

EXCERPT FROM THE CITY COUNCIL MEETING OF SEPTEMBER 24, 1984.

City of Cambridge

HEARING - SETTING THE TAX RATE AND CLASSIFICATION OF PROPERTY FOR FISCAL YEAR 1985.

At six o'clock and thirty-five minutes p. m. the City Council proceeded to a hearing on the classification of property according to use for the purpose of allocating the property tax.

The City Council heard from City Manager Robert W. Healy who referring to his communication of September 17, 1984 recommended classification of five property classes with a residential factor of 70.4 percent and the approval of a 10 percent residential exemption for owner-occupied homes which would result in a residential tax rate of \$17.63 per \$1,000 of valuation and \$32.97 per \$1,000 for commercial, industrial and personal property.

The City Manager stated that the minimum residential tax rate after classification can result in no less than 65 percent of what the total tax burden would be on residential properties if all classes were equally taxed and that the tax burden on commercial and industrial can be no more than 150 percent of what it would be if all classes were taxed at the same rate. The City Manager stated that a residential factor of 70.9 percent in fiscal 1984 resulted in a residential tax rate of \$17.00 per \$1,000 and \$33.12 per \$1,000 for commercial, industrial and personal property. He further stated in answer to questions by the City Council that under the law the lowest residential tax rate which would be allowed would be \$15.26 per \$1,000 conditioned on and subject to an industrial, commercial rate of \$34.70 per \$1,000.

After his presentation, a discussion arose regarding the cost of delay in setting the rates, and the City Council was informed by James Maloney, Assistant City Manager for Fiscal Affairs, that action by the City Council this evening, would allow for certification by the State Department of Revenue and the mailing of the tax bills would take place on Monday,

City of Cambridge

October 1, 1984. He estimated that a delay from the above schedule would cost the city about \$2,000 per day in borrowing in anticipation of taxes.

Councillor Graham stated that another public hearing should be held to give all a chance to digest the information as to all alternatives which had only been received that afternoon and to receive more community input.

The City Council recessed at six o'clock and fifty-seven minutes p. m. on motion of Councillor Clinton to discuss the problem of further hearings and reconvened at seven o'clock and ten minutes p. m.

No agreement was reached on a future hearing and the City Council then heard from Attorney Daniel Crane of 590 Huron Avenue who argued in favor of the owner-occupied exemption and endorsed the recommendation of the City Manager for a residential factor of 70.4 percent, further stating that any delay would cost \$40,000 for four days if action was postponed.

Mr. Maloney stated it would be difficult to estimate the cost of delay with precision because of the variables involved, but that there would be a loss on interest from tax collections.

Attorney Crane stated that the 10 percent residential exemption would give owner-occupied residents a break for filling the void left by lower assessments on rent controlled properties, that the recommendation of the City Manager would give the business community a more predictable environment to do business in.

City Manager Robert Healy informed the City Council that the total tax dollars to be raised for fiscal 1985 would be 72.4 million dollars, that 69.6 million dollars was raised for fiscal 1984, that the total assessed value of property in Cambridge was approximately 3.1 billion dollars which is the third highest in the state behind Boston and Newton with 1.8 billion dollars in residential and 1.3 billion dollars in commercial assessments.

Councillor David Sullivan stated that 75 percent of housing units were occupied by tenants who would get the tax increase through rent

City of Cambridge

increases while other would receive decreases.

The Chamber of Commerce, represented by David Hughes, endorsed the City Managers recommendation as submitted to provide a cushion for next year and cited the cities of Lowell and Worcester and the town of Lexington for following this procedure and not going to the highest commercial rate in order to continue to attract new development.

The City Council heard from Edward Fineman, 76 Inman Street, of the Better Cambridge Committee who endorsed the City Manager recommendations.

The City Council also heard from Jeremy Moskow of 14 Remington Street, Robert LaTremouille of 348 Franklin Street and Michael Turk of 24 Prescott Street, of the Cambridge Rent Control Coalition, who recorded themselves against the 10 percent exemption.

At nine o'clock and thirty-five minutes p. m. the hearing was closed.

