Councillor Galluccio asked for information as to the effect of transfer tax on prices. Ms. Schlesinger said it depends on the state of the market. In a hot market, the prices go up. In response to a question from Councillor Galluccio, she agreed that the Cambridge market is a hot market at present. Ms. Schlesinger noted that the model described by Community Development Department was chosen with the intent of not discouraging moderate income buyers. Community Development Department staff looked at income and figured out what buyers with that income could afford and set the exemption at $250,000 in response.

Councillor Duehay asked whether the list is complete. Ms. Buland said that it comes from a clearing house in California that keeps tracks of transfer taxes for affordable housing and certain other housing purposes.

Councillor Reeves said that Block Island has a six percent transfer tax used for conservation. It is accepted by the community as just part of the normal way of doing business. It applies to all sales.

Councillor Duehay noted that a previous Cambridge proposal was half for affordable housing, and half for conservation.

Vali Buland continued describing various transfer tax models in existence. She noted that New Jersey taxes new construction at a higher percentage.

Councillor Davis asked about the possibility of taxing new construction. Ms. Schlesinger said a fee is charged for new commercial construction through incentive zoning.

Councillor Galluccio suggested a close look at the existing linkage mechanism in this committee. There are issues about keeping a relation with the neighborhood. It is easier for neighborhoods to accept development when they see something coming back in exchange.

Vice Mayor Born continued her review of transfer tax models. She noted that in Florida proponents of the tax were able to win support of the real estate industry by Carmarking some funds for homeownership activities and some for construction support activities.

Councillor Duehay said that if legislative approval will be sought, there should be a review of the incentive zoning provisions so that all proposed legislation can go to the legislature at the same time.

Councillor Reeves asked whether the City could have a strategy of building for young families. Ms. Schlesinger said that at this point most housing experts would probably suggest focusing on preservation of affordable stock in light of the loss of federal and state support.

Councillor Duehay noted that single people need housing assistance as well. Ms. Schlesinger said that while rent control was in existence, City programs focused on family housing and rent controlled units housed many low, moderate income single persons. Now the situation has changed somewhat.

Councillor Reeves said that on Rogers Street a huge industrial building sold for $875,000. Why not try to acquire this type of housing? Ms. Schlesinger said that the issue is money.

Councillor Reeves said he believes in a $10 million affordable housing fund possibility. With that money he would support 808 Memorial Drive, support legal services and try to take advantage of opportunities like Rogers Street, even if it had to be land-banked.

Councillor Galluccio stated that he agrees with Councillor Reeves. He would like to see twenty-five unit developments in various parts of the city. He said that the Blouen project is a beautiful site.

Councillor Duehay said that this would require a dramatic expansion of the money source.

Councillor Galluccio asked how University Park was built. Ms. Schlesinger said that it was an inclusionary zoning provision that required 400 units of housing, twenty-five percent affordable, twelve and a half percent moderate income. What has been built to date is all rental.

Ms. Schlesinger said that the City can enact inclusionary zoning without going to the legislature.

Councillor Duehay noted the question of whether to send a package to the legislature that would include a transfer tax and expanded authority for fees from commercial property.

James Lindstrom cautioned that there will be significant opposition at the state legislature. He said that he was on the Cape when the Barnstable County transfer tax was attempted in the late 80s, early 90s. Despite great local support, it did not pass.

Councillor Duehay said that he expects that the next committee meeting will be focused on the Harvard properties. The question is whether to hold this issue in committee to consider an entire package, probably for the next session, or whether to report this petition out quickly for legislative action during the present session.

Councillor Davis asked whether it would be possible to "take the temperature of the legislature." Councillor Duehay said that this is very difficult at this point, particularly in the House of Representatives. He noted the need to put together a legislative strategy. He invited committee comment.

Councillor Galluccio said that he does not support the transfer tax as presently proposed. He would like to take a hard look at what can be done without a new tax. There will be big opposition at the state legislature based on considerations of keeping local taxes equal.

Councillor Davis stated that she supports the tax; she supports going forward now if it doesn't harm future chances. It might be useful to relate it to the end of rent control.

Sherry Long, 1996 President of the Cambridge Council of Realtors, stated that this tax is unfair because it is a tax on homeownership. It will discourage buyers.

Councillor Duehay asked what her organization suggests to increase affordable housing. Ms. Long said that she would like to have a meeting to discuss this. Councillor Duehay suggested meeting with a subcommittee of realtors concerned about affordable housing.

Vice Mayor Born read a letter from a constituent in support of a luxury transfer tax.

Councillor Davis said that it does not seen realistic to her that a transfer tax would be a huge damper on a $300,000 purchase.

Fred Meyer, 83 Hammond Street, stated that the proposal makes him very angry. It is detrimental to keeping the middle class in Cambridge. It sends a very bad signal to people like Harvard professors whom the City should be trying to persuade to keep on living here. More subsidies should be done the fair way by a property tax increase through a proposal two and a half override. Cambridge already has as high a percentage of affordable housing as any place in the commonwealth.

