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CAMBRIDGE CITY CLERKS OFFICE

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CITY CLERK

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DEPUTY CITY

FAX TR 'NSMITTAL SHEET

DATE: 9/8/99

TO: Wendy Buckley
The Chronicle - Legal Ads

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FROM: Gail Jones
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Advertise on 9/16/99

ADDITIONAL COMMENT: Dates 9/16 &
Please advertise for week and
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Thanks!

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C. C. 106

LEGAL NOTICE

City of Cambridge

NOTICE OF PUBLIC HEARING

The Cambridge City Council will conduct a public meeting on Monday, September 27, 1999 at 4:30 P.M. in the Sullivan Chamber, City Hall, Second Floor, Cambridge on

PROPERTY TAX RATE CLASSIFICATION

Under the laws of the Commonwealth, the City has the option of taxing residential and commercial/industrial property at different tax rates. At this public meeting, the City Council will review tax rates proposed by the City Manager and the Board of Assessors. The votes taken will result in property tax rates which reflect the City's property tax levy for FY 2000, the addition of new taxable property to the City's tax base, the Assessors' annual reassessment program to adjust values to their full and fair cash value as of January 1, 1999 and the City Council's decision regarding distribution of the tax burden between commercial and residential properties and the granting of a residential exemption.

The Cambridge City Council will entertain comment and opinion from interested citizens and taxpayers.

D. Margaret Drury
City Clerk

7. That the City Council vote to increase the income limit for deferral of real estate taxes by elderly persons from $20,000 to $40,000 as allowed under MGL Chapter 59, Section 5, Clause 41A.

SUMMARY

The establishment of the tax rate by the Board of Assessors with the approval of the Massachusetts Department of Revenue is the final step in the annual fiscal process that begins in the spring with the submission and adoption of the annual budget. The FY00 budget adopted by the City Council called for a tax levy of approximately $165,500,000. However, as a result of an additional $818,000 in FY99 of lottery money from the Commonwealth, and an estimated additional $500,000 in building permits, the actual FY00 tax levy will be $164,000,000. This represents an increase of 3.1% over FY99, and is similar to the 3% increase in the tax levy last year. While the tax levy is increasing, it should be noted that 64% of all residential properties will see either no increase in taxes or a decrease as a result of taxes paid from newly constructed properties. It is also important to note that the modest $5,000,000 increase in the tax levy is more than offset by taxes from new construction, which this year totals $6,403,600. Table 1 is a breakdown of the FY00 new tax growth by property types.

TABLE I
New Construction Breakdown FY00
Estimated

NEW VALUE	FY00 TAXES TO BE PAID BY NEW VALUE
Commercial Property	$4,990,400
Residential Property	$1,413,200
Total New Growth	$6,403,600

For FY00, the assessed value of taxable property in the City of Cambridge totals $11,037,942,030, an increase of nearly $1.5 billion from FY99. By category, residential values increased by $1,047,399,400, while commercial and personal property increased by $447,705,900. Table 2 gives a presentation of the recent history of property values.

TABLE II
Assessed Values
(in millions)

	FY96	FY97	FY98	FY99	FY00
Commercial Property	$2,482	$2,463	$2,495	$3,561	$3,990
Personal Property	$ 227	$ 236	$ 249	$ 256	$ 275
Residential Property	$ 4,301	$4,543	$4,760	$5,725	$6,773
TOTAL ASSESSED VALUE	$7,010	$7,242	$7,504	$9,543	$11,038

As mentioned above, the $5,000,000 increase in the property tax levy is more than offset by $6.4 million in taxes to be paid by newly constructed or renovated property. As the City Council is aware, these new tax payments impact the City's finances in two ways. First, the new tax dollars allow the City to increase its tax levy limit by an amount equal to them which in FY00 allows the City to increase its excess tax levy capacity by an additional $7,267,428 to $189,475,379. Under Proposition 2 ½, excess tax levy capacity is an important factor in allowing the City the flexibility to respond to unforeseen needs. Because of this, excess levy capacity is an important factor considered by the rating agencies when they review a community's bond rating. Table III offers the recent history of the City's tax levy and excess levy capacity

