City of Cambridge
Executive Department

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City Manager

October 4, 2021

To The Honorable, the City Council:

The establishment of the FY22 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 in the spring with the submission of the annual budget to the City Council. With this memo, I am transmitting to you my recommendations for the required votes necessary to minimize taxes on residential properties. In addition, you will find analyses of the FY22 property tax levy, property values, and other supporting information.

COVID-19 IMPACTS

Since COVID-19 emerged in our community, the City's priority has been to mitigate the spread of the virus, and to provide critical services to our most vulnerable residents. Over the past year we have demonstrated our ability to continue to provide city services while also supporting COVID-19 related services and programs. We also anticipated that COVID-19 related uncertainty and financial impacts would continue into FY22, and possibly into FY23.

Several key non-property tax revenues are projected to remain below historical levels for FY22, including Parking Fund revenues, Hotel/Motel taxes, Meals taxes, other departmental revenues, and water and sewer revenues. In addition, some of the one-time strategies used in FY21 to help offset revenue shortfalls are no longer available for FY22.

We anticipate that non-property tax revenues that are have been budgeted at lower levels based on actual receipts for FY22 can be increased in FY23, as we continue to closely monitor revenues and expenditures. Our financial flexibility allows us to strategically use reserves and minimize the tax burden on residential property owners, as fiscal circumstances continue to transition from, the most severe impacts of COVID-19, to a return to normal.

Hotel Motel Excise Tax revenue- will continue to be impacted throughout FY22, based on reduced occupancy levels, reduced room rates and continued limits on travel and event cancellations. This revenue is budgeted at $3.975 million in FY22 which is significantly lower than actual amounts collected pre-COVID-19 (approximately $16.3 million in FY19).

Meals Excise Tax revenue- is budgeted at $3 million in FY22, a slight increase from FY21, but significantly lower than actual amounts collected pre-COVID-19 (approximately $5.2 million in FY19). While most indoor capacity limits have been lifted, we anticipate that this revenue will continue to be impacted in the near future because of lower overall restaurant activity as well as fewer gatherings, such as weddings, conferences, and seminars.

Department of Human Service Programs (DHSP) revenue- FY22 revenues are projected to be significantly lower than Pre-COVID actual revenues collected and will continue to be impacted by COVID-19 related changes to programming and services, including in person preschools, afterschool childcare, community schools, and the King Open Extended Day.

Interest earnings- Interest earnings are projected to be $475,000 lower than budgeted due to continued very low interest rates.

Even with these challenges, the City remains uniquely positioned financially due to our adherence to prudent fiscal policies and practices over the past several years. I am pleased to report that with the adoption of the recommendations contained in this communication:

- The property tax levy increase to support the Budget for FY22 will be lower than what was estimated as part of the FY22 Budget.
- The City will again be able to provide to a majority of the residential taxpayers (58.2%) a reduction, no increase, or an increase of less than $100 in their FY22 property tax bill.
- A reduced commercial property tax rate, which directly benefits small retail and restaurants, some of our most intensely impacted property owners during the pandemic.
- As we anticipated, and have been consistently able to do, we will use a limited amount of additional Free Cash and other reserves to offset projected non-property tax revenue shortfalls in FY22. This allows for the current projected levy increase.
- Ability to avoid employee layoffs and furloughs or a reduction in services to our residents in FY22.
- The City will continue to fill vacancies, especially those related to City Council goals and priorities.

<u>Free Cash</u>

In large part because of our practice and ability to monitor and control expenditures during the past fiscal year, the City has a certified Free Cash amount of $214.4 million (which includes $6.7 million in unappropriated mitigation receipts), an increase of $4.5 million or 2.2% from the previous year's certification. We typically provide the City Council a separate notification of our certified Free Cash amount once it is received. However, the FY21 (as of June 30, 2021) certification was received this past week, therefore we are using this communication as the notification to City Council. Our Free Cash position demonstrates yet another benefit of our 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 FY22 and beyond.

In FY21, the City expended $76.4 million in Free Cash. This amount supported key initiatives of the City administration and City Council including (but not limited to): Green Line Extension Payment ($5 million); Public Safety Record Management System ($921,000); Radio System Infrastructure ($1.25 million); Foundry Building Construction Support ($6 million); School Department COVID-19 Support ($9.3 million); Open Space Acquisition ($18.5 million); Standardized Trash Barrels ($1.5 million); Cambridgeport School Window Replacement ($2.2 million); School Buildings Assessment ($1 million); Danehy Park Evaluation and Testing ($850,000); War Memorial Facility and Pool Repairs ($1 million); Central Square Library Feasibility Study ($500,000); COVID Sewer Testing ($475,000); Patio Heater Reimbursement Program ($100,000).

I am recommending that a total of $22.5 million in Free Cash be used to reduce the FY22 property tax levy. This year's Free Cash authorization also offsets $2.5 million in additional funding for affordable housing included in the FY22 Adopted Budget.

This is an increase of $5.5 million from what was approved as part of the FY22 Adopted Budget, and represents:

- $9 million in the Free Cash authorization which is typically requested from the City's Free Cash balance in order to reduce the property tax levy increase and is consistent with our financial plan.
- An additional $11 million in Free Cash as a net revenue offset to reduced estimated non-property tax revenue in FY22. We anticipate that in future years, these non-property tax revenues will recover from COVID-19 related reductions.
- $2.5 million to offset additional funding for affordable housing.

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, as certain non-property tax revenues recover from COVID-19 impacts.

