

City of Cambridge

MASSACHUSETTS

In City Council

9/22

, 1997

#16 Unfinished Business
 Mrs. on Mary the Quest

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
	✓			Mr. Michael A. Sullivan
	✓			Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

City of Cambridge

MASSACHUSETTS

Calendar #16

(Agenda Item #1A of
September 15, 1997)

In City Council _____, 1997

That the City Manager be and hereby is authorized to use \$11,007,522 in unreserved fund balance as an offset to the fiscal year 1998 tax rate.

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
✓				Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
	✓			Mr. Michael A. Sullivan
	✓			Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

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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 22, 1997

To the Honorable, the City Council,

I have been requested to review the feasibility of utilizing an additional \$2,681,992 in free cash to offset the FY1998 real estate tax rate. As the City Council is aware, the report submitted to the City Council for the September 15, 1997 meeting informed the City Council of my request to have over \$11,000,000 in free cash authorized to offset the FY1998 tax levy. The report further stated that while free cash would be used to offset various items, the only recurring item was \$1,850,000 as an offset to operating expenses; this number represents a constant \$1,500,000 in free cash that has been used to offset the operating budget for the past ten years, and \$350,000 made available on a non-recurring basis to the School Department for assistance in the continued transition of the high school management structure. For the past 15 years the City of Cambridge has had a policy of maintaining a healthy free cash balance. The purpose of this balance is to cushion the City against economic down turns, to provide funding for unforeseen expenses, to generate annual interest income, to fund capital budget items, and to protect the City's strong credit rating which supports the City's ability to maintain an aggressive capital program.

The desire to authorize additional free cash appears to stem from the belief that property taxes in Cambridge are rising too rapidly. However a review of single family property taxes by district over the last 3 years shows that if the City Council were to authorize the recommended \$11,007,522 in free cash for FY1998, 10 of the 21 assessment districts representing over 25% of single family homes, would see lower single family property tax bills in FY1998 than in FY1996. During the same time period employee salaries have increased by 7%, the City has established funding for the Affordable Housing Trust Fund (\$5,360,000 in FY1998 alone), constructed a new teen center, opened a new City-wide Senior Center, absorbed a Charter Elementary School without cutting school funding, began the complete reconstruction of the Morse Elementary School, reconstructed Central Square, and provided transitional assistance to former rent controlled tenants. All of this was accomplished while maintaining the previously existing service base.

The property tax is the City's single most important source of revenue, accounting for almost 60% of total City revenues. If the City is to have an active and involved

Consent Agenda #1

**Relative to the feasibility of utilizing
an additional free cash to offset the
FY1998 real estate tax rate.**

In City Council September 22, 1997

*Referred to
Calendar Item
No. 16*

government that increases service to its residents the funding for these services is most likely to come from the property tax. While no one enjoys increasing property taxes, this City should take great pride in all it has accomplished in the past few years. Our success is even more remarkable when one realizes that a large percentage of residential taxpayers will pay less in taxes in FY1998 than in FY1996.

Clearly, the City currently has a large free cash balance. This fact is not a surprise. It was discussed during last year's budget process. Because of the anticipated increase in fund balance, school transitional funding, the capital budget, and the Affordable Housing Trust all were increased for FY1998. Additionally it was expected that the retroactive salary payment to the Police Officers would be paid from free cash. In addition, in all likelihood we will be faced with needing resources to acquire sites for a new Police Station and Main Library, for which free cash is a logical funding option. I anticipated the City Council's desire to reduce the tax levy from that proposed at budget time and thus I recommended the use of an additional \$2,400,000 in non property tax revenue to offset the FY1998 budget, reducing the tax levy increase from 5.9% estimated at budget adoption, to 4.2% now. By using these additional revenues to offset the property tax, they will not be available to replenish the free cash recommended to be used in FY1998. It is also important to note that in FY1997 the City accumulated in fund balance a record \$8,500,000 in delinquent tax collection receipts; this amount will not recur in the foreseeable future.

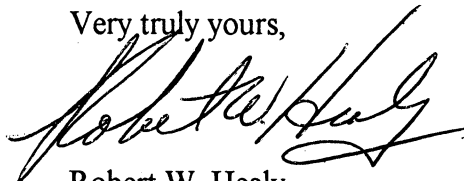
Again, that the City has a strong free cash balance is not in dispute. The issue is how to utilize this balance. My request to authorize \$11,007,522 in free cash is over five times higher than the amount used in FY1997. It is also to be allocated in a manner that prevents the City from becoming overly dependent on surplus funds to fund the operating budget. Current indications for FY1999 are that the City faces a tax levy increase of approximately 5%. If we were to utilize an additional \$2,600,000 in free cash to offset FY1998 budget the anticipated tax levy increase for FY1999 becomes approximately 7% unless a similar amount of free cash is utilized next year.

Even if the City is able to continue to utilize a higher free cash number for the short term, at some point down the road the City may find itself in a position with a significant revenue shortfall that would negatively affect service delivery. The basic rule of government finance is the same as personal and corporate finance: current expenses should be paid for with current revenues; failure to do so ultimately ends in fiscal stress, and in the City's case, resulting in the crumbling of the solid fiscal foundation that has been built over the past 16 years.

