YI-AN HUANG
City Manager

City of Cambridge

Executive Department

September 28, 2026

To The Honorable, the City Council:

The Board of Assessors will set the FY27 property tax rate, subject to approval by the Massachusetts Department of Revenue. This is the final step in the City's fiscal process, which began with the submission of the annual budget to the City Council.

In this final step, the City Council must take two actions: (1) determine the percentage of the tax levy to be borne by each class of real and personal property, and (2) adopt a residential exemption percentage that shifts taxes within the residential class.

As in prior years, I recommend the City Council adopt a minimum allowable residential factor of 33.801% and a commercial factor of 66.199%; and adopt a residential exemption percentage of 30% for qualifying owner-occupied properties.

OVERVIEW

If the Council approves the above-mentioned recommendations, the FY27 tax levy will be $725,384,189. This is a 6.9% increase over FY26, consistent with the estimate presented when the budget was adopted in June 2026. The property tax levy increase of 6.9% is lower than the FY26 increase of 8.0%. The five-year (FY23-FY27) annual average increase is 7.96%, and the ten-year (FY18-FY27) annual average increase is 6.9%.

For FY27, the levy limit rose by approximately $34 million to $885.8 million. Of that increase, approximately $21.3 million came from Proposition 2½'s authorized 2.5% increase while $12.7 million came from FY26 new growth. The proposed $725.4 million levy remains below the FY27 levy limit.

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

	Actual FY23	Actual FY24	Actual FY25	Actual FY26	Estimate FY27
Levy Limit	$732,560	$773,962	$817,489	$851,708	$885,773
Actual Levy	$531,601	$575,418	$628,389	$678,852	$725,384
% Actual Levy Increase over Prior Year	7.45%	8.3%	9.2%	8.0%	6.9%
Excess Levy Capacity	$200,959	$198,544	$189,100	$172,856	$160,388
% Change of Excess Levy Capacity Over Prior Year	2.2%	(1.2%)	(4.8%)	(8.6%)	(7.2%)

IMPACT ON TAXPAYERS

Based on a $725,384,189 tax levy, the FY27 residential tax will be set at a single residential rate of $6.95 per thousand dollars of value, subject to Department of Revenue approval. This is an increase of $0.28, or approximately 4% from FY26. Commercial property will be taxed at a single rate of $16.99 per thousand dollars of value—a 21% increase ($2.92) over FY26. Establishing the tax rate is a straightforward calculation: the total tax levy divided by the total assessed valuation (less any exemptions), equals the tax rate for FY27.

In addition to the 30% residential exemption mentioned above, state law provides targeted exemptions and deferrals for qualifying residents. Since 1987, the City Council has approved exemptions for eligible elderly residents, blind taxpayers, veterans, and surviving spouses based on residency, income, and assets: • 17D—Elderly over 70, surviving spouse, or minor child of a deceased parent • 41C—Elderly age 65 or older • 22 series—Veterans • 37A—Legally blind • 41A—Tax deferral over 65 issues.

PROPERTY TAX DRIVERS

Property tax bills are driven by three factors: (1) the City's operating and capital budgets, which determine the amount to be raised; (2) property classifications, which allocate the levy between residential and commercial property; (3) new growth and assessed property values, which distribute taxes within each class.

The City's Operating and Capital Budgets

The FY27 budget process began in fall 2025 and concluded when the Council adopted a $1.033 billion Operating Budget and a $155.2 million Capital Budget on June 1, 2026. The Operating Budget increased by $41 million, or 4.1%, over FY26. During Council discussions, the City identified several economic pressures including lower commercial real estate values, slower development, and uncertainty arising from federal actions and set targets to moderate budget growth and future property tax increases.

Commercial and Residential Property Tax Classifications

Tax classification allows municipalities to assign a larger share of the levy to commercial, industrial, and personal property than to residential property. The City may do this only if the commercial share stays at or below 175% of what it would be under a single tax rate. Under state law, the City may reduce the residential share of the tax levy to 50% of what it would be under a single tax rate, but not below the historical minimum of 33.801%.

For FY27, commercial property owners will pay 66.199% of the levy, the same share as in FY26, while residential property owners will pay the remaining 33.801%.

A major concern going forward is that if residential values increase and commercial values continue to decrease, the City could hit the ceiling for the property tax classification shift. Once the classification ceiling is reached, the residential class will bear all tax levy increases while this condition continues.

TABLE II
Change in the Median Value and Tax Bill by Residential Property Class*

	FY26 Value	FY26 Tax Bill	FY27 Value	FY27 Tax Bill	$ Change Tax Bill
Single Family	$1,841,000	$8,876	$1,917,600	$9,712	$836
Two Family	$1,648,750	$7,594	$1,735,400	$8,445	$851
Three Family	$1,918,700	$9,395	$1,982,200	$10,161	$766
Condominium	$798,900	$1,926	$800,900	$1,950	$24

* Includes Residential Exemption

Citywide Assessed Property Values

Each January 1st, the City must meet Department of Revenue requirements to certify that property values represent full and fair market value. Using a Computer Assisted Mass Appraisal system, the Assessing Department considers sales trends, improvements, financing conditions, demand, and neighborhood comparability to determine full and fair cash value.

FY27 citywide assessed values reflect 2025 market activity. Total taxable property value is $70,359,954,087, a 3.8% decrease from the prior year. The following residential and commercial trends explain how that decline affects the distribution of the tax levy. FY27 total residential property values increased by 2.3%. Most residential classes posted small gains. Single-, two-, and three-family values appreciated modestly; apartments were slightly up. Condominium values were flat and represent the largest share of residential tax bills.

Total FY27 commercial property values decreased by 12.4%. These negative results reflect the continued softening of the office and lab markets. Office and lab values declined amid high vacancies, excess lab supply, and hybrid work. Retail and restaurant values fell moderately; hotel values decreased slightly.

TABLE III
Assessed Values (in millions)

	FY23	FY24	FY25	FY26	FY27
Residential Property	$37,466	$39,460	$40,134	$41,167	$42,094
Commercial Property	$31,465	$33,983	$33,569	$29,389	$25,760
Personal Property	$2,209	$2,438	$2,537	$2,556	$2,506
Total Assessed Value	**$71,140**	**$75,881**	**$76,240**	**$73,112**	**$70,360**

New Growth

The following table shows new construction values and related tax-base growth by property type. State law calculates new growth capacity by multiplying it by the FY27 value of new or renovated property by the FY26 tax rate.

New growth continues to be well below prior years. It is constrained by vacant commercial space, weak venture-capital investment, federal NIH funding cuts, high interest rates, rising construction costs, and financial uncertainty. Developers have little incentive to start office or lab projects without committed tenants.

TABLE IV
New Construction Breakdown

Property Class	FY26 New Growth Value	FY26 Tax Base Levy Growth "New Growth"	FY27 New Growth Value	FY27 Tax Base Levy Growth "New Growth"
Residential Property	$314,375,600	$1,996,285	$272,434,210	$1,817,136
Commercial Property	$12,360,200	$142,390	$14,872,225	$209,252
Industrial Property	$649,681,700	$7,484,333	$421,158,595	$5,925,701
Personal Property	$361,140,804	$4,160,342	$340,602,822	$4,792,282
Total New Growth	**$1,337,558,304**	**$13,783,350**	**$1,049,067,852**	**$12,744,371**

OTHER REVENUES, STATE AID, AND OVERLAY

To determine the actual property tax levy, adjustments were made based on updated information since the adoption of the budget in June. The adjustments include offsets in the Net Cherry Sheet charges and an adjustment to the Overlay Reserve.

Table V
Summary of Changes from Adopted Budget

Tax Levy Changes	Amount
Projected Property Tax Levy (As Adopted)	$725,608,519
Net Cherry Sheet Change	($306,368)
Overlay Adjustment	$82,038
Actual Property Tax Levy	$725,384,189

The overlay account funds abatements and exemptions of committed real and personal property accounts. The assessors review the overlay balance annually. As of June 30, 2026, the City has approximately $18.5 million in overlay balances. The FY27 budget included a projected increase of $4.5 million which was adjusted upward by $82,038 based on our submission of property values and other information to the Commonwealth of Massachusetts as part of the tax rate setting and classification process.

COMMUNITY PRESERVATION ACT SURCHARGE

Cambridge voters adopted the Community Preservation Act in November 2001. It provides state matching funds for locally raised support of affordable housing, historic preservation, and open space; the local share comes from a 3% tax surcharge.

TABLE VI
Community Preservation Act Surcharge

	FY26 Median CPA Surcharge	**FY27 Median CPA Surcharge**	**FY27 Median Tax**	**FY27 Median Tax & CPA Surcharge**
Single Family	$246	$291	$9,712	$10,003
Two Family	$208	$253	$8,445	$8,698
Three Family	$262	$305	$10,161	$10,466
Condominium	$38	$59	$1.950	$2,009

COMPARISON TO OTHER COMMUNITIES

Cambridge residents bear a smaller share of the tax levy than residents of nearby communities, and Cambridge continues to have the lowest residential and commercial tax rates among the communities compared below. The following table shows the residential share of the levy in Cambridge and neighboring municipalities.

TABLE VII
Comparison of Residential Percent of Tax Levy Paid

Municipality	Residential % paid of Property Tax Levy	Commercial % paid of Property Tax Levy	Residential Tax Rate	Commercial Tax Rate
Cambridge*	**33.8**	**66.2**	**$6.95**	**$16.99**
Boston	46.1	53.9	$12.40	$26.96
Watertown	51.0	49.0	$12.20	$23.47
Somerville	67.4	32.6	$10.98	$18.94
Brookline	84.1	15.9	$10.24	$17.16
Newton	86.4	13.6	$9.69	$18.06

*Cambridge rates are for FY27, all others are for FY26

RECOMMENDATIONS

• **Classify property and establish the minimum residential factor.** Since 1984, the Council has annually used state law to classify property by residential or commercial use and shift the maximum legal levy share to commercial property.

Each year, the Council sets the levy distribution through the minimum residential factor of 33.801%. A residential factor of .564988% gives residential property 33.801% of the levy and commercial property 66.199%, producing FY27 rates of $6.95 and $16.99, respectively.

• **Residential Exemptions.** Since 2003, City Council has approved a 30% residential exemption. For FY27, I recommend the Council keep the exemption at 30%. This exemption deducts 30% of the average residential parcel value from each qualifying owner-occupied property before the tax rate is applied.