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.

Non-Property Tax Revenue Increases

The use of additional non-property tax revenues and reserve funds have allowed an overall reduction of $20 million from the original projected property tax levy for FY22.

Certain non-property tax revenues have been adjusted, based on actual FY21 receipts, to allow an overall reduction in the property tax levy. For FY22, the following increases have been made: Motor Vehicle Excise Tax ($250,000); Payments in Lieu of Taxes (PILOT) ($700,000); Building Permits ($13,420,857); Health Claims Trust Fund ($3,000,000); Debt Stabilization Fund ($1,000,000).

TABLE I
Summary of Changes from Adopted Budget

Tax Levy Changes	Amount
Property Tax Levy as Adopted	**$514,805,115**
Net Cherry Sheet Change	895,857
Increased Non-Property Revenues & Reserves	(18,370,857)
Decreased Interest Earnings	475,000
Additional Free Cash	(3,000,000)
Overlay Adjustment	(73,123)
Actual Property Tax Levy	**$494,731,992**

OVERVIEW

The actual FY22 property tax levy is $494,731,992. This is an increase of $22,211,844 or 4.7% from FY21 and reflects the City Council goal to "Ensure the City's Budget allocates resources responsibly and responsively." As in years past we have been able to provide an actual increase that is lower than the estimated increase projected in June 2021, and what was presented to the rating agencies in February. Responsible and responsive fiscal policies and practices are key to addressing the challenge of balancing expansion and investment in new programs and initiatives, while also minimizing the impact of increases in the tax levy.

The FY22 Adopted Operating Budget increased by 4.6% over the FY21 Adopted Operating Budget. The FY22 Budget adopted by the City Council in June 2021 projected a property tax levy increase of $42.3 million, or 8.95%, to $514,805,115 in order to fund operating and capital expenditures.

With approval of these recommendations, the property tax levy increase will be lowered to 4.7%. The property tax levy increase is below the five-year (FY18-FY22) annual average increase of 5.84%, and the ten-year (FY13-FY22) annual average increase of 5.17%.

The FY22 Budget continues to demonstrate the City's extraordinary commitment to creating and preserving affordable rental and homeownership opportunities for low, moderate, and middle-income families. Affordable housing funding in FY22 includes: $5.85 million funded from building permit and department revenue, an additional $10 million funded from property taxes, and $2.5 million funded from Free Cash. This is in addition to $14 million appropriated by the City Council from FY22 Community Preservation Act (CPA) funds.

A total of $32.35 million of direct financial support is provided to the Affordable Housing Trust in FY22, which is an increase of $5.1 million, or 18.7%, from FY21 ($27.3 million). In FY19, I made a commitment to double the amount of funds ($13.65 million in FY19) dedicated to affordable housing in Cambridge within 3-5 years. FY22 funds dedicated to affordable housing represent an increase of 137% for a total of $93.5 million since FY19.

The City also increased property tax support to schools by 5.3% or $10,003,460, to $198,419,015. The FY22 School budget is $223,718,190 and includes 36 new full time equivalent (fte) positions.

The FY22 Budget includes funding for an expansion of branch library hours, which was delayed from FY21 due to the COVID-19 crisis. As part of the plan, expansion of hours will begin at physical locations, eventually increasing from a collective total of 313 hours/week to approximately 359 hours/week. It is anticipated that all branch locations will offer at least five days and three nights of service, and Saturday hours will be offered at three branches.

The FY22 Budget maintains strong support for traffic safety initiatives including Vision Zero and implementation of the City's Bicycle Network Plan, including installation of separated bike facilities per the Cycling Safety Ordinance on multiple street segments.

In FY22, the City will start a Small Business Compost Pilot for up to 100 small businesses, which has the potential to help businesses recover economically from the pandemic and will provide a sustainable option for disposing of food waste.

The FY22 Budget includes funding for a new Cambridge Firefighter Cadet Program which will be modeled after the successful Cambridge Police Cadet Program and provide opportunities for Cambridge residents aged 18-23 interested in a career in the Fire Department. It is anticipated that a program would include a two-year commitment as well as a salary, classroom, and cooperative training education to prepare participants to become a Cambridge firefighter.

The city is also increasing a small business tax exemption for personal property accounts. Last year, in FY21, the city provided this exemption for personal property accounts equal to or less than $10,000 in assessed value which exempted 1,194 small businesses from receiving a personal property tax bill. For FY22, Cambridge's home rule petition to increase the exemption amount to $20,000 was accepted by the City Council and will exempt 1,553 small business accounts. The City is also recommending that certain licensing fees continue to be reduced by up to 40% in FY22 in order to provide additional financial relief to businesses affected by COVID-19.

The FY22 Budget also supports capital improvements including funds to implement the winning projects from cycle seven of the Participatory Budget program, and major capital projects including our multi-year Municipal Facilities Improvement Plan, sewer/stormwater improvement projects, technology initiatives, and Complete Streets reconstruction projects.

Based on a property tax levy of $494.7 million, the FY22 residential tax rate will be $5.92 per thousand dollars of value, subject to Department of Revenue approval. This is an increase of $0.07, or 1.2% from FY21. However, as can be seen in Table III, the median residential tax bill has only moderately increased. The commercial tax rate will be $11.23, which is a decrease of $0.62, or -5.2% from FY21. 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 FY22.

In June, the City Council was informed that due to COVID-19 there was still some uncertainty regarding many non-property tax revenue projections, and that the City may not be able to use additional non-property tax revenues when determining the actual levy.

