# City of Cambridge
## Executive Department

YI-AN HUANG
City Manager

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To The Honorable, the City Council:

The establishment of the Fiscal Year 2023 (FY23) property tax rate by the Board of Assessors, subject to the approval of the Massachusetts Department of Revenue, is the final step in the fiscal process that begins with the submission of the annual budget to the City Council. The City's Operating and Capital Budgets, property classifications, and property valuations are major factors in determining property tax bills.

This memo includes recommendations for the required votes which will help minimize taxes on residential properties. In addition, there are analyses of the FY23 property tax levy, property values, and other supporting information.

Over the past several years, the City has consistently been able to support new initiatives, as well as the expansion of important programs, while minimizing impacts on residential taxpayers. It is still important however to remain cognizant of the ongoing financial impacts related to COVID-19 and to recognize that many key non-property tax revenues remain below historical levels.

### OVERVIEW

The FY23 Adopted Operating Budget increased by 6.5% over the FY22 Adjusted Budget. The FY23 Budget adopted by the City Council in June 2022 projected a property tax levy increase of $41.5 million, or 8.4%, to $536.3 million in order to fund operating and capital expenditures. This levy amount includes the use of $13 million from Free Cash.

With approval of the recommendations in this memo, the actual FY23 tax levy required to support the FY23 Budget is $531,600,922 which is an increase of $36.9 million or 7.45% from FY22. This increase is lower than the estimated increase of 8.4% projected in June 2022 as part of the Adopted Budget, due in large part from higher than projected state aid, as well as our ability to maintain and use reserve funds to lower the required tax levy.

The property tax levy increase of 7.45% is above the FY22 increase of 4.7%. The property tax levy increase is also above the five-year (FY19-FY23) annual average increase of 6.44%, and the ten-year (FY14-FY23) annual average increase of 5.31%.

The Budget process for FY23 began in the fall of 2021. The FY23 Operating ($801.5M) and Capital ($164.1M) Budgets were formally adopted by the City Council on June 6, 2022, and include significant investments in many programs and initiatives that are directly related to City Council goals.

The FY23 Budget includes $38.7 million in funding for affordable housing, which is an increase of 19.6% (or $6.35 million) from FY22, and includes 25% of building permit revenue ($10.2 million), Short Term Rental Impact Fee revenue ($200,000), as well as property tax revenue ($12.5 million), and FY23 Community Preservation Act (CPA) funds ($15.8 million).

There is also funding in the FY23 Budget for two new full-time positions in the Housing Liaison Office. A new Housing Search Case Manager will enable more residents to receive individualized house search, placement and stabilization services. A new Housing Project Coordinator will provide logistical, administrative, and technical assistance for Housing Liaison projects and intradepartmental housing related activities.

The City also increased property tax support to schools by 4.5%, or $8.9 million, to $207.3 million. The FY23 School Department budget is $232.4 million and includes 37 new full time equivalent (fte) School Department positions, including for classroom support, as well as for priority areas such as healthy students and school cultures. There is also additional funding for the Birth to Third Grade Partnership in order to continue to implement the City's Universal Pre-K (UPK) program. By the end of FY23, all families with 3- and 4-year-old children will have a single place to go to find out information about preschool options, receive assistance with completing application processes, and find support in paying for their selected preschool option.

The FY23 Budget includes funding to establish a new Community Safety Department (CSD) that will coordinate community driven solutions to enhance safety in the community with key services and programs targeted at our most vulnerable populations. The CSD will be responsible for providing key community services, with a focus on behavioral health crisis response services and violence prevention and intervention. These initiatives will be rooted in harm reduction and trauma-informed principles grounded in the belief that all people deserve respect, autonomy, dignity, and opportunity.

The FY23 Budget includes additional funds to expand work related to antiracism, diversity, equity, and inclusion. Including funding for new full-time Analyst position in the Office of Equity and Inclusion to oversee data collection and analysis and assist with reporting in support of the City's anti-racism, diversity, equity and inclusion (ADEI) goals; funding for a full-time Language Access Manager position in the Cambridge Human Rights Commission's new Language Justice Division; and expanded funding for The Employees Committee on Diversity, the Citizens Civic Unity Committee and the Lesbian, Gay, Bisexual, Transgender, Queer, plus (LGBTQ+) Commission in order to support programming and events.

The FY23 Budget includes additional funding to update the Net Zero Action Plan, which is the City's long-term strategy for improving building energy efficiency, eliminating fossil fuel consumption, and switching to renewable energy sources to meet the City's goal of achieving carbon neutrality by 2050.

Property tax funding for the FY23 Capital Budget ($16.3 million) increased by 3.9% from FY22 to support important investments in Pay as you Go capital projects, E-Gov projects, affordable housing, and Participatory Budgeting.

Based on a revised property tax levy of $531,600,922 the FY23 residential tax rate will be $5.86 per thousand dollars of value, subject to Department of Revenue approval. This is a decrease of $0.06, or 1% from FY22. The commercial tax rate will be $10.38, which is a decrease of $0.85, or 7.6%

from FY22. 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 FY23.