TABLE III
Tax Levy/Tax Levy Limit/Excess Levy Capacity
(in thousands)

	Actual FY96	Actual FY97	Actual FY98	Actual FY99	Estimated FY00
Levy Limit	$150,639	$158,824	$166,515	$177,754	$189,475
Actual Levy	$144,442	$148,070	$154,353	$159,000	$164,000
% Levy Increase over Prior Year	-0-	2.5%	4/2%	3.0%	3.1%
Excess Levy Capacity	$6,197	$10,754	$12,162	$18,754	$25,475

In addition to providing greater flexibility under Proposition 2 ½, tax payments from newly constructed or rehabilitated property also work to mitigate increases on existing properties. Table IV below indicates the FY00 changes in average tax bills from FY99 while TABLE V shows what those changes would have been had there been no new construction over the past year.

TABLE IV
Changes in Average Tax Bills

	FY99 Tax Bill	FY00 Tax Bill	Dollar Change	Percent Change
1-Family	$3,866	$3,799	-$67	-1.7%
2-Family	$3,020	$3,065	$45	1.5%
3-Family	$2,733	$2,918	$185	6.8%
Condominium	$1,505	$1,538	$33	2.2%

For change in tax bills by district see Attachment 1 and map

TABLE V
Changes in Average Tax Bills Without New Construction

	FY99 Tax Bill	FY00 Tax Bill	Dollar Change	Percent Change
1-Family	$3,866	$3,915	$49	1.3%
2-Family	$3,020	$3,162	$142	4.7%
3-Family	$2,733	$3,011	$278	10.2%
Condominium	$1,505	$1,595	$90	6%

FY00 PROPERTY VALUATION

For FY00 the City continued its policy of maintaining property valuations at 100% full and fair cash value.

Sales of 253 houses and 574 condominium units were analyzed to develop factors to adjust values by property type (one-family, two-family, three-family, condo) and residential assessing district. In general, two- and three-family houses in certain districts saw the greatest increases. Single family house values increased most markedly in the Francis Street area (District 5 on the attached map), the Riverside and Cambridgeport neighborhoods, and the Richdale Avenue - Hubbard Avenue area (District 17). Sixty-four percent of taxpayers owning houses will have no tax increase, or a tax decrease. See Attachment 1 for a detailed breakdown of the results of the valuation program.

The apartment building market was highly dynamic both in terms of sales and market rent levels. Income and expense reports from 230 buildings were studied and market rent and expense tables were developed for application of the income approach. Capitalization rates were developed from analysis of sales and interest rate levels as of January 1, 1999. FY00 also saw the addition of two new apartment complexes to the tax base: Worthington Place (265 Third Street) with 200 apartments and Museum Towers with 435 apartments.

For commercial and industrial properties, income and expense returns for the 1998 calendar year were compared to the 1997 calendar year returns. From this analysis, factors were developed to adjust commercial values by use (retail, office, manufacturing, etc.) and by commercial assessing district.

Three hundred fifty (350) new business personal property accounts were added to the tax rolls for FY00, bringing the total number of personal property tax bills to almost 3,100. The new accounts and new personal property acquired by existing accounts contributed $29.6 million to tax levy growth for FY00.

REQUIRED VOTES

- **Rescind $1,350,000 from Capital Improvement Budget** - The adopted FY00 Capital Budget for the City contains an allocation of $2,000,000 for street and roadway improvements to be funded from Chapter 90 Highway funds from the Commonwealth of Massachusetts. The $2,000,000 allocation was based upon the FY99 amount of the same level. On September 10, 1999, the Massachusetts Highway Department notified the City that the FY00 allocation to the City of Cambridge had been cut to $662,631. The letter also stated that the Governor had submitted supplemental legislation to increase the amount. Due to the fact that the Department of Revenue will only allow cities and towns to use approved revenue sources when setting the tax rate, I am requesting that the City Council rescind $1,350,000 from the FY00 capital budget ($1,000,000 Public Works, $350,000 Community Development) to allow for the setting of the property tax rate. The $1,350,000 was to have funded the Cambridge Street Project, however, actual construction on that project was not scheduled to begin until the spring of 2000. Between now and late winter, we will wait to see if the state restores Chapter 90 funding to previous levels. Should the State not restore funding, I will forward an alternative financing recommendation for your consideration.