At this time Councillor Walter Sullivan submitted the following order, the question being on adoption, to wit:

ORDERED:

That the City Council classify property within the City of Cambridge into five property classes allowed for the purpose of allocating the property tax levy providing for a residential factor of 70.4 percent.

At this time Councillor David Sullivan made a motion to amend the aforementioned order by substituting the residential factor at 65 percent.

The question now came on the motion to amend and the roll was called and resulted as follows:

YEAS: Councillors Duehay, Graham, David Sullivan, Vellucci and Wolf - 5

NAYS: Mayor Russell, Councillors Clinton, Danehy, and Walter Sullivan- 4

ABSENT: None - 0

and the motion to amend -

Carried.

City of Cambridge

The question now came on the adoption of the order as amended which reads as follows:

ORDERED:

That the City Council classify property within the City of Cambridge into five property classes allowed for the purpose of allocating the property tax levy providing for a residential factor of 65 percent.

The question now came on the adoption of the order as amended and the roll was called and resulted as follows:

- YEAS: Councillors Clinton, Duehay, Graham, David Sullivan, Vellucci and Wolf - 6
- NAYS: Mayor Russell, Councillors Danehy and Walter Sullivan - 3
- ABSENT: None - 0

and the order as amended was -

Adopted.

At this time Councillor Vellucci made a motion for suspension of the rules in order to move reconsideration, hoping that the same would not prevail.

The question now came on suspension of the rules and the roll was called and resulted as follows:

- YEAS: Councillors Duehay, Graham, David Sullivan, Vellucci and Wolf - 5
- NAYS: Mayor Russell, Councillors Clinton, Danehy and Walter Sullivan - 4
- ABSENT: None - 0

and the rules were -

Not suspended.

City of Cambridge

At this time Councillor Clinton submitted the following order, the question being on adoption, to wit:

ORDERED:

That the City Council approve a ten percent residential exemption for owner-occupied homes, which will produce a residential tax rate of \$17.63, while the commercial, industrial and personal property tax will be \$32.97.

The question now came on the adoption of the order and the roll was called and resulted as follows:

YEAS:	Mayor Russell, Councillors Clinton, Danehy and Walter Sullivan	- 4
NAYS:	Councillors Duehay, Graham, David Sullivan, Vellucci and Wolf	- 5
ABSENT:	None	- 0

and the order -

Failed of adoption.

At this time Mayor Russell made a motion for suspension of the rules in order to move reconsideration, hoping that the same would not prevail.

The question now came on suspension of the rules and the roll was called and resulted as follows:

YEAS:	Councillors Duehay, Graham, David Sullivan, Vellucci and Wolf	- 5
NAYS:	Mayor Russell, Councillors Clinton, Danehy and Walter Sullivan	- 4
ABSENT:	None	- 0

and the rules were -

Not suspended.

Both motions would be subject to reconsideration under the City Council Rules.

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City of Cambridge

At a later point in the meeting, Councillor Walter Sullivan made a motion for suspension of the rules in order to move reconsideration, hoping that the same would not prevail on the two orders, the first setting the residential factor at 65 percent and the second order failing to adopt the 10 percent residential exemption on owner-occupied property.

Councillor Walter Sullivan stated that he was making this motion for reconsideration in order that the City Manager would be empowered to send out the tax bills, without delay, and eliminate the cost of future borrowing at great expense to the City and loss of interest and bond charges.

There being no objections - the rules were -

Suspended.

The question now came on reconsideration of the two orders voted on by the City Council and on a voice vote, without objection, the motion for reconsideration of the two orders -

Carried.

The hearing adjourned at the call of the Chair.

City of Cambridge

MASSACHUSETTS

In City Council September 24, 1984 198

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton		X		
Mr. Thomas W. Danehy		X		
Mr. Francis H. Duehay	X			
Ms. Sandra Graham	X			
Mr. David E. Sullivan	X			
Mr. Walter J. Sullivan		X		
Mr. Alfred Vellucci	X			
Ms. Alice K. Wolf	X			
Mayor Russell		X		

5

4

0

Motion of Councillor David Sullivan to amend by substitution a residential factor of 65 percent for the recommendation of the City Manager introduced by Councillor Walter Sullivan providing for a residential factor of 70.4 percent.