## Free Cash

The FY22 (as of June 30, 2022) Free Cash certification was received this past week. In large part due to the City's practice and ability to monitor and control expenditures throughout the fiscal year, the City has a certified Free Cash amount of $199.3 million (which includes $3.5 million in unappropriated mitigation receipts), a decrease of $15.1 million or 7% from the previous year's certification. The Department of Revenue (DOR) does not allow formal authorizations of Free Cash by the City Council until the DOR has certified a Free Cash balance at the conclusion of the fiscal year.

The City's enviable Free Cash position demonstrates yet another benefit of long-standing fiscal policies and management. It also provides critical flexibility to effectively address key community needs while managing fiscal uncertainties that face us during FY23 and beyond.

In FY22, the City expended $66.7 million in Free Cash. Free Cash was used throughout FY22 to support important and sometimes unanticipated expenditures related to City programs and initiatives including (but not limited to): Emergency communications radio system infrastructure ($745,000); Fire department apparatus ($1.5 million); Vote by mail, early voting and special elections ($235,205); Sennott Park renovation additional costs ($250,000); SMART Box rodent control ($50,000); War Memorial Pool repairs ($650,000); Implementation of the Cycling Safety Ordinance ($730,000); Snow expenditures ($3.2 million); Fire Department training structure ($600,000); Standardized trash bins ($200,000); Danehy Park changing facility ($11 million); purchase and fit out for 689 Massachusetts Avenue ($16.5 million); Electric packer truck ($500,000).

I am recommending that a total of $19 million in Free Cash be used to reduce the FY23 property tax levy. This is an increase of $3 million from what was approved as part of the FY23 Adopted Budget.

As part of the FY23 Adopted Budget, the use of $13 million in Free Cash to reduce the FY23 tax levy was approved, which is also consistent with the City's financial plan. In addition, $3 million in Free Cash was also approved as part of the FY23 Adopted Budget to offset funding for the new Community Safety Department. An additional $3 million in Free Cash to reduce the tax levy helps offset reduced receipts from several key non property tax revenues which remain below historical levels as they begin to recover from COVID-19 related reductions.

## Other Revenues, State Aid, and Reserve Funds

As was expected, the City is not able to use significant additional non-property revenues than what was projected as part of the FY23 Budget. However, because of the City's overall fiscal flexibility and adherence to responsible fiscal policies, we are able to strategically use reserves such as Free Cash, in order to minimize the impact on residential taxpayers. While the City is fortunate to be in a financial position to be able to use and replenish Free Cash, it is anticipated that in future years we will be able to resume our prior practice of using a portion of Free Cash to replenish other reserve funds, such as the Debt Stabilization Fund. In addition, net state aid to the City for FY23 is $1,663,783 higher than what was projected as part of the FY23 Adopted Budget.

The use of additional reserve funds and state aid have allowed an overall reduction of $4.66 million from the original projected property tax levy for FY23.

**TABLE I**
**Summary of Changes from Adopted Budget**

| Tax Levy Changes | Amount |
|---|---|
| **Property Tax Levy as Adopted** | **$536,264,705** |
| Net Cherry Sheet Change | (1,663,783) |
| Increased Non-Property Revenues | ---- |
| Additional Free Cash | (3,000,000) |
| **Actual Property Tax Levy** | **$531,600,922** |

This letter includes a recommendation to use $21.5 million in reserve accounts to lower the property tax levy: $2.5 million from overlay surplus and $19 million in Free Cash. The certified Free Cash amount of $199.3 million, a decrease of $15.1 million or 7% from the previous year's certification. This amount includes $3.5 million in unappropriated mitigation receipts. Per MGL Chapter 144 Section 53, these receipts must flow through the Free Cash certification process before being available for appropriation by the Council. Excluding mitigation receipts, net certified Free Cash is $195.5 million. The City Manager will be coming before the City Council with a recommendation for the appropriation of mitigation receipts later in the fiscal year.

Prudent use of reserves allows the City to maintain stability in both current and future property tax increases while investing in significant capital and infrastructure projects. This strategy of using an increased amount of non-property tax revenues when applicable, and reserves to lower property taxes will not jeopardize our long-term fiscal health. However, if the City used too much of its reserves in one year to artificially reduce property taxes, it would mean that in the following year, the City would be required to either increase taxes significantly or dramatically reduce expenditures.

The City's strategy for the use of reserves has also been positively recognized by the three major credit rating agencies and is reflected in our AAA credit rating. It is also important to recognize that a healthy balance of development between residential and commercial be continued to ensure homeowner's real estate taxes remain affordable.

## IMPACT ON TAXPAYERS

A majority of residential taxpayers will see a reduction, no change, or an increase of less than $250 in their tax bill. This reflects our long-standing commitment and strategy to provide an adequate level of predictability and stability regarding tax bills. In fact, in FY23, 80% of residential taxpayers will see a reduction, no increase or an increase of less than $250. This is an increase from FY22, where 74.7% of residential taxpayers saw a reduction, no increase, or an increase of less than $250.