As has consistently been our strategy, once actual prior year receipts and final state aid figures were known, we have been able to increase certain non-property tax revenues along with reserve funds to allow for a reduction in the property tax levy from what was presented with the budget. These strategies have allowed for an overall reduction of $20 million from the original projected property tax levy for FY22.

This letter includes a recommendation to use $25 million in reserve accounts to lower the property tax levy: $2.5 million from overlay surplus and $22.5 million in Free Cash. The certified Free Cash amount of $214.4 million, an increase of $4.5 million or 2.2% from the previous year's certification. This amount includes $6.7 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 $207.7 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.

There is a recommendation to use $9.5 million from the City Debt Stabilization Fund to offset increases in debt service costs that would otherwise have been funded from property taxes. This is an increase of $1.5 million from FY21. At the end of FY21, the Debt Stabilization Fund had balance of $48.5 million.

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 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

This will be the seventeenth year in a row that a majority of residential taxpayers will see a reduction, no change, or an increase of less than $100 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 FY22, 58% of residential taxpayers will see a reduction, no increase or an increase of less than $100; and 75% of residential taxpayers will see an average increase of less than $250. This is a slight decrease from FY21, where 59% of residential taxpayers saw a reduction, no increase, or an increase of less than $100 and 77% of residential taxpayers saw an increase of less than $250.

Over the past ten years (FY13-22), the City has seen an average of 69.3% of residential taxpayers see a reduction, no increase, or an increase of less than a $100 to their residential tax bill, and 63.4% over the past five years (FY18-22). Even while facing the COVID-19 pandemic, and the financial uncertainties related to it, the city has been able to consistently achieve these results while maintaining and expanding City and school services that citizens have come to expect and also while providing a robust capital improvement program.

TABLE II
Change in the Residential Tax Bills*

Change in Tax Payment	FY22 Number of Parcels	FY22 Percentage	FY22 Cumulative %		FY21 Cumulative %	FY20 Cumulative %
Less than $0	5,148	23.2%	23.2%		31%	22%
> $0 and less than $100.00	7,738	35.0%	58.2%		59%	61%
>$100.00 less than $250.00	3,651	16.5%	74.7%		77%	74%
>$250.00 and less than $500.00	2,825	12.8%	87.5%		90%	87%
Greater than $500.00	2,777	12.5%	100%		100%	100%
Totals	**22,139**	**100%**				

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

COVID-19 has been particularly impactable on single-family values and sales during calendar year 2020. With mortgage rates remaining at near record lows, persistent demand for single family homes and a constricted supply of inventory, the City saw larger assessment increases for the single-family class then in prior years (single family median tax bill increased by 9.5% for FY22 compared to a 4.5% increase last year). The strategies that the city applied to blunt the impact of higher residential tax bills are notably important in this tax year. The larger increase in values for the single-family class act as a double impact for homeowners who have had income or job losses due to COVID-19 while having a significantly larger tax bill. The strategies employed by the city to mitigate the larger tax bills helped to decrease the impact of higher tax bills for residential properties.

MEDIAN TAX BILLS

The analysis that follows explains in further detail how the City determined property values and property tax rates for FY22. 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 4.7% increase in the property tax levy required to balance the FY22 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 FY22, commercial property owners will pay 65.4% of the property tax levy, the same share as in FY21. Consequently, residential property owners' share of the FY22 tax levy is 34.6%, also the same as in FY21.

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 2020, which is the basis of the FY22 property assessment, total residential property values increased by 2.9%. Total commercial property values increased by 11.0%. This year's increase in total values reflects both the increase in some classes that have been untouched by the impact of COVID-19 as well as the negative effects of the pandemic and COVID-19 mitigation strategies. 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. As was the case last year, the residential rate will increase while the commercial rate decreases. This is due to the Minimum Residential Factor calculated by the Department of Revenue. One of the requirements that are affecting the rate this year is that residential taxpayers cannot pay less than the lowest percentage share of the levy they have paid since classification began. However, 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.

As part of the process, the City must successfully complete the Department of Revenue's (DOR) five-year Revaluation certification process of the City's real and personal property values, system, and methodologies.

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

	FY21 Value	FY21 Tax Bill	FY22 Value	FY22 Tax Bill	Dollar Change	Percent Change
Single Family	$1,417,400	$5,761	$1,508,200	$6,306	$545	9.46%
Condominium	$707,600	$1,608	$720,200	$1,641	$33	2.05%
Two Family	$1,367,800	$5,471	$1,418,000	$5,772	$301	5.50%
Three Family	$1,579,850	$6,711	$1,633,250	$7,046	$335	4.99%

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY22 values are based on market activity that occurred during calendar year 2020, during which the commercial classes valuations split due to the uneven impact of COVID-19. Residential activity was also up for most classes, but the single families were most affected by a low supply of inventory and record low mortgage rates. The Class A Office and lab sectors increased while the retail and hotels were most affected by COVID-19 restrictions and saw increased vacancies and lowered 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 FY22, the total assessed value of taxable property in the City equals $63,952,953,737 approximately $3.7 billion, or a 6.2% increase, over FY21 values. The actual FY22 total assessed values are greater than the projections presented to the rating agencies in February 2021 due to continued strength and resilience in the Cambridge real estate market.

