CCM-101

City of Cambridge

1.

IN CITY COUNCIL

December 18, 1995

MAYOR REEVES
COUNCILLOR BORN
COUNCILLOR MYERS
COUNCILLOR TRIANTAFILLOU

ORDERED: That all items pending before the City Council and not acted upon by the end of the 1995 legislative session be placed in the files of the City Clerk without prejudice, subject to recall by any member, provided that those proposed ordinances which have been passed to a second reading, advertised and listed under "Unfinished Business" shall remain on the Calendar as "Unfinished Business", and further provided that any items pending in committee may, at the discretion of the committee, be forwarded to the next City Council.

In City Council December 18, 1995
Adopted by the affirmative vote of nine members.
Attest:- D. Margaret Drury, City Clerk.

A true copy; D. Margaret Drury

ATTEST:-

D. Margaret Drury
City Clerk

DATA SUMMARY BY PROPERTY TYPE

SCENARIO 1
FULL DEBT SERVICE TRANSFER

Property Type	Real Estate Change	Water/Sewer Change	Income Tax Change	Total Change
Unmatched accounts	-	(357,420)	-	(357,420)
Residential	3,099,919	(4,329,954)	(294,062)	(1,524,097)
Commercial	4,984,196	(1,724,753)	-	3,259,443
Industrial	809,450	(770,749)	-	38,701
Institutional	-	(1,799,680)	-	(1,799,680)
Unaccounted for	129,818	(40,827)	-	88,991
Total	9,023,383	(9,023,383)	(294,062)	(294,062)

SCENARIO 2
RESIDENTIAL DEBT SERVICE TRANSFER ONLY

Property Type	Real Estate Change	Water/Sewer Change	Income Tax Change	Total Change
Unmatched accounts	-	(645,523)	-	(645,523)
Residential	7,488,569	(6,865,765)	(708,922)	(86,118)
Unaccounted for	14,128	8,591	-	22,719
Total	7,502,697	(7,502,697)	(708,922)	(708,922)

DATA DETAIL BY PROPERTY CODE

SCENARIO 1
FULL DEBT SERVICE TRANSFER

Prop. Code	Sample #	Property Type	Ave RE Tax Change	Ave Water & Sewer Change	Income Tax Effect	Total Change
000	513	UNMATCHED ACCOUNTS	-	(697)	-	(697)
none	760	TAX-EXEMPT, NON-CITY	-	(2,638) *	-	(2,638)
013-4	187	Mostly res multi-use	867	(1,239)	-	(372)
031	142	Mostly comm multi-use	3,291	(1,677)	-	1,614
041	4	Mostly ind multi-use	1,052	(131)	-	921
101	3,251	Single family	253	(167)	(59)	27
102	374	Condominium	173	(217)	(25)	(69)
104	3,069	2 family	202	(215)	(23)	(38)
105	1,594	3 family	206	(329)	(14)	(137)
106	2	Parking garages **	3,884	(426,400)	-	(422,516)
109	176	Multiple res bldg	466	(721)	-	(255)
111	775	4-8 unit apartments	215	(545)	-	(330)
112	217	9+ unit apartments	1,630	(2,713)	-	(1,083)
121	57	Rooming/board house	304	(592)	-	(288)
122	6	Frat & soror houses	488	(4,135)	-	(3,647)
130	3	Developable res land	84	(73)	-	11
132	6	Undevelopable res land	14	(496)	-	(482)
140	1	Daycare center	43	(109)	-	(66)
300	7	Hotels	33,581	(17,725)	-	15,856
302	3	Inns	1,133	(2,812)	-	(1,679)
304	4	Nursing homes	5,564	(10,598)	-	(5,034)
305	1	Private hospitals	355	(45)	-	310
316	35	Other storage	1,113	(105)	-	1,008
318	1	Greenhouse/florist	209	(790)	-	(581)
321	3	Retail (hardware)	518	(97)	-	421
322	1	Other storage	250	(47)	-	203

