City of Cambridge
Richard C. Rossi • City Manager

Executive Department
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September 29, 2014

To The Honorable, the City Council:

The establishment of the FY15 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 FY15 property tax levy, property values and other supporting information.

OVERVIEW

I am pleased to inform you that the actual FY15 property tax levy of $341,445,455 reflects a $12,900,510 or 3.93% increase from FY14, which is significantly lower than the estimated increase projected in June 2014 and what was presented to the rating agencies in January. The increase in the levy of 3.93% is also well below the five-year average annual increase of 4.92%. The FY15 Budget adopted by the City Council in June 2014 projected a property tax levy increase of $15.2 million, or 4.62%, to $343,729,905 in order to fund operating and capital expenditures. The FY15 adopted operating budget increased by 2.91%.

Based on a property tax levy of $341.4 million, the FY15 residential tax rate will be $7.82 per thousand dollars of value, which is a decrease of $0.56, or -6.68% from FY14. The commercial tax rate will be $19.29, which is a decrease of $1.15, or -5.63% from FY14. This is the second consecutive year that the City has reduced tax rates for both residential and commercial taxpayers.

In June, the City Council was informed that the actual tax levy increase was likely to change. This was based on the possible use of additional non-property tax revenues, which would become available based on FY14 actual collections and final Cherry Sheet distributions.

Following our assumptions, the use of additional non-property tax revenue and other adjustments have allowed an overall reduction of $2,284,450 from the original projected property tax levy for FY15. This is due to increased Cherry Sheet revenues of $2,388,648, and an overlay adjustment of $104,198.

Tax Levy Changes	Amount
Property Tax Levy As Adopted	**$343,729,905**
Net Cherry Sheet	-$2,388,648
Overlay Adjustment	+$104,198
Actual Property Tax Levy	**$341,445,455**

With approval of these recommendations, the ten-year average annual increase in the property tax levy will be 4.37%.

This recommendation includes the use of $14.65 million in reserve accounts to lower the property tax levy: $2.0 million from overlay surplus and $12.65 million in Free Cash. The certified Free Cash amount of $160.5 million is the highest amount in the City's history and represents an $18.3 million increase over last year. Also, approximately $0.6 million from the School Debt Stabilization Fund is used to offset increases in debt service costs that would otherwise have been funded from property taxes.

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. This prudent and planned use of the City's reserves has been positively recognized by the three major credit rating agencies and is reflected in our AAA credit rating.

IMPACT ON TAXPAYERS

Approximately 72% of residential taxpayers will see a reduction, no increase or an increase of less than $100 in their FY15 tax bill. In addition, another 13% of residential taxpayers will see an increase between $100 and $250. Therefore, a total of 85% of the residential taxpayers will see no increase or an increase of less than $250. This will be the tenth year in a row that a majority of residential taxpayers will see a reduction, no change or an increase of less than $100. We have been able to achieve this while maintaining City and school services that citizens have come to expect and while providing a strong capital improvement program.

TABLE I
Change in the Residential Tax Bills*

Change in Tax Payment	Number of Parcels	Percentage	Cumulative %
Less than $0	9,173	42.4%	-
> $0 and less than $100.00	6,461	29.9%	72%
>$100.00 less than $250.00	2,780	12.9%	85%
>$250.00 and less than $500.00	2,277	10.5%	96%
Greater than $500.00	920	4.3%	100%
Totals	**21,611**	**100%**	

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

MEDIAN TAX BILLS

The analysis that follows explains in further detail how the City determined property values and property tax rates for FY15. 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 3.93% increase in the property tax levy required to balance the FY15 Budget, which supports the City Council Goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality of City services."

Commercial-Residential Property Tax Classification: Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. In FY15, commercial property owners will pay 65.4% of the property tax levy, the same share as in FY14. Consequently, residential property owners' share of the FY15 tax levy is 34.6%, also the same as in FY14.

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 market activity in calendar year 2013, which is the basis of the FY15 property assessment, total residential property values increased by 11.53%. Total commercial property values also increased by 11.15%. The increase in total values reflects the robust real estate market which has been driven by continued new construction in both residential and commercial classes, as well as the continued desirability of the Cambridge market. These factors, coupled with the City's improved ability to analyze and incorporate adjustments to residential values using the mass appraisal model, have allowed the City to make changes to various assessment districts.

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

The following chart shows the change in the median tax bills by property class. While the overall total residential assessed value increased in FY15, assessed values of existing homes remained relatively stable. The median value is the mid-point value, which has an equal number of values below and above it.

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

	FY14 Value	FY14 Tax Bill	FY15 Value	FY15 Tax Bill	Dollar Change	Percent Change
Single Family	$741,600	$ 4,407	$804,450	$4,418	$11	0.25%
Condominium	$389,500	$1,457	$427,750	$1,472	$15	1.03%
Two Family	$690,150	$ 3,976	$790,700	$4,310	$334	8.40%
Three Family	$786,900	$4,787	$884,000	$5,040	$253	5.29%

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY15 values are based on market activity that occurred during calendar year 2013, during which the overall valuation of both the City's residential property and commercial property increased. This reflects an increase in commercial rental rates and a slight decrease in commercial vacancies, which has an impact on existing commercial property values. The major components which impact the commercial values are the construction of life science buildings and the personal property associated with these developments.

For FY15, the total assessed value of taxable property in the City equals $30,143,180,521, a 10.98% increase over FY14 values. The actual FY15 total assessed values are significantly greater than the projections presented to the rating agencies in January 2014 due to continued strength in the Cambridge real estate market.