COVID-19 PROPERTY TAX IMPACTS

The FY22 assessments, unlike the FY21 assessments, reflect the impact of COVID-19. The Assessing Department saw a divergence within the commercial classes and a strong increase within the single-family sales. As seen elsewhere in the country, the single-family values increased above all other residential classes with a 6.4% increase. Near record low mortgage rates, persistent demand and constricted supply continue to increase single house prices. The pandemic has increased interest in standalone homes that allow for individual entrances and separate spaces. Shared spaces that include communal amenities that are usually found in the larger condo complexes are in less demand due to the pandemic. Additionally, the two and three families also saw increases of 3.7% and 3.4% respectively.

The commercial values separated along different class types. The Class A offices and Lab Space continued to increase in value while other business sectors, such as retail and the hospitability industry were among the hardest hit by the COVID-19 mitigation strategies used in Massachusetts.

The Assessing Department continues to meet with the Commonwealth's Department of Revenue to discuss economic concerns based on the impact of COVID-19. The Assessing Department has been meeting with and updating the neighborhood business associations, the Cambridge Chamber of Commerce, and local business owners with information to clarify the basis for the FY22 property tax bills.

As noted above, the City is required to assess properties at full and fair market value. Therefore, it is extremely important to control the increase in the property tax levy in order to limit the impact on tax bills. While property values have increased significantly, residential tax bills have increased more moderately. As a result, the City has consistently received a limited number of abatement applications annually.

In FY22, the market for some commercial properties and most residential properties increased at a faster pace than most of the Greater Boston area, resulting in the continuation of a tax distribution similar to FY21 between commercial taxpayers and residential taxpayers. Despite this environment of increasing values, it is important to note that due to the City's ability to control taxes and therefore produce tax bills with moderate increases, the City has incurred a limited number of abatement requests annually. This has allowed for a $2.5 million overlay surplus to be applied towards lowering the FY22 property tax levy, as has been our practice in prior years.

The table below breaks out new construction values and tax base levy growth due to new construction by property type. This new construction growth, coupled with moderate budget increases, has allowed the City to maintain the classification of taxes and increase the City's excess levy capacity.

TABLE IV
New Construction Breakdown

Property Class	**New Growth Value**	**FY22 Tax Base Levy Growth (New Growth)**
Residential Property	$378,541,363	$2,214,467
Commercial Property	$616,530,522	$7,305,887
Personal Property	$473,089,385	$5,606,109
Total New Growth	**$1,468,161,270**	**$15,126,463**

TABLE V
Assessed Values (in millions)

	FY18	**FY19**	**FY20**	**FY21**	**FY22**
Residential Property	$26,426	$29,419	$32,335	$34,136	$35,118
Commercial Property	$15,719	$17,963	$20,934	$24,221	$26,875
Personal Property	$1,474	$1,595	$1,679	$1,878	$1,960
Total Assessed Value	**$43,619**	**$48,977**	**$54,948**	**$60,235**	**$63,953**

For FY22**,** the City was able to increase its levy limit by approximately $31.6 million, to $691.3 million. Approximately $15.1 million of this increase was due to new construction and amended FY21 new growth. State law allows the City to increase its tax levy limit by an amount equal to the total FY22 value of newly constructed or renovated property, multiplied by the FY21 tax rate. The remaining $16.5 million is the 2.5% increase over the FY21 levy allowed by Proposition 2½. The City's excess levy capacity increased by approximately $9.4 million, or 5.03%, to $196.6 million in FY22.

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

	Actual FY18	Actual FY19	Actual FY20	Actual FY 21	Estimate FY22
Levy Limit	$570,550	$599,171	$628,479	$659,697	$691,327
Actual Levy	$389,080	$409,810	$438,129	$472,520	$494,732
% Actual Levy Increase over Prior Year	4.4%	5.3%	6.9%	7.9%	4.7%
Excess Levy Capacity	$181,470	$189,361	$190,350	$187,177	$196,595
% Change of Excess Levy Capacity Over Prior Year	7.8%	4.4%	.52%	(1.67%)	5.03%

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.

FY22 REVALUATION 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. This fiscal year, the Department of Revenue (DOR) conducted a deeper review of the Assessing Department's statistical validation of the models due to this being a five-year Revaluation.

The FY22 valuation model is based upon sales of property that occurred during calendar year 2020, to establish the market value of all property as of January 1, 2021. For FY22, the number of assessing districts has remained unchanged. In prior years, some consolidation of districts took place to create a larger sales sample size.

The ultimate test for any mass appraisal model is the comparison between actual sales not part of the model building process and the predicted value from the model. Comparing the FY21 model to calendar year 2020 sales data, the model showed the following results.

TABLE VII
Residential Sales Price/Prior Assessment Comparison

Property Type	Sale Count	Median Sale Price	Median Assessment
Single Family	**120**	**$1,724,000**	**$1,481,450**
Two Family	**45**	**$1,545,000**	**$1,253,400**
Three Family	**22**	**$1,922,500**	**$1,695,350**
Condominiums	**518**	**$795,000**	**$745,700**

The assessment ratios were between 81%-94% of calendar year 2020 sales, reflecting increasing market values during the last year.

Calendar year 2020 sales demonstrated that the FY21 model needed to be updated based on current market trends and overall property class statistics. The individual neighborhoods also showed some inconsistent growth trends and required review. As a result, sales data from the calendar year 2020 real estate market has been utilized, along with what was learned from the prior year abatement activity, to establish the FY22 assessed values as of January 1, 2021. Using technologies such as the Geographical Information System (GIS) allowed for a more in-depth review of data. Using GIS, the Board of Assessors was able to visually display market activity and thereby validate the assessing districts using this information.

