September 28, 2015

To The Honorable, the City Council:

The establishment of the FY16 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 FY16 property tax levy, property values and other supporting information.

OVERVIEW

I am pleased to inform you that the actual FY16 property tax levy is $354,430,753. This is an increase of $12,985,298 or 3.8% from FY15 and reflects the City Council goal of evaluating "City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality array of City services". This increase is lower than the estimated increase projected in June 2015, and what was presented to the rating agencies in February. The FY16 Budget adopted by the City Council in June 2015 projected a property tax levy increase of $15.5 million, or 4.54%, to $356,962,374 in order to fund operating and capital expenditures. The FY16 adopted operating budget increased by 2.83% over the FY15 Adjusted Budget. The City has been able to control budget growth and property tax levy increases, while at the same time expanding services and adding new initiatives such as expansion of the curbside organics program, a new STEAM Coordination Office, as well as inviting civic engagement in the budgeting process through Participatory Budgeting.

The 3.8% property tax levy increase is also below the five-year average annual increase of 4.54%. With approval of these recommendations, the ten-year average annual increase will be 4.75%.

Based on a property tax levy of $354.4 million, the FY16 residential tax rate will be $6.99 per thousand dollars of value, subject to Department of Revenue approval. This is a decrease of $0.83, or -10.61% from FY15. The commercial tax rate will be $17.71, which is a decrease of $1.58, or -8.19% from FY15. This is the third consecutive year that the City has reduced tax rates for both residential and commercial taxpayers, which mitigates the increase in property values.

In June, the City Council was informed that the actual tax levy increase was likely to change. This was based on the possible use of additional non-property tax revenues, which would become available based on FY15 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 $2,531,621 from the original projected property tax levy for FY16. This is due to increased non-property tax revenues, which include $250,000 in Motor Vehicle Excise Taxes, $1,000,000 in Hotel/Motel Taxes and $1,000,000 from increases to building permit revenues, and other departmental revenue adjustments totaling $(305,000). The final Cherry Sheet had a net positive impact of $616,151 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	**$356,962,374**
Net Cherry Sheet	-$616,151
Prior Year Overlay Deficits	+$1,813
Non Property Tax Revenue	-$1,945,000
Overlay Adjustment	-$122,283
Subtotal	**$354,280,753**
Reduction of Free Cash Allocation	+$150,000
Actual Property Tax Levy	**$354,430,753**

This recommendation includes the use of $13,450,000 in reserve accounts to lower the property tax levy: $2.0 million from overlay surplus and $11,450,000 million in Free Cash. The certified Free Cash amount of $192.7 million is inflated by $16.8 million in unappropriated mitigation receipts. According to 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 will be $175.9 million, which represents an increase of $15.4 million over the FY15 Free Cash amount. The City Manager will be coming before the City Council with a recommendation for the appropriation of mitigation receipts in October.

This recommendation also includes the use of $1.3 million from the City Debt Stabilization Fund and approximately $0.5 million from the School Debt Stabilization Fund to offset increases in debt service costs that would otherwise have been funded from property taxes. Prudent use of reserves allows the City to maintain stability in our taxes 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.

IMPACT ON TAXPAYERS

This will be the eleventh 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 FY16, approximately 87% of residential taxpayers will see a reduction, no increase or an increase of less than $100. We have been able to consistently achieve these results while maintaining City and school services that citizens have come to expect and while providing a robust capital improvement program. While the Department of Revenue (DOR) regulates the Board of Assessors under strict tax policy regulations, the City will continue its dialogue with the DOR in relation to the City Council Orders regarding possible legislative changes which enable the development of a more progressive tax policy. However, the DOR has not been open to changes to existing tax policy at the local level. Given that any proposed changes of this magnitude to tax policy would be significant, it would be necessary to file statewide legislation to amend the current tax policy.

TABLE II
Change in the Residential Tax Bills*

Change in Tax Payment	Number of Parcels	Percentage	Cumulative %
Less than $0	13,557	62.5%	-
> $0 and less than $100.00	5,325	24.5%	87%
>$100.00 less than $250.00	1,786	8.3%	95%
>$250.00 and less than $500.00	640	2.9%	98%
Greater than $500.00	396	1.8%	100%
Totals	**21,704**	**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 FY16. 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 3.8% increase in the property tax levy required to balance the FY16 Budget, which supports the City Council Goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality array of City services."

