

Understanding Your Taxes



★ NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

Dear Residents and Taxpayers of Cambridge:

I am writing again to update you about the City's budget, property assessments and tax bills.

In May, the City Council adopted the FY12 Budget of \$472.2 million, which (1) maintains City and school services that citizens have come to expect; supports the City Council Goals and provides for a strong capital plan, which includes funding to begin the multi-year Elementary School Rebuilding Program in conjunction with the recently adopted Innovation Agenda by the School Committee. In addition, it addresses our unfunded pension liability in a prudent and responsible manner and (2) achieves all of the above with a moderate increase in the property tax levy, in spite of a continued reduction in State Aid, and 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 of City services." Overall, the FY12 Budget has increased by 1.75%.

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 of Cambridge has been able to achieve a lower property tax rate and lower residential property tax bills 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. These qualities benefited the City during good economic times and, equally as important, they have allowed the City to continue to weather the unstable economic climate more favorably than other communities. It should be noted that Moody's Investors Service recently confirmed their Aaa rating of 12 Massachusetts communities and two regional School Districts. However, following the assignment of a negative outlook to the U.S., Moody's assigned a negative outlook to the credit rating for 11 of the 14 municipalities, reflecting regional economic sensitivity to federal jobs and funding.

Cambridge was 1 of the 3 municipalities, that **did not** have a negative outlook assigned, primarily due to our healthy reserve balances available to mitigate possible reductions.

During the past six fiscal years, we produced budgets resulting in an average property tax levy increase of 4.1%. In FY11, 51.7% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than a \$100) than the previous year. In addition, another 32.2% of residential taxpayers saw an increase between \$100-\$250.

The adopted budget reflects a property tax levy increase of 6.47%, while still maintaining City services and providing for improvements to our infrastructure. The City estimates receiving \$1.3 million less from the State in FY12 than it did in FY11 (budget to budget), for a total of \$25.5 million from the two major local aid categories (Unrestricted General Government Aid and Chapter 70 School Aid). It should be noted that, if there was not a reduction in these categories of \$1.3 million, our estimated property tax levy increase would be 6.0% in FY12. Overall, since FY09 the City has received reductions of \$10.5 million from these two major local aid categories.

The final FY12 property tax levy will not be known until early September when the City Council votes on the City Manager's FY12 property tax and classification recommendations. In previous years, the City has been able to achieve a lower percentage increase in the property tax levy than originally estimated and we are working hard to do the same this year. In addition, the City Council approved a 0% increase in the FY12 water and sewer rate.

I encourage you to examine this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Very truly yours,

ROBERT W. HEALY, CITY MANAGER

Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and One of the Lowest of Any City in the Commonwealth!

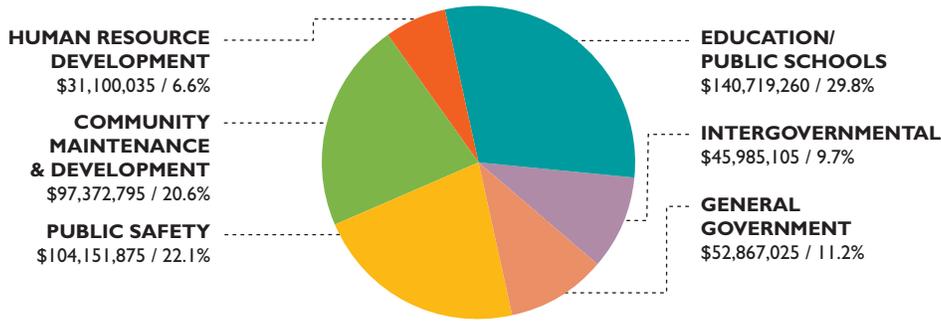
	FY11 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
CAMBRIDGE*	\$ 8.16	\$ 1,663	\$ 4,927
BROOKLINE*	\$ 11.30	\$ 2,683	\$ 7,203
SOMERVILLE*	\$ 12.71	\$ 3,346	\$ 8,430
BOSTON*	\$ 12.79	\$ 3,521	\$ 8,637
WATERTOWN*	\$ 13.92	\$ 4,434	\$10,002
ARLINGTON	\$ 12.41	\$ 4,964	\$ 9,928
BELMONT	\$ 13.24	\$ 5,296	\$10,592