Modifications were made to the residential and condominium models, as well as to residential land values. The residential land had adjustments for neighborhood, while the residential model was recalibrated for use, grade, finished basements and condition adjustments. The condominium model was adjusted by neighborhood for market conditions as of the assessment date. Due to COVID-19, interior inspections were halted, and only exterior reviews were preformed along with analysis of all sales data available. 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 26,174 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 2020, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of almost 800 houses and condominium units were analyzed to develop these valuation models by property type (one-family, two-family, three-family, and condominium units).

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 $240.1 million in CPA funds, of which $59 million can be attributed to the State match.

TABLE VIII
Community Preservation Act Surcharge

	FY21 Median CPA Surcharge Amount	FY22 Median CPA Surcharge Amount	FY22 Median Tax	FY22 Median Tax & CPA Surcharge Amount
Single Family	$155	$171	$6,306	$6,477
Condominium	$31	$31	$1,641	$1,672
Two Family	$147	$155	$5,772	$5,927
Three Family	$184	$194	$7,046	$7,240

RECOMMENDATIONS

1. That the City Council vote to authorize the use of $22,500,000 in Free Cash to reduce the FY22 tax rate.

2. That the City Council vote to authorize $2,500,000 in overlay surplus/reserves to be used for reducing the FY22 tax rate.

3. That the City Council vote to authorize $9,500,000 from the City Debt Stabilization Fund to be used as a revenue source to the General Fund Budget, which is an increase of $1,000,000 than what was included in the FY22 Adopted Budget.

4. 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 62.9395%.

5. That the City Council approve the residential exemption factor of 30% for owner occupied homes, which should result in a residential tax rate of $5.92 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 $11.23.

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

7. That the City Council vote to increase the FY22 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from $341 to $346.

8. That the City Council vote to increase the FY22 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from $67,379 to $68,322.

9. That the City Council vote to increase the FY22 income and assets limits for elderly persons (age 65 or older). Income limits of $27,860 to $28,250 for those who are single and $41,792

to $42,377 for those who are married, asset limits of $55,718 to $56,498 for those who are single and $76,612 to $77,685 for those who are married, as allowed under MGL, Chapter 59, Section 5, Clause 41D.

10. That the City Council vote the income limit for deferral of real estate taxes by elderly persons (at least 65 years old) as determined by the Commissioner of Revenue for the purposes of MGL, Chapter 62, Section 6, subsection (k), for a single person who is not head of household ($61,000) and for a married couple ($92,000), as allowed under MGL Chapter 59, Section 5, Clause 41A. 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, residential exemption and the doubling of statutory exemptions 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 FY22.

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

- **Authorize $22,500,000 in Free Cash to Reduce the FY22 Tax Levy.** For the fiscal year that ended June 30, 2021, the City of Cambridge has a certified Free Cash balance of $214,409,840 an increase of approximately $4.5 million from the previous year. This balance includes approximately $6.7 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 $207.7 million.

  The $22.5 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 $2.5 million in funding for affordable housing included in the FY22 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 $19.4 million in overlay balances as of June 30, 2021. 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.

- **Authorize $9,500,000 in City Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects, the City established a City Debt Stabilization Fund. The Adopted FY22 Budget included $8.5 million from this source, which has been increased to $9.5 million, to fund debt service costs related to the elementary school reconstruction program.

- **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. State law allows the residential portion of the tax levy to be as low as 50% of what it would be if there were single tax rates. However, there are two exceptions to the 50% minimum:

  The residential percent of the levy cannot 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.

  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 62.9395% this year will be a residential property share of the total tax levy of 34.5615%. This means that Commercial property will pay the remainder, 65.4385% of the levy. The commercial portion of the levy is 145.136% 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 FY22, there are approximately 14,100 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 $4.87 instead of $5.92. 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 FY22, the break-even assessed value is approximately $2,497,800.

30% Residential Exemption

	FY2020	FY2021	FY2022
Value Exempted	$411,316	$432,666	$443,056
Tax Savings	$2,365	$2,531	$2,623

- **Double Statutory Exemptions/Exemption Increases.** 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 amount of exemption for taxpayers whose tax bills have increased over the prior year's bill. The City Council votes annually for this increase. I am recommending that the Council do this for FY22, as it has since FY87.

  The second allows cities and towns under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D 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 cost of living adjustment (COLA), as determined by the DOR, is measured by the increase in the United States Department of Labor, Bureau of Labor Statistics Consumer Price Index for Urban Consumers, Boston (CPI-U) for the previous calendar year. The percentage increase for this period was 1.4%. Therefore, the FY22 exemption amounts, income limits or asset limits under these local options will increase over the FY21 amounts and limits. Therefore, the FY22 exemption will be $346 from $341.

  In addition, under Clause 17E, which Cambridge has already adopted, cities and towns can increase the asset amounts by the CPI percentage for this same group. The FY22 amounts increases to $68,322 from $67,379.

  MGL Chapter 59, Section 5, Clause 41D allows cities and towns to increase the income and assets limits for elderly persons (age 65 or older) by the CPI percentage. For FY22, the income limits will be $28,250 for those who are single, $42,377 for those who are married, and the asset limits will be $56,498 for those who are single and $77,685 for those who are married.