The exemption lowers the effective rate most for lower-valued homes because every qualifying property receives the same deduction. The residential rate rises enough to fund the exemption. About 13,380 owner-occupied homes are on file for FY27, and the Assessing Department audits claims and investigates inquiries to protect program integrity.

Table VIII
30% Residential Exemption

	FY2025	FY2026	FY2027
Value Exempted	$499,263	$510,208	$520,253
Tax Savings	$3,170	$3,403	$3,616

CONCLUSION

The FY27 levy increase aligns with multiyear targets discussed with the Council in fall 2025. It funds key programs, infrastructure, and services while recognizing taxpayer impacts. Because property taxes fund 70% of the Operating Budget, the City must balance investment, affordability, and fiscal flexibility. Cambridge remains fiscally strong, with sound policies and AAA ratings from all three major agencies.

Looking ahead, slower growth in assessed values and new development may create additional pressure on residential taxpayers. The City will continue to manage budget growth carefully and evaluate major projects based on priority, timing, and available resources. I thank the City Council for its support and guidance, and I look forward to working with the Council, City staff, and the community to address the challenges ahead.

Very truly yours,

Yi-An Huang
City Manager

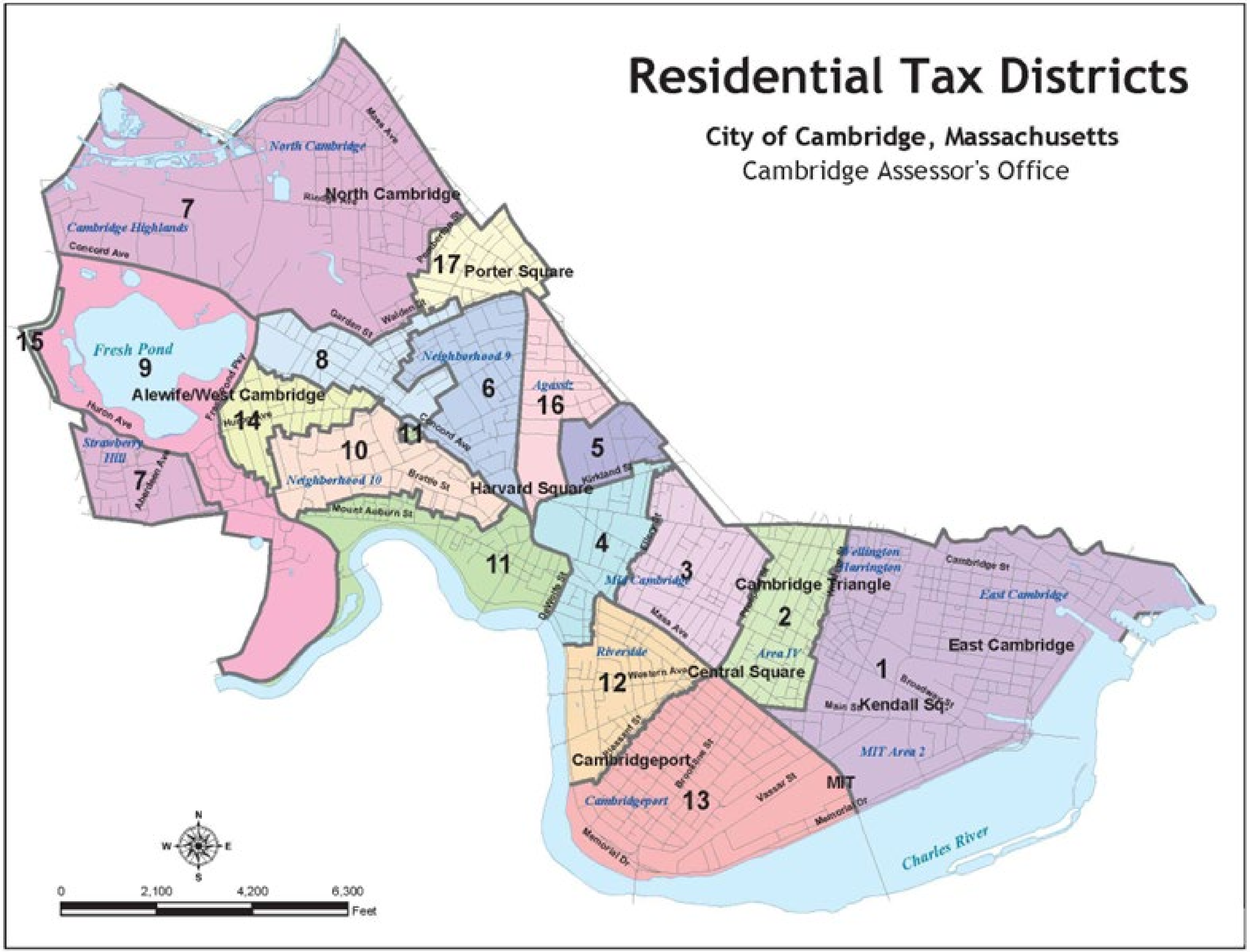
Appendix – Assessed Values by Class

FY2027 Condominium Assessment Data				
Median Assessed Values				
NBHD	Count	FY26 Median Value	FY27 Median Value	Change
R1	3008	$ 799,700	$ 797,450	0%
R2	864	$ 811,750	$ 813,650	0%
R3	2149	$ 756,900	$ 758,300	0%
R4	694	$ 706,850	$ 707,650	0%
R5	15	$ 2,993,300	$ 2,993,300	0%
R6	1656	$ 694,800	$ 695,650	0%
R7	2033	$ 742,500	$ 744,300	0%
R8	481	$ 995,200	$ 985,600	-1%
R9	50	$ 861,750	$ 861,750	0%
R10	43	$ 2,777,500	$ 2,777,500	0%
R11	520	$ 1,001,600	$ 998,200	0%
R12	1177	$ 771,000	$ 763,400	-1%
R13	1275	$ 899,600	$ 898,500	0%
R14	430	$ 1,018,850	$ 1,014,600	0%
R16	401	$ 819,800	$ 819,000	0%
R17	676	$ 966,150	$ 968,350	0%

FY2027 Single Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY26 Median Value	FY27 Median Value	Change
R1	393	$ 1,101,500	$ 1,149,200	4%
R2	203	$ 1,288,400	$ 1,327,700	3%
R3	239	$ 2,034,700	$ 2,069,500	2%
R4	82	$ 1,829,250	$ 1,887,400	3%
R5	65	$ 4,582,300	$ 4,817,400	5%
R6	376	$ 3,170,650	$ 3,217,900	1%
R7	654	$ 1,212,750	$ 1,305,750	8%
R8	206	$ 1,669,500	$ 1,820,300	9%
R9	203	$ 2,507,300	$ 2,536,000	1%
R10	344	$ 5,855,850	$ 5,940,350	1%
R11	172	$ 2,509,050	$ 2,601,750	4%
R12	185	$ 1,427,800	$ 1,513,600	6%
R13	236	$ 1,595,050	$ 1,742,050	9%
R14	184	$ 2,716,250	$ 2,779,850	2%
R15	33	$ 2,328,300	$ 2,362,800	1%
R16	154	$ 2,101,200	$ 2,168,750	3%
R17	196	$ 1,572,400	$ 1,619,000	3%

FY2027 Two Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY26 Median Value	FY27 Median Value	Change
R1	253	$ 1,230,600	$ 1,271,500	3%
R2	151	$ 1,424,000	$ 1,467,300	3%
R3	186	$ 2,094,750	$ 2,166,400	3%
R4	43	$ 2,257,600	$ 2,321,500	3%
R5	4	$ 3,894,500	$ 3,981,000	2%
R6	68	$ 2,386,900	$ 2,459,150	3%
R7	540	$ 1,433,250	$ 1,531,500	7%
R8	161	$ 1,675,100	$ 1,820,900	9%
R9	10	$ 1,767,700	$ 1,802,000	2%
R10	12	$ 4,321,650	$ 4,441,450	3%
R11	30	$ 2,647,950	$ 2,742,850	4%
R12	139	$ 1,490,300	$ 1,600,100	7%
R13	196	$ 1,871,950	$ 2,014,150	8%
R14	180	$ 2,069,800	$ 2,128,300	3%
R16	81	$ 2,011,300	$ 2,075,500	3%
R17	118	$ 1,659,800	$ 1,705,750	3%

FY2027 Three Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY26 Median Value	FY27 Median Value	Change
R1	212	$ 1,588,100	$ 1,616,500	2%
R2	141	$ 1,797,400	$ 1,832,000	2%
R3	112	$ 2,455,150	$ 2,488,800	1%
R4	32	$ 2,885,100	$ 2,926,850	1%
R5	3	$ 6,753,200	$ 6,852,400	1%
R6	30	$ 2,974,300	$ 3,043,100	2%
R7	154	$ 1,778,050	$ 1,861,750	5%
R8	40	$ 1,911,150	$ 2,035,500	7%
R9	1	$ 1,865,600	$ 1,893,400	1%
R10	1	$ 3,645,100	$ 3,792,400	4%
R11	15	$ 2,756,100	$ 2,845,700	3%
R12	110	$ 1,739,050	$ 1,857,350	7%
R13	145	$ 2,051,600	$ 2,162,400	5%
R14	40	$ 2,204,800	$ 2,267,500	3%
R16	43	$ 2,426,400	$ 2,485,800	2%
R17	59	$ 1,975,000	$ 2,030,000	3%


Residential Tax Districts
City of Cambridge, Massachusetts
Cambridge Assessor's Office
North Cambridge
North Cambridge
Mass Ave
7
Cambridge Highlands
Concord Ave
17 Porter Square
Garden St
Walden St
15
Fresh Pond
9
Alewife/West Cambridge
8
Neighborhood 9
6
Agassiz
16
14
Huron Ave
Strawberry Hill
7
Aberdeen Ave
10
11
Concord Ave
5
Neighborhood 10
Brattle St
Harvard Square
Kirkland St
Mount Auburn St
4
11
Mid Cambridge
3
Cambridge Triangle
Wellington Harrington
Cambridge St
East Cambridge
2
Mass Ave
East Cambridge
Riverside
Area IV
12
Western Ave
Central Square
1
Main St
Kendall Sq
Broadway St
Cambridgeport
MIT Area 2
Vassar St
MIT
Cambridgeport
13
Memorial Dr
Memorial Dr
Charles River
N
W
E
S
0
2,100
4,200
6,300
Feet