Commercial-Residential Property Tax Classification: Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. In FY16, commercial property owners will pay 65.4% of the property tax levy, the same share as in FY15. Consequently, residential property owners' share of the FY16 tax levy is 34.6%, also the same as in FY15.

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 market activity in calendar year 2014, which is the basis of the FY16 property assessment, total residential property values increased by 16.28%, which is the highest increase in the past decade. Total commercial property values increased by 13.18%. 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 homeowners. 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.

The following chart shows the change in the median tax bills by property class. While the overall total residential assessed value increased in FY16, assessed values of existing homes remained relatively stable. The median value is the mid-point value, which has an equal number of values below and above it.

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

	FY15 Value	FY15 Tax Bill	FY16 Value	FY16 Tax Bill	Dollar Change	Percent Change
Single Family	$804,450	$4,418	$919,100	$4,482	$64	1.4%
Condominium	$427,750	$1,472	$485,900	$1,454	($18)	(1.2%)
Two Family	$790,700	$4,310	$909,000	$4,411	$101	2.3%
Three Family	$884,000	$5,040	$1,030,000	$5,257	$217	4.3%

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY16 values are based on market activity that occurred during calendar year 2014, 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 FY16, the total assessed value of taxable property in the City equals $34,680,060,680 a 15.1% increase over FY15 values. The actual FY16 total assessed values are significantly greater than the projections presented to the rating agencies in February 2015 due to continued strength in the Cambridge real estate market.

In FY16, the market for both commercial and residential properties has increased at a faster pace than most of the Greater Boston area, resulting in the continuation of a tax distribution similar to FY15 between commercial taxpayers and residential taxpayers. It is important to note that given this environment and the City's ability to control taxes, a limited number of abatement requests have allowed for a $2 million overlay surplus to be applied towards lowering the FY16 property tax levy, as has been our practice in prior years. The fact that residential values have increased at a faster pace than commercial/industrial/personal property values is a concern because of the classification shift that would result if this trend continues.

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 shift in taxes and increase the City's excess levy capacity.

TABLE IV
New Construction Breakdown in FY16

Property Class	New Value	FY16 Tax Base Levy Growth (New Growth)
Commercial Property	$642,927,825	$ 12,409,071
Personal Property	$312,209,838	$6,048,964
Residential Property	$470,762,070	$ 3,697,392
Total New Growth	**$1,425,899,733**	**$ 22,155,427**

TABLE V
Assessed Values (in millions)

	FY12	FY13	FY14	FY15	FY16
Commercial Property	$8,478	$8,577	$9,439	$10,491	$11,874
Personal Property	$951	$1,070	$1,080	$1,090	$1,222
Residential Property	$15,018	$15,567	$16,642	$18,562	$21,584
Total Assessed Value	**$24,447**	**$25,214**	**$27,161**	**$30,143**	**$34,680**

For FY16, the City was able to increase its levy limit by approximately $34.1 million, to $509.5 million. Approximately $22.2 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 FY16 value of newly constructed or renovated property, multiplied by the FY15 tax rate. The remaining $11.9 million is the 2.5% increase over the FY15 levy allowed by Proposition 2½. The City's excess levy capacity increased by approximately $21.1 million, or 15.7%, to $155.0 million in FY16.

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

	Actual FY11	Actual FY12	Actual FY13	Actual FY14	Actual FY15	Estimated FY16
Levy Limit	$383,312	$401,733	$421,052	$446,046	$475,411	$509,473
Actual Levy	$283,962	$299,091	$316,948	$328,545	$341,445	$354,431
% Actual Levy Increase over Prior Year	5.69%	5.33%	5.97%	3.66%	3.93%	3.80%
Excess Levy Capacity	$99,350	$102,642	$104,104	$117,501	$133,966	$155,042
% Actual Excess Levy Capacity Increase Over Prior Year	0.8%	3.3%	1.4%	12.9%	14.01%	15.7%

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.