- **Authorize Free Cash** - For the fiscal year that ended June 30, 1999, the City of Cambridge had an estimated free cash balance of $30,320,541, an increase of $1,147,947 over the previous year. The modest increase in free cash over FY98 was anticipated and was included in the FY00 budget as a funding source for the $2,000 one-time payment to employees. While the free cash authorizations requested at this time were included in the FY00 budget, the Department of Revenue (DOR) does not allow formal authorization of free cash by the City Council until DOR has certified a Free Cash balance at the conclusion of the fiscal year. I am requesting the City Council to formally authorize the use of $12,212,137 in Free Cash for FY00 as follows:

Operating Budget	$6,290,700
Capital Improvement Budget	$5,743,000
Overlay Reserve	$ 178,437
	$12,212,137

- **Classify Property and Establish Minimum Residential Factor** - Since 1984, the City Council has voted annually to follow state law allowing the classification of property according to use (residential or commercial) and to allocate the legal maximum portion of the tax levy to the commercial class. State law allows the residential portion of the tax levy to be as low as 50% of what it would be if there were a single tax rate. However, there are two exceptions to the 50% minimum:

1. The residential percent of the levy cannot drop to less than its lowest level since classification was initially voted by the City Council (34.5615% in 1985 in Cambridge);

2. The 50% level does not cause the commercial class to bear a portion of the levy greater than 175% of what if would be if both classes were taxed equally.

The City Council sets the levy distribution each year by voting for a Minimum Residential Factor. The result of voting for the Minimum Residential Factor of 56.3276% this year will be a residential property share of the total tax levy of 34.5%. Commercial property will pay 65.5% of the levy, which brings the commercial portion of the levy to 169% of what it would be with a single tax rate.

- **Establish Residential Exemptions -** State law enables cities and towns to grant owner occupants of residential properties a deduction of up to 20% of the average residential parcel value before the tax rate is applied. I am once again recommending that the City Council adopt the Maximum Residential Exemption of 20%, as it has done in the past. This will result in a deduction of $74,188 from the assessed value of each owner occupied property. The residential exemption serves to reduce the effective tax rate on lower valued properties while raising it on higher valued properties. Since the same amount is deducted from every value, its impact is greatest on the lower valued properties. The residential exemption is paid for by raising the residential tax rate sufficiently to cover the number of taxpayers claiming the residential exemption. For FY00 there are approximately 12,200 resident exemptions on the Assessing Department files. If Cambridge did not adopt a residential exemption, the residential tax rate would be $8.37 instead of $9.66. The higher tax rate results in a "break-even" value over which the higher valued residential properties are assessed for higher taxes than would be the case if there were no residential exemption. In FY00, the break-even value is $555,100.

- **Double Statutory Exemptions -** State legislation requires cities and towns to grant a variety of tax exemptions to elderly taxpayers, blind taxpayers, veterans, and surviving spouses who qualify by virtue of residency, income and assets. There are also two pieces of legislation, which authorize cities and towns to increase the amounts of these exemptions. The first allows cities and towns to double the statutory amounts for taxpayers whose tax bills have increased over the prior year's bill. The City Council must vote annually for this increase. I am recommending that the Council do this for FY00 as it has since FY87. The second, enacted in 1995, allows cities and towns to increase the amount of the exemption for a senior citizen 70 or older, surviving spouse, or minor with a deceased parent by the increase in the cost-of-living as measured by the Consumer Price Index (CPI). The CPI increase for FY00, which was published by the Department of Revenue for exemption purpose, is 2.3%. Applying this percentage increase to the FY99 exemption of $189.73 raises the exemption of $194.09.