CITY OF
CAMBRIDGE

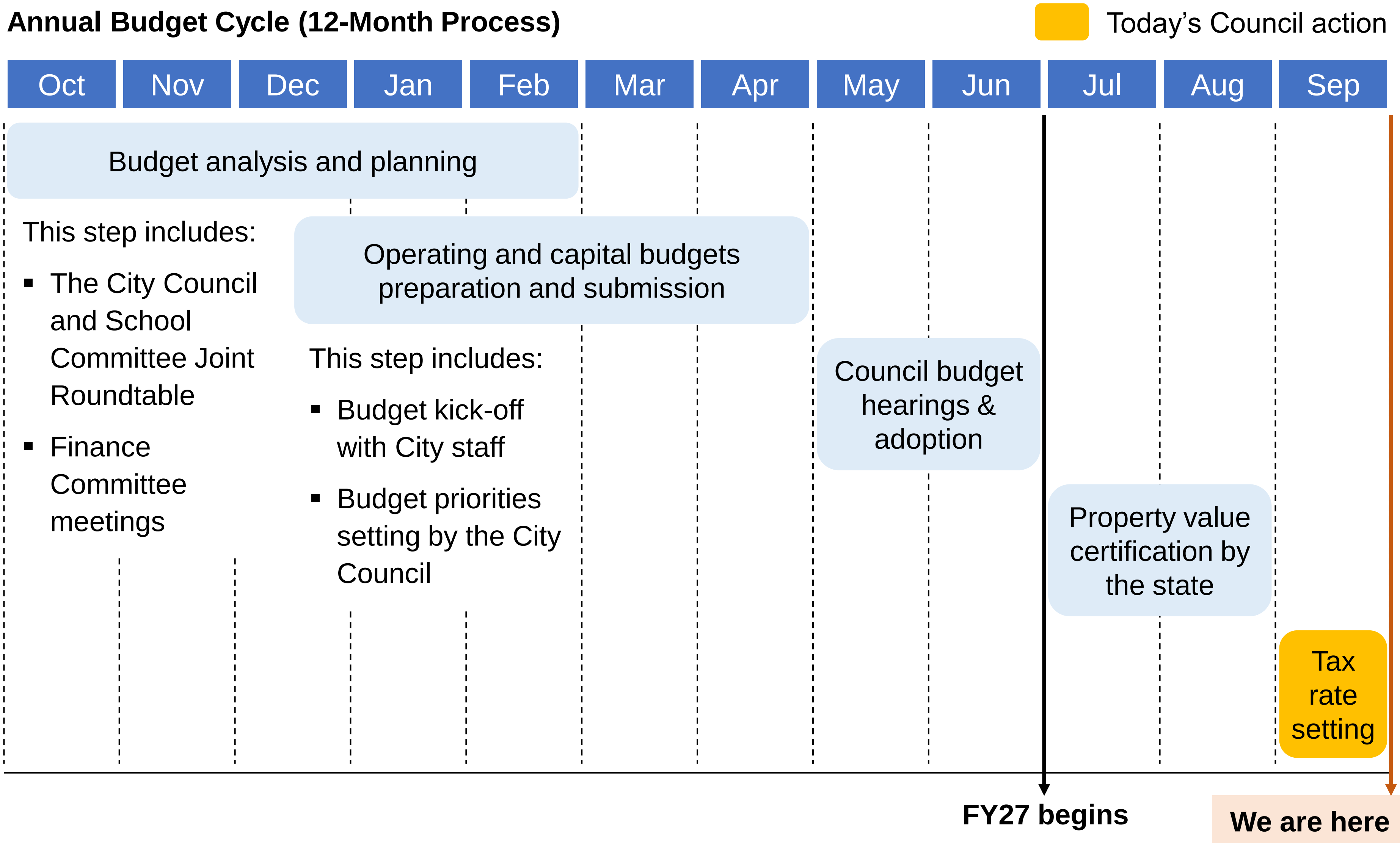
FY27 Property Tax Supplemental Information

September 28, 2026

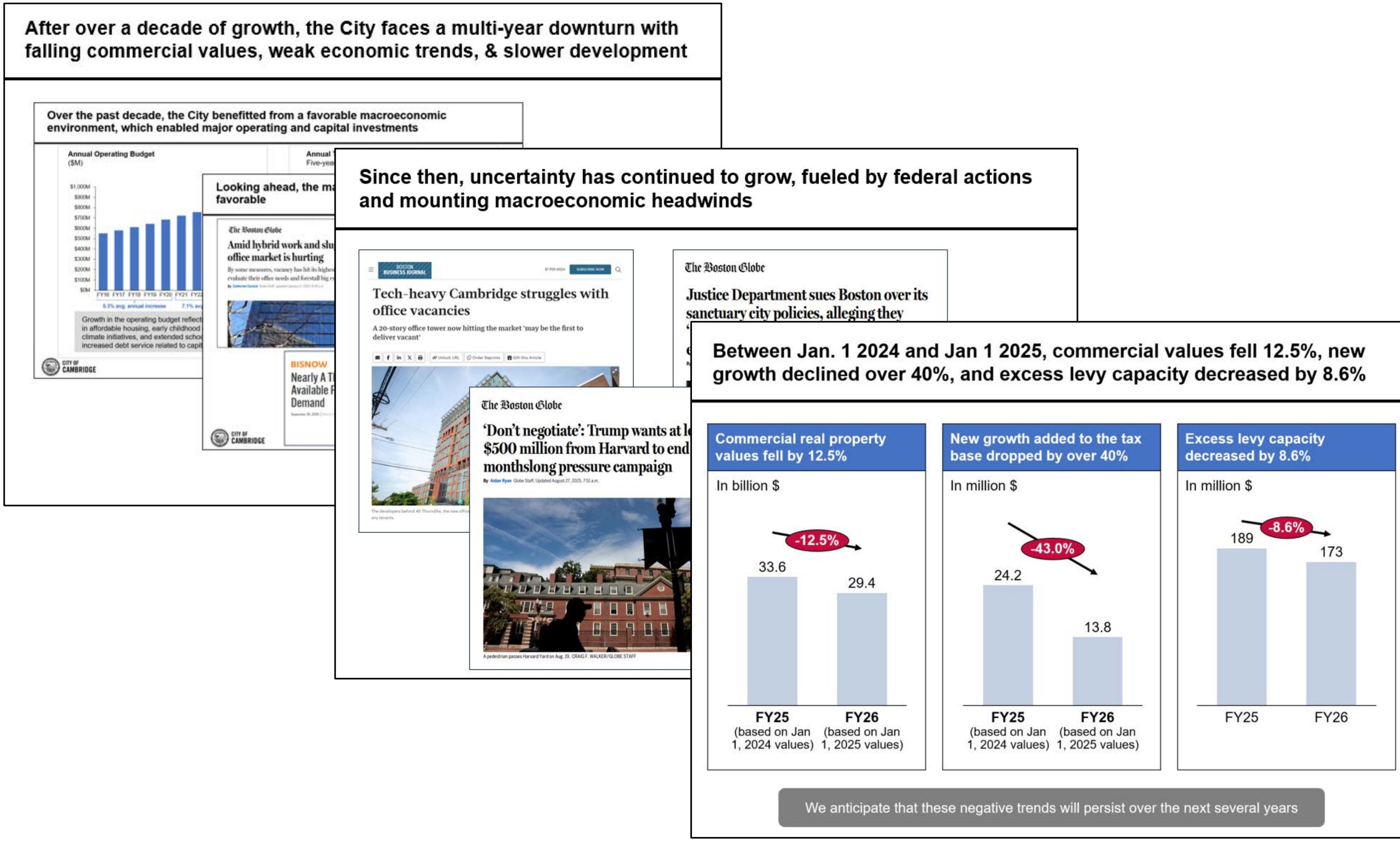
Executive Summary

- The tax hearing marks the final step in the FY27 fiscal process. With the completion of the 2026 assessed values, we can now establish the FY27 residential and commercial property tax rates.
- The City continues to experience a multi-year economic downturn that negatively impacts commercial property values in Cambridge, with serious implications for the City's long-term financial stability.
  - This prompted the City to target its lowest budget growth rates in ten years for FY26 and FY27, along with correspondingly lower the tax levy targets.
- In June, the Council approved the FY27 budget of $1.03B, a 4.1% increase driven mainly by rising fixed costs.
  - The FY27 budget yields a projected $725.4M levy, up 6.9% from FY26, with property taxes funding 70% of the operating budget
- The $725.4M tax levy will be funded by commercial and residential taxpayers based on property values and the allocation between classes.
  - As in past years, the City Manager recommends that the Council vote to allocate 33.8% of the levy to residential properties and 66.2% to commercial properties, and adopt a residential exemption percentage of 30% for qualifying owner-occupied properties.
- Cambridge has the lowest residential tax share among peer cities, while maintaining the lowest residential and commercial tax rates
- We will continue working with the Council to safeguard the City’s financial stability, minimize taxpayer impact, and actively promote economic development amid evolving market conditions

Today’s tax hearing marks the final step in the FY27 fiscal process



The City continues to face a multi-year economic downturn that negatively impacts the City's tax base



Source: The Boston Globe; Bisnow.com; Boston Business Journal

These negative trends have serious implications for the City's financial health …

1. **Stagnating or declining non-property tax revenue**, resulting in a greater dependence on property taxes to fund our budget

2. **An erosion of our excess property tax levy capacity**, which will impact the City's overall financial flexibility.