THE MOTION TO AMEND - CARRIED.

City of Cambridge

MASSACHUSETTS

In City Council September 24, 1984

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton	X			
Mr. Thomas W. Danehy	X (1)	X (2)		
Mr. Francis H. Duehay	X			
Ms. Sandra Graham	X			
Mr. David E. Sullivan	X			
Mr. Walter J. Sullivan		X		
Mr. Alfred Vellucci	X			
Ms. Alice K. Wolf	X			
Mayor Russell		X		

6

3

0

Vote of the City Council adopting the substituted order introduced by Councillor David Sullivan on the 65 percent residential factor.

Councillor Vellucci made a motion for suspension of the rules in order to move reconsideration.

City of Cambridge

MASSACHUSETTS

In City Council September 24 1984

Motion to reconsider Councillor David Sullivan's order on the 65 percent residential factor-- Motion by Councillor Vellucci

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton		X		
Mr. Thomas W. Danehy		X		
Mr. Francis H. Duehay	X			
Ms. Sandra Graham	X			
Mr. David E. Sullivan	X			
Mr. Walter J. Sullivan		X		
Mr. Alfred Vellucci	X			
Ms. Alice K. Wolf	X			
Mayor Russell		X		

5

4

0

Councillor Vellucci's motion for suspension of the rules in order to move reconsideration, hoping that the same would not prevail.

The question now came on suspension of the rules - and on this roll call the rules were -

NOT SUSPENDED.

City of Cambridge

MASSACHUSETTS

In City Council September 24 1984

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton	X			
Mr. Thomas W. Danehy	X			
Mr. Francis H. Duehay		X		
Ms. Sandra Graham		X		
Mr. David E. Sullivan		X		
Mr. Walter J. Sullivan	X			
Mr. Alfred Vellucci		X		
Ms. Alice K. Wolf		X		
Mayor Russell	X			

4

5

0

Order introduced by Councillor Clinton as follows:

ORDERED: That the City Council approve a ten (10) percent residential exemption for owner-occupied homes, which will produce a residential tax rate of \$17.63, while the commercial, industrial and personal property tax will be \$32.97.

ORDER FAILED OF ADOPTION.

City of Cambridge

MASSACHUSETTS

In City Council September 24, 1984

	YEA	NAY	ABSENT	PRESENT
Mr. Daniel J. Clinton		X		
Mr. Thomas W. Danehy		X		
Mr. Francis H. Duehay	X			
Ms. Sandra Graham	X			
Mr. David E. Sullivan	X			
Mr. Walter J. Sullivan		X		
Mr. Alfred Vellucci	X			
Ms. Alice K. Wolf	X			
Mayor Russell		X		

5

4

0

Mayor Russell motion for suspension of the rules in order to move reconsideration, hoping that the same would not prevail on the Order submitted by Councillor Clinton re: 10 percent residential exemption for owner-occupied homes.

The question now came on suspension of the rules and the rules were -

NOT SUSPENDED.



City of Cambridge

15.

IN CITY COUNCIL

September 24, 1984

COUNCILLOR DAVID SULLIVAN

ORDERED:

That the City Council classify property within the City of Cambridge into five property classes allowed for the purpose of allocating the property tax levy providing for a residential factor of sixty-five (65) percent.

In City Council September 24, 1984.

Adopted by a yea and nay vote:-

Yeas 6; Nays 3; Absent 0.

Attest:- Paul E. Healy, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in cursive script, reading "Paul E. Healy".



City of Cambridge

16.

IN CITY COUNCIL
September 24, 1984

COUNCILLOR CLINTON

ORDERED:

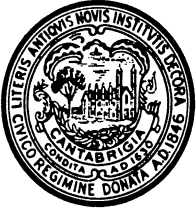
That the City Council approve a ten (10) percent residential exemption for owner-occupied homes, which will produce a residential tax rate of \$17.63, while the commercial, industrial and personal property tax will be \$32.97.

In City Council September 24, 1984.
Failed of adoption by a yea and nay vote:-
Yeas 4; Nays 5; Absent 0.
Attest:- Paul E. Healy, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in black ink, appearing to read "Paul E. Healy".