FY16 VALUATION PROCESS

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 FY16 valuation model is based upon sales of property that occurred during calendar year 2014, to establish the market value of all property as of January 1, 2015. For FY16, 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 FY15 model to calendar year 2014 sales data, the model showed the following results:

TABLE VII
Residential Sales Price/Assessment Comparison

Property Type	Sale Count	Median Sale Price	Median Assessment
Single Family	118	$1,250,180	$911,180
Two Family	42	$991,000	$735,850
Three Family	23	$1,260,000	$856,500
Condominiums	664	$566,500	$452,000

The assessment ratios were between 68%-74% of calendar year 2014 sales, reflecting increasing market values during the last year.

Calendar year 2014 sales demonstrated that the FY15 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 2014 real estate market has been utilized, along with what was learned from the prior year abatement activity, to establish the FY16 assessed values as of January 1, 2015. 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, 3,068 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 24,573 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 2014, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of 1,065 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.

The CPA surcharge has an essentially neutral impact on tax bills because funding of affordable housing and historic preservation initiatives has been shifted from the tax levy to the surcharge. 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.

To date, the City has appropriated/reserved a total of $155.5 million in CPA funds, of which $47.2 million can be attributed to the State match.

TABLE VIII
Community Preservation Act Surcharge

	FY15 Median CPA Surcharge Amount	FY16 Median CPA Surcharge Amount	FY16 Median Tax	FY16 Median Tax & CPA Surcharge Amount
Single Family	$109	$113	$4,482	$4,595
Condominium	$21	$23	$1,454	$1,477
Two Family	$106	$111	$4,411	$4,522
Three Family	$128	$137	$5,257	$5,394

RECOMMENDATIONS

1. That the City Council vote to authorize the use of $11,450,000 in Free Cash to reduce the FY16 tax rate.

2. That the City Council vote to authorize $2,000,000 in overlay surplus/reserves to be used for reducing the FY16 tax rate.

3. That the City Council vote to authorize $1,300,000 from the City Debt Stabilization Fund to be used as a revenue source to the General Fund Budget, which was included in the FY16 Adopted Budget

4. That the City Council vote to authorize $540,865 from the School Debt Stabilization Fund to be used as a revenue source to the General Fund Budget, which was included in the FY16 Adopted Budget.

5. That the City Council appropriate $8,000,000 from Free Cash to the City Debt Stabilization Fund.

6. 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 55.5325%.

7. 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 $6.99 and commercial tax rate of $17.71 upon final approval by the Massachusetts Department of Revenue.

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

9. That the City Council vote to increase the FY16 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from $302 to $307.

10. That the City Council vote to increase the FY16 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from $59,961 to $60,938.

11. That the City Council vote to increase the FY16 income and assets limits for elderly persons (age 65 or older). Income limits of $24,793 to $25,197 for those who are single and $37,190 to $37,796 for those who are married, asset limits of $49,584 to $50,392 for those who are single and $68,178 to $69,289 for those who are married, as allowed under MGL, Chapter 59, Section 5, Clause 41D.

12. 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 ($56,000) and for a married couple ($84,000), 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 FY16.

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

- **Authorize $11,450,000 in Free Cash to Reduce the FY16 Tax Levy.** For the fiscal year that ended June 30, 2015, the City of Cambridge has a certified Free Cash balance of $192,690,567, an increase of approximately $32.2 million from the previous year. This balance represents the highest amount in the City's history. However, this increase includes approximately $16.8 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 this reduction, the certified Free Cash Balance will be $175, 860,477. The City Manager will be coming before the City Council with a recommendation for the appropriation of mitigation receipts in October.

  The $11,450,000 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 $2,450,000, in funding for IT initiatives included in the FY16 Adopted Budget, while incorporating a $1 million tax increase in the Public Investment Budget going forward.

  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 $14.7 million in overlay balances as of June 30, 2015. 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 $2.0 million of this surplus to decrease the tax levy. Based on the level of the overall current surplus, the City would continue to use $2.0 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 $1,300,000 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 FY16 Budget included $1.3 million from this source to fund debt service costs related to the elementary school reconstruction program.

- **Authorize $540,865 in School Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects, the City established a School Debt Stabilization

Fund. The Adopted FY16 Budget included $540,865 from this source to fund debt service costs for the War Memorial.