3. **A potential shift of tax burden from commercial properties to residential properties** in future years

… leading the City to target its lowest budget growth rates in ten years for FY26 and FY27, along with correspondingly lower the tax levy targets

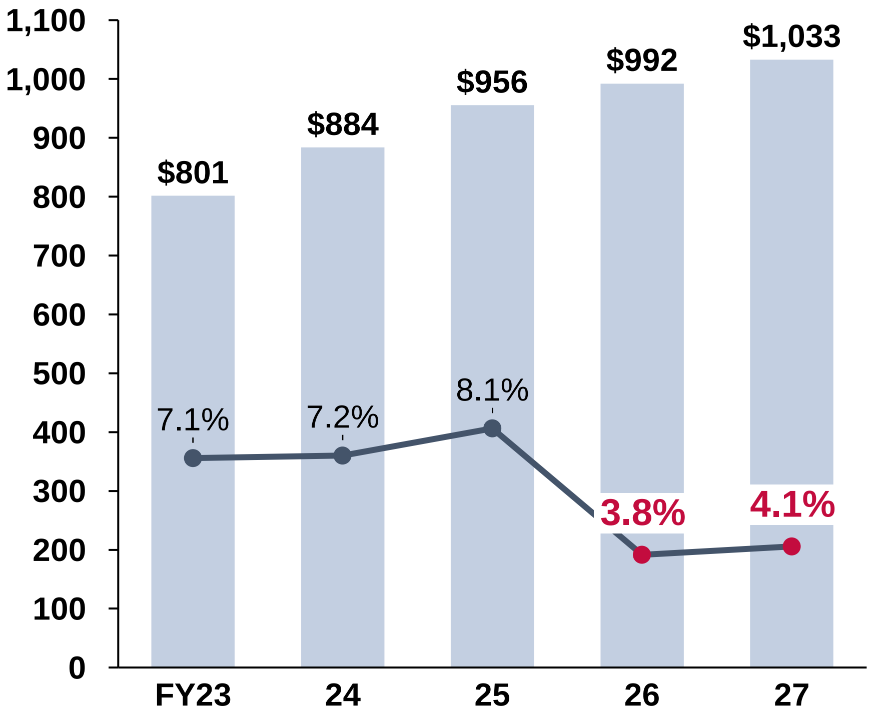
	FY26	FY27
Property Tax Levy Growth Targets	**Less than 8%** increase	**Less than 7%** increase
Operating Budget Targets	**3.5 to 4%** increase	**Less than 5%** increase

The lowest operating budget growth before FY26 was 4.1%, back in FY16

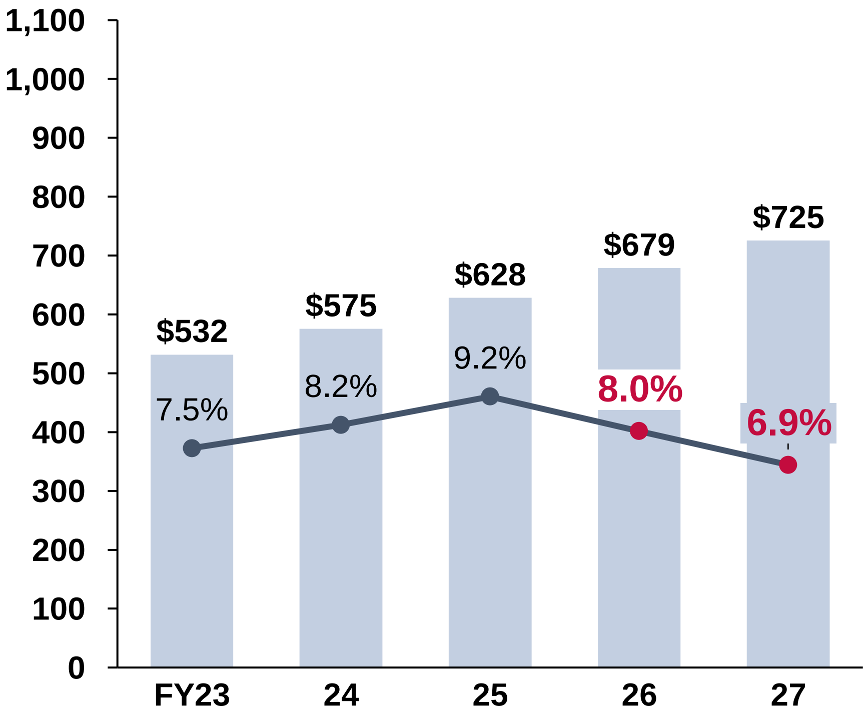
Through citywide collaboration, the City met its targets in both years; FY27 marks the second year of moderated budget and levy growth

Annual growth (in %)

Adopted operating budget, last five years
In million $



Tax levy, last five years
In million $



Despite the City's moderated budget growth in FY26 and FY27, the tax levy was also impacted by declining non-property-tax revenues

We are not alone in facing these challenges, though are in a stronger position to weather them than other communities

FY26 and FY27 saw many overrides …

- **57 municipalities** in MA had at least one override question for **FY26 (54 for FY27)**
- There were a total of 74 questions for FY26 (84 for FY27)
- Those figures are **the highest in the past 18 years** (since FY09)

… and well-known challenges faced by our neighbors

Boston

- The city faced **~$48.4M deficit** closing out FY26. Mayor Wu ordered department heads to propose 2% budget cuts and freezing/delaying hiring
- The Boston School Committee unanimously approved a $1.7B budget for FY27 that will **cut 300-400 positions**

Brookline

- In May 2026, residents approved an override that will **raise property taxes by 18% over three years**, generating $23.25M
- Without an override, Brookline **would face deep cuts to school programs and might have to close a fire station**

Newton

- The "historic" $17.1M school budget increase in FY27 was absorbed by salary increases and healthcare, **forcing a $2.8M cut** elsewhere

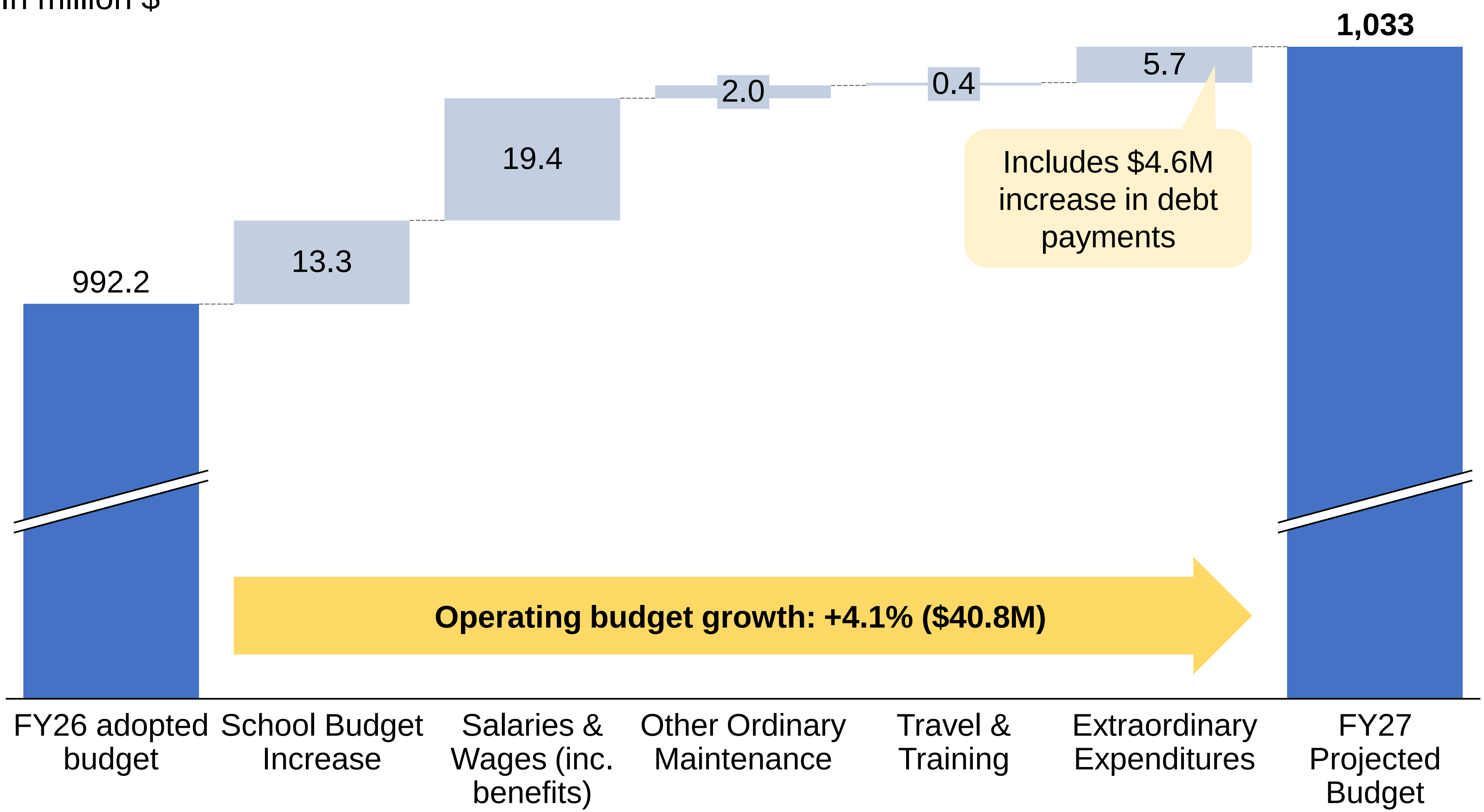
305 of Massachusetts' 351 municipalities (87%) have held Prop. 2 1/2 override votes since 1988;
Cambridge has never done so.