While I strongly recommend against the use of additional free cash to offset operating expenses because of the potential dangers of over dependence, there is a second important issue to recommend against the proposal: the Council must judge the immediate benefit to taxpayers vs. the potential long term risk to the City's finances. As the attached tables point out, because of the impact of classification if an additional \$2,600,000 in free cash is authorized, two thirds or \$1,690,000 will go to offset commercial property taxes. Thus

commercial buildings valued at \$10,000,000 would save \$516.67 monthly, a \$20,000,000 building \$1,033.33 monthly and a \$30,000,000 building \$1,550 monthly. Secondly the remaining residential reduction would benefit wealthier high end homeowners the most. The relatively wealthy district 10 (Brattle Street Area), receives a reduction of \$17.83 per month, while residents in the eastern section of the City would save between \$1.49 and \$1.73 per month. Again while I recognize that no one particularly favors higher taxes, I question whether a saving of \$1.49 per month in property taxes (before federal tax deduction) is significant enough when compared with the potential long term risk to the City. Increased taxes do not please anyone, but the downside outweighs the upside. Therefore, I strongly recommend against an additional free cash authorization to offset operating expenses and that the City continue its successful policy of using free cash to offset non-recurring expenses.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert W. Healy". The signature is fluid and cursive, with a large initial "R" and "H".

Robert W. Healy
City Manager

Attachments

TABLE I
Single Family Houses

FY		96	97	98A	
LEVY		144,441,845	148,080,000	154,295,557	
RES EXEM		49261	54225	53288	
RES RATE		13.32	13.02	13.43	
COMM RATE		34.89	35.78	35.98	
AVG TAX BILL DISTRICT		TAX	TAX	TAX	CHANGE 96 TO 98
1		1,166	1,106	1,209	4%
2		1,117	955	1,045	-6%
3		3,424	3,290	3,581	5%
4		4,146	4,057	4,413	6%
5		8,423	8,200	8,431	0%
6		7,044	6,727	7,313	4%
7		1,701	1,652	1,750	3%
8		3,104	2,989	3,383	9%
9		6,662	6,421	6,596	-1%
10		11,723	12,142	12,497	7%
11		5,738	5,752	6,041	5%
12		1,817	1,737	1,815	0%
13		2,004	1,943	2,211	10%
15		4,099	3,981	4,079	0%
16		3,993	3,657	3,979	0%
17		3,144	2,874	2,937	-7%
18		2,246	2,190	2,231	-1%
19		5,680	5,511	5,657	0%
20		4,933	4,795	4,918	0%
21		2,739	2,798	3,046	11%

NUMBER 1 FAMILY HOUSES WITH FY96 - FY98 NET TAX DECREASE: 888
25%

TABLE II
Impact of Use of Additional Free Cash

FY	98B					
LEVY	151,613,565					
RES EXEM	53288					
RES RATE	13.19					
COMM RATE	35.36					
		CHANGE	CHANGE	TAX SAVING	PER	
	TAX	97 TO 98	96 TO 98	98A TO 98B	MONTH	
AVG TAX BILL DISTRICT	1	1,187	7%	2%	22	1.80
	2	1,026	7%	-8%	19	1.56
	3	3,517	7%	3%	64	5.33
	4	4,334	7%	5%	79	6.57
	5	8,280	1%	-2%	151	12.56
	6	7,182	7%	2%	131	10.89
	7	1,719	4%	1%	31	2.61
	8	3,323	11%	7%	60	5.04
	9	6,478	1%	-3%	118	9.82
	10	12,273	1%	5%	223	18.61
	11	5,933	3%	3%	108	9.00
	12	1,782	3%	-2%	32	2.70
	13	2,171	12%	8%	40	3.29
	15	4,006	1%	-2%	73	6.07
	16	3,908	7%	-2%	71	5.93
	17	2,885	0%	-8%	52	4.37
	18	2,191	0%	-2%	40	3.32
	19	5,556	1%	-2%	101	8.42
	20	4,830	1%	-2%	88	7.32
	21	2,992	7%	9%	54	4.54

TABLE III
Impact of Use of Free Cash on Commercial Properties

COMMERCIAL PROPERTIES

1,000,000	35,360	-1%	1%	620	51.67
10,000,000	353,600	-1%	1%	6200	516.67
20,000,000	707,200	-1%	1%	12400	1033.33
30,000,000	1,060,800	-1%	1%	18600	1550.00



City of Cambridge

AGENDA ITEM #1A

IN CITY COUNCIL

September 15, 1997

ORDERED: That the City Manager be and hereby is authorized to use \$11,007,522 in unreserved fund balance as an offset to the fiscal year 1998 tax rate.

**TABLED FOR ONE WEEK ON MOTION OF COUNCILLOR SULLIVAN
PENDING CERTIFICATION FROM DEPARTMENT OF REVENUE.**

AGENDA ITEM #1A

September 15, 1997

ORDERED: That the City Manager be and hereby is authorized to use \$11,007,522 in unreserved fund balance as an offset to the fiscal year 1998 tax rate.

*MBS
Tabled*

AGENDA ITEM #1B

September 150, 1997

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.

AGENDA ITEM #1C

September 15, 1997

ORDERED: That the City Council hereby adopt a minimum residential factor of 56.774²~~08~~%,
the legal minimum permitted for Cambridge.

AGENDA ITEM #1D

September 15, 1997

ORDERED: That the City Council approve a twenty (20) percent residential exemption for owner occupied homes.

AGENDA ITEM #1E

September 15, 1997

ORDERED: That the City Council in accordance with the General Laws, Section 4 of Chapter 73 of the Acts of 1986, hereby increase by 100% the normal value of statutory exemptions for fiscal year 1998.

