourage you to read this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Very truly yours,

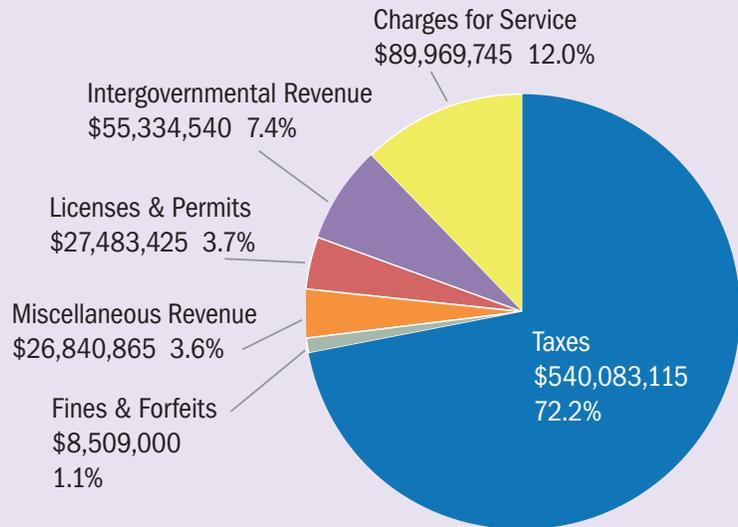
Louis A. DePasquale, City Manager

City Operating Budget (\$748.2 million)

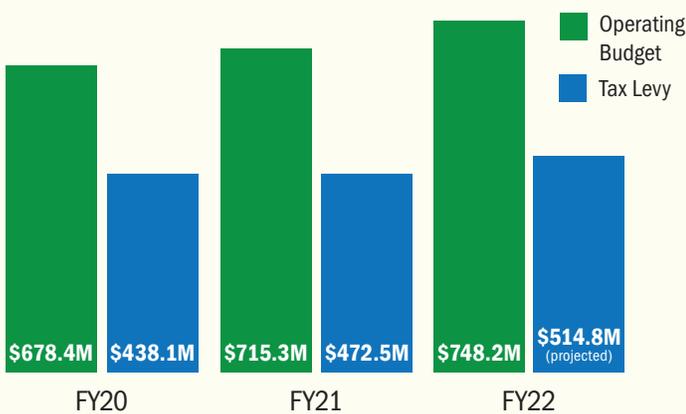
FY22 Expenditures



FY22 Revenues



City Operating Budget and Tax Levy



Approximately 66% of the Operating Budget is supported by property taxes. At the time the FY22 Budget was adopted, the City anticipated that it would need to collect \$514.8 million in property taxes.

FY22 Financial Highlights

- Operating Budget increased by 1.1% over the FY21 Adjusted Budget.
- Average increase in the City Budget over the last 10 years has been 4.7%.
- Projected tax levy to support City Budget is \$514.8 million, which is a 8.95% increase from the previous year.
- Average property tax levy increase over the last ten years is 5.2%.
- There has been a 1% increase in the Water rate and an 8% increase in the sewer rate resulting in a 6.5% increase in the combined rate.
- The Capital (Public Investment) Budget is \$83,910,865.
- The Capital Budget includes property tax support of \$15,725,000.

City Public Investment Budget (\$83.9 million)

Funding for the FY22 Public Investment Budget comes from a variety of sources: bond proceeds, property taxes, state and federal funds, and parking fund revenues.

Our commitment to investing in infrastructure remains strong. Recognizing the importance of maintaining robust sewer, stormwater and roadway systems, we continue to allocate funds to these areas.

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

FY22 Public Investment Major Projects

- Participatory Budget Projects: \$525,000
- Municipal Facilities Improvements: \$10,000,000
- Public Works: Sewer/Stormwater: \$33,950,000
- Water Improvements: \$5,300,000
- Public Works: Complete Streets Reconstruction: \$8,524,330
- Community Development: Affordable Housing Preservation & Development: \$18,354,155
- Community Development: Housing Programs and Services: \$1,220,880
- Information Technology Initiatives: \$1,100,000

Why do we sell bonds?