Source: MA Department of Revenue; Mass.Gov; Boston Globe; MMA; The Heights; Brookline.News

In June, the Council approved the FY27 budget of $1.03B, a 4.1% increase driven by rising fixed costs, as we continue to moderate budget growth

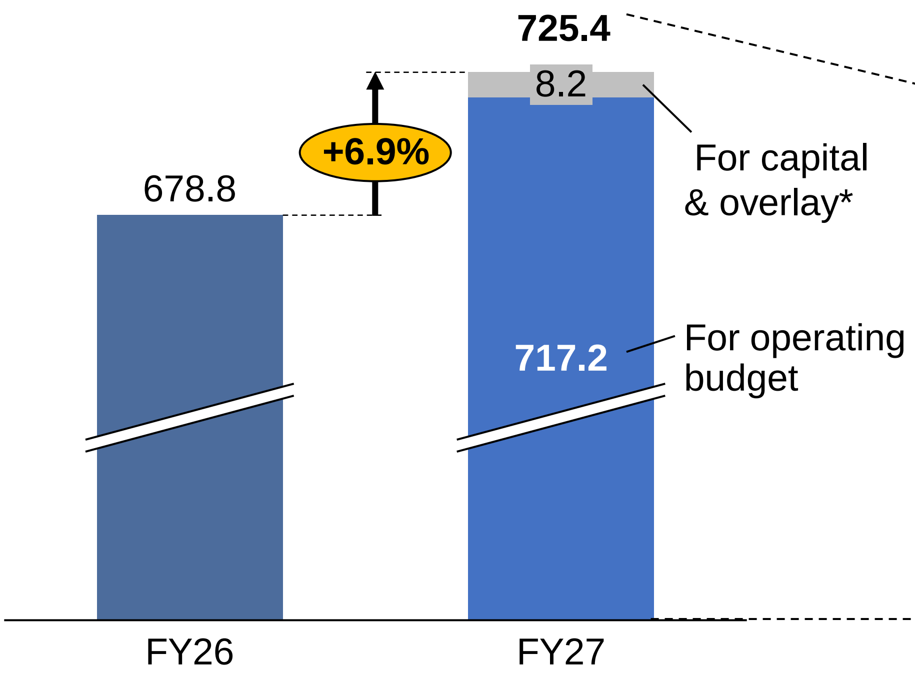
FY26 vs. FY27 Budget Increases

In million $

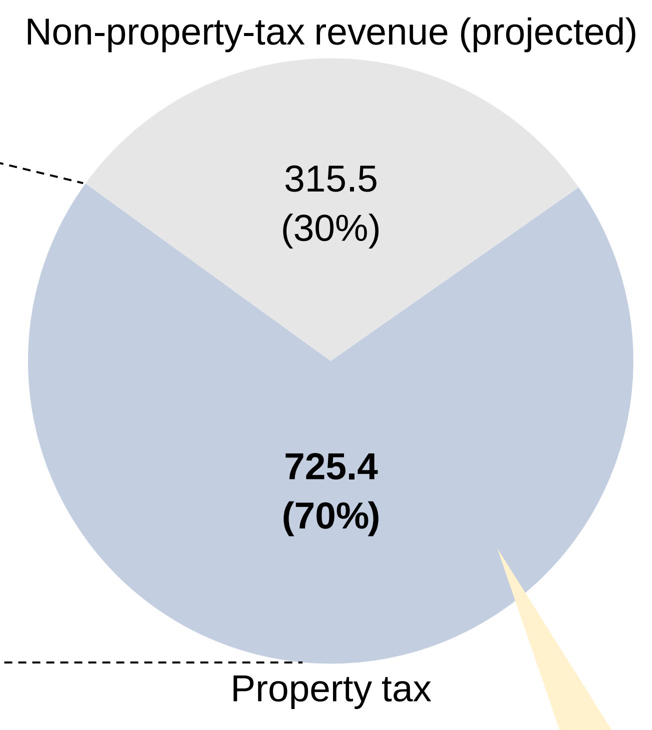


The FY27 budget yields a projected $725.4M levy, up 6.9% from FY26, with property taxes funding 70% of the operating budget

FY26 & FY27 property tax levy
In million $



FY27 revenue sources (projected)
In million $



Our reliance on property tax to fund the budget continues to grow as non-property-tax revenues stagnate

*Includes $3.7M pay-as-you go capital and $4.5M for overlay for abatements

The $725.4M tax levy will be funded by commercial and residential taxpayers based on property values and the allocation between classes

Steps to allocate FY27 property tax levy

FY27 budget determines needed property tax levy

The Council-approved FY27 budget, minus the non-property-tax revenues, sets the total levy to be raised

Assessed values establish tax base & values by class

City assesses & State certifies Residential and CIP* values, which become the overall tax base for allocating the levy

Council votes to classify properties and allocate levy

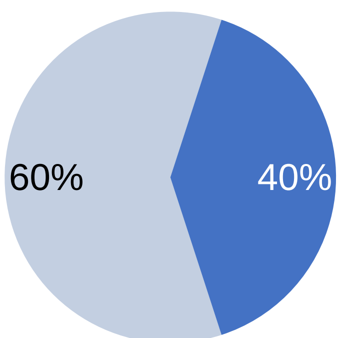
Council's vote to classify property sets the Residential share of the levy; CIP* bears the remainder, within state law limits**

Property tax levy to be raised for FY27

$725.4M

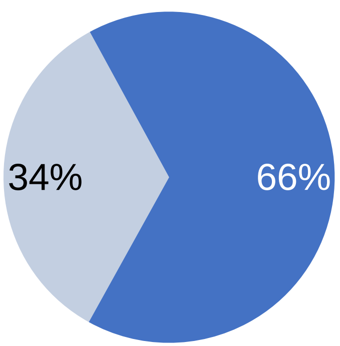
FY27 share of property value

Residential (total: $42B)
CIP*(total: $28B)



FY27 share of tax levy

Residential Levy ($246M)
CIP Levy ($479M)

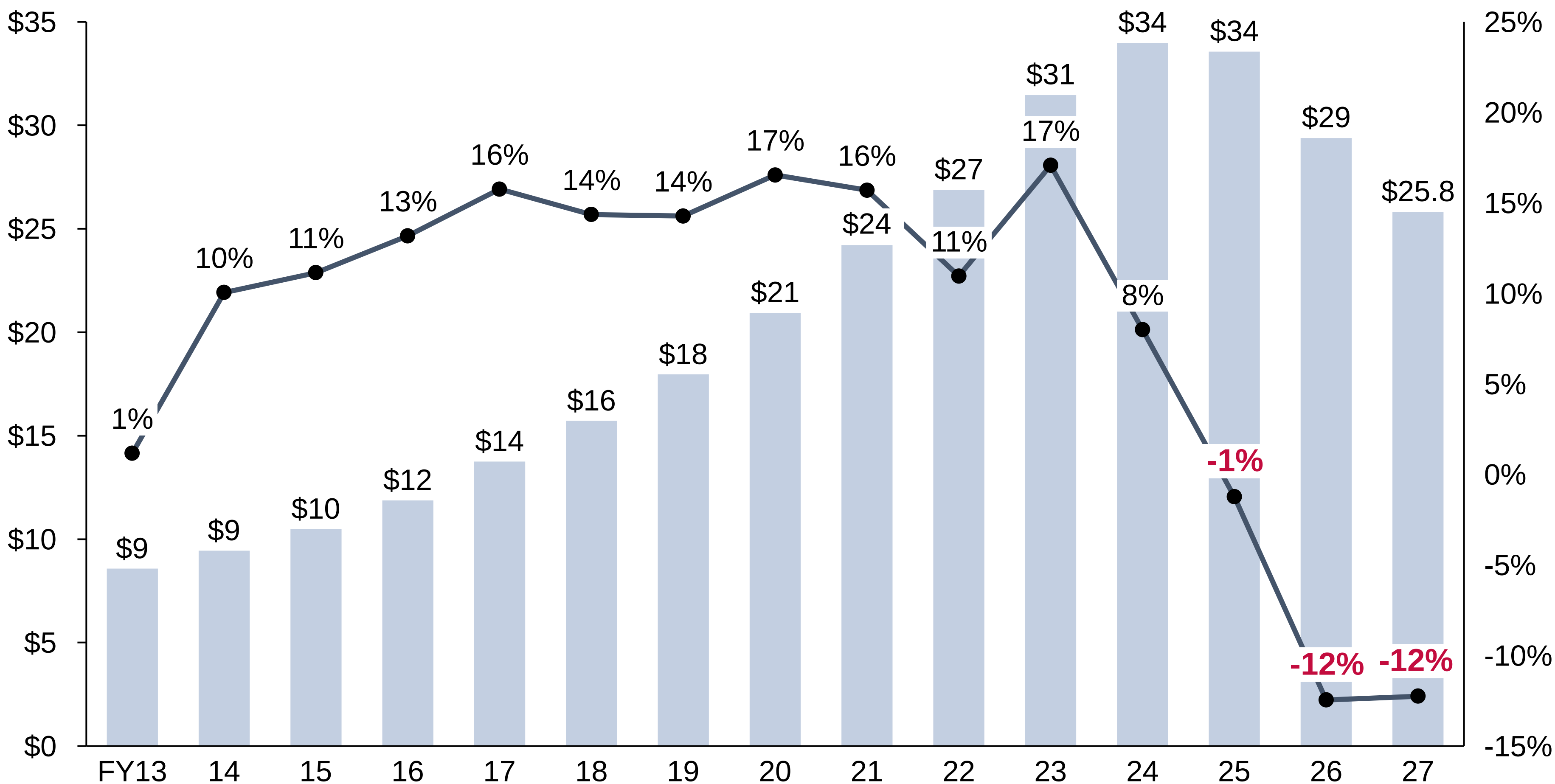


*CIP: Commercial/Industrial/Personal Property | **By voting to allocate the maximum allowable share of the levy to the CIP class, the Council shifts the tax burden away from residential properties

For a decade plus, commercial growth supported investments in city priorities; however, values have declined in past three years