AGENDA ITEM #1F

September 15, 1997

ORDERED: That the City Council vote to increase the Fiscal Year 1998 exemption allowed under General Laws Chapter 59, Section 5, Clause 17D by 3% (\$5.38).

AGENDA ITEM #1G

September 15, 1997

ORDERED: That this City Council go on record approving to double the income limit for deferral of taxes by elderly homeowners.



City of Cambridge

Consent Agenda #1

IN CITY COUNCIL

September 15, 1997

COUNCILLOR SULLIVAN

- ORDERED: That the City Manager be and hereby is hereby requested to report back to the City Council by next week whether an increase in the proposed use of the Unreserved Fund Balance (Free Cash) by the amount of \$2,681,992 to a total of \$13,689,514 which would leave approximately \$20,000,000.00 in the free cash account, is financially feasible and, if feasible, to return with such a recommendation; and be it further
- ORDERED: That the report include information as to the effect this would have on tax bills for owners of properties at various levels of values; and be it further
- ORDERED: That the City Solicitor be and hereby is requested to provide a legal opinion as to whether the additional free cash can be used to reduce taxes in the districts that have experienced the largest percentage increases in value.

In City Council September 15, 1997.
 Adopted by the affirmative vote of eight members.
 Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

D. Margaret Drury
 City Clerk



City of Cambridge

AGENDA ITEM #1B

IN CITY COUNCIL
September 15, 1997

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.

In City Council September 15, 1997.

Adopted by a ye and nay vote:-

Yeas 8; Nays 0; Absent 1.

Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:- *D. Margaret Drury*

D. Margaret Drury
City Clerk



City of Cambridge

AGENDA ITEM #1C

IN CITY COUNCIL
September 15, 1997

ORDERED: That the City Council hereby adopt a minimum residential factor of 56.7742%, the legal minimum permitted for Cambridge.

In City Council September 15, 1997.
Adopted by a yeas and nays vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in cursive script that reads "D. Margaret Drury".

D. Margaret Drury
City Clerk



City of Cambridge

AGENDA ITEM #1D

IN CITY COUNCIL
September 15, 1997

ORDERED: That the City Council approve a twenty (20) percent residential exemption for owner occupied homes.

In City Council September 15, 1997.

Adopted by a ye and nay vote:-

Yeas 8; Nays 0; Absent 1.

Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in black ink that reads "D. Margaret Drury".

D. Margaret Drury
City Clerk



City of Cambridge

AGENDA ITEM #1E

IN CITY COUNCIL
September 15, 1997

ORDERED: That the City Council in accordance with the General Laws, Section 4 of Chapter 73 of the Acts of 1986, hereby increase by 100% the normal value of statutory exemptions for fiscal year 1998.

In City Council September 15, 1997.
Adopted by a ye and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

A handwritten signature in cursive script that reads "D. Margaret Drury".

ATTEST:-

D. Margaret Drury
City Clerk



City of Cambridge

AGENDA ITEM #1F

IN CITY COUNCIL
September 15, 1997

ORDERED: That the City Council vote to increase the Fiscal Year 1998 exemption allowed under General Laws Chapter 59, Section 5, Clause 17D by 3% (\$5.38).

In City Council September 15, 1997.
Adopted by a yeas and nays vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in cursive script that reads "D. Margaret Drury".

D. Margaret Drury
City Clerk



City of Cambridge

AGENDA ITEM #1G

IN CITY COUNCIL
September 15, 1997

ORDERED: That this City Council go on record approving to double the income limit for deferral of taxes by elderly homeowners.

In City Council September 15, 1997.
Adopted by a ye and nay vote:-
Yeas 8; Nays 0; Absent 1.
Attest:- D. Margaret Drury, City Clerk.

A true copy;

ATTEST:-

A handwritten signature in cursive script that reads "D. Margaret Drury".

D. Margaret Drury
City Clerk

Councillor Fullmer

Agenda #1
order.

ORDERED

That the CM is hereby requested
[to report back to the CC by next week whether or not]
to increase [in] the proposed use of the

Unreserved Fund Balance (Free Cash)

by the amount of \$2,681,992

to a total of \$13,689,514.

which would leave approximately

\$20,000,000.00 in the free cash

account, [is financially feasible]; End if feasible

to return with such a recommendation]; and be it further

Ordered: That the report include information as to the effect
this would have on tax bills for owners of properties at various
levels of values; and

~~app 1.8% reduction in levy increase~~ be it further
over the prior year.

Ordered: That the City Solicitor provide a legal
opinion as to whether the additional free
cash can be used to reduce taxes in the
districts that have experienced the largest percentage
increases in values; and be it further
w/8

August , 1997

Pallas Lombardi
Executive Director
Cambridge Arts Council
57 Inman Street
Cambridge, MA 02139

Dear Ms. Lombardi:

I am familiar with the public art project at Fresh Pond and am writing to you in support of it. The City's water supply is an extremely important resource which concerns everyone in Cambridge.

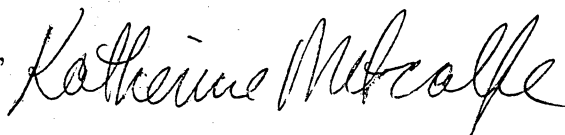
Like others, I am interested in preserving the pastoral quality of the Fresh Pond Reservation. The artist is familiar with this place and does not wish to alter its unbuilt quality. I believe that this art work will fit into and complement the natural environment emphasizing the sound and movement of the water.

Very little open space is required for the artwork. Most of the open space which will be lost is for cleansing swales (required for water quality). In fact, the space occupied by the weir structure will be opened up for use.