- **Appropriate $8,000,000 in Free Cash to the City's Stabilization Fund.** This Free Cash appropriation of $8 million to the City's Stabilization Fund reflects premiums received from the sale of General Obligation bonds, and 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.

  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 55.5325% this year will be a residential property share of the total tax levy of 34.5615%. Commercial property will pay 65.4385% of the levy, which brings the commercial portion of the levy to 173% of what it would be with a single tax rate.

- **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 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 FY16, there are approximately 14,606 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 $5.68 instead of $6.99. 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 FY16, the break-even assessed value is approximately $1,483,035.

30% Residential Exemption

	FY2014	FY2015	FY2016
Value Exempted	$215,649	$239,500	$277,937
Tax Savings	$1,807.14	$1,872.89	$1,942.78

- **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 must vote annually for this increase. I am recommending that the Council do this for FY16, 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 (CPI-U) during the previous calendar year. The percentage increase for this period was 1.63%. Therefore, the FY16 exemption amounts, income limits or asset limits under these local options will increase over the FY15 amounts and limits. Therefore, the FY16 exemption will be $307.

  In addition, under Clause 17E, cities and towns can increase the asset amounts by the CPI percentage for this same group. The FY16 amounts increases to $60,938 from $59,961.

  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 FY16 the income limits will be $25,197 for those who are single, $37,796 for those who are married, and the asset limits will be $50,392 for those who are single and $69,289 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 payment 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 $56,000 for a single person and $84,000 for a married couple, which may be indexed by Massachusetts DOR for FY16), 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 June, the City Council adopted an FY16 Budget that continues to provide stability and reinvests in our community. The Budget maintains City and school services, includes new programs, and provides for a robust capital plan, including funding to continue the multi-year school reconstruction program. This has been achieved by our strong fiscal practices, which control budget growth and property tax levy increases.

Approximately 66% 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.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of residential property taxes in FY16. In addition, with City Council approval, the City will use $13,450,000 million of reserves in FY16 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, while at the same time incorporating a $1 million tax base increase in the Public Investment Budget.

Additionally, the appropriation of $8 million from Free Cash (which reflects bond premiums received from the sale of General Obligation bonds) to the City's Debt Stabilization Fund 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 appropriation will help stabilize tax levy increases in future years.

With the approval of this recommendation, the Debt Stabilization Fund is projected to have a balance of $40.1 million to help offset some of the 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; these funds are not included in our current financial projections.

Our current five-year debt schedule is projected to be over $200 million. The multi-year school reconstruction program makes up $131 million of this total and anticipates the design and construction of the King Open School.

The past fiscal year was the strongest financial year in the City's history, with total assessed values and excess levy capacity increasing; actual revenues far exceeding 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 FY15 actuals.

The City used approximately $42.3 million in Free Cash in FY15, the highest amount in its history. With the approval of this recommendation, the City will use $19,450,000 million in Free Cash, reducing the Free Cash balance to $156.4 million. As in the past, the City is currently compiling a list of prioritized projects that will require funding from certified Free Cash. The City has used an average of $26.5 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, and enabled us to weather uncertain economic times.

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.

The long-term outlook for Cambridge continues to be very strong as long as we continue to manage 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 produce future budgets that will reflect a moderate growth in the property tax levy, which is slightly above our 5-year annual average increase.

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.