**TABLE II**
**Change in the Residential Tax Bills***

| Change in Tax Payment | FY23 Number of Parcels | FY23 Percentage | FY23 Cumulative % | | FY22 Cumulative % | FY21 Cumulative % |
|---|---|---|---|---|---|---|
| Less than $0 | 13,986 | 63.0% | 63.0% | | 23% | 31% |
| > $0 and less than $100.00 | 2,034 | 9.2% | 72.2% | | 58% | 59% |
| >$100.00 less than $250.00 | 1,726 | 7.8% | 80.0% | | 75% | 77% |
| >$250.00 and less than $500.00 | 1,710 | 7.7% | 87.7% | | 88% | 90% |
| Greater than $500.00 | 2,755 | 12.3% | 100% | | 100% | 100% |
| **Totals** | **22,211** | **100%** | | | | |

* Based on Single, Two, Three Family, and Condominiums and assumes the Residential Exemption for each parcel in both years.

The strength of the residential market continued during calendar year 2021, for single, two and three families in Cambridge. Condos show a slight increase in value but are not seeing the larger increases of other residential properties. Low mortgage rates, limited supply, remote work policies and upward pressure on rents caused significant value increases for these classes. Similar to last year, the single-family class had the largest value increase at 7.31% over last year. Using the 150% Shift due to the continuing strength of the commercial class and $1 billion increase in industrial growth has been a particularly valuable this fiscal year. This option helps to decrease the impact of higher tax bills for residential properties in a high inflation environment.

## MEDIAN TAX BILLS

The analysis that follows explains in further detail how the City determined property values and property tax rates for FY23. There are three major factors which determine a property tax bill: 1) the Budget, 2) Commercial-Residential Property Tax Classification, and 3) Property Values. As discussed below, all three factors contributed to lower tax bills for many homeowners.

**The Budget:** If the City Council adopts the proposed recommendations, there will be a 7.45% increase in the property tax levy required to balance the FY23 Budget, which supports the City Council Goal to "Ensure the City's Budget allocates resources responsibly and responsively."

**Commercial-Residential Property Tax Classification:** Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. In FY23, commercial property owners will pay 65.7671% of the property tax levy, a higher share than in FY22. Consequently, residential property owners' share of the FY23 tax levy is 34.2329%, which is a lower share than in FY22.

**Property Values:** Every January 1st, the City of Cambridge must meet Department of Revenue requirements to certify that property values represent full and fair market value. As a result of the market activity in calendar year 2021, which is the basis of the FY23 property assessment, total residential property values increased by 6.7%. Total commercial property values increased by 16.8%. Similar to last year, the increase in total values reflects some classes that continue to rise such as Class A office and lab as well as classes that are recovering from lingering effects of the pandemic like retail, restaurant and hotels. Cambridge is well positioned by having much commercial and lab space that has been unaffected by work changes wrought by the pandemic. While the City has no control over the increase in property values, it does have control over levy increases, which ultimately impact taxes paid by property owners. This year both the residential and commercial property tax rates will decrease. This is due to growth in the commercial and industrial classes, allowing the City to lower the Minimum Residential Factor calculated by the Department of Revenue. As can be seen in Table III, the median residential tax bill has only moderately increased. Additionally, a major concern going forward is that if residential value increases outpace commercial/industrial/personal property increases, the City could hit the ceiling for the property tax classification shift. Once the classification ceiling is reached, the residential class will bear the majority of any tax levy increase.

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

| | FY22 Value | FY22 Tax Bill | FY23 Value | FY23 Tax Bill | $ Change Tax Bill | % Change Tax Bill |
|---|---|---|---|---|---|---|
| Single Family | $1,508,200 | $6,306 | $1,618,400 | $6,725 | $419 | 6.60% |
| Condominium | $720,200 | $1,641 | $732,600 | $1,534 | ($107) | -6.50% |
| Two Family | $1,418,000 | $5,772 | $1,501,700 | $6,041 | $269 | 4.70% |
| Three Family | $1,633,250 | $7,046 | $1,737,900 | $7,425 | $379 | 5.40% |

* Includes Residential Exemption

## CITY-WIDE ASSESSED VALUES

FY23 values are based on market activity that occurred during calendar year 2021, during which the commercial classes valuations split due to the uneven impact of COVID-19. Residential activity was also up for most classes. The single families were most affected by a low supply of inventory and record low mortgage rates, while apartments were affected by a recovery in rents and vacancies. The Class A Office and lab sectors increased while the retail, restaurants and hotels were most affected by continued COVID-19 impacts and saw slow recoveries in vacancies and room rates. The major components which impact the commercial values are the construction of life science buildings and the personal property associated with these developments.

For FY23, the total assessed value of taxable property in the City equals $71,139,912,521, or a 11.24% increase, over FY22 values. The actual FY23 total assessed values are greater than the projections presented to the rating agencies in February 2022 due to continued strength and resilience in the Cambridge real estate market.

