OFFICE OF THE CITY CLERK

CITY OF CAMBRIDGE

(617) 349-4260
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D. MARGARET DRURY
CITY CLERK

DONNA P. LOPEZ
DEPUTY CITY CLERK

SEPTEMBER 10, 1996

TO: **ROBERT W. HEALY**
CITY MANAGER

FROM: DMD
D. MARGARET DRURY
CITY CLERK

SUBJECT: **SUNDRY REQUESTS FROM THE CITY COUNCIL AT THE CITY COUNCIL MEETING OF SEPTEMBER 9, 1996**

At the City Council meeting of September 9, 1996 the following requests were made:

Communication # 32 — A petition from Alice LoCicero, et al requesting a walk light or other traffic control option for the intersection of Grove Street and Blanchard Road

Mayor Russell requested that the intersection of Huron Avenue and Grove Street be added to this petition.

Councillor Duehay requested a report from the City Manager on this matter.

Councillor Galluccio requested the installation of a manual light at the locations.

Calendar # 4

Response to Awaiting Report Item regarding an update on repairs to the Walden Square/Pemberton Street underpass.

Councillor Galluccio requested an update from the City Manager on the opening of the underpass.

Calendar # 32

Response to Awaiting Report Item regarding a report on small business tax exemptions.

Vice Mayor Born requested the City Manager and Mr. Maloney to work with the Taxation Commission to review the state law with a view towards improving the short comings of the law.

Calendar # 39

Response to Awaiting Report Item regarding the status of plans and negotiations of units planned for the Portland Stoneware site.

Councillor Galluccio tabled this item with the request that the City Manager provide the City Council with an update.

Your kind attention in these matters will be greatly appreciated by the City Council.

CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139
MAIN OFFICE (617) 349-4343 RESIDENTIAL VALUATION (617) 349-4110

ASSESSING DEPARTMENT

Sally Powers, Director
Kevin T. McDevitt, MAA, CRA
Faith D. McDonald, CMA, RMA, MAA, CA-S

July 24, 1996

TO: Robert W. Healy, City Manager

FROM: Sally Powers, Director of Assessment

SUBJECT: Council Order #044, dated 5/13/96 RE: REPORT ON SMALL BUSINESS TAX EXEMPTIONS

The Assessing Department recommends against adoption of the Small Business Tax Exemption because of the inherent unfairness of the statute. It includes no guarantees that qualifying tenants would receive the financial benefit in non-owner occupied properties, and arbitrarily excludes small businesses who happen to have chosen locations which do not qualify under the statute.

The Department's concerns are specifically the following:

1. There is no provision either in the statute or the State Department of Revenue's guidelines which would require the landlord of a property qualifying for the exemption to pass the benefit on to the building tenants.

2. A small business which selected its location from among whatever seemed the best economic choices at the time the decision was made will find itself excluded from the benefit of the exemption for any of the following reasons:

   a. 1, above;

   b. the property has a market value greater than $1,000,000;

   c. any one of the other tenants of the building does not qualify for the exemption;

(over)

d. the business is not on the State's Department of Employment and Training list of all qualified employers.

3. The exemption is paid for by increasing the commercial tax rate, thereby penalizing the many small businesses which happen to occupy non-qualifying real estate.

To date, only three of the Commonwealth's 350 cities and towns have adopted this exemption: Avon, Somerset, and Braintree.

We have reviewed the FY96 list of qualifying businesses, which is 145 pages long. It appears that about 200 business on the list may occupy qualifying real estate. A very rough estimate of the average exemption to these businesses is 10% of an average of $250,000 in property value. If the small commercial exemption were put into effect, the tax rate for commercial and industrial properties would be raised to reflect the $5,000,000 reduction in taxable value. The estimated change in the tax bills for qualifying and non-qualifying properties, using FY96 numbers, is calculated below.

	No Small Commercial exemption	With exemption
Total Value Commercial/Industrial Property	$2,481,768,768	$2,476,768,768
C/I % of tax levy	59.9537%	59.9537%
levy % times levy $144,441,845	86,598,230	86,598,230
tax rate: C/I levy ÷ C/I Value	$34.89 per 1,000	$34.96 per 1,000
Tax bill non qualifying 250,000 property	$ 8,723	$ 8,740
Tax bill 250,000 qualifying property	$ 8,723	$ 7,866

A copy of the Department of Revenue guideline concerning the exemption is attached to this report.

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Massachusetts Department of Revenue

Division of Local Services

Informational Guideline Release

Commissioner
Mitchell Adams
Deputy Commissioner
Leslie A. Kirwan

Bureau of Local Assessment
Informational Guideline Release No. 93-402
December 1993

SMALL COMMERCIAL EXEMPTION

Chapter 110, S.S. 112 and 187 of the Acts of 1993
(Adding G.L. Ch. 59, S. 5I and Ch. 151A, S. 64)

This Informational Guideline Release informs local officials about a new option under the property tax classification law that permits local officials to give preferential treatment to commercial properties occupied by small businesses.