323	7	Shopping centers/malls	118,117	(12,291)	-	105,826
324	2	S'markets 10,000+ sf	2,883	(432)	-	2,451
325	146	Gen retail & service	1,832	(1,038)	-	794
326	41	Restaurants	1,284	(2,433)	-	(1,149)
327	5	Retail condos	499	(179)	-	320
330	4	Auto sales	2,053	(966)	-	1,087
331	3	Auto supplies	661	(81)	-	580
332	22	Auto repair	625	(161)	-	464
334	24	Gas stations	798	(181)	-	617
335	1	Car washes	1,116	(1,584)	-	(468)
336	2	Parking garages	17,628	(1,985)	-	15,643
337	6	Surface parking lots	301	(493)	-	(192)
338	2	Other vehicle sales	2,374	(1,347)	-	1,027
340	158	Gen office bldgs	12,541	(2,217)	-	10,324
341	12	Banks	5,131	(1,006)	-	4,125
342	3	Medical office bldgs	7,753	(67,841)	-	(60,088)
345	85	Retail/office mixed	15,491	(4,333)	-	11,158
350	1	Post offices	6,451	(119)	-	6,332
353	14	Fraternal organizations	1,391	(501)	-	890
355	2	Funeral homes	763	(571)	-	192
362	1	Movie theaters	6,045	(3,334)	-	2,711
370	1	Bowling alleys	3,547	(2,602)	-	945
374	1	Health spas	1,261	(1,311)	-	(50)
375	1	Tennis & r'ball clubs	3,119	(4,322)	-	(1,203)
390	10	Developable comm land	1,391	(23,682)	-	(22,291)
391	1	Developable comm land	238	(969)	-	(731)
392	3	Undevelopable comm land	764	(1,107)	-	(343)
400	38	Manufacturing bldgs	3,636	(6,278)	-	(2,642)
401	49	Warehouses for mfg	2,754	(567)	-	2,187
404	23	Research & development	13,567	(1,669)	-	11,898
405	2	Retail/Industrial	5,233	(658)	-	4,575
413	1	Industrial mixed used	24,753	(62,310)	-	(37,557)

422	1	Electrical generation	9,768	(101,061)	-	(91,293)
424	5	Electrical substations	18,472	(56,045)	-	(37,573)
428	1	Gas pressure cntrl	1,682	(1,819)	-	(137)
439	3	Tel exchange station	28,298	(6,342)	-	21,866
440	1	Developable ind land	388	(224)	-	164

* Estimated
** These parking garage meters may serve condominium parcels.

DATA DETAIL BY PROPERTY CODE (CONTINUED)

SCENARIO 2
RESIDENTIAL DEBT SERVICE TRANSFER ONLY

Prop. Code	Sample #	Property Type	Ave RE Tax Change	Ave Water & Sewer Change	Income Tax Effect	Total Change
000	513	UNMATCHED ACCOUNTS	-	(1,258)	-	(1,258)
013-4	187	Mostly res multi-use	2,094	(2,020)	-	74
031	142	Mostly comm multi-use	7,951	(2,596)	-	5,355
041	4	Mostly ind multi-use	2,540	(1,044)	-	1,496
101	3,251	Single family	611	(280)	(142)	189
102	374	Condominium	418	(368)	(61)	(11)
104	3,069	2 family	488	(370)	(56)	62
105	1,594	3 family	497	(560)	(33)	(96)
106	2	Parking garages **	9,382	(503,343)	-	(493,961)
109	176	Multiple res bldg	1,125	(1,181)	-	(56)
111	775	4-8 unit apartments	520	(930)	-	(410)
112	217	9+ unit apartments	3,938	(4,693)	-	(705)
121	57	Rooming/board house	735	(1,027)	-	(292)
122	6	Frat & soror houses	1,178	(6,061)	-	(4,883)
130	3	Developable res land	203	(122)	-	81
132	6	Undevelopable res land	33	(782)	-	(749)
140	1	Daycare centers	104	(184)	-	(80)

** These parking garage meters may serve condominium parcels.

2.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

September 16, 1994

To the Honorable, the City Council:

Background/Summary

This report is submitted in response to City Council Order #54, dated June 20, 1994, concerning the possible shift of certain water and sewer charges from the water/sewer utility bill to the property tax bill. Recent legislation affords cities and towns the option to transfer water and sewer service charges that relate to debt service to the property tax bill outside of the Proposition 2 1/2 levy limit. Debt service charges include not only the municipality's debt service, but also the debt service of the MWRA that the municipality is charged. Adoption does not require voter approval.

Each municipality can exclude all or part of 1) total debt service or 2) only the debt service related to providing residential water and sewer service. If 1 is chosen, costs are shifted to property taxes for all real estate classes. If 2 is chosen, only the residential real estate taxes are affected.

This legislation also provides for a property tax exclusion of up to $200 for a small number of homeowners 65 or older. The over 65 taxpayer would receive an exclusion equal to the amount that the sum of their real estate and water and sewer bills increased, if at all, as a result of the municipality's election to shift debt service. This exclusion would be capped at $200. The municipality would be reimbursed from the state for the cost of these exclusions. These exclusions are in addition to any exclusions Cambridge already has in place. Qualification for this exclusion will also be based on income and estate value. Seniors with annual incomes of less than $15,000 ($18,000 if married) and estates, exclusive of residence, of less than $20,000 ($25,000 if married) qualify for the exemption.

