

Understanding Your Taxes

September 2022

"In FY22, 75% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$250) than the previous year."

Yi-An Huang, City Manager • David J. Kale, Assistant City Manager for Fiscal Affairs and Public Investments

Dear Cambridge Residents and Taxpayers:



Cambridge City Manager
Yi-An Huang

This is the first in a series of newsletters that explains the City's Operating and Capital Budgets, property classifications, property valuation, and available exemptions and abatements, all of which are major factors in determining property tax bills.

The Budget process for Fiscal Year 2023 (FY23) began in the fall of 2021. The proposed FY23 (July 1, 2022, to June 30, 2023) Budget was publicly released on May 2, 2022. Details were

discussed in public budget meetings in May before being formally adopted by the City Council on June 6, 2022. As the incoming city manager, I'm grateful for all of the hard work that went into the FY23 Operating (\$801.5M) and Capital (\$164.1M) Budgets which include significant investments in many programs and initiatives that are directly related to City Council goals, including:

- \$38.1 million in anticipated funding for affordable housing. This includes 25% of Building Permit revenue (\$10,245,750), \$12.5 million in property tax revenues, and anticipated FY23 Community Preservation Act (CPA) funds.
- A School Department budget of \$232.4 million which includes 37 new full time equivalent (FTE) School Department positions, including for classroom support, as well as for priority areas such as healthy students and school cultures.
- Funding to establish a new Community Safety Department (CSD) that will coordinate community driven solutions to enhance safety in the community with key services and programs targeted at our most vulnerable populations.
- Additional funding for new full-time positions related to equity and inclusion and language justice; expanded community engagement processes; and increased funding for diversity focused City committees in order to support programming and events.
- Additional funding for the Birth to Third Grade Partnership in order to continue to implement the City's Universal Pre-K (UPK) Program.

- A Capital Budget of \$164.1 million which includes important investments in streets and stormwater infrastructure and expanded funding for building improvements as part of the Municipal Facilities Improvement Plan.

The projected property tax levy needed to support the FY23 Adopted Budget is \$536.3 million, which is an increase of \$41.5 million or 8.4% from the FY22 property tax levy. The actual property tax levy will not be known until early October as part of the property tax and classification process.

The City has typically been able to use non property tax revenues and reserves in excess of what was projected during the budget process to lower the property tax levy required. This has allowed the City to support important initiatives while minimizing the impacts on residential taxpayers. For example, in FY22, 75% of residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$250) than the previous year.

For FY23 however, it is important to remain cognizant of the ongoing financial impacts related to COVID-19, and to recognize that many key revenues have not fully recovered to pre-pandemic levels. It is a credit to our strong financial position and past management that we have been able to continue to make major investments in our city's current and future health.

As the incoming city manager, I'm honored to guide the implementation of the FY23 Budget and to make recommendations related to the FY23 property tax rate. I'm looking forward to working closely with City leadership, staff, and the City Council to ensure that we continue to build a Cambridge that works for all and acts as a leader in effective and innovative city management.

There will be another newsletter next month when the tax rate is set to help explain what the new rates mean for your tax bills. Please feel free to reach out to the Departments listed on the back page of this publication with any questions or comments.