Commercial values*, past 15 years
In BILLION $

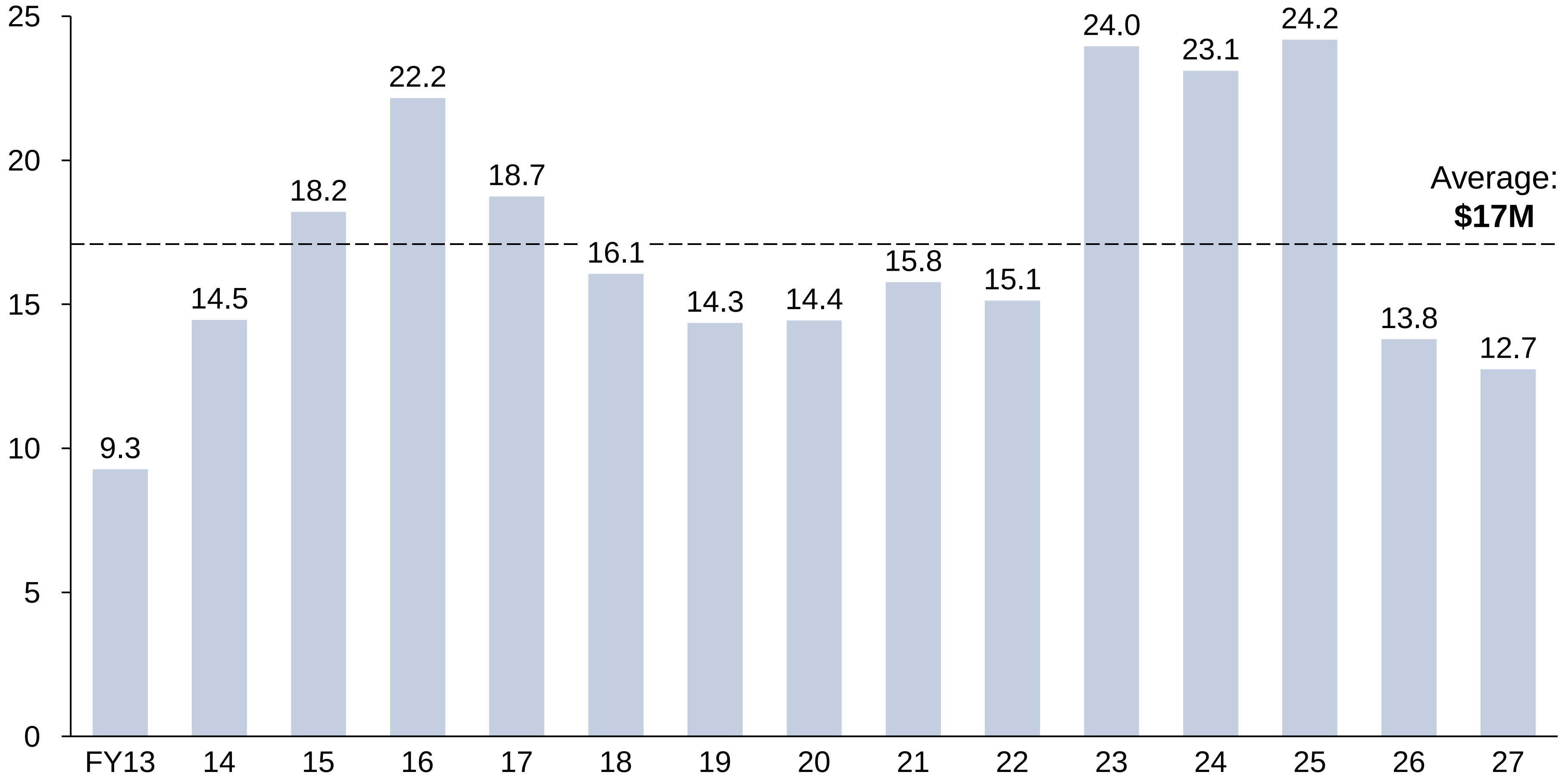
Annual changes, past 15 years
In %



*Includes Commercial and Industrial but excludes Personal Property

New growth, which allows us to increase the total amount of property taxes we can collect, has dropped and stagnated over the past two years

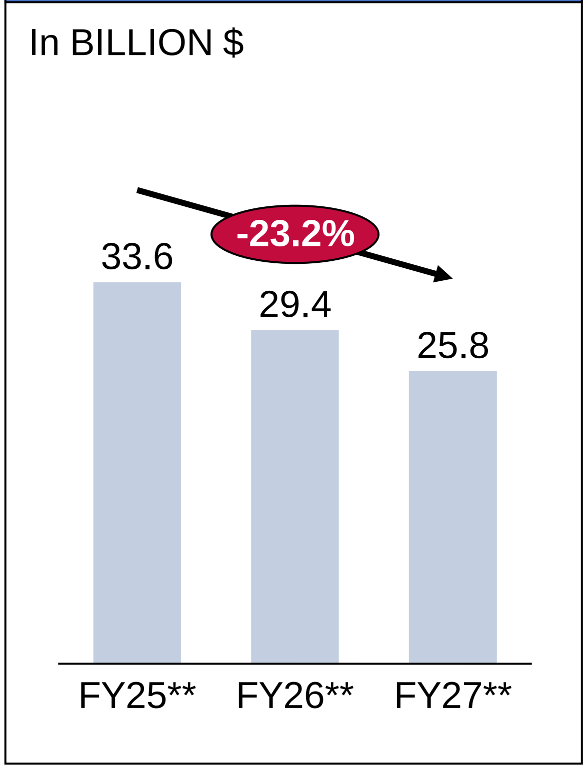
New growth* over the past 15 years
In million $



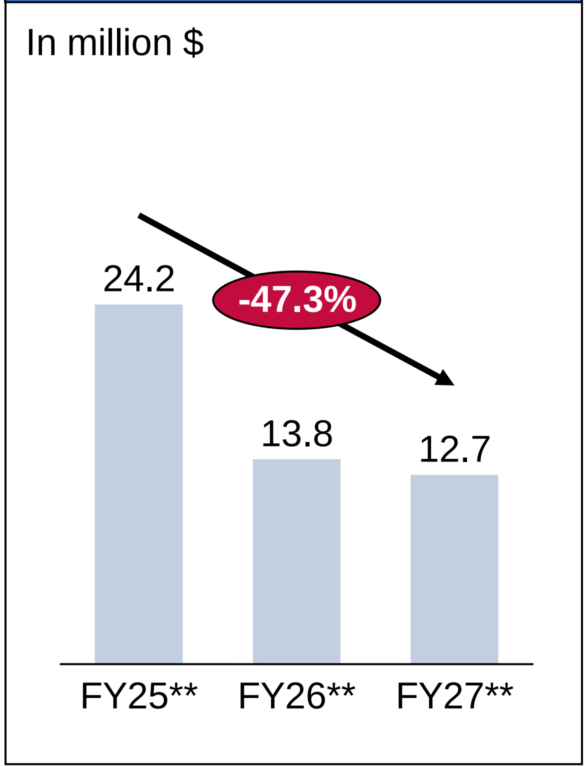
*Results of new construction, renovations, or tax status changes, *not* from rising market values

Overall, commercial values, new growth, and excess levy capacity declined again in FY27, mirroring the downturn in FY26

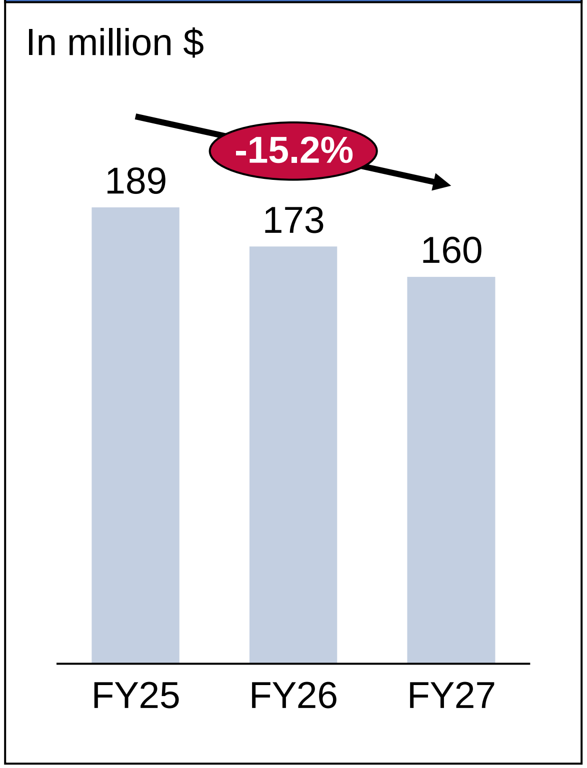
Commercial real property* values fell by 23% from FY25



New growth added to the tax base dropped by over 47%



Excess levy capacity decreased by over 15%



As anticipated, commercial values fell another 12.2% between FY26-FY27, new growth dropped another 7.6%, and excess levy capacity declined another 7.2%

*Includes Commercial and Industrial but excludes Personal Property | **The figure is based on values from January 1st the previous year. For example, FY27's figure is based on January 1, 2026 values

Despite an overall commercial value decline of 12%, deeper losses in office and labs shifted the tax burden across businesses types

FY27 Commercial Property Values and Tax Data

Commercial Property Type	Commercial Tax Rate	Count	Median Value Change	Median Tax Bill Change at Proposed Rate
Hotel/inn	**$16.99** per $1,000 value	24	-3%	17%
Lab/research		130	-13%	5%
Office		444	-16%	1%
Others*		285	-11%	7%
Retail/restaurant		306	-10%	9%

While the total commercial levy is rising by 6.9%, the tax burden is shifting across property types due to uneven value declines

*Includes warehouses, gas stations, public utility properties, telecom properties, vacant commercial land, parking lots, service garages, and an electric power plant

Overall, residential values increased 2.3%, with bill changes varying across property types

FY27 Residential Property Values and Tax Data

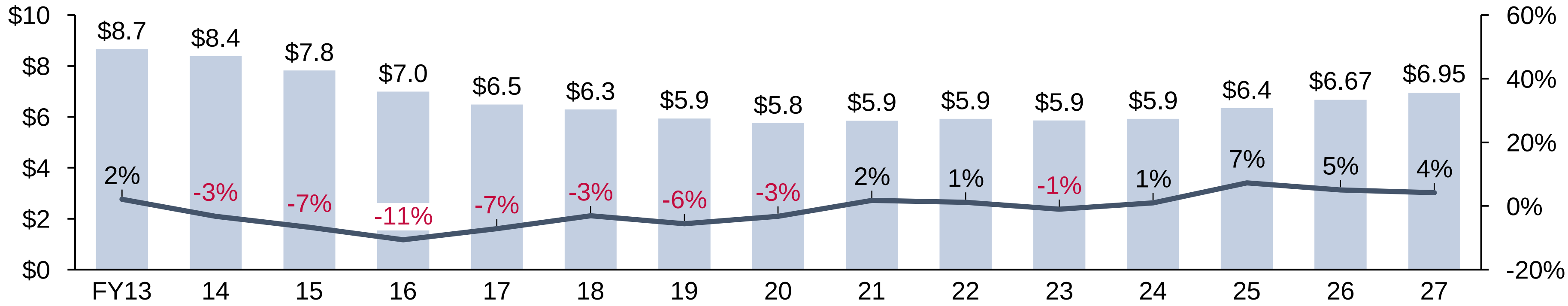
Residential property type	Residential Tax Rate	FY26 Value	FY26 Tax Bill*	FY27 Value	FY27 Tax Bill*	Change in Bill
Single Family	**$6.95** per $1,000 value	$1,841,000	$8,876	$1,917,600	$9,712	$836
Condominium		$798,900	$1,926	$800,900	$1,950	$24
Two Family		$1,648,750	$7,594	$1,735,400	$8,445	$851
Three Family		$1,918,700	$9,395	$1,982,200	$10,161	$766

*Tax bill calculation assumes 30% residential exemption

Past commercial growth kept tax rates low. While recent declines are driving them back up, rates remain lower than they were 14 years ago