Councillor Davis asked which is middle class having and which is luxury housing. Statistically the average middle class income is about $38,000. Mr. Meyer said that the proposal may be a message to the upper classes more than the middle class, that is not the point. Why should Harvard professors be made to feel unwelcome? Cambridge will become a low income center, and then it wouldn't take much to tip over to a slum, like New Haven.

Councillor Galluccio said that he is concerned about additional burdens on families where both husband and wife work, to make a combined income of $68-70,000.

Councillor Reeves asked whether the proposal taxes buyers or sellers. Carole Marks said the tax is on the buyer.

William Cavellini, Brookline Street, spoke in support of the transfer tax. He asked whether Ms. Buland's list could exclude other governmental entities that may change similar funds or taxes but not for affordable housing. Vali Buland agreed that there may well be additional communities using the transfer tax mechanism.

Councillor Duehay said that a more complete list would make a stronger case.

William Cavellini suggested clarifying the distinction between registry fees and other taxes. He believes the present stamp tax is intended to pay for the cost of registry records. He said that zoning presents more possibilities for affordable housing. He noted that University Park and Northpoint were not produced by the free market. It took eighteen years of a confluence of pressures to get 400 units, twenty-five percent affordable at University Park. He questioned whether there is a way to tax the buildings that came off rent control.

Steve Meachan, 10 Laurel Street, said that the end of rent control does present an argument that can be used at the state legislature. There is need for more precision in discussion about the class mixture in Cambridge. His concern is not Harvard professors, nor families with an income of $68,000. He makes $25,000 and has two children. There are many, many families in Cambridge who live on much less.

Vice Mayor Born suggested keeping the proposal in committee and requesting some further analysis of the target class, the breakdown of sales in Cambridge condo sales tax to discourage dividing up units, exemptions for long term residents.

Councillor Reeves stated that the period of urgency is now, and he does not want to see a delay. He would like more information about who lives here, and what are the trends. He would go forward in this legislative session, with some consultation with the leadership. His proposal would be for a tax on everything, no exemptions, no more than three percent. He would like to know what such a tax would raise.

Carole Marks said it would be $2 million per year.

Vice Mayor Born suggested the Vermont model with a lower tax for principal residence.

Councillor Duehay suggested a tax of one percent up to $300,000 and two percent for purchases over $300,000.

Councillor Davis said she would like to know whether a transfer tax could be rolled into closing costs. It was agreed that the proposal would remain in committee for a week so that the committee can finalize the details of the tax it will send back to the full City Council after its May 9, 1996 meeting.

For the Committee,

Councillor Francis H. Duehay, Chair

City of Cambridge

The Housing and Community Development Committee held a public meeting on Thursday May 2, 1996, beginning at 3:12 p.m. in the Sullivan Chamber, for the purpose of considering the possibility of a transfer tax on real estate transactions.

Present at the hearing were Councillor Frances H. Duehay, Chair of the Committee, Vice Mayor Kathleen L. Born, Councillor Henrietta Davis, Councillor Anthony D. Galluccio, Councillor Kenneth E. Reeves, and City Clerk D. Margaret Drury. Also present were Richard Rossi, Deputy City Manager; Susan Schlesinger, Assistant City Manager for Community Development; Carole Marks, Community Development Department, Vali Buland, Law Department, Nancy Glowa, Law Department and James Lindstrom, City Auditor.

Councillor Duehay convened the meeting and explained the purpose. He requested that Susan Schlesinger begin with a presentation. Ms. Schlesinger defined a transfer tax and reviewed the information provided in her March 20, 1996 response to the City Council's order on a transfer fee. She said that Vali Buland did research that shows that it is used in several places in the United States. Ms. Schlesinger noted that the fee would exempt lower priced units to an extent that would protect moderate income homeownership. She described how the exemption was calculated; there was first a calculation of what price could be paid by a family with an income of one hundred fifty percent of median income, and units up to that price were exempted.

Councillor Duehay stated that he rather liked the suggestion for a graduated rate. He asked whether the Law Department had reviewed the proposal. Vali Buland said that it had.

Councillor Duehay requested a summary of other transfer taxes that are in existence in Massachusetts. Ms. Buland said Nantucket is the only model in Massachusetts. It is for conservation. An attempt to add a percentage point for affordable housing to the tax failed.

Vice Mayor Born said that Nantucket had just increased its transfer tax.

Vice Mayor Born said that in all other states except Florida the tax is statewide, and there is a state/local division of the revenue. In Vermont, there was a transfer tax for the general fund, then it was increased, and the increase was specifically dedicated to fund housing and conservation fund. Vermont also taxes commercial real estate transactions.

Councillor Duehay asked why commercial property was not included in the proposal before the committee. Ms. Schlesinger said that the information supplied was in response to the City Council's request in its order and there was no request to include commercial property in the transfer tax.

Committee Report #2 : 5-309

A report from Councillor Francis H. Duehay, Chair, Housing and Community Development Committee, on a meeting held on May 2, 1996 for the purpose of considering the possibility of a transfer tax on real estate transactions.

In City Council June 3, 1996

Report accepted by an affirmative vote of 9 members.