Very truly yours,

Richard C. Rossi
City Manager

Attachment

ATTACHMENT 1

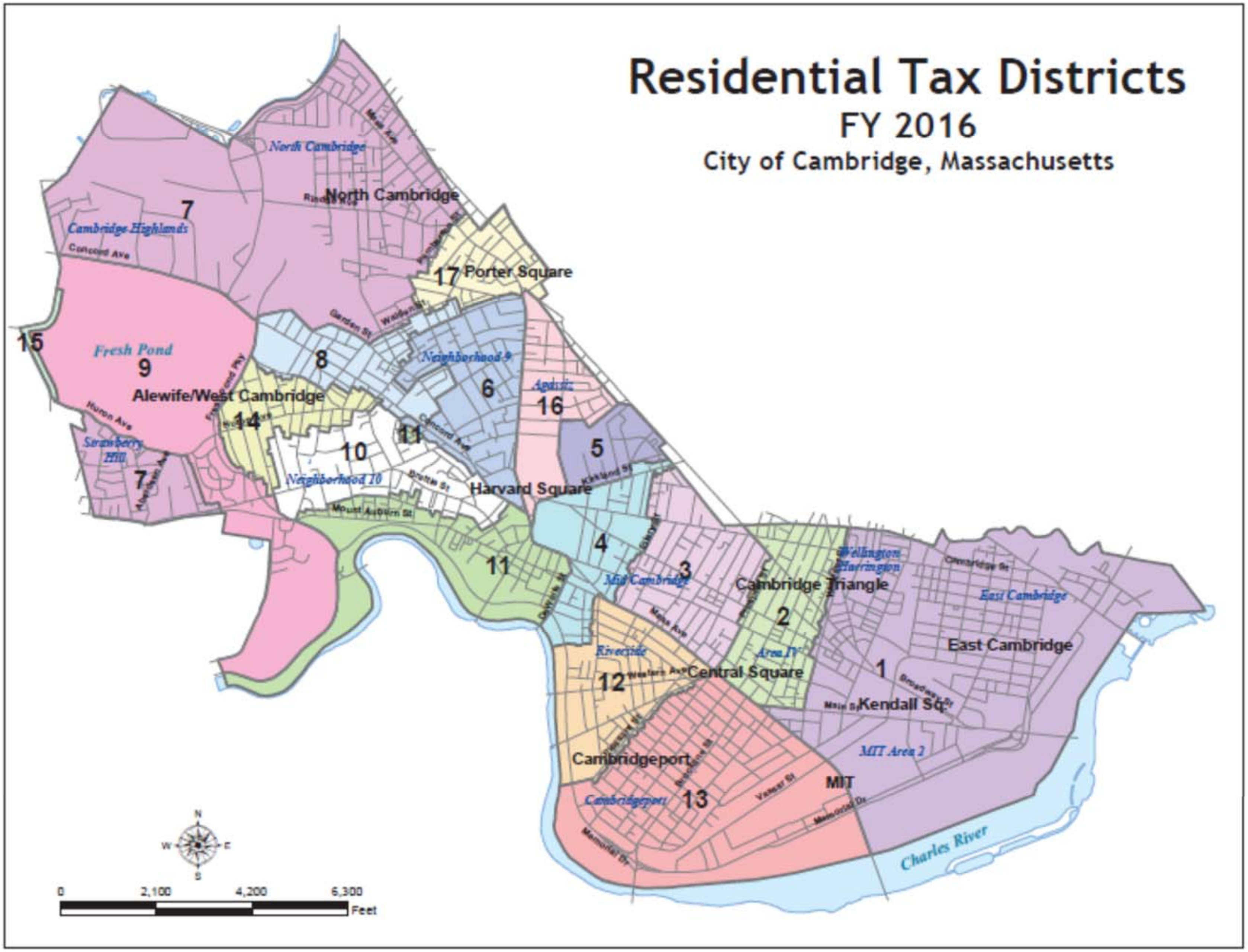
FY2016 Condominium Assessment Data				
NBHD	Count	FY15 Median Value	FY16 Median Value	Change
R1	1368	$ 390,300	$ 446,000	14.3%
R2	691	$ 401,700	$ 454,500	13.1%
R3	2057	$ 411,500	$ 465,600	13.1%
R4	646	$ 371,000	$ 419,550	13.1%
R5	15	$ 1,400,600	$ 1,507,000	7.6%
R6	1649	$ 377,300	$ 426,900	13.1%
R7	1735	$ 384,100	$ 439,200	14.3%
R8	403	$ 511,500	$ 577,600	12.9%
R9	50	$ 528,400	$ 597,900	13.2%
R10	37	$ 1,574,400	$ 1,777,400	12.9%
R11	517	$ 690,600	$ 791,100	14.6%
R12	1088	$ 407,000	$ 458,900	12.8%
R13	1187	$ 449,100	$ 507,500	13.0%
R14	377	$ 545,500	$ 616,700	13.1%
R16	374	$ 428,300	$ 487,150	13.7%
R17	530	$ 497,600	$ 562,650	13.1%