Only two municipalities have elected to implement this legislation, the Town of Arlington and the Town of Needham. Arlington elected to transfer charges to all real estate classes, Needham selected the residential only shift.

Based upon the analysis of this legislation, I recommend that the City not implement either option at this time. The option to transfer the total debt service to the property tax bill is clearly not in the best interests of the ratepayers. With this option our two largest customers, Harvard and MIT, which are tax-exempt, would achieve significant savings at the expense of other taxpayers. The case against the second option, shifting only the residential related debt service to the tax bill, is not as strong. While the analysis shows that some homeowners would benefit from a shift, primarily owners of buildings with 3 or more units, the analysis also shows that owners of single and two family homes would, on average, see an increase as a result of the shift. What the analysis couldn't show because of a lack of data is that the shift could also hurt some lower income elderly who have no mortgage any longer but fairly high assessments and use a small amount of water.

Finally, I believe that a shift from the utility bill where charges are based on actual use to the tax bill where individual use cannot be billed runs counter to the City's environmental position which stresses conservation, and contradicts the City's policy of increasing block rates which charges high end water consumers higher rates than low end users. The sections that follow discuss the analysis in greater detail.

Methodology

Since the real estate tax and water/sewer usage patterns vary greatly from property owner to property owner, we found it necessary to analyze all accounts in all real estate classes within the City. We used 100% of the eligible debt service. A summary of the data and the data detail by property code follow this report. We ran hypothetical FY 94 real estate and water bills for all properties under both scenarios, 1) full debt service transfer and 2) residential debt service transfer only and compared them to actual FY 94 results. We then summed the increase in tax bills, the decrease in water and sewer bills and the resulting income tax reduction caused by greater deductibility. We calculated the income tax reductions by multiplying the increase in real estate taxes by the percentage of the building that is owner occupied (e.g. 50% of a two family), times the typical percentage of owner occupancy for that particular type of property. We assumed an income tax rate of 28%.

Scenario 1 calculations were made by transferring approximately $9,000,000, or about 35%, of the water and sewer charges to the tax levy, resulting in a residential tax rate of $14.68 per thousand of assessed value, up from $13.79 and commercial rate of $34.90 per thousand, up from 32.78. Scenario 2 calculations were made by transferring approximately $7,500,000, or about 58%, of the residential water and sewer charges to the residential tax levy, resulting in a residential tax rate of $15.94 per thousand. $9 million is the portion of the water and sewer bills that related to Cambridge and MWRA debt service and $7.5 million is the portion of that attributable to residential service based on a state suggested formula.

Discussion

All calculations are projections. Actual results will depend on property valuations and water consumption levels.

The data include a large number of water and sewer accounts that cannot be tied to a specific parcel of land because block and lot data is missing. These are referred to as "unmatched accounts," In all likelihood, the effect on these accounts should be distributed among the other accounts, thus making any changes slightly more beneficial. Two large garages in property code 106 may serve condominium complexes. The water meters may measure common area usage, which could further credit certain condominium owners.

In theory, the sum of real estate taxes and water and sewer charges is same with or without the debt service transfer. A dollar shifted from one bill appears on the other. The only consequence of importance should be that more of the burden becomes income tax-deductible. In practice, however, this is only true for a owner occupied property with "exactly average" value and "exactly average" water usage. The total addition to the sum of all real estate bills may not exactly equal the reduction to all water and sewer bills due to rounding and water consumption variations. This difference appears in the data summary as "unaccounted for." An exact match is not necessary to draw conclusions. The totals do work out to plus or minus 1.5%.

In scenario 1, full debt transfer, institutional properties get a benefit of approximately $1,800,000. This cost is shifted to other real estate classes, primarily commercial.

To a large extent the results of debt service transfer depend on the relationship between value and water usage. You can see this relationship when comparing different real estate classes or comparing properties within a single real estate class. Office buildings tend to have high relative value and low relative water/sewer usage when compared to manufacturing facilities. This is a broad generalization, since commercial and industrial uses vary greatly, from wet-process to dry-process and high-profile properties to spartan properties. Higher-end single family homes rise in value compared to lower-end single family homes at a much greater rate than water usage increases.