Sincerely,

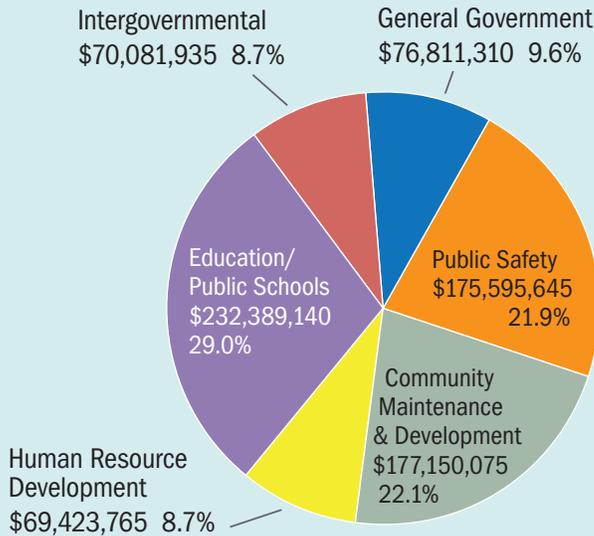
Yi-An Huang, City Manager

FY23 Capital Budget Financing Plan by Source: \$164,063,235

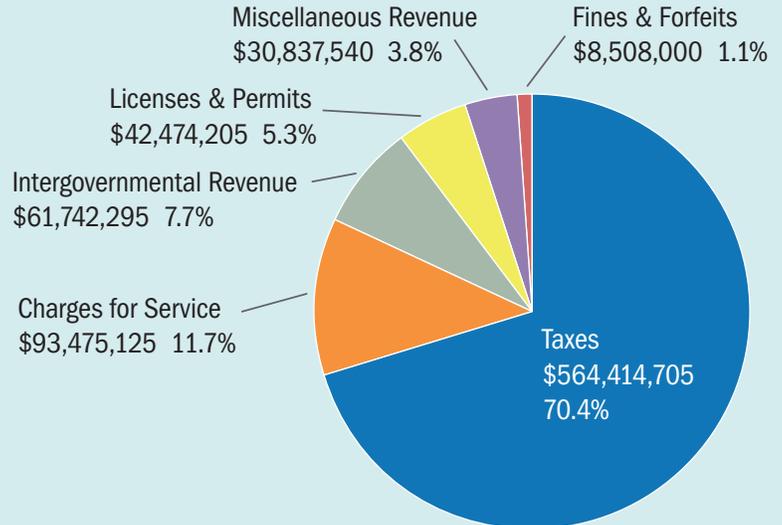


City Operating Budget (\$801.5 million)

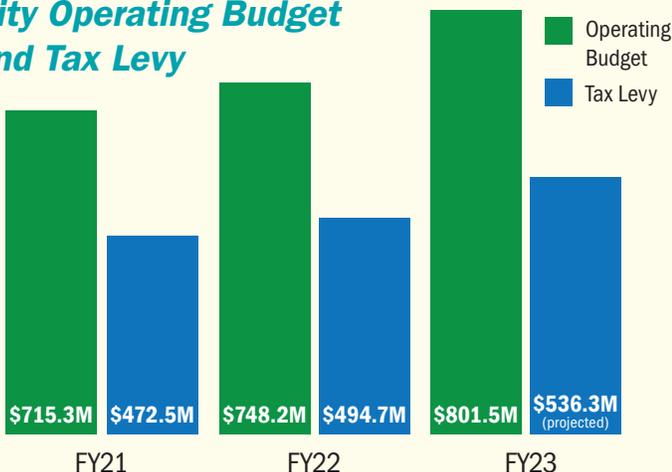
FY23 Expenditures



FY23 Revenues



City Operating Budget and Tax Levy



Approximately 67% of the Operating Budget is supported by property taxes. At the time the FY23 Budget was adopted, the City anticipated that it would need to collect \$536.3 million in property taxes.

FY23 Financial Highlights

- Operating Budget increased by 6.5% over the FY22 Adjusted Budget.
- Average increase in the City Budget over the last 10 years has been 5.09%.
- Projected tax levy to support City Budget is \$536.3 million, which is a 8.4% increase from the previous year.
- Average property tax levy increase over the last ten years is 5.16%.
- There has been a 1.96% increase in the Water rate and an 8% increase in the sewer rate resulting in a 6.7% increase in the combined rate.
- The Capital (Public Investment) Budget is \$164,063,235.
- The Capital Budget includes property tax support of \$16,340,000.

City Public Investment Budget (\$164.1 million)

Funding for the FY23 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.

FY23 Public Investment Major Projects

- Participatory Budget Projects: \$1,140,000
- Municipal Facilities Improvements: \$14,600,000
- Public Works: Sewer/Stormwater: \$79,000,000
- Water: Infrastructure Improvements: \$5,997,000
- Public Works: Complete Streets Reconstruction: \$18,048,105
- Community Development: Affordable Housing Preservation & Development: \$22,945,750
- Community Development: Housing Programs and Services: \$1,220,880
- Information Technology Initiatives: \$1,100,000
- Parks and Open Space Projects: \$15,795,000

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 2, 2022 resulted in a True Interest Cost of 1.89%.

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 26 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.

"Fitch expects the city to maintain a high level of financial resilience throughout economic cycles given its historically strong revenue performance, conservative budgeting practices and superior degree of inherent budget flexibility. The city's strong budget monitoring practices and financial planning bolster the city's operating environment." – **Fitch Ratings, February 2022**

"Cambridge (Aaa stable) benefits from a large and diverse tax base that continues to experience strong growth. The stable outlook reflects the city's strong fiscal management that is committed to maintaining a healthy financial position given conservative multiyear budget forecasting and adherence to formally adopted fiscal policies. The outlook also incorporates the stabilizing presence of Harvard University and MIT as well as the long historical trend of positive valuation growth in the tax base. Cambridge leverages its strong credit profile by focusing on significant community initiatives." – **Moody's Investors Service, February 2022**

"The city's annual budget development process supports its overarching goals, which include significant investments in its education system, housing, transportation network, environmental goals, and other quality of life issues, while maintaining financial balance... we expect Cambridge to remain a desirable location to live and work with sustained economic growth and a management team working to address these issues. Its credit profile is characterized by significant budgetary flexibility, a history of comprehensive long-term financial planning, and well-embedded financial management policies." – **Standard and Poor's, February 2022**

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 FY23 is established as of January 1, 2022, based on market activity during calendar year 2021.