The table below breaks out new construction values and tax base levy growth due to new construction by property type. This new construction growth, and new lab space in particular, has allowed the city to go below the Historical Lowest Residential tax percentage by using the 150% Shift and adopting the 65.0000% Minimum Residential Factor. This shift does not include the limit on Historical Lowest Residential Tax Percentage, allowing the City to shift a larger percentage of taxes onto commercial and industrial tax classes. Additionally, this shift allows Cambridge to go below the lowest historical residential percentage for all future years. Lowering the Historical Lowest Residential Tax Percentage is advantageous to Cambridge homeowners by lowering their taxes when many residential values are dramatically increasing.

**TABLE IV**
**New Construction Breakdown**

| Property Class | New Growth Value | FY23 Tax Base Levy Growth (New Growth) |
|---|---|---|
| Residential Property | $487,712,359 | $2,887,257 |
| Commercial Property | $276,962,114 | $3,110,285 |
| Industrial Property | $1,078,911,055 | $12,116,171 |
| Personal Property | $520,029,000 | $5,839,926 |
| **Total New Growth** | **$2,363,614,528** | **$23,953,639** |

**TABLE V**
**Assessed Values (in millions)**

| | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Residential Property | $29,419 | $32,335 | $34,136 | $35,118 | $37,466 |
| Commercial Property | $17,963 | $20,934 | $24,221 | $26,875 | $31,465 |
| Personal Property | $1,595 | $1,679 | $1,878 | $1,960 | $2,209 |
| **Total Assessed Value** | **$48,977** | **$54,948** | **$60,235** | **$63,953** | **$71,140** |

For FY23, the City was able to increase its levy limit by approximately $41.23 million, to $732.56 million. Approximately $23.95 million of this increase was due to new construction and amended FY22 new growth. State law allows the City to increase its tax levy limit by an amount equal to the total FY23 value of newly constructed or renovated property, multiplied by the FY22 tax rate. It should be noted that industrial property (lab space) values had a new growth value of $1.1 billion which translated into new levy growth of $12.1 million. The remaining $17.28 million is the 2.5% increase over the FY22 levy allowed by Proposition 2½. The City's excess levy capacity increased by approximately $4.36 million, or 2.2%, to $200.96 million in FY23.

**TABLE VI**
**Tax Levy/Tax Levy Limit/Excess Levy Capacity (in thousands)**

| | Actual FY19 | Actual FY20 | Actual FY 21 | Actual FY22 | Estimate FY23 |
|---|---|---|---|---|---|
| Levy Limit | $599,171 | $628,479 | $659,697 | $691,327 | $732,560 |
| Actual Levy | $409,810 | $438,129 | $472,520 | $494,732 | $531,601 |
| % Actual Levy Increase over Prior Year | 5.3% | 6.9% | 7.9% | 4.7% | 7.45% |
| Excess Levy Capacity | $189,361 | $190,350 | $187,177 | $196,595 | $200,959 |
| % Change of Excess Levy Capacity Over Prior Year | 4.4% | .52% | (1.67%) | 5.03% | 2.2% |

In addition to providing greater flexibility under Proposition 2½, tax payments from newly constructed properties also work to mitigate increases on existing properties.

For a detailed listing of assessment changes by district, please see Attachment 1.

## FY23 VALUATION PROCESS

Each year, the Board of Assessors conducts a reappraisal of all property within the City. The residential and commercial valuation models are refined each year to reflect market conditions which have impacted assessed values.

The FY23 valuation model is based upon sales of property that occurred during calendar year 2021, to establish the market value of all property as of January 1, 2022.

This year, modifications were made to the residential and condominium models, as well as to residential land values. The residential land had adjustments for neighborhood and lot size, while the residential model was recalibrated for use, grade, townhouse styles and condition adjustments. The condominium model was adjusted by neighborhood, unit type, and amenities for market conditions as of the assessment date. The analysis for determining property values depends on several factors: the trends of the real estate market in the areas of sales; property improvements; changes in the economics of real estate finance and the high demand for real estate in the city. To arrive at full and fair cash values for all parcels, the Assessing Department uses a state-of-the-art Computer Assisted Mass Appraisal system (CAMA). Market adjusted cost approach models, extracted from residential sales for calendar year 2021, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods.

## COMMUNITY PRESERVATION ACT SURCHARGE

In November 2001, Cambridge voters approved adoption of the Community Preservation Act (CPA), a State law that allows the City to receive matching funds from the State for money raised locally in support of affordable housing, historic preservation, and open space. The local portion of CPA funding is raised through a 3% surcharge on taxes.

However, the State match has enabled the City to provide additional funding for these initiatives. To date, Cambridge has received more CPA matching funds from the Commonwealth than any other participating community. Consequently, Cambridge residents will continue to benefit from affordable housing, historic preservation, and open space initiatives throughout the City for years to come.

To date, the City has appropriated/reserved a total of $259.8 million in CPA funds, of which $63.7 million can be attributed to the State match.