Income tax assumptions are somewhat less important but are also extremely variable. The higher an individuals tax rate, the greater the decrease in income taxes when considering owner occupied housing. Income tax calculations only apply to owner occupied housing, since owners of income properties can already deduct water and sewer charges as ordinary business expenses. We assume a marginal income tax rate of 28%, which is approximately median. Tax benefit calculations considered the higher incidence of owner occupancy with single and two family homes and the lower incidence of owner occupancy of three family homes and condominiums. Many taxpayers, especially taxpayers over 65, who have standard deductions of almost $8,000, do not itemize, since the standard deduction provides a greater benefit. There would be no tax benefit to these taxpayers no matter what their tax rate.

We did not consider the economic effect of the provision of the legislation which allows an elderly real estate tax exclusion. This exclusion would restore some tax benefit to seniors who do not itemize. The reason we did not consider this is because it appears that very few seniors would be qualify for this provision. The financial qualifications for this exclusion are similar to those for the Clause 41C real estate exemption. Cambridge residents who qualify for 41C are given a 25% discount on water and sewer bills. Currently, only 251 citizens can take advantage of this program. Fewer seniors would be able to take advantage of the real estate exclusion than qualify for 41C because many will get a net reduction in real estate and water and sewer bills. The number of accounts potentially affected was so small it did not warrant statistical analysis.

Arlington elected to transfer all eligible debt according to this legislation. Their experience has been mixed. A large number of residential taxpayers paid more after they implemented the shift. According to an Arlington official, there is anecdotal evidence that many of the elderly, the very group that they wanted to help, were actually hurt. Many of these taxpayers are low water users but own valuable properties with small or non-existent mortgages. A few entities, such as Brigham's and the Arlington Housing Authority, benefitted greatly. Despite this, Arlington is continuing the program into FY95.

Any change has a potential negative timing effect on residents who pay their real estate taxes from an escrow account. Since their annual bills will go up, their escrow companies will raise their monthly escrow bills to reflect increases and to build reserves. Reserves can amount to 3 months of taxes, so these taxpayers may have to increase their escrow reserves by 25% of the their real estate tax increase. This would be a one-time adjustment of $50 to $150 which could offset any first year savings. The taxpayers could expect to get these funds back when their mortgages are retired or they sell their homes.

Conclusions

Scenario 1, the transfer of all debt service, has a profound negative affect on some Cambridge taxpayers. Institutional users consume just under 20% of the water and sewer services of Cambridge. Since these institutions, the largest of which are Harvard and MIT, would benefit from a water and sewer rate reduction, but do not pay real estate taxes, a disproportionate share of the property tax increase will be borne by commercial and some industrial taxpayers. There would be no tax advantage for commercial or industrial taxpayers, since they can already deduct water and sewer bills as an ordinary business expense. While it appears that this scenario would create a small benefit for some residents, it would have a devastating effect on the commercial sector, increasing commercial tax bills by an additional 5%, with no offsetting deduction. At a time when the City is working hard in a competitive environment to both attract and retain businesses, I cannot recommend such a transfer.

The results of Scenario 2 are less clear cut. This scenario removes the complication of industrial, commercial and institutional users. As stated earlier, in theory, the sum of the real estate taxes and water and sewer charges is the same with or without the debt service transfer. The only consequence should be that more of the burden is tax deductible. In practice, however, this will not be true. Because of a wide range and mix of variables, including income, type of federal tax filing, value of property, water consumption and whether the property is a principal residence or is income property, it is very difficult to guarantee that the desired intentions of this option will occur.

In Cambridge, the analysis shows that option 2 would benefit the average owner of a unit in a building with 3 or more units. However, this benefit would come largely at the expense of single and two family homeowners. The benefit would have no relation to water conservation, which should be encouraged. Nor would it have a relation to income, which certainly should not be subsidized at higher ends. Option 2 could quite possible subsidize some high income homeowners. As a result, I do not recommend option 2.

In conclusion, I cannot recommend either of these options, which offer minimal relief to selected residential taxpayers in exchange for higher immediate tax bills for all (most homeowners would have to wait over a year to realize any savings), huge savings for tax-exempt institutions, large increases for commercial taxpayers and completely contradicts the City's environmental policy, which encourages water conservation.

Very Truly Yours,

Robert W. Healy

Consent Agenda # 2 Cal# 3

Response to City Council Order Number Fifty-Four dated June 20, 1994 regarding the possible shift of certain water and sewer charges from the water/sewer utility bill to the property tax bill.

S-414

12/18/95 - Placed on file pursuant to Order #1

In City Council,

September 19, 1994

Tabled by Councillor Duehay

12/19/94 Remains on table per request of Councillors Duehay & Born