Topical Index Key:

Classification and Taxation of Property According to Use

Distribution:

Assessors
Mayors/Selectmen
City/Town Councils
City Solicitors/Town Counsels

The Division of Local Services is responsible for oversight of and assistance to cities and towns in achieving equitable property taxation and efficient fiscal management.

The Division regularly publishes IGRs (Informational Guideline Releases detailing legal and administrative procedures) and the Bulletin (announcements and useful information) for local officials and others interested in municipal finance.

Division of Local Services, PO Box 9655, Boston, MA 02114 - 9655 (617) 727-2300

Informational Guideline Release No. 93-402
December 1993

SMALL COMMERCIAL EXEMPTION

Chapter 110, S.S. 112 and 187 of the Acts of 1993
(Adding G.L. Ch. 59, S. 5I and Ch. 151A, S. 64)

SUMMARY:

This legislation adds a new option, the small commercial exemption, to the property tax classification law. Under G.L. Ch. 59 §5I, a board of selectmen or mayor, with the approval of the city council, may now decide annually to exempt up to ten percent of the value of Class Three, Commercial, parcels that are occupied by businesses with an average annual employment of no more than ten people at all locations during the previous calendar year, as certified by the Commissioner of the Department of Employment and Training, and valuations of less than a million dollars. Like the residential exemption provided by G.L. Ch. 59 §5C, the small commercial exemption is a reduction in the taxable valuation of the property applied by the assessors before setting the tax rate. If adopted, it has the effect of reducing property taxes on properties occupied by small businesses and shifting those taxes onto other commercial and industrial properties.

GUIDELINES:

A. Annual Adoption

The board of selectmen or mayor, with the approval of the city council, may now decide before the tax rate is set whether or not to grant a small commercial exemption for the fiscal year. A small commercial exemption of any percentage of valuation up to ten may be adopted.

The option of granting a small commercial exemption is in addition to the other local tax policy options available under the classification law. It can be granted regardless of the residential factor selected and may be used with or without an open space discount or a residential exemption.

B. Qualifications

To be eligible for any small commercial exemption granted, a Class Three, Commercial, parcel must (1) be occupied by a business with an average annual employment of no more than ten during the previous calendar year, as certified by the Commissioner of the Department of Employment and Training, and (2) have a valuation of less than one million dollars.

1. Occupancy

The commercial parcel must be occupied by an eligible business as of January first. It does not have to be owned by the occupying business or any other eligible business.

If a parcel has multiple commercial occupants or tenants, all occupants must be eligible businesses. If a parcel is multiple use, such as a residential and commercial property, all occupants of the commercial portion must be eligible businesses.

2. Eligible Business

An eligible business is one that is certified by the Commissioner of the Department of Employment and Training (DET) as having had an average annual employment at all locations of ten or fewer people during the prior calendar year. The assessors are to rely exclusively on the Commissioner's certification in determining whether a business qualifies.

The Commissioner of DET will provide the assessors with a list of eligible businesses each year by July first. G.L. Ch. 151A §64. The Commissioner will issue the first list by July 1, 1994. That list will include businesses with average employment of ten or less during calendar year 1993 and is to be used by the assessors in determining whether a parcel was occupied by an eligible business as of January 1, 1994 for fiscal year 1995 tax purposes.

The list of eligible businesses is not a public record. It may be used by the assessors and their staff only to administer the small commercial exemption. If any of the assessors or their staff uses the list for other purposes or disclosures any of the listed businesses to people outside the assessors' office, they may be fined one hundred dollars.

B. Qualifications

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3. Valuation Limit

The parcel must have a valuation of less than one million dollars before the application of any small commercial exemption.

The exemption applies to a specific parcel occupied by an eligible business, not an eligible business. Therefore, if any particular eligible business occupies more than one parcel, each under one million dollars in value, each parcel would qualify for the exemption.

C. Assessed Valuation and Tax Rate

The small commercial exemption is administered by the assessors in the same manner as the residential exemption, that is, without an application from the taxpayer. Unlike the residential exemption, however, the small commercial exemption is based on a percentage of an eligible parcel's valuation, rather than a fixed dollar amount.

The assessors value all Class Three, Commercial, properties at their full and fair cash value and then use the aggregate full and fair cash value of the commercial class to compute the minimum residential factor and determine the levy allocation under the classification law. If a small commercial exemption is granted, the assessors must determine the eligible parcels, reduce their valuation by the selected exemption percentage and set the tax rate using the reduced taxable value.