**TABLE VII**
**Community Preservation Act Surcharge**

| | FY22 Median CPA Surcharge Amount | FY23 Median CPA Surcharge Amount | FY23 Median Tax | FY23 Median Tax & CPA Surcharge Amount |
|---|---|---|---|---|
| Single Family | $171 | $184 | $6,725 | $6,909 |
| Condominium | $31 | $28 | $1,534 | $1,562 |
| Two Family | $155 | $164 | $6,041 | $6,205 |
| Three Family | $194 | $205 | $7,425 | $7,630 |

**RECOMMENDATIONS**

1. That the City Council vote to authorize the use of $19,000,000 in Free Cash to reduce the FY23 tax rate.

2. That the City Council vote to authorize $2,500,000 in overlay surplus/reserves to be used for reducing the FY23 tax rate.

3. That the City Council classify property within the City of Cambridge into the five classes allowed for the purpose of allocating the property tax. It is further recommended that the City Council adopt a minimum residential factor of 65.0000%.

4. That the City Council approve the residential exemption factor of 30% for owner occupied homes, which should result in a residential tax rate of $5.86 upon final approval by the Massachusetts Department of Revenue. In addition, based upon final approval by the Massachusetts Department of Revenue the commercial tax rate is anticipated to be $10.38.

The City Council has previously approved (1987) several tax exemptions to elderly taxpayers, blind taxpayers, veterans and surviving spouses who qualify by virtue of residency, income, and assets, including the doubling of the statutory amount of exemption for taxpayers whose tax bills have increased over the prior year's bill; 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); to increase the income and assets limits for elderly persons (age 65 or older) by the CPI percentage; and to increase the income limit for deferral of real estate taxes by elderly persons (at least 65 years old). For FY23 this will result in:

- 17D-Elderly (over 70), Surviving Spouse or Minor Child of Deceased Parent-An increase for FY23 in the asset requirements to maximum
    a. Assets $73,105
    b. Exemption amount of $370-$740

- 41C-Elderly (65 or older) An increase for FY23 of maximum income and asset limits to
    a. Single Income: $30,228 and Assets: $60,453
    b. Married Income: $45,343 and Assets: $83,123
    c. Exemption amount: $1,000-$2,000
- 22 (22A, 22B, 22C, 22D, 22E, 22P) Veterans-exemption amount from $750 to full exemption
- 37A-Legally blind exemption amount $500-$1,000
- 41A-Tax Deferral over 65
    a. Single Income: $62,000
    b. Married Income: $93,000
    c. The reduction of the interest rate to 4% for deferred taxes, which was approved by the City Council previously, will continue.

**ISSUES/ REQUIRED VOTES**

As the City Council is aware, by the time the classification vote is taken in the fall of each year, the options for the City are fairly limited. Failure to approve the recommended classification and residential exemption would result in significantly higher taxes for residential property owners. After the classification vote is taken, the establishment of the tax rate is a fairly simple mathematical calculation: the tax levy required to support the City budget, divided by the total assessed valuation (less any exemptions), equals the tax rate for FY23.

The following is a summary of the votes required by the City Council.

- **Authorize $19,000,000 in Free Cash to Reduce the FY23 Tax Levy.** For the fiscal year that ended June 30, 2022, the City of Cambridge has a certified Free Cash balance of $199.3 a decrease of approximately $15.1 million from the previous year. This balance includes approximately $3.5 million in unappropriated mitigation receipts which, according to MGL chapter 44 section 53, must flow through the Free Cash certification process before the receipts are available for appropriation by the Council. After the reduction of mitigation funds, the net certified Free Cash Balance is $195.8 million.

  The $19 million in the Free Cash authorization is requested at this time from the City's Free Cash balance in order to reduce the property tax levy increase. This year's Free Cash authorization helps offset $3 million in funding for the new Community Safety Department included in the FY23 Adopted Budget.

The Department of Revenue (DOR) does not allow formal authorizations of Free Cash by the City Council until the DOR has certified a Free Cash balance at the conclusion of the fiscal year.

- **Transfer of Excess Overlay Balances.** The City is authorized to increase each tax levy by up to five percent as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy, or transfers may be made from surplus balances from prior fiscal years.

  Overall, the City has approximately $20.3 million in overlay balances as of June 30, 2022. However, there are cases pending at the Appellate Tax Board for which the City must have sufficient balances to cover abatements if it loses these cases. Based upon the overall size of the overlay surplus, I am recommending that the City use $2.5 million of this surplus to decrease the tax levy. This conservative approach will allow the City to maintain a sufficient overlay reserve while reducing older overlay balances to help lower the tax levy.

- **Classify Property and Establish Minimum Residential Factor.** Since 1984, the City Council has voted annually to follow State law allowing the classification of property according to use (residential or commercial) and to allocate the legal maximum portion of the tax levy to the commercial class. Under the 175% Shift state law allows the residential portion of the tax levy to be as low as 50% of what it would be if there were a single tax rate. However, there are two exceptions to the 50% minimum:

  The residential percent of the levy could not drop to less than its lowest level since classification was initially voted by the City Council (34.5615% in 1985 in Cambridge); and the 50% level does not cause the commercial class to bear a portion of the levy greater than 175% of what it would be if both classes were taxed equally.