FY2016 Single Family Assessment Data				
NBHD	Count	FY15 Median Value	FY16 Median Value	Change
R1	390	$ 495,350	$ 570,350	15.1%
R2	205	$ 557,300	$ 654,800	17.5%
R3	232	$ 911,800	$ 1,048,400	15.0%
R4	85	$ 843,200	$ 969,000	14.9%
R5	61	$ 2,198,400	$ 2,383,900	8.4%
R6	352	$ 1,502,700	$ 1,703,600	13.4%
R7	666	$ 535,650	$ 610,550	14.0%
R8	205	$ 786,400	$ 890,400	13.2%
R9	202	$ 1,170,700	$ 1,346,850	15.0%
R10	336	$ 2,659,000	$ 2,911,500	9.5%
R11	169	$ 1,292,000	$ 1,428,900	10.6%
R12	181	$ 599,200	$ 702,600	17.3%
R13	234	$ 694,750	$ 794,750	14.4%
R14	167	$ 1,163,300	$ 1,296,500	11.5%
R15	33	$ 909,800	$ 1,071,600	17.8%
R16	157	$ 959,100	$ 1,100,500	14.7%
R17	187	$ 716,800	$ 845,900	18.0%

ATTACHMENT 1

FY2016 Two Family Assessment Data				
NBHD	Count	FY15 Median Value	FY16 Median Value	Change
R1	289	$ 572,200	$ 656,800	14.8%
R2	173	$ 645,500	$ 754,500	16.9%
R3	213	$ 1,018,000	$ 1,166,700	14.6%
R4	48	$ 1,060,800	$ 1,217,150	14.7%
R5	8	$ 2,020,250	$ 2,192,900	8.5%
R6	80	$ 1,340,700	$ 1,524,050	13.7%
R7	611	$ 681,200	$ 775,800	13.9%
R8	199	$ 879,000	$ 1,006,900	14.6%
R9	11	$ 981,800	$ 1,111,400	13.2%
R10	10	$ 2,096,700	$ 2,288,300	9.1%
R11	33	$ 1,390,100	$ 1,568,700	12.8%
R12	157	$ 685,200	$ 783,200	14.3%
R13	219	$ 839,400	$ 957,800	14.1%
R14	216	$ 1,010,100	$ 1,148,100	13.7%
R16	84	$ 1,030,400	$ 1,172,400	13.8%
R17	134	$ 796,400	$ 957,000	20.2%

FY2016 Three Family Assessment Data				
NBHD	Count	FY15 Median Value	FY16 Median Value	Change
R1	236	$ 707,450	$ 818,850	15.7%
R2	144	$ 835,200	$ 977,950	17.1%
R3	122	$ 1,155,450	$ 1,336,900	15.7%
R4	32	$ 1,298,850	$ 1,591,500	22.5%
R5	3	$ 3,316,600	$ 3,696,600	11.5%
R6	31	$ 1,576,800	$ 1,786,400	13.3%
R7	178	$ 814,450	$ 937,800	15.1%
R8	43	$ 1,039,100	$ 1,192,200	14.7%
R9	1	$ 726,400	$ 834,100	14.8%
R10	1	$ 3,402,000	$ 3,769,100	10.8%
R11	17	$ 1,328,600	$ 1,472,300	10.8%
R12	117	$ 816,100	$ 945,800	15.9%
R13	157	$ 908,500	$ 1,046,000	15.1%
R14	48	$ 1,104,350	$ 1,280,900	16.0%
R16	46	$ 1,117,650	$ 1,299,400	16.3%
R17	59	$ 912,200	$ 1,116,600	22.4%


Residential Tax Districts
FY 2016
City of Cambridge, Massachusetts
North Cambridge
North Cambridge
7
Cambridge Highlands
Concord Ave
17 Porter Square
15
Fresh Pond
9
8
Neighborhood 9
6
Agassiz
16
Alewife/West Cambridge
14
11
10
5
Strawberry Hill
7
Neighborhood 10
Harvard Square
Mount Auburn St
4
11
3
Mid Cambridge
Cambridge Triangle
Wellington Harrington
East Cambridge
2
Area IV
East Cambridge
Riverside
12
Central Square
1
Kendall Sq
MIT Area 2
Cambridgeport
MIT
Cambridgeport
13
Charles River
N
W
E
S
0
2,100
4,200
6,300
Feet