- **Increase Income Limit for Tax Deferral -** Another form of tax relief available to property owners under state law is Clause 41A of Section 3, Chapter 59. This statute allows taxpayers over 65 years old to defer tax payment until they are deceased or the property is transferred. The statutory income limit for this deferral is $20,000, which may be increased to $40,000 by local legislative action. I am recommending that the City Council take this action.

CONCLUSION

As the City Council is aware, by the time the classification vote is taken in the fall of each year, the options for the City are fairly limited. Failure to approve maximum classification, residential exemption and the doubling of statutory exemptions would result in significantly higher taxes for residential property owners. After the classification vote is taken, the establishment of the tax rate is a fairly simple mathematical calculation: the tax levy required to support the City budget divided by the total assessed valuation equals the tax rate for FY00. As I stated earlier, modest growth in the tax levy combined with the growth in the tax base will result in almost 64% of all residential taxpayers seeing either a cut in their property taxes or no increase for FY00. What makes the large number of property owners who will see a reduction in property taxes all the more notable, is the fact that the tax reductions come at a time when the City is funding a major new initiative in the joint City/School after school program, as well as continuing our unprecedented local funding for affordable housing and open space acquisition. One overlooked segment of the City's affordable housing program has been the ability to keep increases in residential property taxes minimal. As the table below indicates, property taxes for one- and two-family homes over the last five years have been essentially flat while condominiums and three families have increased at a compounded annual rate of approximately 1% and 2% respectively. In a period of explosive property values, it can be assumed that stability in annual property taxes has prevented low- and moderate-income (including elderly) homeowners from having to sell their homes.

Changes in Average Tax Bills
FY95 to FY00

	FY95	FY00	Dollar Change	Percent Change
Single Family	$3,776	$3,799	$23	.6%
Two Family	$2,984	$3,065	$81	2.7%
Three Family	$2,625	$2,918	$293	11.2%
Condominium	$1,453	$1,538	$85	5.8%

As we enter a new century, the City Council should take great pride that under its stewardship, the City has been able to respond to the many needs of complex urban environment without sacrificing the fiscal stability that the great majority of our residents expect from the City.