  By using the 150% Shift and adopting the 65.0000% Minimum Residential Factor, the 150% shift does not include the limit on Historical Lowest Residential Tax Percentage, allowing the City to shift a larger percentage of taxes onto commercial and industrial tax classes.

  Under the requirements for classification, the City Council sets the levy distribution each year by voting for a Minimum Residential Factor. The result of voting for the Minimum Residential Factor of 65.0000% this year will be a residential property share of the total tax levy of 34.2329%, which is below the lowest historical residential percentage. This means that Commercial property will pay the remainder, 65.7671% of the levy. The commercial portion of the levy is 138.943% of what it would be with a single tax rate if classification was not adopted.

- **Residential Exemptions.** Home Rule Legislation allowing the City to increase the residential exemption from 20% to 30% was filed by a unanimous vote of the City Council and signed into law in September 2003. This change enables the City to grant owner occupants of residential properties a deduction of up to 30% of the average residential parcel value before the tax rate is applied. I am recommending that the City Council accept the Residential Exemption at 30%. This amount is deducted from the assessed value of each owner-occupied property prior to applying the tax rate. 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 FY23, there are approximately 13,850 residential exemptions on the Assessing Department files on owner-occupied homes. The Assessing Department conducts random audits and responds to inquiries about individuals claiming the residential exemption, to ensure the validity of the program.

If Cambridge did not adopt a residential exemption, the residential tax rate would be $4.86 instead of $5.86. The higher tax rate results in a "break-even" value over which the higher valued residential properties are assessed higher taxes than would be the case if there were no residential exemption. In FY23, the break-even assessed value is approximately $2,705,166.

**30% Residential Exemption**

| | **FY2021** | **FY2022** | **FY2023** |
|---|---|---|---|
| Value Exempted | $432,666 | $443,056 | $470,823 |
| Tax Savings | $2,531 | $2,623 | $2,759 |

**CONCLUSION**

The City's strong fiscal position has allowed for continued and expanded investments in several key priority areas including affordable housing, school services, public safety, climate initiatives, transportation, municipal facilities, stormwater infrastructure, technology, and major street projects. It is important to point out that Massachusetts communities are limited in how they can raise revenues, resulting in a greater reliance on the property tax, since it is the largest and most stable revenue. And although 67% of the revenues that fund the City's Operating Budget come from property taxes, we are able to accomplish these things without placing a significant burden on residential taxpayers.

The City has consistently been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities, while also continuing to make significant investments back into the community. A large part of our ability to do this is due to longstanding fiscal policies and practices; the ability to typically generate diverse non-property tax revenues; foster new construction; ability to control budget growth; prudent use of reserves; and the presence of a strong, stable commercial tax base.

As noted in this memo, with City Council approval, the City will use $21.5 million of reserves (Free Cash/overlay surplus) in FY23 to lessen the amount to be raised from the property tax levy, which translates into a lower property tax burden for the taxpayers of the City. This amount includes $19 million from Free Cash and $2.5 million from the Overlay Surplus. The Free Cash amount used this year includes an additional $3 million as a net revenue offset to reduced estimated non-property tax revenue in FY23. We anticipated that in future years we will be able to resume our prior practice of using a portion of Free Cash to replenish other reserve funds, as certain non-property tax revenues recover from COVID-19 impacts.

The City used $66.7 million in Free Cash in FY22. With the approval of these recommendations, the City will use $19 million in Free Cash, reducing the net Free Cash balance to $176.8 million. The City has used an average of $65 million in Free Cash annually over the last 5 years. The strategic use of Free Cash is not only used to reduce the current tax levy and stabilize the impact of future debt supported capital projects but is also available to fund one-time items. This planned approach has allowed us to maintain our Free Cash balances, enabled us to weather uncertain economic times, and is the City's insurance policy against unforeseen catastrophes.

It is anticipated that there will be several additional recommendations for significant Free Cash expenditures in FY23. Subject to City Manager recommendation and City Council approval, a partial list of the possible items to be recommended for appropriation from Free Cash in FY23 include but are not limited to: open space and field projects; turf field replacement; transportation projects; municipal building repair and construction projects; MWRA water usage; streetlight replacement; roadway improvements; E-Gov projects; fire apparatus; snowstorm related expenses; and others as necessary.

Even throughout the COVID-19 pandemic, the City has taken proactive steps to address fiscal uncertainties, as well as shortfalls in several key revenues, including by reducing certain expenditures; carefully reviewing vacancies; and strategically using reserves. As noted in the credit ratings from the nation's three major rating agencies, the City's budgetary flexibility; strong policies and management; and healthy reserves are considerable strengths. The City has been able to effectively use our fiscal resources and flexibility to bridge the most severe financial challenges presented during the pandemic, while providing a high level of service to the community and investing in new programs and initiatives.