One of this project's greatest strengths is the educational aspect. There is great value in the ability to educate users and visitors to Fresh Pond through outdoor public art. Particularly with many schools in the vicinity of the Reservation, incorporating strong educational components should be a priority.

Water is a delicate resource that can't be taken for granted. The City is building a new facility to improve its ability to handle this important resource. The people of Cambridge will benefit from this new facility but the public art adds to the positive impact of the new treatment facility.

Sincerely,



Address:

48 Lake View Ave
02138

cc: Sheila Doyle Russell, Mayor, City of Cambridge
Kathleen Born, Vice-Mayor, City of Cambridge
Henrietta Davis, Cambridge City Council
Francis H. Duehay, Cambridge City Council
Anthony D. Galluccio, Cambridge City Council
Kenneth E. Reeves, Cambridge City Council
Michael A. Sullivan, Cambridge City Council
Timothy J. Toomey, Jr., Cambridge City Council
Katherine Triantafillou, Cambridge City Council

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1A

In City Council _____, September 15, 1997

Tabled a motion of MMS w/8

YEA	NAY	ABSENT	PRESENT	
				Ms. Kathleen L. Born
				Ms. Henrietta Davis
				Mr. Francis H. Duehay
				Mr. Anthony Galluccio
				Mr. Kenneth E. Reeves
				Mr. Michael A. Sullivan
				Mr. Timothy J. Toomey, Jr.
				Ms Katherine Triantafillou
				Mayor Sheila T. Russell

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 NB-16
 8-0
 RF
 0-8

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1B
 September 15,

In City Council _____, 199⁷

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
✓		✓		Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
②	① ✓			Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

① 9 1 1
 ② 8 0 1

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1C

In City Council September 15, , 199⁷

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
	✓			Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

8 1 0 0

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1D

In City Council _____ September 15, _____, 1997

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
	✓	✓		Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

8 1 0 0

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1E

In City Council _____ September 15 _____, 1997

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
	✓	✓		Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

8 0 1 0

City of Cambridge

MASSACHUSETTS

Consent Agenda Item #1F

In City Council September 15, 199⁷

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
		✓		Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

8 0 1 0

City of Cambridge

MASSACHUSETTS

Consent Agenda #1G

In City Council September 15, _____, 1997

YEA	NAY	ABSENT	PRESENT	
✓				Ms. Kathleen L. Born
✓				Ms. Henrietta Davis
✓				Mr. Francis H. Duehay
		✓		Mr. Anthony Galluccio
✓				Mr. Kenneth E. Reeves
✓				Mr. Michael A. Sullivan
✓				Mr. Timothy J. Toomey, Jr.
✓				Ms Katherine Triantafillou
✓				Mayor Sheila T. Russell

8 0 1 0

LEGAL NOTICE

City of Cambridge

NOTICE OF PUBLIC HEARING

The Cambridge City Council will conduct a public meeting on Monday, September 15, 1997 at 7:00 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 1998, 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, 1997, 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

certified check, bank treasurer's or cashier's check within thirty (30) days after the date of sale.

Other terms to be announced at the sale.

**STEPHEN J. SHECHTMAN, ESQUIRE
SHECHTMAN, LEVY & HALPERIN**

55 Pine Street

Providence, RI 02903

Attorney for the present Holder of the Mortgage

(401) 272-1400

Cambridge Chronicle, 8/28, 9/4, 9/11/97.

TAX RATE HEARING

LEGAL NOTICE

CITY OF CAMBRIDGE

NOTICE OF PUBLIC HEARING

The Cambridge City Council will conduct a public meeting on Monday, September 15, 1997 at 7:00 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 1998, the addition of the 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, 1997, 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

Over where I M

fully recovered and expects to do well in this year's Class A and All State meet.

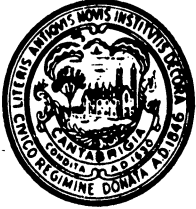
"Things are looking good for the team," said Taylor. "I think I'm fully recovered and I'm trying to get in shape like the rest of the team. We've got a real strong first four and we'll have to see who steps up as far as numbers go. This year, we are going to have

"Finishing 8-0 should be no problem and we should go through the league. Right now, we are concentrating on Class A and making it to All-States."

**Robert "Ret" Taylor
senior captain**

stronger team with one more year under our belts. We'll be more focused and know what we'll have to do to do well."

Waltham High should watch out at home on Thursday (Sept. 11) because they are sacrificial lambs number one when Cambridge in



CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL 349-4300
FAX 349-4307



1

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

September 10, 1997

RICHARD C. ROSSI
Deputy City Manager

To the Honorable, the City Council:

RECOMMENDATIONS:

1. That the City Council authorize the use of \$11,007,522 in Unreserved Fund Balance (Free Cash) to offset the FY1997 tax rate as follows:

- | | | |
|-------------------------------------|--------------|-------------------------------|
| a. Operating Budget | \$ 1,850,000 | As adopted in the FY98 Budget |
| b. Affordable Housing Trust | \$ 2,250,000 | As adopted in the FY98 Budget |
| c. Capital Projects | \$ 980,000 | As adopted in the FY98 Budget |
| d. Supplemental FY98 Appropriations | \$ 2,627,522 | As voted, see below |

<u>Date</u>	<u>Department</u>	<u>Amount</u>
8/4/97	Community Dev.	\$ 36,000
	Community Dev.	50,820
	Community Dev.	14,000
	Community Dev.	155,000
	Police	2,281,000
	Finance	15,000
	Finance	40,000
9/8/97	Elections	23,702
	Public Celeb.	12,000
	TOTAL:	\$2,627,522

- | | |
|--------------------|---------------------|
| e. Overlay Reserve | <u>\$ 3,300,000</u> |
| | \$11,007,522 |

2. 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 the minimum residential factor of 56.77408%.

