The Honorable, The City Council
December 14, 1998
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Comparison of Water / Sewer Debt Exclusion					
	Current Water/Sewer Bill	Revised Water/Sewer Bill	Increase to Tax Bill With Shift	Total Water/Sewer Cost	Variance
Single Family	600	363	713	1,076	476
Two Family	731	442	558	1,000	269
Three Family	1,080	653	505	1,158	78

As can be seen from the above chart, the increase to the tax bill with the shift would be much too high for the average taxpayer, particularly those owning single and two family homes, to provide the intended federal income tax benefits. In addition, I do not foresee any significant change to this situation in the near future.

Very truly yours,

Robert W. Healy
City Manager

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CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

December 14, 1998

To The Honorable, The City Council:

In response to Awaiting Report Item #5, regarding a report on applicable state laws and regulations regarding the allowance for a debt shift and property tax exemption to qualifying elderly homeowners, please be advised of the following:

In 1993 the legislature passed a bill which would allow cities and towns to shift all or a portion of the debt service on water and sewer issues currently paid through user charges to the property tax levy outside the Proposition 2 ½ limit. The main purpose of this legislation would be to allow property taxpayers to deduct from federal taxes the portion of their current water and sewer bills that is applicable to debt service costs by shifting this cost to the property tax bills. An additional benefit from this legislation would be to provide a new property tax exemption for low-income homeowners sixty-five or older. Cities and towns have the option of applying this shift from water / sewer bills to property taxes for residential ratepayers only.

In 1993, the staff of the Finance Department reviewed the legislation to determine the effects on taxpayers in Cambridge. The conclusion at the time was that the amount that would be required to be shifted from residential water / sewer bills to property tax bills was too high for the transfer to provide any benefits for federal income tax purposes to the average homeowner in Cambridge. The primary reason for the transfer being too high is the method of calculating the residential share of the debt costs. The legislation required that the residential share be calculated by multiplying the total water and sewer debt service by the ratio of residential water and sewer bills divided by total water and sewer bills. By using this method, approximately 85% of the debt service would be shifted to residential property tax bills. Under the present system, a significantly lower portion of the debt service is allocated to residential ratepayers. Any benefits which would be derived by deducting the increase from the average taxpayer's federal income tax and lowering the water / sewer bill would be more than offset by the increase itself.

The staff of the Finance Department recently reviewed this situation and came to the same conclusion that it did five years ago. In fact, it is even more disadvantageous to the residential taxpayers in FY99 than it was in FY93 because of the significant increase in water and sewer debt service costs in the intervening years. The table below shows the current effect of shifting water / sewer debt service from utility rates to the property tax:

8055

Consent Agenda #8

Relative to AW Report #5,
regarding a report on applicable
state laws and regulations concerning
the allowance for a debt shift and
property tax exemption to qualifying
elderly homeowners.

In City Council December 14, 1998

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