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

City of Cambridge FY2012 Budget

TOTAL OPERATING BUDGET: \$472,196,095

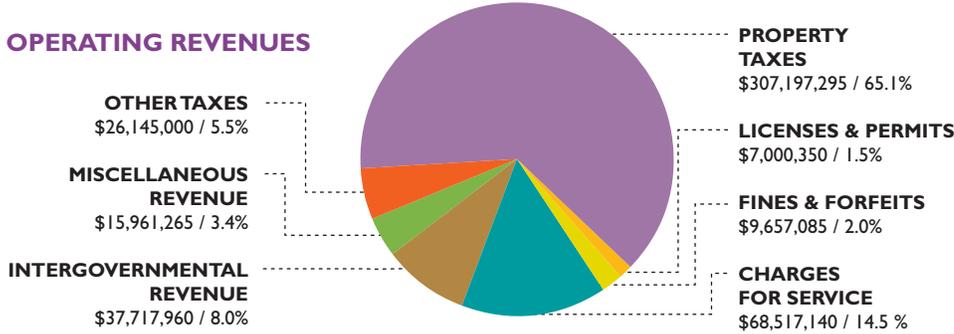
OPERATING EXPENDITURES BY FUNCTIONAL GROUP



DEPARTMENTS BY FUNCTIONAL GROUPS

General Government (\$52,867,025)	Public Safety (\$104,151,875)
Mayor Executive	Animal Commission
City Council	Fire
City Clerk	Police
Law	Traffic, Parking & Transportation
Finance	Police Review & Advisory Board
Employee Benefits	Inspectional Services
General Services	License
Election	Weights & Measures
Public Celebrations	Electrical
Reserve	Emergency
	Communications

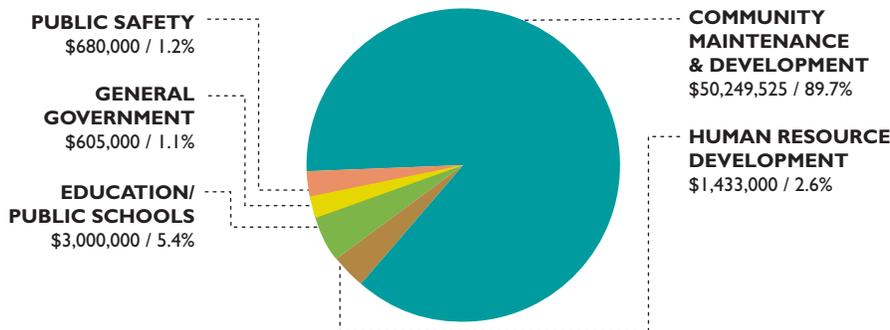
OPERATING REVENUES



Community Maintenance and Development (\$97,372,795)	Human Resource Development (\$31,100,035)
Public Works	Library
Water	Women's Commission
Community Development	Veterans' Services
Historical	Human Services
Conservation	Human Rights Commission
Peace Commission	
Cable TV	Intergovernmental (\$45,985,105)
Debt Service	MWRA Charges
	Cambridge Health Alliance
	State Assessments