- **Income Limit for Tax Deferral.** Another form of tax relief available to property owners under state law is found in MGL Chapter 59, Section 3, Clause 41A. This statute allows taxpayers who are at least 65 years old to defer tax payments until they are deceased, or the property is transferred. The statutory income limit for this deferral is $40,000. However, a change in the statute, allows the City Council to vote to increase the income limit for deferral of real estate taxes by elderly persons (at least 65 years old) from $40,000 to the amount determined by the Commissioner of Revenue for the purposes of subsection (k) of section 6 of chapter 62, (currently $61,000 for a single person and $92,000 for a married couple, which may be indexed by Massachusetts DOR for FY22), as allowed under MGL Chapter 59, Section 5, Clause 41A. I am recommending that the City Council vote to adopt the deferral amount. The City Council has previously voted to reduce the interest percentage to 4% on deferred property tax balances.

CONCLUSION

While our focus remains on mitigating the spread of COVID-19 and providing critical services to our most vulnerable residents, the City Council also adopted a balanced FY22 Budget that provides continued and expanding support to important City priorities and initiatives. The Budget includes additional funding for affordable housing, school services, library expansion, small business support, traffic safety, and climate initiatives. It also includes a robust capital plan, including funding to support municipal facilities improvements, important sewer/stormwater improvement projects, technology initiatives, and major street projects.

Because of strong City management and sound fiscal policies adopted by the City Council we are in a financial position to achieve this while also minimizing the tax burden placed on residential property owners.

Approximately 66% of the revenues that fund the City's operating budget are raised through property taxes. 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. The City has been able to achieve a lower property tax rate and lower residential property tax bill than surrounding communities due to its ability to generate diverse non-property tax revenues, foster new construction, control budget growth, and plan prudent use of reserves. In addition, a strong, stable commercial tax base is a key component of our ability to limit impacts on residential taxpayers.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of residential property taxes in FY22. In addition, with City Council approval, the City will use $25 million of reserves (Free Cash/overlay surplus) in FY22 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 $22.5 million from Free Cash and $2.5 million from the Overlay Surplus. The Free Cash amount used this year includes an additional $11 million as a net revenue offset to reduced estimated non-property tax revenue in FY22. 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.

With the approval of this recommendation, the Debt Stabilization Fund is projected to have a FY22 year-end balance of $39 million to help offset some of the future debt service costs related to major capital projects including the school reconstruction program. The City will continue to pursue opportunities for reimbursement through the Massachusetts School Building Authority (MSBA) program for smaller repair projects; these funds are not included in our current financial projections.

Our current four-year debt schedule (FY22-25) which is under review, is projected to be approximately $621.8 million, which is comprised of $469.2 million in tax supported debt and $152.6 million of sewer debt. The multi-year school reconstruction program makes up $224 million of this total and includes the construction of the Tobin Montessori and Vassal Lane Upper School project. However, it should be noted that with this projected debt issuance, the City's ability to fund additional major projects is limited.

The City used $76.4 million in Free Cash in FY21. With the approval of these recommendations, the City will use $22.5 million in Free Cash, reducing the net Free Cash balance to $191.9 million. The City has used an average of $60.2 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 FY22 which will likely result in a decrease in next year's certified Free Cash balance. 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 FY22 include: additional school and COVID-19 costs; additional school repairs; munincipal building repair projects; Alternative Public Safety Response Initiative; Friday Night Hype program; municipal building security; radio replacement; E-Gov projects; broadband feasibility; fire apparatus; open space; snowstorm related expenses; and others as necessary.

Even while a significant level of economic uncertainty remains due to the COVID-19 pandemic, the long-term outlook for Cambridge continues to be very strong and reinforces the City's practice of managing our resources wisely. Although significant impacts on several key revenues for the city are expected to remain in the near future, the past fiscal year was relatively strong financially for the City based on several indicators, with total assessed values continuing to increase; total actual revenues which exceeded projections and prior year collections; and controlled expenditures. We will continue to closely monitor revenues as well as expenditures, and use our five-year financial and capital plan, debt and reserve policies, and the City Council goals, as a blueprint for our long-range planning.

The current crisis will also likely have both immediate and long-term effects on valuations, so it is still important to maintain a healthy balance of development between residential and commercial to ensure that homeowners' real estate taxes remain affordable. As we plan for the FY23 Budget process, it is clear that we will need to continue to be prudent in developing the budget, which again may not have the same expansion of positions and services that we have been able to include in prior years.

It is important to acknowledge that the flexibility to adjust the tax levy in a way that helps minimize the impacts on property owners, while also maintaining a high level of service and expanding key City initiatives, is provided by adherence to long standing fiscal practices and policies, maintaining sufficient reserves, and controlling the budget.

As we had previously noted and anticipated, the past fiscal year was one of both fiscal uncertainty and challenges. However, we were also in the fortunate position to be able to effectively use our fiscal resources to bridge the most severe challenges, while providing a high level of service to the community, and lessen the tax burden of our taxpayers. As demonstrated through the recommendations in this letter, we expect this fiscal year to also serve as part of a continuing transition period even as we anticipate a return to increased fiscal stability and predictability in future years.

After 20 years of service with the City as Assistant City Manager for Finance, and as City Manager, this is my last tax rate letter to the City Council. I am extremely proud of what we have been able to accomplish in collaboration with staff, City Council and the community. Working together, we have created a strong fiscal framework that has consistently resulted in stable and moderate tax increases.