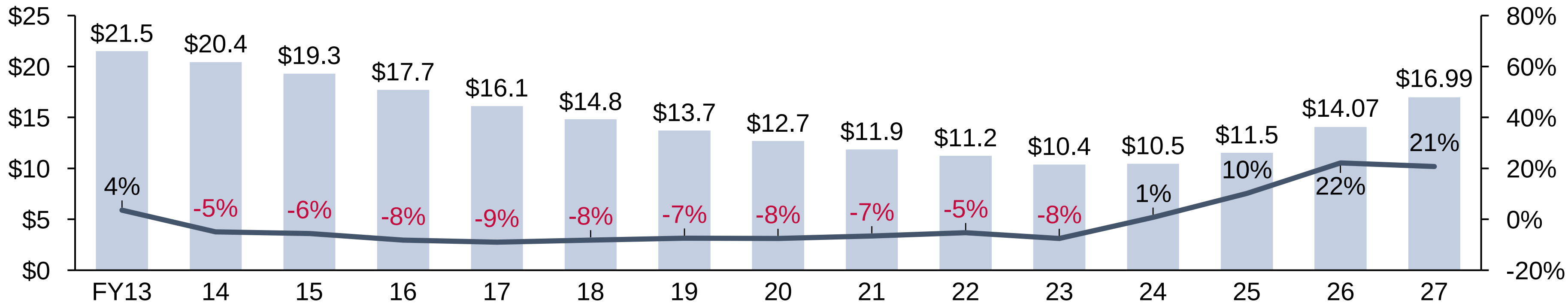
Residential tax rate* over the past 15 years
In $ per $1,000 value

Annual changes over the past 15 years
In %



Commercial tax rate* over the past 15 years
$ per $1,000 value

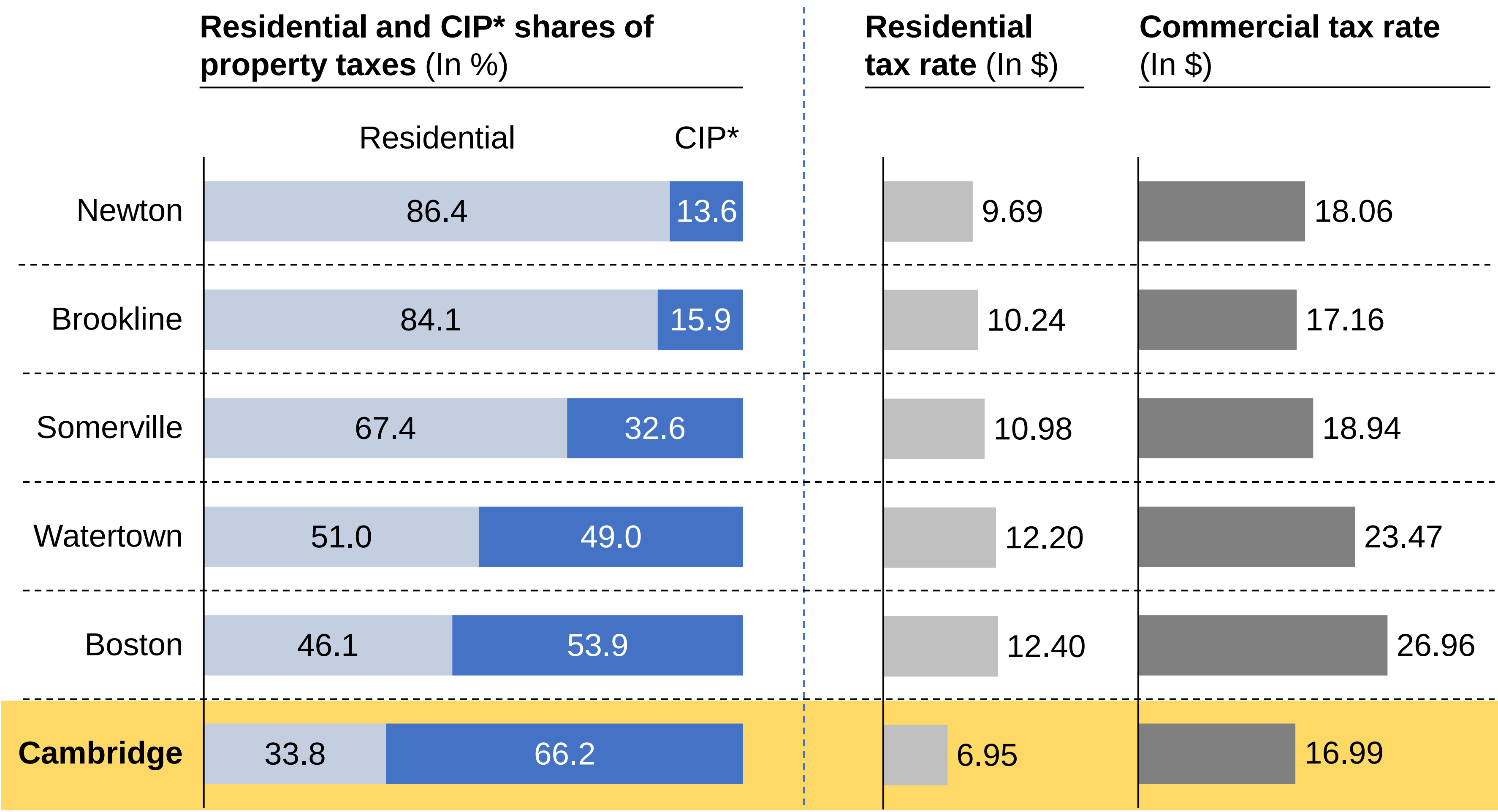
Annual changes over the past 15 years
In %



*FY13–FY25 tax rates are rounded; actual rates carry two decimal digits, as in FY26 and FY27

Cambridge also has the lowest residential tax share among peer cities, while maintaining the lowest residential and commercial tax rates

Note: Cambridge's figures are for FY27, all others are for FY26



*Commercial/Industrial/Personal Property

Key takeaways and next steps

Key Takeaways

- Cambridge, like other municipalities in MA, is experiencing a multi-year economic slowdown, with declining commercial values and a slowdown in new growth impacting our taxbase
- To protect the City's long-term financial stability and reduce the impact on taxpayers, we have moderated budget and tax levy growth for a second consecutive year
- Commercial properties support 66% of the City's levy, which allows Cambridge to maintain the lowest residential tax share among peer cities. The City also continues to have the lowest residential and commercial tax rates

Next Steps

At today's Tax Rate Hearing, the City Council will vote to adopt:

- The minimum residential factor, which establishes how the levy will be allocated between commercial and residential properties, and
- The residential exemption percentage

Looking Ahead:

- We will share a macroeconomic economic update in October at a joint roundtable with the School Committee
- We will discuss how Cambridge can ensure its ongoing competitiveness and promote new growth in the future at an upcoming roundtable

Appendix

Median value and tax bill changes by commercial district (all uses)

FY27 – All Uses

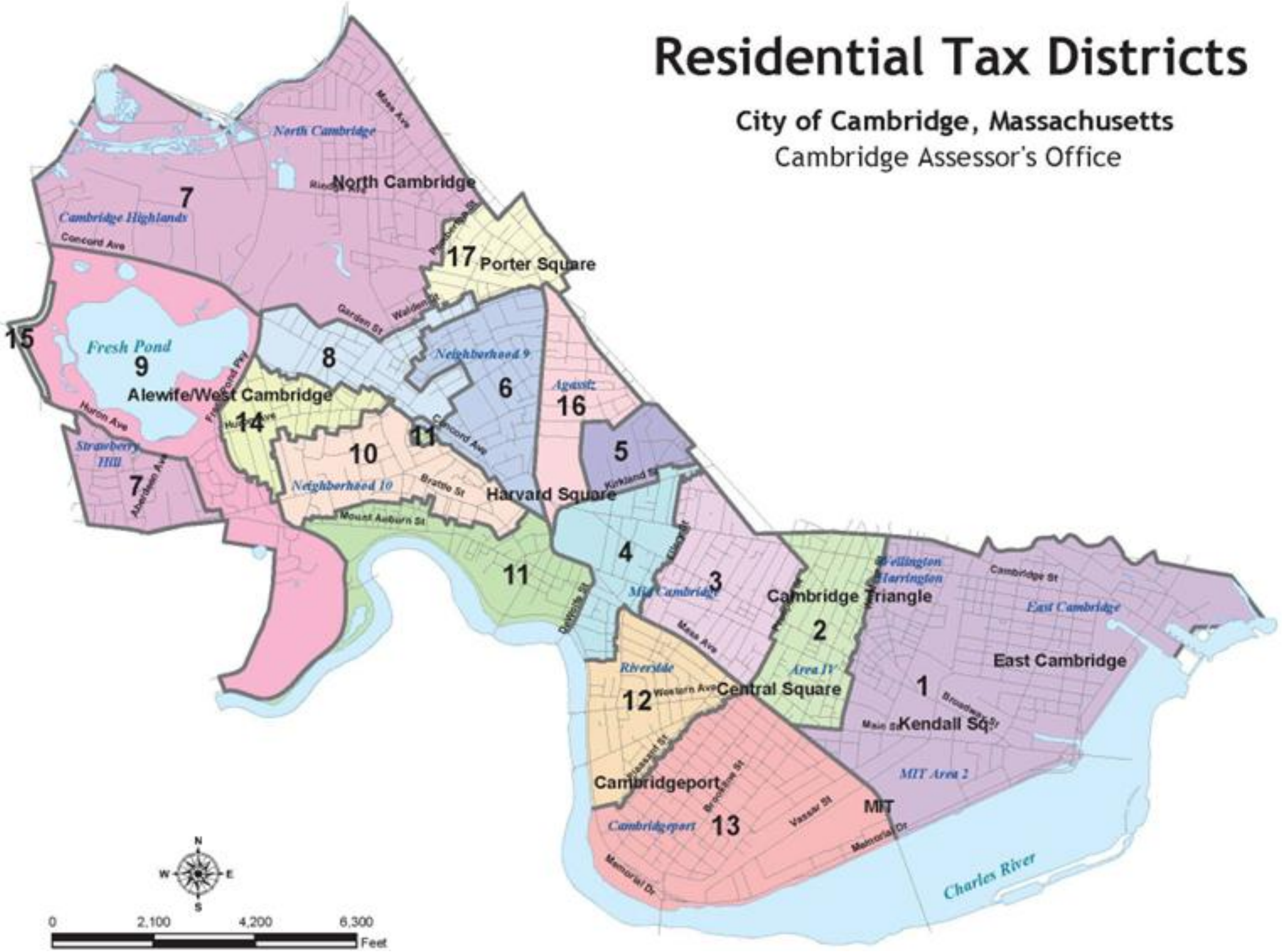
Commercial District	Count	Median Value Change	Median Tax Bill Change at Proposed Rate
C1- East Cambridge	132	-14.3%	3.5%
C2- Kendall	79	-15.3%	2.3%
C3- Mit	99	-13.8%	4.1%
C4- River/Western Ave	17	-10.3%	8.3%
C5- Central Square	186	-12.2%	6.0%
C6- Inman/Mid Cambridge	130	-10.4%	8.2%
C7- Harvard Sq Area	174	-15.6%	1.9%
C8- Porter Sq/Mass Ave	81	-11.2%	7.3%
C9- North Mass Ave	75	-14.1%	3.7%
C10- Alewife/North Cambridge	216	-13.5%	4.4%