3. 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 \$13.43 and a commercial tax rate of \$36.00 upon final approval by the Massachusetts Department of Revenue.

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

5. That the City Council vote to increase the exemption allowed under General Laws Chapter 59, Section 5, Clause 17b from \$179.18 to \$184.56, as a follow up to the acceptance of Section One of Massachusetts General Laws Chapter 181 by the City Council.
6. 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 Chapter 59 of Massachusetts General Laws, Section 5, Clause 41A.

SUMMARY:

The establishment of the property 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 FY1998 budget adopted by the City Council in May called for a tax levy of \$156,753,285 a 5.9% increase over FY1997. However, stronger than expected FY1997 revenue results have allowed the Finance Department to revise upward several FY1998 non property tax revenue estimates by a combined total of \$2,400,000. These revised revenue estimates result in a tax levy for FY1998 of \$154,353,285 an increase of 4.2% over FY1997. The adjusted FY98 revenues and the increased amounts are as follows:

Motor Vehicle Excise Taxes	\$1,000,000
Hotel/Motel Taxes	500,000
Investment Income	500,000
Building Permits	200,000
Parking Fund	<u>200,000</u>
	\$2,400,000

The final FY1998 tax levy should result in a residential tax rate of \$13.43 and a commercial tax rate of \$36.00. The residential rate reflects an increase of 3.3% while the commercial rate reflects an increase of less than 1%. The greater increase in the residential rate than in the commercial rate is the result of a continuing shift in the percentage of the tax levy borne by residential properties. The Table IV on page 5 shows what the average tax impact is on various categories of residential property.

Prior to the establishment of the tax rate by the Board of Assessors and the Massachusetts Department of Revenue, the City Council must vote to authorize the use of \$11,007,522 in Free Cash, classify property, establish a minimum residential factor, establish residential exemption and accept various statutory exemptions. The sections that follow address these issues.

ISSUES:

Free Cash

For the fiscal year that ended on June 30, 1997 the City had an estimated Free Cash balance of \$33,689,514, an increase of \$12,822,626. This increase is the result of extremely

strong delinquent tax collections, \$8,500,000; a 100% collection rate of the FY1997 net tax levy; and non-property tax revenue receipts that exceeded budget in virtually every category. While the increase in Free Cash is significant, it was not, as the City Council is aware, unexpected. In anticipation of a strong Free Cash balance the allocations of City funds to the Affordable Housing Trust was doubled to \$4,500,000, the retroactive salary payment to the Police Department was largely charged to Free Cash (\$2,281,000), the Pay-as-we-go capital budget was increased by over \$400,000 and several FY1998 supplemental opportunities listed above were approved by the City Council, (\$2,627,522). After the authorization of \$11,007,522 in Free Cash to offset the FY1998 tax rate the City will have a balance of \$22,681,992 in Free Cash which compares to the balance of \$17,924,888 which remained after the FY1997 tax rate was established.

Excess Levy Capacity.

Since the effective date of Proposition 2½ one of the City's highest priorities in the execution of financial policies has been the development and maintenance of an adequate excess tax levy capacity. Like a healthy Free Cash balance, excess levy capacity is important for a number of reasons. First, it grants the City the ability to respond to unforeseen financial needs. Second, it is an important factor analyzed by credit agencies when rating our debt. Moody's Investors Service cited the City's excess levy capacity when it increased the City's credit rating to Aaa in June. Third, and perhaps most importantly, excess levy capacity provides the City with flexibility and control of our own destiny during periods of economic downturn. As the table below indicates, the City's excess levy capacity has climbed steadily during recent years from only \$185,000 in FY1994 to an estimated \$12,281,400 for FY1998.

Table I
Tax Levy/Tax Levy Limit/Excess Levy Capacity
(in thousands)

	Actual 1994	Actual 1995	Actual 1996	Actual 1997	Estimated 1998
Levy Limit	\$139,599	\$144,899	\$150,639	\$158,824	\$166,635
Actual Levy	139,414	144,446	144,442	148,070	154,353
% Levy Increase over Prior Year	4.4%	3.6%	-0-	2.5%	4.2%
Excess Levy Capacity	\$ 185	\$ 453	\$ 6,197	\$ 10,754	\$ 12,282

ASSESSED VALUES:

Additional Levy Capacity and Impact on Property Owners.

In FY1998, assessed values continued the increase which began in FY1996, reflecting the area's recovery from the real estate recession of the early ninety's. Table II, on the next page, presents a five year history of assessed property values in Cambridge.

Table II
Assessed Values
(in millions)

	FY94	FY95	FY96	FY97	FY98
Commercial Property	\$2,570	\$2,490	\$2,482	\$2,463	\$2,495
Personal Property	214	222	227	236	249
Residential Property	4,007	4,043	4,301	4,543	4,760
TOTAL ASSESSED VALUE	\$6,791	\$6,755	\$7,010	\$7,242	\$7,504

While the expiration of rent control explains a substantial amount of the residential property value increase, building permit activity among all types of real estate added a total of \$153,175,077 in value to the City's real estate tax base. Another \$20,425,756 in value is accounted for by new personal property added to the tax rolls. Table III, below, shows the FY1997 to FY1998 value additions due to new construction, conversions, and the expiration of rent control.