At the same time however, we have also invested heavily in affordable housing, our capital infrastructure, environmental sustainability, and programs and services for our residents. Just some of the major undertakings in recent years has included:

- Introducing property taxes and building permit revenues as sources of funding for affordable housing which, when combined with Community Preservation Act (CPA) funds, has resulted in significant increases in funding over the past several years. The City has provided over $93.5 million since FY19 to the Affordable Housing Trust to create and preserve affordable housing in Cambridge, as well as $15 million specifically to help preserve the affordability of over 500 units of housing at Fresh Pond Apartments.

- The construction of 2 new elementary and upper school complexes (MLK Elementary and Putnam Ave Upper School Complex; King Open and Cambridge Street Upper School Complex), and the design of the Tobin Montessori and Vassal Lane Upper School Complex. Together, these projects will total over $500 million in city funding.
- Comprehensive municipal building projects including City Hall improvements; the Foundry Building; Department of Public Works Complex improvements; Fire Station renovations; and Library improvements and expansion.
- Investment in environmental initiatives and infrastructure including municipal building sustainability and improvement projects; water and sewer system upgrades; an expanded tree canopy; major transportation corridor and street safety improvements; and implementation of the Bicycle Network Plan.
- Several major open space renovations and acquisitions including the recent purchase of over 4 acres of open space (Buckingham Field) owned by Buckingham Browne and Nichols School (BB&N); the renovation of Glacken Field; creation of a new Universal Design playground; and construction of the new Toomey Park in East Cambridge.
- Expanded investment in services and initiatives for our residents including increased school funding; expanded early education and human service programs; funding and services to support our unhoused community; funding to implement Police and Fire cadet programs; funding for innovations in public safety; and investments in improving equity and inclusion efforts both within the City and throughout the community.
- Since March 2020, the City has implemented a comprehensive COVID-19 pandemic response to protect the health and well-being of our community and launched various direct financial and programmatic support initiatives to aid individuals, families, small businesses, and non-profits impacted by the pandemic. Our collective efforts have helped Cambridge's COVID-19 metrics remain lower than state and national levels.

We have been able to finance projects such as the ones above, and many more, both planned and unforeseen, without placing the burden on residential and commercial taxpayers. This is because our adopted policies and practices have allowed us to maintain fiscal stability, predictability, as well as the flexibility to address unexpected challenges.

I would like to thank the City Council for their continued guidance and support as well as staff for their hard work, that makes Cambridge the most fiscally sound city in the Commonwealth.