Very truly yours,

Robert W. Healy
City Manager

RWH/mec
Attachment

ATTACHMENT 1

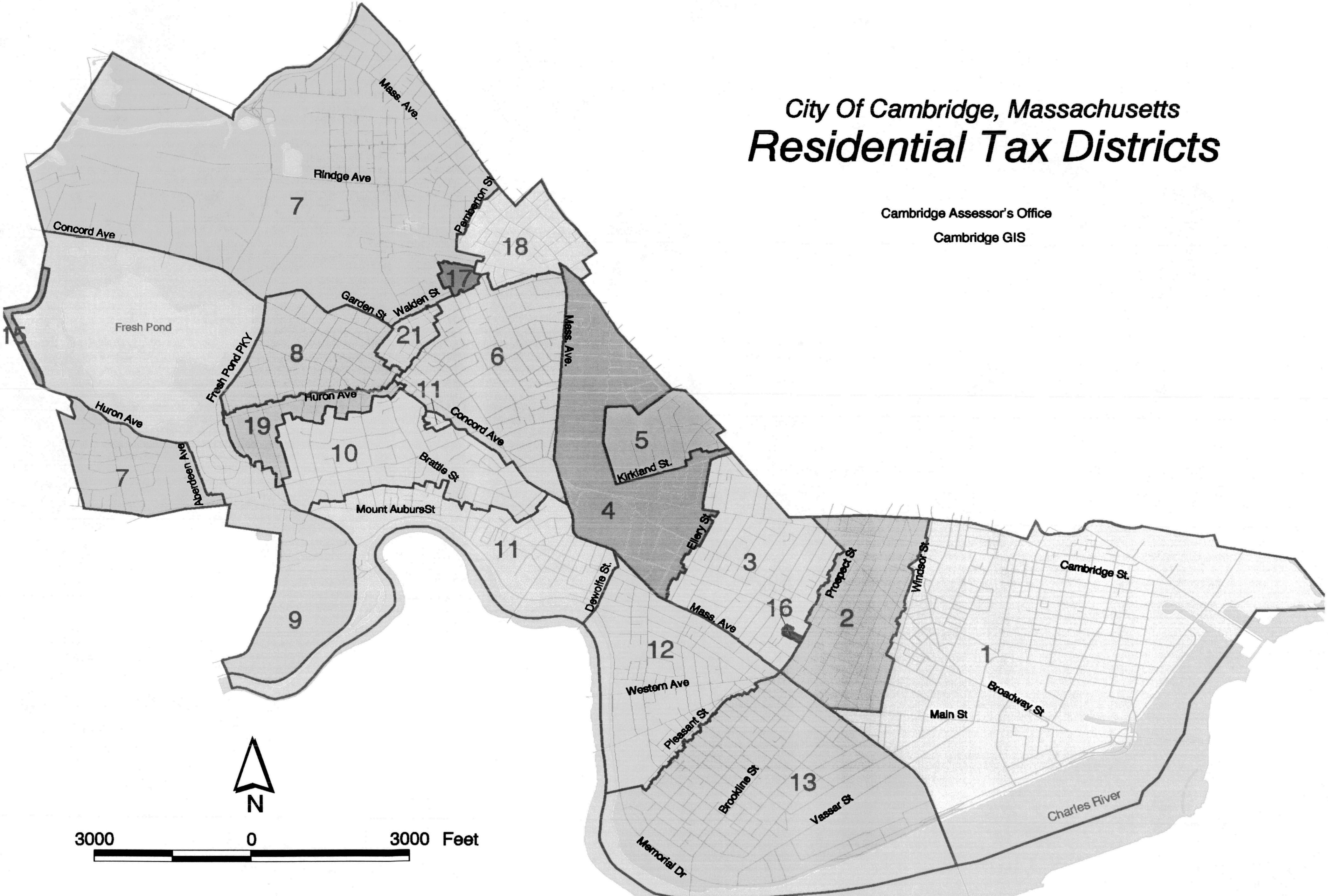
	CHANGES BY NEIGHBORHOOD FY1999 TO FY2000																					
	ONE FAMILY HOUSES							TWO FAMILY HOUSES							THREE FAMILY HOUSES							
DIST	AVG 99VAL	TRENDED 00VAL	AVG 99 TAX	AVG 00TAX	VALUE CHNGE	TAX CHNGE	#	AVG 99VAL	TRENDED 00VAL	AVG 99 TAX	AVG 00TAX	VALUE CHNGE	TAX CHNGE	#	AVG 99VAL	TRENDED 00VAL	AVG 99 TAX	AVG 00TAX	VALUE CHNGE	TAX CHNGE	#	DIST
1	161,000	177,100	1,077	994	10%	-8%	389	183,600	211,100	1,327	1,323	15%	0%	323	214,400	257,300	1,667	1,769	20%	6%	280	1
2	184,300	184,300	1,335	1,064	0%	-20%	196	178,100	240,400	1,266	1,606	35%	27%	216	210,600	284,300	1,625	2,030	35%	25%	187	2
3	359,100	395,000	3,266	3,099	10%	-5%	201	367,200	403,900	3,356	3,185	10%	-5%	251	405,500	486,600	3,779	3,984	20%	5%	170	3
4	403,100	423,300	3,753	3,372	5%	-10%	200	436,900	458,700	4,126	3,714	5%	-10%	136	434,600	543,300	4,101	4,532	25%	11%	75	4
5	824,700	1,030,900	8,411	9,242	25%	10%	43	1,166,300	1,457,900	12,186	13,367	25%	10%	29	1,282,500	1,603,100	13,470	14,769	25%	10%	3	5
6	638,200	733,900	6,350	6,373	15%	0%	341	620,200	713,200	6,151	6,173	15%	0%	146	561,600	617,800	5,504	5,251	10%	-5%	74	6
7	206,600	237,600	1,581	1,579	15%	0%	643	265,500	305,300	2,232	2,233	15%	0%	725	296,200	385,100	2,571	3,003	30%	17%	241	7
8	349,000	401,400	3,155	3,161	15%	0%	130	340,500	442,700	3,061	3,560	30%	16%	314	391,800	489,800	3,628	4,015	25%	11%	75	8
9	643,700	675,900	6,411	5,813	5%	-9%	201	505,800	531,100	4,887	4,414	5%	-10%	17	215,800	226,600	1,683	1,472	5%	-13%	1	9
10	1,205,200	1,325,700	12,616	12,090	10%	-4%	290	1,511,100	1,511,100	15,996	13,881	0%	-13%	50	1,393,800	1,393,800	14,700	12,747	0%	-13%	2	10
11	542,100	596,300	5,288	5,044	10%	-5%	174	596,300	596,300	5,887	5,044	0%	-14%	50	616,400	616,400	6,109	5,238	0%	-14%	17	11
12	244,000	305,000	1,994	2,230	25%	12%	189	216,700	292,500	1,693	2,109	35%	25%	221	240,900	252,900	1,960	1,726	5%	-12%	164	12
13	240,900	289,100	1,960	2,076	20%	6%	221	268,400	308,700	2,264	2,265	15%	0%	266	290,500	334,100	2,508	2,511	15%	0%	212	13
15	431,000	431,000	4,061	3,447	0%	-15%	33															15
16	425,900	425,800	4,004	3,397	0%	-15%	35	393,200	393,200	3,643	3,082	0%	-15%	5	451,700	451,700	4,290	3,647	0%	-15%	6	16
17	295,800	384,500	2,567	2,998	30%	17%	34	318,800	318,800	2,821	2,363	0%	-16%	26	357,100	357,100	3,244	2,733	0%	-16%	6	17
18	267,700	307,900	2,256	2,258	15%	0%	137	261,400	300,600	2,187	2,187	15%	0%	129	302,400	378,000	2,640	2,935	25%	11%	76	18
19	507,500	507,500	4,906	4,186	0%	-15%	52	458,700	504,600	4,367	4,158	10%	-5%	172	510,000	561,000	4,934	4,703	10%	-5%	16	19
21	335,300	352,100	3,003	2,685	5%	-11%	73	362,500	398,800	3,304	3,136	10%	-5%	44	395,800	435,400	3,672	3,489	10%	-5%	18	21