Table III
New Construction Breakdown, FY1998

	New Value Added	FY1998 Rate	Tax Paid by New Value
Commercial	48,996,719		
Personal Property	20,425,756		
Commercial Subtotal	69,422,475	36.00	2,499,209
Apartments	52,704,000		
Mixed Use (Residential only)	8,359,000		
Multiple Res Bldgs on 1 lot	1,930,000		
1,2,3's former rent control	4,088,000		
Rent Control Subtotal	67,081,000	13.43	900,898
New Residential Buildings	7,171,000		
Apartment Improvements	4,277,000		
House Improvements	11,218,090		
Subdivisions	2,674,000		
Condo conversions	11,757,268		
Other Residential Subtotal	37,097,358	13.43	498,218
TOTAL NEW GROWTH	173,600,833		3,898,325

The legal classification formula has caused a continuing shift in the levy distribution from commercial to residential property owners, resulting in residential property owners absorbing more of the levy increase than commercial property owners. Table IV compares

average tax bills for principal property classes between FY1997 and FY1998.

**Table IV
Changes in Average Tax Bills**

	FY1997 Tax Bill	FY1998 Tax Bill	Dollar Change	Percent Change
1-Family	\$ 3,872	\$ 4,112	\$ 240	6.2%
2-Family	\$ 2,924	\$ 3,111	\$ 187	6.4%
3-Family	\$ 2,660	\$ 2,828	\$ 168	6.3%
Condominium	\$ 1,492	\$ 1,598	\$ 106	7.1%
Average apartment	\$ 566	\$ 645	\$ 79	14.0%

FY1998 Property Valuation.

FY1998 is not a Department of Revenue Certification year for Cambridge. The Assessing Department continued its policy of examining assessed values in relation to market trends which occur from one year to the next. The valuation date for FY1998 is January 1, 1997 and the market period studied for establishment of 1/1/97 market levels was the 1996 calendar year. For one, two, and three family houses, assessed values were compared to sale prices. For apartment buildings and commercial and industrial properties, income and expense data was collected and compared to the rents, vacancies, and expenses used for the FY1997 valuation of income producing properties. For the 2,920 commercial personal property accounts, data was updated to reflect the 1997 "Form of List" returns, and 325 new personal property accounts were listed and valued.

The result of the sales analysis of houses and condominiums was a trending program of mostly upward adjustments, most typically in the 3% to 5% range, with a maximum of 10% for some condominium buildings. Table V on the next page shows average values and value and tax changes from FY1997 to FY1998 for one, two, and three family houses.

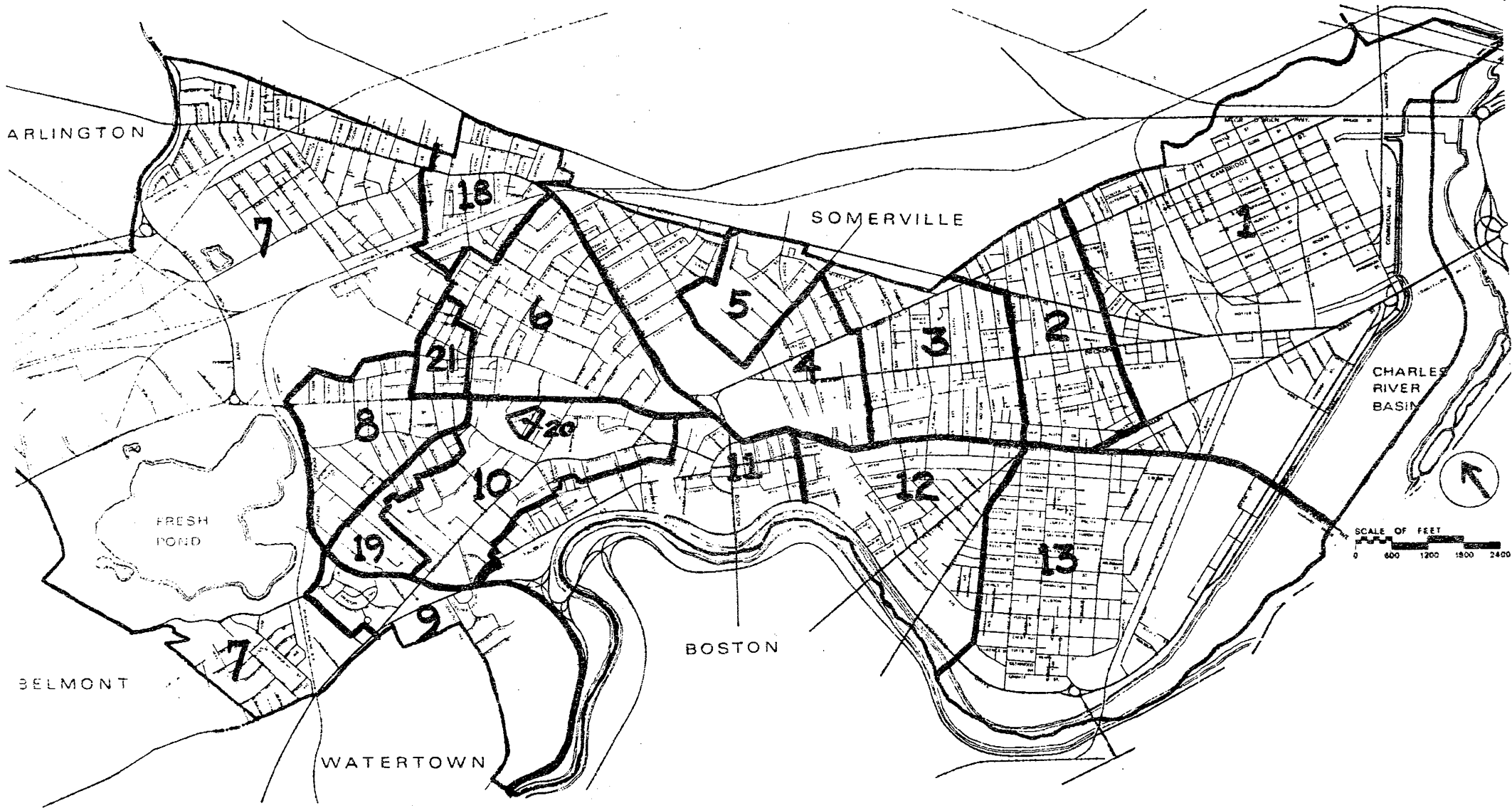
Review of apartment building income and expense statements indicated the tendency identified last year of landlords' gradually increasing rents of continuing tenants, limiting more dramatic rent increases to vacated apartment units. The FY1998 assessed values of apartment buildings are reflective of the gradual realization by landlords of full market rents. As anticipated in the previous fiscal year, full capture of property appreciation due to the expiration of rent control is occurring over several years. While some areas of the City saw more accelerated increases than others, the average FY1998 apartment unit value rose from \$43,000 to \$48,000.