TOTAL CAPITAL BUDGET: \$55,967,525

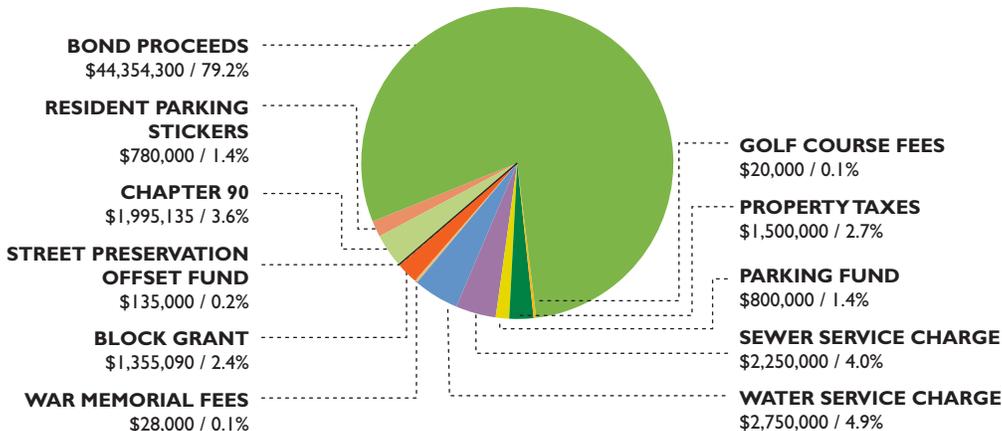
CAPITAL EXPENDITURES BY FUNCTIONAL GROUP



FY12 CAPITAL PROJECTS LIST

- Sewer System Reconstruction
- Street/Sidewalk Reconstruction
- Elementary School Building Design
- Water System Improvements
- Harvard Square Tunnel/Underpass Improvements
- Public Building Improvements
- Parks and Recreation Facility Improvements
- Housing Rehab. & Development
- Parking and Roadway Improvements/Traffic Calming
- Energy/Transportation Improvements
- Public Safety Building Improvements and Equipment
- Acquisition of Personal Computers/Technology Improvements
- Employment Program Fund
- Kendall Square Surface Improvements
- Neighborhood Business Development/Façade Improvements
- Park and Cemetery Tree Pruning
- Accessibility Improvements
- Public Art Conservation

CAPITAL REVENUES



How Your Tax Bill is Determined

Basic facts about the real estate tax levy

Three major factors are responsible for calculating a tax bill:

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT)

CITY BUDGET. The adopted FY12 Budget of \$472.2 million is 1.75% greater than the FY11 adjusted budget. While the City has many sources of revenue, property taxes support about 65% of the operating budget. For FY12, the City projects that it must collect about \$302.3 million in property taxes. This is called the tax levy. Last year, the City Council and City administration produced an FY11 Budget with a 5.69% property tax levy increase. However, this meant that 51.7% of the residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year. In addition, another 32.2% of residential taxpayers saw an increase between \$100-\$250 in their FY11 property tax bill. The City Council and City administration worked hard during the budget process to produce an FY12 Budget with a modest increase while dealing with continued reductions in State Aid revenue. As a result, the property tax levy is projected to increase no more than 6.47% with the ultimate goal of a smaller increase. The final percentage increase will be determined in late September.

CAMBRIDGE OPERATING BUDGET (in millions)			CAMBRIDGE TAX LEVY (in millions)		
FY 10	FY 11	FY 12	FY 10	FY 11	FY 12
\$444.2M	\$459.7M	\$472.2M	\$268.7M	\$284.0M	\$302.3M (projected)

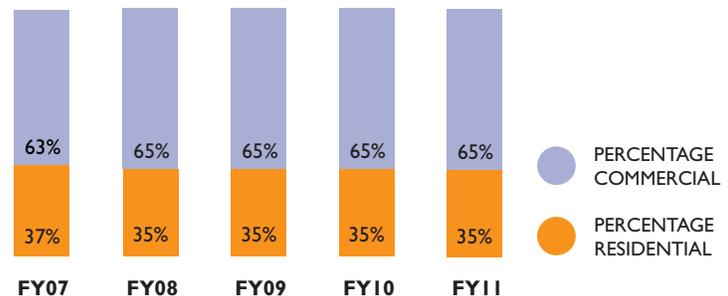
COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION

Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from residential and commercial property owners. The property tax classification law limits the maximum shift from the residential tax rate to the commercial tax rate, which Cambridge has taken 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 under Massachusetts General Laws. The property tax classification process has meant

that commercial property owners traditionally have paid approximately two-thirds of the total property taxes.