The City sells bonds to minimize the tax impact of major capital projects such as the Elementary School Reconstruction Program. The City continues to pursue and manage an aggressive capital plan.

Sound financial management has translated into AAA bond ratings from all three major credit rating agencies, allowing us to receive significantly lower interest rates, resulting in lower financing costs. The City's bond sale on March 3, 2021 resulted in a True Interest Cost of 0.93%



Photo: Inman Square, Kyle Klein

What Do the Rating Agencies Say?

The three major credit rating agencies, Fitch, Moody's, and Standard & Poor's, reaffirmed Cambridge's AAA rating, the highest possible. Cambridge is one of approximately 27 cities in the United States with three AAA ratings. The critical factor examined by the rating agencies is whether a city has a prudent balance between incoming revenues and outgoing expenditures.

"The City's 'AAA' GO bond rating and Issuer Default Rating (IDR) reflect Fitch's expectation for Cambridge to maintain a high level of financial flexibility through economic cycles, consistent with a history of strong operating performance and budget controls. The rating further reflects the City's wealthy resource base and future potential for continued tax base increases, along with moderate expenditure growth and demonstrated ability to reduce expenditures during economic downturns." - **Fitch Ratings, February 2021**

"Cambridge (Aaa stable) benefits from a large and diverse tax base that continues to experience strong growth. The city's economy is driven by the presence of Harvard University (Aaa stable) and Massachusetts Institute of Technology (MIT, Aaa stable) and the impressive research and development sector. Cambridge's financial position is strong with very healthy reserves and liquidity that are maintained by formal policies and conservative fiscal management." - **Moody's Investors Service, February 2021**

"The city's annual budget development process supports its overarching goals, which include significant investments in its education system, housing, transportation network, and other quality-of-life issues, while maintaining fiscal balance. Active management of discretionary spending and ongoing monitoring of intrayear spending ensure adherence to the adopted budget." - **Standard and Poor's, February 2021**

How Is Your Tax Bill Determined?

Three major factors are responsible for calculating your tax bill:

- The City's Operating and Capital Budget
- Commercial & Residential Property Tax Classifications
- Property Values (Assessment) – For FY22 is established as of January 1, 2021, based on market activity during calendar year 2020.

Commercial-Residential Property Tax Classification

Each year, the Board of Assessors classifies all real property according to use: Commercial Property, Industrial Property, Personal Property (e.g. business furnishings, tools and equipment), and Residential Property.

Municipalities may choose to tax commercial property at a higher tax rate than residential property. This process is known as property tax classification.

Property tax classification law limits the maximum shift from the residential tax levy to the commercial tax levy, which Cambridge takes advantage of each year.

Neither the City Council nor the City administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above this limit.

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

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

- Commercial property owners traditionally have paid approximately two-thirds of total property taxes.
- In FY21, residential property comprised 57% of total assessed value, but residential property owners paid only 35% of total property taxes. This is similar to prior years.
- Preliminary projections for FY22 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, FY22 property tax bills are based on the assessed value as of January 1, 2021, using calendar 2020 market activity.

The tax rate is established by dividing the tax levy by total property values once adjustments for the residential exemption have been accounted for.

During the past five years, the total residential value has increased by 39.3% as compared to a 72.5% increase for commercial property over the same period.

Residential Exemptions

The City offers a residential exemption program with a discount equal to 30% of the average residential assessed value. In FY21, the residential exemption reduced an owner-occupied residential property assessed value by \$432,666, which equals \$2,531 in reduced real estate taxes.

To receive the residential exemption, homeowners must provide a Massachusetts tax return showing that they occupy their property as their primary residence. For FY22, homeowners must own and occupy their primary residence as of January 1, 2021. The Assessors conduct random audits and respond to inquiries about individuals claiming residential exemptions to ensure the validity of the program.

For information on how to sign up for the exemption program or report concerns, please visit our website at Cambridgema.gov/assessor or contact the Assessor's Office at 617-349-4343.

