CITY OF CAMBRIDGE

CITY HALL, CAMBRIDGE, MASSACHUSETTS 02139 • (617) 498-9007

ASSESSING DEPARTMENT

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

MEMORANDUM

TO: Robert W. Healy, City Manager

FROM: Sally Powers, Director of Assessment

SUBJ: Assessment Date Change for New Construction

DATE: May 11, 1990

Section 40 of Chapter 653 of the Acts of 1989 allows communities to tax new construction and improvements as of the first day of the fiscal year (July 1) instead of at the presently mandated assessment date of January 1 preceding the beginning of the fiscal year. The Department of Revenue has published a study indicating that Cambridge could gain $3.185 million in tax levy capacity next year by accepting Section 40.

The $3 million figure is not accurate in the case of Cambridge. It apparently makes two assumptions which are not correct for FY91 in Cambridge: (1) that we will again have $160,000,000 in new residential value and $220,000,000 in commercial new value for the next two fiscal years, and (2) that the tax rate is still at the FY89 level. Exhibit I attached to this memo shows our latest preliminary estimates of new growth for FY91 and also shows actual and projected tax rates for FY90 through FY93. The FY89 tax rates were $9.23 (residential) and $20.06 (commercial). Exhibit I shows a projected increase in levy capacity of approximately $1.2 million if Cambridge accepts Section 40 for FY91.

The principal cost of administering the Section 40 program is the delay it could cause in normal billing. The data required to equitably value properties as of July 1 could not possibly be collected (even with complete taxpayer cooperation) prior to September 1, which is when we normally expect to be in a position to set the tax rate. So, unless the City were to mail estimated tax bills, one or even two months of forgone interest on invested first half tax bill receipts would be lost. If, in FY92, House Bill 4012 allowing the City to move up tax billing and due dates has not passed, and Cambridge goes to the quarterly billing system recently allowed by Section 41 of Chapter 653 of the Acts of 1989, the first two tax bills would be estimated anyway, and this cost would no longer be a consideration.

It is not in the best fiscal interest of Cambridge to use this provision for FY91. Section 40 allows a one time only boost to local levy capacity. Cambridge currently enjoys excess levy capacity of more than $7.5 million, so we do not need this one time boost now. Furthermore, to take advantage of the extended assessment date in a year prior to a year of a large amount of new construction would lower the tax rate to be applied to the next year's new growth calculation and cancel out or even lower the cumulative growth in levy capacity over the long run. Exhibit I illustrates this. At such time as Cambridge is nearing the limit of its levy capacity and the next year's new construction is expected to be considerably less than that for the current year, it may be to the City's advantage to use the assessment date authorized by Section 41.

I recommend that we do not accept Section 40 for FY91 and that we re-examine the question for FY92 in light of (1) our projections of new construction for FY92 and FY93, and (2) whether we have accepted quarterly billing with Summer and Fall estimated bills.

EXHIBIT I

	FY90	FY91	FY92	FY93
Projected Levy	109,510,683	117,000,000	122,700,000	130,100,000

SCENARIO I   Keep Assessment Date January 1

	FY90	FY91	FY92	FY93
New Res Value	160,000,000	105,000,000	60,000,000	40,000,000
New Com Value	220,000,000	225,000,000	170,000,000	200,000,000
Tot Res Value	4,622,780,381	4,727,780,381	4,787,780,381	4,827,780,381
Tot Com Value	3,905,988,763	4,130,988,763	4,300,988,763	4,500,988,763
Res Levy Pct	0.3523	0.3469	0.3424	0.3364
Com Levy Pct	0.6477	0.6531	0.6576	0.6636
Res Tax Rate	0.00951	0.00998	0.01021	0.01056
Com Tax Rate	0.01816	0.01850	0.01876	0.01918
Levy Growth	5,890,000	5,209,812	3,801,677	4,258,697
Cum Levy Growth*	5,890,000	11,247,062	15,329,915	19,971,860

SCENARIO II   Begin July 1 Assessment Date in FY91

	FY90	FY91	FY92	FY93
New Res Value	160,000,000	135,000,000	50,000,000	20,000,000
New Com Value	220,000,000	310,000,000	185,000,000	100,000,000
Tot Res Value	4,622,780,381	4,757,780,381	4,807,780,381	4,827,780,381
Tot Com Value	3,905,988,763	4,215,988,763	4,400,988,763	4,500,988,763
Res Levy Pct	0.3523	0.3446	0.3394	0.3364
Com Levy Pct	0.6477	0.6554	0.6606	0.6636
Res Tax Rate	0.00951	0.00984	0.01007	0.01056
Com Tax Rate	0.01816	0.01819	0.01842	0.01918
Levy Growth	5,890,000	6,966,808	3,910,879	2,129,349
Cum Levy Growth*	5,890,000	13,004,058	17,240,038	19,800,387

SCENARIO III   Begin July 1 Assessment Date in FY92

	FY90	FY91	FY92	FY93
New Res Value	160,000,000	110,000,000	80,000,000	20,000,000
New Com Value	220,000,000	220,000,000	270,000,000	100,000,000
Tot Res Value	4,622,780,381	4,732,780,381	4,812,780,381	4,832,780,381
Tot Com Value	3,905,988,763	4,125,988,763	4,395,988,763	4,495,988,763
Res Levy Pct	0.3523	0.3473	0.3397	0.3367
Com Levy Pct	0.6477	0.6527	0.6603	0.6633
Res Tax Rate	0.00951	0.00998	0.01007	0.01056
Com Tax Rate	0.01816	0.01851	0.01843	0.01919
Levy Growth	5,890,000	5,169,676	5,781,378	2,130,438
Cum Levy Growth*	5,890,000	11,206,926	17,268,477	19,830,626

* For the cumulative levy growth calculation 2 1/2% is added to the prior year's cumulative levy growth

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CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

May 21, 1990

To The Honorable, The City Council:

In reference to Awaiting Report Item No. 34, relative to Section 40, Chapter 653 of the Acts of 1989, attached please find a recommendation from Sally Powers, Director of Assessment for the City of Cambridge.

Very truly yours,

Robert W. Healy
Robert W. Healy
City Manager

RWH/mev
enclosure

Agenda # 10 S-538

Awaiting Report Item # 34 regarding Section 40, Chapter 653.

In City Council,

May 21, 1990

Referred to Finance Committee

Copy sent to Finance Comm. 5/31/90 de.