The classification of residential and commercial property, as noted, is complex and has limits, which impacts the overall percentage of taxes paid by residential and commercial property owners. For example, in FY04, the City of Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by the State. Escalating residential values, which out-paced commercial property values, were the primary reason that Cambridge reached the state imposed limit on its ability to shift the tax burden from residential taxpayers to commercial taxpayers. As a result, not as much of the property tax levy was able to be shifted to commercial owners. Since FY06, this trend has reversed with residential and commercial values increasing at a similar rate, resulting in a slight shift of the property tax burden to commercial property owners.

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



This trend has continued from FY06 through FY11. Commercial property owners as a group were required to pay 65.4% of the property tax levy in FY11, up from 63.2% in FY06, with the share paid by residential owners going down to 34.6% in FY11, from 36.8% in FY06.

Preliminary projections for FY12 indicate that the portion of the tax levy to be paid by commercial property owners will be similar to recent fiscal years.

The Cambridge residential market has shown a 51% increase in condominium units during the nine year period between FY03 and FY12, from 9,001 units in FY03 to 13,560 units in FY12. The demand for housing units has resulted in commercial property being converted to residential use, which has further eroded the commercial base while increasing the residential base. Cambridge remains a highly attractive, desirable place to live, with low crime,

City Council Goal: Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality of City services.

Motor Vehicle Excise

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise. The excise is levied by the city or town in which the vehicle is principally garaged. Motor vehicle excise bills are created from vehicle registration data collected by the Registry of Motor Vehicles (RMV). The RMV sends billing information to the city or town, which is then responsible for mailing the bills and collecting the tax.

WHEN ARE MOTOR VEHICLE EXCISE BILLS SENT? Most people receive their excise bill in February. However, if you buy a car or move into the state during the year, you will receive your first excise tax bill a few months after the car is registered. This bill will be pro-rated for the portion of the year that you own and operate that vehicle in the State of Massachusetts. Thereafter, you will receive your bill in February.

HOW IS MY EXCISE BILL CALCULATED? Each motor vehicle is levied a tax at the rate of \$25 per one thousand dollars of valuation. The value of the vehicle is determined by the State using a formula that considers the manufacturer's list price for vehicles in their year of manufacture and the age of the vehicle. The State formula is as follows:

In the year preceding the designated year of manufacture:	50%
In the designated year of manufacture:	90%
In the second year:	60%
In the third year:	40%
In the fourth year:	25%
In the fifth and succeeding years:	10%

IF I MOVE, WHOM DO I CONTACT TO GIVE CHANGE OF ADDRESS INFORMATION? You must inform the Registry of Motor Vehicles of any change in address. Prompt notification of address changes will help ensure that you receive your bill. It is important to note that where you live on Jan 1 of each year dictates where the bill will be sent. If you move after that date, you must contact the community in which you resided on Jan. 1 to make sure that you get that year's bill.

WHOM DO I CONTACT IF I DO NOT RECEIVE A BILL?

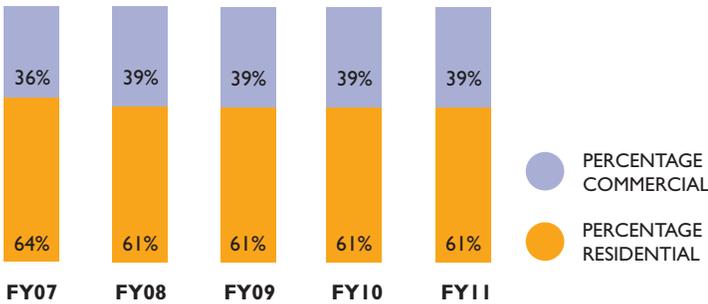
Contact the City's Finance Department at 617 349 4220. According to Chapter 60A, Section 2 of Massachusetts General Laws, a person who does not receive a bill is still liable for the excise plus any interest charges and penalties that accrue. Therefore, it is the responsibility of the owner to contact the City in the event that a bill is not received or forwarded from a former address.

WHAT ARE THE PENALTIES FOR LATE PAYMENT OR FOR NOT PAYING MY EXCISE BILL? If excise is not paid within 30 days, interest will accrue on the overdue bill at an annual rate of 12% from the day after the due date. Additional fees of up to \$64 may be added to an unpaid excise bill. If the bill is not paid within a year of issue, the City will notify the RMV and the owner will be unable to renew the vehicle's registration and/or renew a driver's license until the bill has been paid.

a highly educated workforce and desirable cultural and business amenities, which support the property values.