City Of Cambridge, Massachusetts

Residential Tax Districts

Cambridge Assessor's Office

Cambridge GIS



Map Scale 1": 2500'

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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

September 27, 1999

To The Honorable, The City Council:

RECOMMENDATIONS

1. That the City Council rescind $1,350,000 from the Capital Improvement Budget ($1,000,000 Department of Public Works, $350,000 Community Development Department).

2. That the City Council authorize the use of $12,212,137 in Free Cash to offset the FY00 tax rate as follows:

a.	Operating Budget	$6,290,700	As adopted in FY00 Budget
b.	Capital Improvement Fund	$5,743,000	As adopted in FY00 Budget
c.	Overlay Reserve	$ 178,437	

The original Capital Improvement Budget called for $4,393,000 in funding from free cash and $1,350,000 (for the Open Space Acquisition Fund) in funding from the sale of Engine 7 in Kendall Square. However, because the sale of the station has not yet closed, an additional $1,350,000 is being funded from free cash. Upon closing of the sale the proceeds will revert to free cash.

3. That the City Council classify property within the City of Cambridge into the five classes allowed for the purpose of allocating the property tax. It is further recommended that the City Council adopt a minimum residential factor of 56.3276%.

4. That the City Council approve the maximum residential exemption factor of 20% for owner occupied homes, which should result in a residential tax rate of $9.66 and commercial tax rate of $25.16 upon final approval by the Massachusetts Department of Revenue.

5. That the City Council vote to double the normal value of the statutory exemptions.

6. That the City Council vote to increase the exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17b from $189.73 to $194.09, as a follow-up to the original acceptance of the statute by the City Council.

Consent Agenda #1 149 F

Relative to the votes necessary
to seek the Department of Revenue
approval of the tax rate for FY00.

Special City Council Meeting
September 27, 1999

ORDER ADOPTED