Very truly yours,

Louis A. DePasquale
City Manager

Attachments

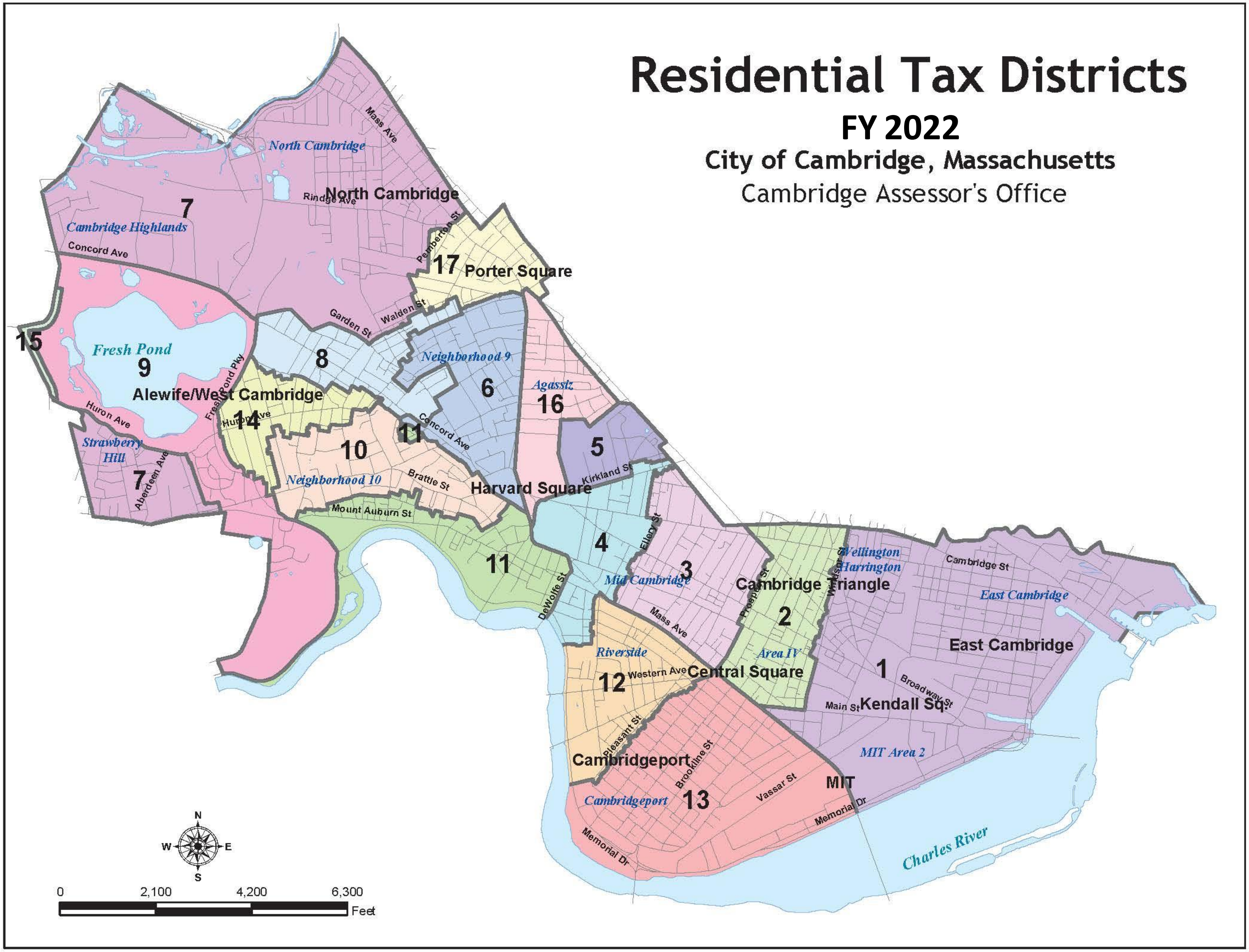
ATTACHMENT 1

FY2022 Single Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY21 Median Value	FY22 Median Value	Change
R1	390	$894,900	$947,300	6%
R2	202	$1,097,150	$1,153,550	5%
R3	238	$1,569,000	$1,701,150	8%
R4	83	$1,570,800	$1,662,700	6%
R5	63	$3,546,600	$3,719,700	5%
R6	372	$2,389,200	$2,551,200	7%
R7	656	$934,300	$975,100	4%
R8	201	$1,233,500	$1,332,000	8%
R9	205	$1,873,100	$1,988,100	6%
R10	340	$4,315,000	$4,521,300	5%
R11	171	$2,003,500	$2,086,200	4%
R12	182	$1,170,500	$1,218,800	4%
R13	232	$1,316,500	$1,399,750	6%
R14	178	$1,981,800	$2,130,500	8%
R15	33	$1,536,200	$1,606,500	5%
R16	153	$1,783,100	$1,833,700	3%
R17	196	$1,227,000	$1,321,450	8%

FY2022 Two Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY21 Median Value	FY22 Median Value	Change
R1	272	$1,042,550	$1,076,450	3%
R2	166	$1,221,700	$1,267,550	4%
R3	197	$1,711,300	$1,818,900	6%
R4	44	$1,866,650	$1,936,150	4%
R5	5	$2,536,200	$2,601,200	3%
R6	72	$2,045,400	$2,131,650	4%
R7	575	$1,142,900	$1,174,700	3%
R8	181	$1,405,200	$1,448,100	3%
R9	10	$1,387,850	$1,426,850	3%
R10	8	$3,564,000	$3,674,600	3%
R11	31	$2,148,000	$2,210,600	3%
R12	152	$1,304,350	$1,348,650	3%
R13	209	$1,536,000	$1,624,900	6%
R14	193	$1,697,100	$1,765,000	4%
R16	85	$1,780,300	$1,776,700	0%
R17	133	$1,399,200	$1,444,600	3%

FY2022 Three Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY21 Median Value	FY22 Median Value	Change
R1	223	$1,281,000	$1,351,600	6%
R2	140	$1,536,100	$1,579,600	3%
R3	119	$2,024,500	$2,139,000	6%
R4	33	$2,448,500	$2,522,500	3%
R5	3	$5,250,000	$5,483,200	4%
R6	32	$2,401,750	$2,469,050	3%
R7	163	$1,392,100	$1,432,500	3%
R8	41	$1,575,700	$1,623,900	3%
R9	1	$1,137,300	$1,174,100	3%
R11	15	$2,160,900	$2,492,800	15%
R12	117	$1,499,500	$1,534,200	2%
R13	149	$1,671,100	$1,760,200	5%
R14	46	$1,854,950	$1,898,450	2%
R16	43	$2,089,200	$2,095,700	0%
R17	61	$1,644,500	$1,696,100	3%

Condominium Assessment Data				
Median Assessed Values				
NBHD	Count	FY21 Median Value	FY22 Median Value	Change
R1	1397	$790,800	$776,400	-2%
R2	735	$689,600	$697,200	1%
R3	2090	$677,150	$685,700	1%
R4	677	$643,900	$654,700	2%
R5	17	$2,892,200	$2,991,700	3%
R6	1649	$634,300	$642,500	1%
R7	1872	$646,400	$660,750	2%
R8	438	$832,000	$846,750	2%
R9	50	$770,000	$785,900	2%
R10	44	$2,463,300	$2,547,750	3%
R11	517	$1,187,800	$1,184,800	0%
R12	1134	$669,950	$691,250	3%
R13	1235	$765,000	$778,000	2%
R14	397	$884,100	$893,600	1%
R16	390	$720,900	$726,400	1%
R17	582	$827,300	$844,500	2%



Residential Tax Districts
FY 2022
City of Cambridge, Massachusetts
Cambridge Assessor's Office
North Cambridge
7
Cambridge Highlands
Concord Ave
Rindge Ave
Mass Ave
Pemberton St
17 Porter Square
Walden St
Garden St
15
Fresh Pond
9
Alewife/West Cambridge
Fresh Pond Pky
8
Neighborhood 9
6
Agassiz
16
14
Huron Ave
11
10
Concord Ave
Strawberry Hill
7
Aberdeen Ave
Neighborhood 10
Brattle St
Harvard Square
5
Kirkland St
Mount Auburn St
11
4
Ellery St
3
Mid Cambridge
DeWolfe St
Cambridge Triangle
Prospect St
Windsor St
Wellington Harrington
Cambridge St
East Cambridge
2
Area IV
Mass Ave
East Cambridge
Riverside
12
Western Ave
Central Square
1
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