FY21 Commercial Tax Rates for Communities with Split Rates (Different Rate for Residential and Commercial Property)

Cambridge Has a Favorable Commercial Tax Rate Compared to Surrounding Communities			
Cambridge	11.85	Waltham	23.08
Brookline	15.99	Boston	24.55
Somerville	16.69	Needham	25.74
Medford	18.05	Burlington	25.85
Newton	20.12	Lexington	27.97
Watertown	22.97	Framingham	30.09

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

Cambridge and Surrounding Communities	FY 21 Tax Rate (per \$1,000)	Tax Bill \$750,000 Home (est.)	Tax Bill \$1,250,000 Home (est.)
Cambridge*	\$5.85	\$1,856	\$4,781
Brookline*	\$9.80	\$4,385	\$9,285
Somerville*	\$10.19	\$4,187	\$9,282
Boston*	\$10.67	\$4,849	\$10,184
Watertown*	\$12.25	\$6,941	\$13,066
Arlington	\$11.34	\$8,505	\$14,175
Belmont	\$11.54	\$8,655	\$14,425

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

Top Ten Taxpayers in FY21

Property Owner	Nature of Business	Assessed Valuation	Real Property Taxes	% of Tax Levy
Mass. Institute of Technology	Education*	\$5,773,385,200	\$66,016,055	13.97%
Alexandria Real Estate	Commercial	\$2,410,418,700	\$28,547,310	6.04%
BioMed Realty Trust	Commercial	\$1,800,243,800	\$21,267,856	4.50%
Boston Properties	Commercial	\$1,470,892,800	\$16,626,361	3.52%
MBA-Rogers Street, LLC	Commercial	\$632,111,000	\$7,412,768	1.57%
Presidents and Fellows of Harvard College	Education*	\$789,822,300	\$6,603,887	1.40%
RREEF American Reit II Corp	Commercial	\$490,612,000	\$5,813,752	1.23%
DivcoWest	Commercial	\$535,199,100	\$5,021,859	1.06%
Novartis Pharmaceuticals	Commercial	\$405,871,400	\$4,809,576	1.02%
New England Development	Commercial	\$295,762,700	\$3,504,788	0.74%
		\$14,604,319,000	\$165,624,212	35.05%

*Note: Assessed valuation may include both commercial and residential property, which are taxed at different rates. Does not include payments in lieu of taxes.
Source: City of Cambridge, Assessing Department.

Participatory Budgeting Cycle 7 (PB7)

In January 2021, 7,250 Cambridge residents voted on how to spend \$525,000 in FY22 Capital Funds.

The winning projects were:

Urban Microforests for Cambridge –	\$85,000
Rain Gardens for Resiliency –	\$120,000
Bridging the Digital Divide –	\$95,000
Bike Signals at Busy Intersections –	\$40,000
Keep Cambridge Cleaner –	\$45,000
Swinging into inclusivity –	\$40,000
Pedestrian Controlled Crosswalk Lights –	\$100,000

PB8 is currently underway!

More information on Participatory Budgeting can be found online at: [Pb.Cambridgema.gov](https://pb.cambridgema.gov)



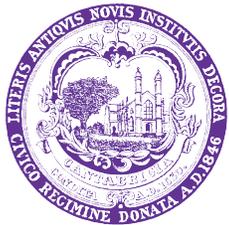
Cambridge Awards \$240,000 in City Scholarships



2019 Scholarship Recipients

In 2021 the City awarded 80 scholarships of \$3,000 each for a total of \$240,000 to Cambridge high school seniors and others pursuing higher education. Since the programs inception in 1993, the City has awarded 1,188 scholarships totaling \$2.9 million.

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



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



Vision Zero/ Traffic Safety



Affordable Housing



Early Childhood



Tax Related Questions or Need More Information?

Property Value Information:

Assessing Department, 617-349-4343

Tax Bill Information:

Finance Department, 617-349-4220

Expenditure/Revenue Information:

Budget Office, 617-349-4270

General Information:

City Manager's Office, 617-349-4300

Important Meeting Dates

October 2021

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

November 2021

Community Q&A meetings scheduled
at various locations

Upcoming Mailings Dates

October 2021

2nd Tax Newsletter mailed

FY22 Tax Bills mailed

November 2021

Exemptions Newsletter mailed



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