By most indications, this past fiscal year was strong for the City of Cambridge, despite the fact that COVID-19 impacts are still being felt in many places, and there is increasing concern regarding the overall economic environment including the labor market, supply issues, and inflation. It will be important to continue to closely monitor the City's revenues and expenditures, follow financial and capital plans, as well as debt and reserve policies as we look towards the future, and also maintain the ability to respond to unforeseen circumstances. It is also important to recognize that a healthy balance of development between residential and commercial be continued to ensure homeowner's real estate taxes remain affordable.

It is an honor and privilege to make recommendations regarding the FY23 property tax rates, as well as to recognize our unique and fortunate ability to support so many important initiatives that make Cambridge such and amazing place to live, work and visit.

I would like to thank the City Council for their trust and support as well as staff for their hard work, as we work to build an innovative and inclusive Cambridge for everyone, and also continues to provide strong and prudent fiscal management.

Very truly yours,

Yi-An Huang
City Manager

Attachments

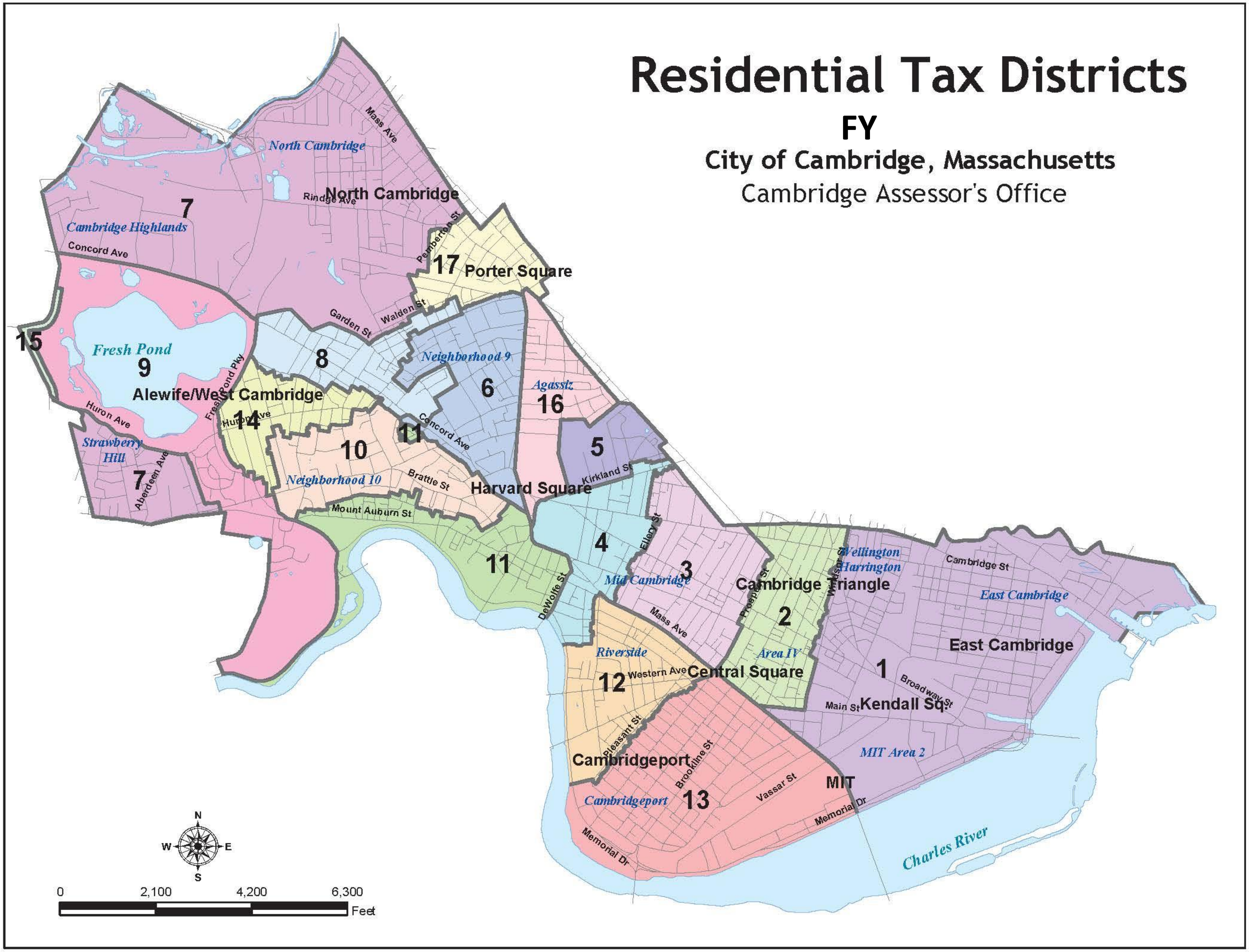
**ATTACHMENT 1**

| FY2023 Single Family Assessment Data | | | | |
|---|---|---|---|---|
| Median Assessed Values | | | | |
| NBHD | Count | FY22 Median Value | FY23 Median Value | Change |
| R1 | 390 | $946,050 | $989,550 | 5% |
| R2 | 203 | $1,150,400 | $1,210,000 | 5% |
| R3 | 238 | $1,701,150 | $1,800,850 | 6% |
| R4 | 83 | $1,662,700 | $1,735,900 | 4% |
| R5 | 64 | $3,719,600 | $4,158,000 | 12% |
| R6 | 374 | $2,534,450 | $2,797,300 | 10% |
| R7 | 658 | $978,450 | $1,073,950 | 10% |
| R8 | 202 | $1,330,600 | $1,434,350 | 8% |
| R9 | 203 | $1,956,300 | $2,194,500 | 12% |
| R10 | 341 | $4,520,300 | $5,016,200 | 11% |
| R11 | 171 | $2,086,200 | $2,211,800 | 6% |
| R12 | 185 | $1,219,600 | $1,275,200 | 5% |
| R13 | 234 | $1,400,950 | $1,487,650 | 6% |
| R14 | 181 | $2,122,700 | $2,388,200 | 13% |
| R15 | 33 | $1,606,500 | $1,781,900 | 11% |
| R16 | 153 | $1,833,700 | $1,933,900 | 5% |
| R17 | 197 | $1,322,100 | $1,404,000 | 6% |

| FY2023 Two Family Assessment Data | | | | |
|---|---|---|---|---|
| Median Assessed Values | | | | |
| NBHD | Count | FY22 Median Value | FY23 Median Value | Change |