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

September 17, 1984

To the Honorable, the City Council:

Recommendation

1. That the City Council classify property within the City of Cambridge into five property classes allowed for the purpose of allocating the property tax levy. It is further recommended that the City Council adopt a residential factor of 70.4%.
2. That the City Council approve a ten percent residential exemption for owner-occupied homes, which will produce a residential tax rate of \$17.63, while the commercial, industrial and personal property rate will be \$32.97.

Summary

Under Massachusetts Law, municipalities have the ability to classify property according to use, for the purpose of allocating the property tax. A municipality may further approve a ten percent residential exemption for owner-occupied homes.

The classification law provides that the minimum residential tax rate after classification can result in no less than 65% of what the total tax burden would be on residential properties if all classes were equally taxed. Additionally, the tax burden on commercial and industrial property can be no more than 150% of what it would be if all classes were taxed at the same rate. To review the actual formula used in determining the tax allocation, please see attached "A".

For the past year the City Council adopted a residential factor of 70.9% which resulted in a residential tax rate of \$17.00 per thousand of assessed valuation and a commercial, industrial and personal property tax rate of \$33.12 per thousand. The City Council, upon my recommendation, chose not to approve the ten percent residential exemption for FY1984. For FY1985, the recommended residential factor of 70.4%, along with a ten percent exemption for owner-occupied homes, results in a residential tax rate of \$17.63 and a commercial, industrial and personal property tax rate of \$32.97. The residential rate is higher with a residential exemption because, when a community chooses to opt for residential exemptions, the total tax levy paid by the residential sector does not change even though the residential value decreases due to the exemptions.

Because of factors such as trending of assessments, residential exemptions and the diversified housing stock in Cambridge, it is difficult to compare what the average residential taxpayer will pay in FY1985 compared to FY1984. However, the table below provides some information in this regard, and indicates that taxes will be unchanged for many homeowners.

<u>FY1984</u>	<u>FY1985</u>	<u>Dollar</u>	<u>Increase Percent</u>
Avg. Res. Assm't. \$116,000	Average Res. Assm't. \$124,000	\$8,000	7.0%
Avg. Owner-Occupied Bill \$1,972	Avg. Owner-Occupied Bill \$1,967	\$ (5)	0.0%
Avg. Non-owner Occupied Bill \$1,972	Avg. Non-owner Occupied Bill \$2,186	\$ 214	10.9%

The recommended residential factor of 70.4 percent means that the commercial and industrial sectors will each pay basically the same proportion of the tax as last year.

Percentage of Total Levy

	<u>FY1984</u>	<u>FY1985</u>
Commercial & Industrial	59.9	59.4
Residential	40.1	40.6

It should be noted that if the City Council were to grant the full benefit of classification to residential property the residential tax rate would be \$15.26, while the commercial, industrial and personal property tax rate would become \$34.70. Additionally, if the City Council chose not to classify property the equalized tax rate would be \$23.47, a decrease of 2.2 percent when compared to the \$23.99 equalized rate for FY1984.

Issues:

Classification:

The recommended tax rate reflects my recent contentions that the City's healthy economy, coupled with a constructive development environment and prudent fiscal management, is producing a period of financial prosperity and stability for the City government, its citizens, and its businesses. The recommended rate of \$16.52 (prior to the residential exemption) and \$32.97 represent small but highly symbolic decreases from last year, in spite of a tax levy increase of some \$2.6 million. This levy increase has been funded, in effect, completely by new development activity and construction, both residential and commercial. (This is not to say that nobody experienced a tax increase -- many owners will, by virtue of value trending, experience an increase; however, such shifts in taxes constitute an effort to keep tax

burdens on line with a dynamic real estate market, and thus keeps the system as fair and equitable as possible.) I foresee this general pattern continuing for the balance of the decade at least. Additional value from development activity will meet most of the City's additional tax levy needs.

As stated earlier, under my proposed rates, the commercial and industrial sectors will each pay basically the same proportion of the tax levy as last year. My reasons for not recommending "maximum classification" remain the same as they were last year: we must preserve our competitive relationship with Boston; the City's commitment to compatible commercial development deserves reflection in our taxation policies.