The chart below shows the percentage of total value of residential and commercial property. In FY11, residential property comprised 61.4% of total value, but residential owners paid only 34.6% of total property taxes.

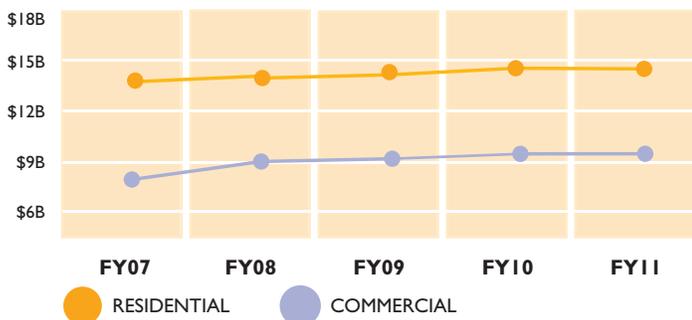
PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES



PROPERTY VALUES. Property values are established independent of the City Budget and 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 the property values as of the previous January 1st. The FY12 property tax bills are based on the assessed value as of January 1, 2011, using calendar 2010 market activity. The tax rate is established by dividing the tax levy by total property value. Your property tax bill is calculated by multiplying your property's value by the tax rate.

The chart below illustrates that the total commercial value has increased at a faster rate than the total residential value. During the past five years, the total residential value has increased by 4.9% as compared to a 16.3% increase for commercial property value.

FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



WHAT DO THE RATING AGENCIES SAY?

Wall Street's three major rating services, Fitch, Moody's and Standard & Poor's, reaffirmed Cambridge's AAA rating, the highest possible. Cambridge is one of approximately 30 cities in the United States with three AAA ratings. The critical factor examined by rating services is whether a city has a prudent balance between incoming revenues and outgoing expenditures. Many communities pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects. It should be noted that Moody's Investors Service recently confirmed their Aaa rating of 12 Massachusetts communities and two regional School Districts. However, following the assignment of a negative outlook to the U.S., Moody's assigned a negative outlook to the credit rating for 11 of the 14 municipalities, reflecting regional economic sensitivity to federal jobs and funding. Cambridge was 1 of the 3 municipalities, that did not have a negative outlook assigned, primarily due to our healthy reserve balances available to mitigate possible reductions in funding or disruptions in debt markets.

"The rating rationale reflects the city's exceptional financial management which is characterized by its high reserve and liquidity levels; Conservative budgeting practices along with a use of reserves the last two years has helped keep tax levy increases at moderate levels while the city faces increases in education and public safety costs; The stable presence of higher education, health care, biotechnology, and life sciences industries supports the well-diversified economy with low unemployment and above-average wealth levels; Growth in assessed value provides the city with tax levy flexibility for operations and debt service as the gap between the city's actual tax levy and the statutory levy limit has grown to its highest level in the city's history; and Debt levels are moderate and expected to remain manageable, aided by the city's rapid amortization rate. Key Rating Driver includes: Ongoing sound financial management, which has benefited the city's financial position."

— Fitch Ratings, February 2011

"The Aaa rating reflects the city's large, diverse and stable tax base, which is anchored by prominent higher education institutions and a growing research and development sector. Also incorporated into the Aaa rating are an exceptionally strong and resilient financial position which has performed well through the national economic downturn, management's consistently conservative approach to budgeting and a favorable debt profile supported by healthy enterprise systems and historically strong commonwealth school construction aid. Strengths include; A large and diverse tax base anchored by stable universities and a Robust financial position guided by sound management policies."

— Moody's Investors Service, February 2011

"The rating reflects the City's: Strong and dynamic local economy, anchored by Harvard University and Massachusetts Institute of Technology (MIT), as well as biotechnology and high-tech firms; Above-average wealth and income factors, including a high market value per capita; Very strong financial position, despite a decline in fiscal 2009, coupled with an experienced management team and strong management policies; and Low debt burden and manageable capital plan."