| R1 | 274 | $1,077,800 | $1,127,450 | 5% |
| R2 | 164 | $1,267,550 | $1,334,950 | 5% |
| R3 | 197 | $1,818,900 | $1,932,800 | 6% |
| R4 | 43 | $1,956,000 | $2,065,100 | 6% |
| R5 | 4 | $2,794,550 | $3,042,100 | 9% |
| R6 | 70 | $2,131,650 | $2,276,850 | 7% |
| R7 | 562 | $1,173,700 | $1,269,550 | 8% |
| R8 | 175 | $1,447,400 | $1,537,400 | 6% |
| R9 | 10 | $1,426,850 | $1,559,450 | 9% |
| R10 | 8 | $3,674,600 | $4,059,650 | 10% |
| R11 | 31 | $2,210,600 | $2,360,300 | 7% |
| R12 | 147 | $1,349,600 | $1,404,100 | 4% |
| R13 | 204 | $1,614,150 | $1,706,450 | 6% |
| R14 | 189 | $1,765,000 | $1,893,900 | 7% |
| R16 | 85 | $1,776,700 | $1,864,600 | 5% |
| R17 | 129 | $1,435,700 | $1,530,600 | 7% |

| FY2023 Three Family Assessment Data | | | | |
|---|---|---|---|---|
| Median Assessed Values | | | | |
| NBHD | Count | FY22 Median Value | FY23 Median Value | Change |
| R1 | 218 | $1,350,800 | $1,416,050 | 5% |
| R2 | 140 | $1,568,550 | $1,670,300 | 6% |
| R3 | 116 | $2,130,750 | $2,259,100 | 6% |
| R4 | 32 | $2,514,000 | $2,666,250 | 6% |
| R5 | 3 | $5,483,200 | $6,041,800 | 10% |
| R6 | 31 | $2,513,600 | $2,741,100 | 9% |
| R7 | 160 | $1,431,050 | $1,557,600 | 9% |
| R8 | 41 | $1,623,900 | $1,724,700 | 6% |
| R9 | 1 | $1,174,100 | $1,610,000 | 37% |
| R11 | 15 | $2,492,800 | $2,617,100 | 5% |
| R12 | 115 | $1,530,100 | $1,649,000 | 8% |
| R13 | 147 | $1,763,600 | $1,889,200 | 7% |
| R14 | 45 | $1,894,100 | $2,059,500 | 9% |
| R16 | 44 | $1,991,100 | $2,265,300 | 14% |
| R17 | 60 | $1,697,800 | $1,820,750 | 7% |

| FY2023 Condominium Assessment Data | | | | |
|---|---|---|---|---|
| Median Assessed Values | | | | |
| NBHD | Count | FY22 Median Value | FY23 Median Value | Change |
| R1 | 2911 | $726,200 | $735,300 | 1% |
| R2 | 791 | $704,400 | $722,800 | 3% |
| R3 | 2099 | $686,400 | $695,800 | 1% |
| R4 | 678 | $655,350 | $669,500 | 2% |
| R5 | 17 | $2,991,700 | $3,181,700 | 6% |
| R6 | 1652 | $643,100 | $641,250 | 0% |
| R7 | 1888 | $661,200 | $670,150 | 1% |
| R8 | 450 | $863,300 | $879,350 | 2% |
| R9 | 50 | $785,900 | $797,100 | 1% |
| R10 | 44 | $2,547,750 | $2,618,650 | 3% |
| R11 | 517 | $1,184,800 | $1,172,300 | -1% |
| R12 | 1146 | $695,400 | $705,500 | 1% |
| R13 | 1210 | $790,200 | $806,750 | 2% |
| R14 | 407 | $894,100 | $907,900 | 2% |
| R16 | 395 | $725,600 | $744,900 | 3% |
| R17 | 586 | $848,600 | $863,900 | 2% |


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