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.

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

Cambridge reached the maximum shift of the tax levy from residential owners to commercial owners allowed by State law in FY04, primarily due to escalating residential values, which out-paced commercial property values.

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 FY22, residential property comprised 55% of total assessed value, but residential property owners paid only 35% of total property taxes. This is similar to prior years.
- Preliminary projections for FY23 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, FY23 property tax bills are based on the assessed value as of January 1, 2022, using calendar 2021 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 32.9% as compared to a 67.7% 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 FY22, the residential exemption reduced an owner-occupied residential property assessed value by \$443,056, which equals \$2,623 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. Homeowners must own and occupy their primary residence as of January 1, 2022. 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.

Cambridge Has a Favorable Commercial Tax Rate Compared to Surrounding Communities

FY22 Commercial Tax Rates (per \$1,000) for Communities with Split Rates (Different Rate for Residential and Commercial Property)

Cambridge	\$11.23	Waltham	\$22.88
Brookline	\$16.56	Boston	\$24.98
Somerville	\$16.85	Needham	\$26.43
Medford	\$17.23	Burlington	\$26.64
Newton	\$19.95	Lexington	\$27.18
Watertown	\$21.28	Framingham	\$29.00

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

Cambridge and Surrounding Communities	FY22 Tax Rate (per \$1,000)	Tax Bill \$750,000 Home (est.)	Tax Bill \$1,250,000 Home (est.)
Cambridge*	\$5.92	\$1,817	\$4,777
Somerville*	\$10.18	\$3,975	\$9,065
Brookline*	\$10.19	\$4,477	\$9,572
Boston*	\$10.88	\$4,855	\$10,295
Watertown*	\$13.25	\$6,925	\$13,550
Arlington	\$11.42	\$8,565	\$14,275
Belmont	\$11.56	\$8,670	\$14,450

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

Top Ten Taxpayers in FY22

Property Owner	Nature of Business	Assessed Valuation	Real Property Taxes	% of Tax Levy
Mass. Institute of Technology	Education*	\$6,725,115,100	\$73,286,723	14.81%
Alexandria Real Estate	Commercial	\$2,789,610,300	\$31,313,002	6.33%
BioMed Realty Trust	Commercial	\$2,025,025,200	\$22,677,152	4.58%
Boston Properties	Commercial	\$1,634,157,000	\$17,633,925	3.56%
MBA-Rogers Street, LLC	Commercial	\$726,333,900	\$8,077,634	1.63%
Presidents and Fellows of Harvard College	Education*	\$793,657,000	\$6,542,388	1.32%
RREEF American Reit II Corp	Commercial	\$561,152,900	\$6,301,747	1.27%
DivcoWest	Commercial	\$695,393,700	\$6,484,965	1.31%
Novartis Pharmaceuticals	Commercial	\$445,372,300	\$5,001,531	1.01%
New England Development	Commercial	\$252,503,500	\$2,835,614	0.57%
Total		\$16,648,320,900	\$180,154,681	36.39%

*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 8 (PB8)

In December 2021, 7,441 Cambridge residents voted on how to spend \$1,140,000 in FY23 Capital Funds.

The winning projects were:

Home Essentials for Newly Housed Residents –	\$60,000
Keep Cambridge Clean –	\$80,000
STEAM Upgrades for Youth Centers! –	\$110,000
Public Bathroom –	\$400,000
African American & Indigenous Peoples Historical Reckoning Project –	\$180,000
Traffic Signals for Cyclists –	\$60,000
Electric Vehicle Charging Stations –	\$250,000

PB9 is currently underway!

More information on Participatory Budgeting can be found online at: Pb.Cambridgema.gov

Cambridge Awards \$243,000 in City Scholarships



2022 Scholarship Winners

This year, the City awarded 81 scholarships of \$3,000 each for a total of \$243,000 to Cambridge high school seniors and others pursuing higher education. Since the programs inception in 1993, the City has awarded 1,269 scholarships totaling \$3.1 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





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Newsletter #1



Louis A. DePasquale Universal Design Playground



Timothy J. Toomey, Jr. Park



The Foundry Building



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 2022

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

November 2022

Community Q&A meetings, zoom and
in person

Upcoming Mailings Dates

October 2022

2nd Tax Newsletter mailed

FY23 Tax Bills mailed

November 2022

Exemptions Newsletter mailed



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