Any small commercial exemption granted is borne by other Class Three, Commercial, and Class Four, Industrial, property, but not by personal property. The tax levy to be raised from commercial and industrial properties remains the same, but use of the reduced valuation in setting the tax rate will result in a higher rate for the commercial and industrial classes than for personal property. The attachment, "Impact of Small Commercial Exemption," shows how adoption of the exemption affects the calculation of the tax rate.

D. Other Exemptions

The small commercial exemption may be applied to parcels that qualify for other property tax exemptions under G.L. Ch. 59 §5. There is no minimum taxable valuation as is the case with the residential exemption.

IMPACT OF SMALL COMMERCIAL EXEMPTION

Tax Levy	$ 5,000,000		
Full and Fair Cash Valuation			
Residential	$150,000,000	75%)	
Open Space	10,000,000	5%)	(80%)
Commercial	20,000,000	10%)	
Industrial	10,000,000	5%)	(20%)
Personal	10,000,000	5%)	
TOTAL	$200,000,000	100%	

<u>Eligible</u> Class Three Parcels	
Full and Fair Cash Value	$ 5,000,000
Exemption Percentage	10%
Exempt Valuation	500,000
Assessed Valuation	$ 4,500,000

<u>EXAMPLE 1</u>
TOWN ADOPTS A <u>RESIDENTIAL</u> FACTOR OF 1

Tax Rate Computation <u>Without</u> a Small Commercial Exemption

Class	Levy %	Levy	Tax Rate
R & O	80%	$4,000,000	$25.00 ($4,000,000÷160,000,000)
CIP	20%	1,000,000	25.00 (1,000,000÷ 40,000,000)

Tax Rate Computation <u>With</u> A Small Commercial Exemption

Class	Levy %	Levy	Tax Rate
R & O	80%	$4,000,000	$25.00 ($4,000,000÷160,000,000)
C & I	15%	750,000	25.42 (750,000÷ 29,500,000)
P	5%	250,000	25.00 (250,000÷ 10,000,000)

Tax Impact on Eligible and Non-eligible Parcel
Full and Fair Cash Valuation $500,000

	Without Exemption	With Exemption
Eligible	$12,500 ($500,000 x 25/1000)	$11,439 ($450,000 x 25.42/1000)
Non-eligible	12,500 ($500,000 x 25/1000)	12,710 ($500,000 x 25.42/1000)

EXAMPLE 2
TOWN TAKE SHIFT OF 150% ON CIP
ADOPTS A RESIDENTIAL FACTOR OF .85

Tax Rate Computation Without a Small Commercial Exemption

Class	Levy %	Levy	Tax Rate
R & O	70%	$3,500,000	$21.87 ($3,500,000÷160,000,000)
CIP	30%	1,500,000	37.50 (1,500,000÷ 40,000,000)

Tax Rate Computation With A Small Commercial Exemption

Class	Levy %	Levy	Tax Rate
R & O	70 %	$3,500,000	$21.87 ($3,500,000÷160,000,000)
C & I	22.5%	1,125,000	38.14 (1,125,000÷ 29,500,000)
P	7.5%	375,000	37.50 (375,000÷ 10,000,000)

Tax Impact on Eligible and Non-eligible Parcel
Full and Fair Cash Valuation $500,000

	Without Exemption	With Exemption
Eligible	$18,750 ($500,000 x 37.50/1000)	$17,163 ($450,000 x 38.14/1000)
Non-eligible	18,750 ($500,000 x 37.50/1000)	19,070 ($500,000 x 38.14/1000)

EXAMPLE 2
TOWN TAKE SHIFT OF 150% ON CIP
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Tax Rate Computation Without a Small Commercial Exemption

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R & O	70%	$3,500,000	$21.87 ($3,500,000÷160,000,000)
CIP	30%	1,500,000	37.50 (1,500,000÷ 40,000,000)

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R & O	70 %	$3,500,000	$21.87 ($3,500,000÷160,000,000)
C & I	22.5%	1,125,000	38.14 (1,125,000÷ 29,500,000)
P	7.5%	375,000	37.50 (375,000÷ 10,000,000)

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Full and Fair Cash Valuation $500,000

	Without Exemption	With Exemption
Eligible	$18,750 ($500,000 x 37.50/1000)	$17,163 ($450,000 x 38.14/1000)
Non-eligible	18,750 ($500,000 x 37.50/1000)	19,070 ($500,000 x 38.14/1000)

32.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

July 29, 1996

To The Honorable, The City Council:

Please find attached a response to Awaiting Report Item No. 9, regarding a report on small business tax exemptions, received from Sally Powers, Director of Assessment.

Very truly yours,

Robert W. Healy
Robert W. Healy
City Manager

RWH/mec
attachment

S-438

Consent Agenda #32

Relative to Awaiting Report Item Number Nine, regarding a report on small business tax exemptions.

In City Council July 29, 1996
Charter right was exercised by Councillor Toomey

PLACED ON FILE