In sum, the recommended classification percentage and tax rates that I have recommended represent a policy of striving for a stable tax environment so highly valued by the business community, and, at the same time, continue to provide the fiscal benefits of a healthy local economy to our residents.

10 Percent Residential Exemption:

The tax classification law provides for at local option the so-called "10% Residential Exemption". The basic intent of this provision is (1) to give owner-occupied residential property a tax benefit at the expense of non-owner-occupied properties, and (2) to give lower valued properties a relatively larger benefit than higher valued properties. Residential exemption, like classification, must be voted on by the City Council each year.

Last year I recommended that the exemption not be adopted. First, it was not clear that the actual beneficiaries of the tax benefit were the most worthy and/or needy; but, most of all, the administrative requirements for implementing the bill would have delayed already late tax bills even further.

At this time administrative obstacles have been overcome, and the City can implement the exemption smoothly if adopted. I recommend that the exemption be adopted with the understanding that, from a housing point of view, the exemption is of little consequence to the City as a whole.

For FY1985 the data concerning Residential Exemption is as follows:

Number of exemptions = 9,000
\$ value of an exemption = \$12,417
Residential tax rate after exemption = \$17.63
Examples (X indicates owner-occupied)

<u>Value of Property</u>	<u>Tax Without Exemption</u>	<u>Tax With Exemption</u>
\$50,000	\$ 826	\$ 882
50,000 (X)	826	663
100,000	1,652	1,763
100,000 (X)	1,652	1,544
150,000	2,478	2,645
150,000 (X)	2,478	2,426
197,218	3,258	3,477
197,218 (X)	3,258	3,258
300,000	4,956	5,289
300,000 (X)	4,956	5,070

As the law indicates, the principal benefits of the exemption lie at the low end of the value scale; and many properties in this value range are located in the City's lower-income neighborhoods. On the other hand, a significant number of properties in the \$30,000 to \$60,000 range are condominiums whose owners are not necessarily lower income. In the \$100,000 to \$150,000 range, which includes most Cambridge properties, the benefit of the exemption is relatively inconsequential.

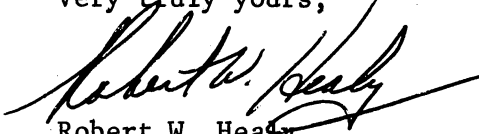
Despite ambiguous benefits, I am swayed toward recommending approval of the residential exemption for two principal reasons. First, 1983 sales prices increased most rapidly in lower value neighborhoods, thus these areas are hurt most by trending. For many owner occupants, the exemption would mitigate the tax increase significantly. For example, assume a \$50,000 property whose value increased 30% to \$65,000. Last year's taxes were \$850.00. FY1985 taxes without the exemption would increase to \$1,072.00. With the exemption, FY1985 tax bill would be \$925.00.

Secondly, most rent-controlled property has already benefitted extraordinarily from revaluation -- particularly larger buildings; and for FY1985 rent controlled properties over three units received no value increase from trending, which would mean additional tax reductions in FY1985 if the exemption were not adopted. With the exemption in effect, however, the net tax increase for multi-family structures would be under 4%. This is a small increase relative to the benefit which accrues to owner-occupied houses in the lower value range.

Conclusion:

The issues of annual reassessments, tax classification and residential exemption have made the matter of establishing the annual tax rate, once fairly straightforward, a very complicated matter. The citizens and businesses of Cambridge, however, can take satisfaction in the knowledge that the financial and development policies of the City Council allow them the opportunity to plan their own finances in an environment of a stable tax policy.

Very truly yours,


Robert W. Healy
City Manager

RWH/mbf

(Please note: The numbers in this report could change slightly due to State review.)

F-309A

Re: tax rate for Fiscal Year 1985.

9/24/84

Hearing held - see
- Order Relating -

Publish - NOTICE
OF HEARING -

notice of hearing
published in Chronicle
9/20/84 @

In City Council,

September 17, 1984

9/17/84

Referred to the
Hearing at 6 PM
on the date of

Sept 24/1984

AT
6 PM