The review of commercial properties' 1996 income and expense statements indicated the continued upward trend of rentals on new leases in certain office properties, with limited turnover due to low vacancy rates. It is anticipated that the impact of rising rent levels on income streams will be more fully realized and measurable over the next year. No overall adjustment factors were identified for FY1998 for commercial/industrial properties.

TABLE V

		CHANGES BY NEIGHBORHOOD FY1997 TO FY1998																		
		ONE FAMILY HOUSES						TWO FAMILY HOUSES						THREE FAMILY HOUSES						
DISTRICT		AVERAGE 98 VALUE	AVERAGE 97 TAX	AVERAGE 98 TAX	VALUE CHNGE	TAX CHNGE	#	AVERAGE 98 VALUE	AVERAGE 97 TAX	AVERAGE 98 TAX	VALUE CHNGE	TAX CHNGE	#	AVERAGE VALUE	AVERAGE 97 TAX	AVERAGE 98 TAX	VALUE CHNGE	TAX CHNGE	#	DISTRICT
1		143,300	1,106	1,209	5%	9%	396	156,700	1,210	1,389	8%	15%	323	181,800	1,605	1,726	4%	8%	282	1
2		131,100	955	1,045	5%	9%	197	164,500	1,368	1,494	5%	9%	219	190,600	1,567	1,844	10%	18%	187	2
3		319,900	3,290	3,581	5%	9%	198	305,100	3,027	3,382	7%	12%	250	309,500	3,161	3,441	5%	9%	174	3
4		381,900	4,057	4,413	5%	9%	195	407,600	4,375	4,758	5%	9%	143	399,100	4,529	4,644	0%	3%	77	4
5		681,054	8,200	8,431	0%	3%	41	810,500	9,886	10,169	0%	3%	29	848,200	10,377	10,676	0%	3%	3	5
6		597,807	6,727	7,313	5%	9%	342	510,200	5,777	6,136	3%	6%	149	484,300	5,449	5,788	3%	6%	73	6
7		183,600	1,652	1,750	3%	6%	640	214,400	2,013	2,164	4%	7%	740	249,700	2,487	2,638	3%	6%	247	7
8		305,200	2,989	3,383	8%	13%	132	312,300	3,237	3,479	4%	7%	322	344,200	3,635	3,907	4%	7%	79	8
9		544,400	6,421	6,596	0%	3%	200	463,200	5,364	5,505	0%	3%	17	252,000	2,614	2,669	0%	2%	1	9
10		983,800	12,142	12,497	0%	3%	297	1,061,800	12,328	13,544	6%	10%	58	1,210,700	15,096	15,544	0%	3%	3	10
11		503,100	5,752	6,041	2%	5%	148	493,900	5,635	5,917	2%	5%	45	452,400	5,105	5,360	2%	5%	18	11
12		188,400	1,737	1,815	2%	4%	191	200,500	1,944	1,977	0%	2%	219	212,800	2,104	2,142	0%	2%	164	12
13		217,900	1,943	2,211	8%	14%	215	234,200	2,291	2,430	3%	6%	275	231,400	2,195	2,392	5%	9%	215	13
14		506,900	5,801	6,092	2%	5%	2	447,500	5,043	5,294	2%	5%	1							14
15		357,000	3,981	4,079	0%	2%	33													15
16		349,600	3,657	3,979	5%	9%	35	261,700	2,570	2,799	5%	9%	5	309,000	3,155	3,434	5%	9%	4	16
17		272,000	2,874	2,937	0%	2%	34	300,200	3,242	3,316	0%	2%	26	343,500	3,805	3,898	0%	2%	6	17
18		219,400	2,190	2,231	0%	2%	136	233,100	2,277	2,415	3%	6%	134	270,900	2,684	2,923	5%	9%	77	18
19		474,500	5,511	5,657	0%	3%	51	406,300	4,729	4,741	-2%	0%	171	467,200	5,416	5,559	0%	3%	15	19
20		419,500	4,795	4,918	0%	3%	11	405,100	4,607	4,725	0%	3%	4	443,600	5,109	5,242	0%	3%	1	20
21		280,100	2,798	3,046	5%	9%	72	290,000	2,920	3,179	5%	9%	46	313,400	3,209	3,493	5%	9%	18	21

ASSESSMENT DISTRICTS



NOTES

- District 14 - Charles Riverfront
- District 15 - Grove & Blanchard Sts.
- District 16 - St. Paul St
- District 17 - Walden St between Mt Pleasant and Raymond
- District 18: was part of District 7 until FY85
- District 19: was part of District 4 until FY86

CLASSIFICATION OF PROPERTY AND EXEMPTIONS:

Classification of Property and the Minimum Residential Factor.