Median value and tax bill changes by commercial district (retail and restaurant only)

FY27 – Retail/Restaurant

Commercial District	Count	Median Value Change	Median Tax Bill Change at Proposed Rate
C1- East Cambridge	25	-9.4%	9.3%
C2- Kendall	6	-9.1%	9.8%
C3- Mit	12	-8.6%	10.4%
C4- River/Western Ave	6	-9.4%	9.4%
C5- Central Square	42	-8.8%	10.1%
C6- Inman/Mid Cambridge	51	-10.0%	8.7%
C7- Harvard Sq Area	49	-10.6%	8.0%
C8- Porter Sq/Mass Ave	44	-11.1%	7.3%
C9- North Mass Ave	27	-9.9%	8.8%
C10- Alewife/North Cambridge	44	-8.9%	10.0%

City of Cambridge residential tax districts



Glossary of terms related to tax levy

Tax levy

Revenue raised through real and personal property taxes; is the largest source of revenue for City of Cambridge budget (68% of the City's total revenue in FY26)

Levy limit

The maximum amount of tax a community can levy in a given year under Proposition 2½. This limit can increase each year by 2.5% of the prior year's levy limit, plus new growth and any overrides.

Proposition 2½ *("Prop 2½")*

A MA law that limits how much cities and towns can raise property taxes each year. It does two main things:

(1) Caps the total amount a community can collect from property taxes at 2.5% of the community's total property value.

(2) Limits how much the total tax levy can increase each year to no more than 2.5% + new growth (such as new construction).

Excess levy capacity

The difference between the levy limit and actual taxes levied.

New tax base growth *("new growth)"*

Additions to community's tax base in the prior year (does NOT include higher market values; must result from a change in physical condition, taxable status, or taxable unit of a property). New growth helps support community improvements and infrastructure.

Real property values

The value of land and buildings based on what the property would likely sell for on the open market. In MA, it is set each January 1 for property tax calculation

Budget override *("override")*

A community vote that allows a city or town to raise property taxes above the normal annual limit set by Proposition 2½. If approved by voters, the new amount becomes part of the tax base going forward.

MA Proposition 2.5 sets a tax levy limit and an annual levy limit increase for each city, to prevent large annual property tax rate increases

What is MA Prop 2.5?

Enacted in 1980 by state-wide voter initiative, Prop 2.5 is a piece of MA state legislation that **restricts a municipality's maximum potential tax levy**, without needing an override. The legislation had two main measures, targeted at protecting tax-payers from significant tax increases from year-to-year:

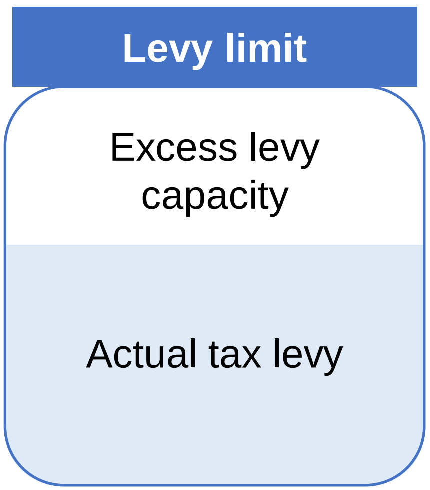
1. Established an annual Levy Ceiling of 2.5% of the municipality's total taxable assessed value.
2. Established an annual levy limit.

- The most important Prop 2.5 metric is the **Levy Limit,** which is the **maximum allowable** tax levy each year (without an override), originally set as % of a municipality's total assessed value
- Prop 2.5 restricts the annual increase to the Levy Limit to include two factors: an automatic 2.5% increase from the prior year levy limit **AND new growth.**

Excess levy capacity gives the City room to maneuver. When it shrinks, flexibility declines. When it's gone, we face cuts or an override

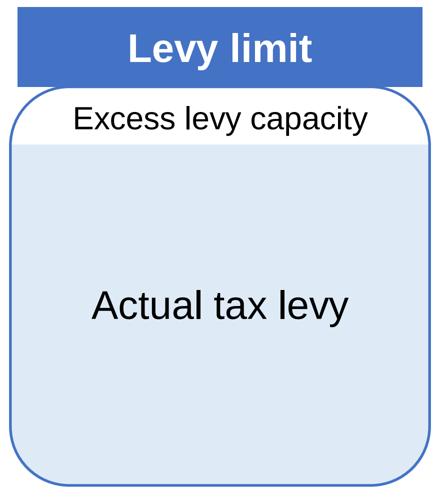
Excess levy capacity scenarios

Ample excess levy capacity



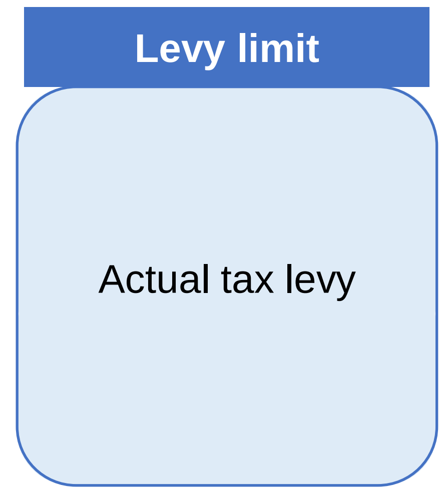
- The gap between the levy limit and actual tax levy is called excess levy capacity; it acts as a financial cushion.
- It provides financial flexibility and signals fiscal restraint, helping maintain the City's AAA bond rating.

Limited excess levy capacity



- The City's tax levy is closer to the legal limit, reducing budget flexibility.
- This situation leaves the City with fewer options to address unexpected costs or fund new initiatives, making it harder to meet community needs.

No excess levy capacity



- The City is at its levy limit; future tax levy growth is capped at 2.5% annually, plus new growth.
- In FY26, this would mean $21M in unsupported budget, requiring either cuts or a voter-approved override.

Tax classification lets cities allocate the tax levy between residential and commercial properties using different tax rates

What is tax classification?

State law allowed municipalities the option to allocate the tax levy between residential and commercial properties using different tax rates. However, there are limits:

- Max: Commercial properties may pay only up to 175% of their full, fair cash value share of the levy, known as the "maximum commercial factor." This means that the tax rate for commercial cannot be more than 175% of what the single rate would be if the city did not choose to use a split rate
- Min: For Cambridge, residential properties must pay at least 33.8% of the levy, called the "Residential Percentage." Once the maximum commercial factor of 175% is reached, no additional tax burden may be shifted to the commercial taxpayers.

- Under the formula today, Cambridge commercial taxpayers pay 66.2% and residential taxpayers pay 33.8% of the levy.
- In macroeconomic environments where commercial values are declining and residential values are increasing, this proportion may change and shift more of the tax burden to the residential properties.
- The City has not yet reached the maximum amount it may shift to commercial properties, but with current macroeconomic trends of softening commercial values and increasing residential values, there is an increasing likelihood that the City will reach the maximum commercial factor in the next several years

Glossary of other terms (alphabetical order)

Certified free cash *("free cash")*
The amount of a community's unrestricted funds that has been certified by the MA Department of Revenue's Bureau of Accounts as available for appropriation.

Expenditures
The amount of money, cash, or checks actually paid or obligated for payment from the treasury. Expenditures are categorized in accordance with MA General Laws and the Uniform MA Accounting System. Categories are Salary and Wages, Other Ordinary Maintenance, Travel and Training, and Extraordinary Expenditures.

Net debt service
The amount of tax-supported debt (principal and interest) repaid in a fiscal year, excluding debt supported by other revenue sources.

Non-tax revenue
All revenue coming from non-tax sources, including licenses and permits, intergovernmental revenue, charges for services, fines and forfeits, and various other miscellaneous revenue sources.

Operating Budget *("budget")*
A plan of financial operation embodying an estimate of proposed expenditures for a given period for regular activities and the proposed means of financing them.

Projected expenditures and revenues
Estimated City spending and revenues for the next fiscal year, factoring in COLA, health benefits, inflation, and other expected cost changes.

Revenues
Additions to the City's financial assets (such as taxes and grants) which do not in themselves increase the City's liabilities or cancel out a previous expenditure. Revenue may also be created by cancelling liabilities, provided there is no corresponding decrease in assets or increase in other liabilities.

Service level
The extent or scope of the City's service to be provided in a given budget year. Whenever possible, service levels should be stated in precise units of measure

Construction projects like HealthPeak involve four major development stages, and the construction phase can last decades

Construction project development timeline

1	**Site acquired**	Applicant has acquired or identified a site within their existing portfolio for the development project
2	**Pre-permitting reviews and approvals**	Prior to submitting a building permit application, the applicant must complete pre-permitting reviews depending on the project's context, such as historic review by the Historical Commission (CHC) or special permit review by CDD
3	**Building permit submittal and review**	After the pre-permitting reviews have been approved, the developer pays the required fee. ISD then conducts its review and determines whether the building permit will be issued
4	**Construction**	Once the building permit is issued, construction may begin, and the City will conduct periodic inspections before issuing the Certificate of Occupancy The construction timeline varies and is typically longer for larger projects. For HealthPeak, for example, the timeframe is approximately 30 years

- The Assessing Dept. **records new growth only after construction occurs**; none is recognized beforehand. For long projects, the full new-growth value is realized only upon completion
- In HealthPeak's case, this is a long-term project that is currently in between phases two and three and may be years away from starting construction and registering any new growth