— Standard & Poor's, February 2011

Other Measures of Success...

- ★ The City was recently awarded the Massachusetts ECO Award, recognizing Excellence in Commuter Options, from MassCommute, MassRIDES and Mass DOT. Cambridge achieved the Pinnacle Award for achieving the highest ranking for its comprehensive commuter benefits programs, including bicycle parking facilities, emergency rides home and transit pass programs.
- ★ The newly renovated and constructed Cambridge Public Main Library was awarded the 2010 Harleston Parker Medal, for the "Single Most Beautiful Building" built in the Boston metropolitan area in the past 10 years, by the Boston Society of Architects. In addition to the eleven architectural awards to date, the building has been granted a LEED Silver certification by the U.S. Green Building Council for sustainable practices in design, construction and operation. The new Main Library supports Cambridge's recent designation by Amazon.com as America's most well read city.
- ★ Cambridge is one of only four municipalities in Massachusetts awarded the Certificate of Achievement for Excellence in Financial Reporting and Distinguished Budget Presentation by the Government Finance Officers Association.

DID YOU KNOW THAT CAMBRIDGE ALSO HAS A FAVORABLE COMMERCIAL TAX RATE?

FY2011 COMMERCIAL TAX RATES FOR COMMUNITIES WITH SPLIT RATES (DIFFERENT RATE FOR RESIDENTIAL AND COMMERCIAL PROPERTY)

Brookline	\$18.30	Somerville	\$21.21	Watertown	\$25.87	Boston	\$31.04
Cambridge	\$19.90	Needham	\$21.50	Lexington	\$27.28	Burlington	\$30.80
Newton	\$20.89	Medford	\$22.98	Waltham	\$30.43	Framingham	\$37.11

TOP TEN CITY REAL ESTATE TAXPAYERS (FISCAL 2011)	NATURE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	% OF TOTAL TAX LEVY
Mass. Institute of Technology	Education*	\$1,780,800,100	\$33,929,810	11.9%
BioMed Realty Trust	Commercial	806,074,400	15,867,559	5.6
Boston Properties	Commercial	568,494,000	11,313,031	4.0
Equity Partners	Commercial	284,062,200	5,021,479	1.8
Presidents & Fellows of Harvard College	Education*	362,094,900	4,894,440	1.7
New England Development	Commercial	214,500,000	4,268,550	1.5
Novartis Pharmaceuticals	Commercial	195,624,900	3,892,936	1.4
RB Kendall Fee LLC	Commercial	191,032,300	3,789,490	1.3
PREEF American Reit II Corp.	Commercial	188,138,600	3,743,958	1.3
Alexandria Real Estate	Commercial	156,467,400	3,109,721	1.1
		\$4,747,288,800	\$89,830,974	31.6%

*Does not include Payments in Lieu of Taxes

What If I Have a Tax Related Question or Want More Information?

Ask The Treasurer

E-MAIL: treasurer@cambridgema.gov

SEND MAIL TO:

The City Treasurer
Cambridge City Hall
795 Massachusetts Avenue
Cambridge, MA 02139

VISIT THE CITY'S WEBSITE: www.cambridgema.gov

Sign up for E-Line to receive periodic electronic newsletters,
City notifications and publications

CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343

Budget Office for Expenditure/Revenue Info. 617 349 4270

Finance Department for Tax Bill Info. 617 349 4220

City Manager's Office for General Info. 617 349 4300

Important Dates & Publications

SEPTEMBER 2011

- City Council votes on City Manager's Recommendations to minimize, to the fullest extent legally possible, the taxes on residential properties (subject to the approval of the Massachusetts Department of Revenue)

OCTOBER 2011

- FY12 Tax Newsletter mailed (including info on Abatements and Exemptions)
- FY12 Tax Bills mailed

NOVEMBER 2011

- Community Q&A meetings scheduled at various locations
- Exemptions Newsletter mailed

www.cambridgema.gov

★ NEWSLETTER # 1 ★

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