Since 1984 the City Council has voted annually to follow State laws for 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 laws allow 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. There are two exceptions to the 50% minimum:

1. the residential % of the levy cannot drop to less than its lowest level since classification was initially voted by the City Council (34.5615% in FY1985 in Cambridge), and
2. the 50% does not cause the commercial class to bear a portion of the levy greater than 175% times what it would pay 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 a minimum residential factor of 56.77408% this year will be a residential property share of the total tax levy of 36.02%. This is higher than last years 34.78% and the preceding six years' 34.5615%, which is a reflection of the fuller rebound from the recession by residential property than by commercial rental property, and the addition of \$104.4 million in residential new value compared to \$69.4 million in commercial new value.

Commercial property will pay 63.98% of the levy, which will bring the commercial portion to 175% of what it would be with a single tax rate.

Table VI shows several scenarios for distribution of the tax levy, which are possible under State Law.

**Table VI
Different Classification Scenarios**

	Minimum residential factor	Res Levy %	Comm Levy %	Comm Factor	Res Tax Rate	Comm Tax Rate
Recommended, full minimization of residential taxes	56.77408%	36.02%	63.98%	175%	13.43	36.00
No classification shift	100%	63.44%	36.56%	100%	23.66*	20.57
169% Comm Factor (FY96 level)	60.23215%	38.21%	61.79%	169%	14.25	34.76
150% Comm Factor	71.18272%	45.16%	54.84%	150%	16.84	30.86

The Residential Exemption.

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 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 \$53,287 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 FY1998 there are approximately 11,650 residential exemptions on the Assessing Department files. If Cambridge did not adopt a residential exemption, the residential tax rate would be \$11.68 instead of 13.43. 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. For FY1998 the break-even value is 408,600.

As residential values have climbed, especially apartment building values since the expiration of rent control, the value of the residential exemption has risen from \$49,261 (\$656 in tax dollars) in FY1996 to \$53,288 (\$716 in tax dollars) in FY1998.

Statutory exemptions.

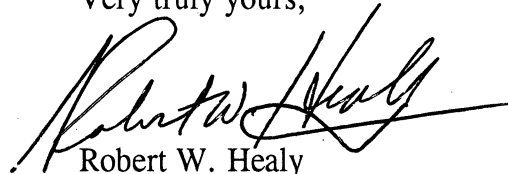
State legislation requires cities and towns to grant a variety of tax exemptions to elderly taxpayers, blind taxpayers, veterans, and surviving spouses who qualify by virtue of residency, income and assets. There are also two pieces of legislation which authorize cities and towns to increase the amounts 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 FY1998 as it has since FY1987. 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 FY1998 which has been published by the Department of Revenue for exemption purposes is 3%. Applying the 3% increase to the FY1997 exemption of \$179.18 raises the exemption to \$184.56. If the Council chooses to annually increase the exemption, \$184.56 will be the base for any FY1999 calculation.

Another form of tax relief available to property owners under state law is Clause 41A of Section 3 of 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:

By any meaningful standard of measurement, FY1997 was an extremely strong year for both the economy of the City as well as the finances of the City. Over the past ten years the City has experienced the full cycle of economic activity and the accompanying impacts upon the City's finances. As the City Council and residents of Cambridge are aware, because Cambridge followed conservative fiscal policies in the strong economic period of the mid to late 1980's the City's budget and service system were not as adversely affected by the economic downturn of the early 1990's. Now, in 1997, the City once again finds itself on top of a very strong local economy. The benefits to the City's finances are clear: a comfortable excess levy capacity coupled with a strong Free Cash position. Just as the City did in the 1980's, we must be careful to avoid excesses in the management of our strong financial position. Specifically, we must protect both our excess levy capacity and avoid the temptation to deplete our free cash either through expenditures or the establishment of an artificially low property tax rate. While Cambridge is benefiting from both the sound local economy and its strong financial position, history and experience remind us that both are subject to changes in the future. By adhering to the proven fiscal policies that have served us so well in the past we can continue to ensure a stable fiscal future for Cambridge.

Very truly yours,

A handwritten signature in black ink, appearing to read "Robert W. Healy", written in a cursive style.

Robert W. Healy
City Manager

Consent Agenda #1

Cal 16

Relative to the vote necessary to seek
the Department of Revenue approval of
the tax rate for FY98.

S-595

Published in
Chronicle
September 4, 1997

September 22, 1997
Order Adopted
7-2-0

In City Council September 15, 1997

1. Referred to the Hearing
Scheduled for 7:00 P.M.
Order Adopted.
- 1A. Tabled for one week on
Motion of Councillor
Sullivan Pending
Certification from
Department of Revenue.
- 1B - 1G
Orders Adopted.
8-0-1