In FY15, the market for both commercial and residential properties has increased, not unlike most of the Greater Boston area, resulting in the continuation of a tax distribution similar to FY14 between commercial taxpayers and residential taxpayers.

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 shift in taxes and increase the City's excess levy capacity.

TABLE III
New Construction Breakdown in FY15

Property Class	New Value	FY15 Tax Base Levy Growth (New Growth)
Commercial Property	$574,549,272	$ 11,750,582
Personal Property	$186,433,077	$3,811,252
Residential Property	$ 315,386,563	$ 2,646,026
Total New Growth	**$ 1,076,368,912**	**$ 18,207,860**

TABLE IV
Assessed Values (in millions)

	FY11	FY12	FY13	FY14	FY15
Commercial Property	$8,379	$8,478	$8,577	$9,439	$10,491
Personal Property	$959	$951	$1,070	$1,080	$1,090
Residential Property	$14,824	$15,018	$15,567	$16,642	$18,562
Total Assessed Value	**$24,162**	**$24,447**	**$25,214**	**$27,161**	**$30,143**

For FY15, the City was able to increase its levy limit by approximately $29.4 million, to $475.4 million. Approximately $18.2 million of this increase was due to new construction. State law allows the City to increase its tax levy limit by an amount equal to the total FY15 value of newly constructed or renovated property, multiplied by the FY14 tax rate. The remaining $11.2 million is the 2.5% increase over the FY14 levy allowed by Proposition 2½. The City's excess levy capacity increased by approximately $16.5 million, or 14.01%, to $134.0 million in FY15.

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

	Actual FY10	Actual FY11	Actual FY12	Actual FY13	Actual FY14	Estimated FY15
Levy Limit	$367,222	$383,312	$401,733	$421,052	$446,046	$475,411
Actual Levy	$268,663	$283,962	$299,091	$316,948	$328,545	$341,445
% Actual Levy Increase over Prior Year	5.38%	5.69%	5.33%	5.97%	3.66%	3.93%
Excess Levy Capacity	$98,559	$99,350	$102,642	$104,104	$117,501	$133,966
% Actual Excess Levy Capacity Increase Over Prior Year	6.4%	0.8%	3.3%	1.4%	12.9%	14.01%

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.

FY15 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. This fiscal year, the Department of Revenue (DOR) conducted statistical validation of the models.

The FY15 valuation model is based upon sales of property that occurred during calendar year 2013, to establish the market value of all property as of January 1, 2014. For FY15, 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 FY14 model to calendar year 2013 sales data, the model showed the following results:

TABLE VI
Residential Sales Price/Assessment Comparison

Property Type	Sale Count	Median Sale Price	Median Assessment
Single Family	**136**	**$901,500**	**$714,850**
Two Family	**34**	**$890,000**	**$674,500**
Three Family	**22**	**$1,127,000**	**$740,400**
Condominiums	**848**	**$500,000**	**$413,400**

The assessment ratios were between 72%-85% of calendar year 2013 sales, reflecting increasing market values during the last year.

Calendar year 2013 sales demonstrated that the FY14 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 2013 real estate market has been utilized, along with what was learned from the prior year abatement activity, to establish the FY15 assessed values as of January 1, 2014. 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. In addition, 4,308 inspections were completed along with a detailed field review of property. These inspections served to ensure consistency within neighborhoods and across the city. 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 24,533 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 2013, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of 1,177 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.

The CPA surcharge has an essentially neutral impact on tax bills because funding of affordable housing and historic preservation initiatives has been shifted from the tax levy to the surcharge. 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 $143.8 million in CPA funds, of which $45.7 million can be attributed to the State match.

TABLE VII
Community Preservation Act Surcharge

	FY14 Median CPA Surcharge Amount	FY15 Median CPA Surcharge Amount	FY15 Median Tax	FY15 Median Tax & CPA Surcharge Amount
Single Family	$107	$109	$4,418	$4,527
Condominium	$19	$21	$1,472	$1,493
Two Family	$94	$106	$4,310	$4,416
Three Family	$118	$128	$5,040	$5,168

RECOMMENDATIONS

1. That the City Council vote to authorize the use of $12,650,000 in Free Cash to reduce the FY15 tax rate.

2. That the City Council vote to authorize $2,000,000 in overlay surplus/reserves to be used for reducing the FY15 tax rate.

3. That the City Council vote to authorize $563,765 from the School Debt Stabilization Fund to be used as a revenue source to the General Fund Budget, which was included in the FY15 Adopted Budget.

4. That the City Council appropriate $12,000,000 from Free Cash to the City Debt Stabilization Fund.

5. 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 56.1250%.

6. That the City Council approve the maximum residential exemption factor of 30% for owner occupied homes, which should result in a residential tax rate of $7.82 and commercial tax rate of $19.29 upon final approval by the Massachusetts Department of Revenue.

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

8. That the City Council vote to increase the FY15 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from $298 to $302.

9. That the City Council vote to increase the FY15 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from $59,151 to $59,961.

10. That the City Council vote to increase the FY15 income and assets limits for elderly persons (age 65 or older). Income limits of $24,458 to $24,793 for those who are single and $36,687 to $37,190 for those who are married, asset limits of $48,914 to $49,584 for those who are single and $67,257 to $68,178 for those who are married, as allowed under MGL, Chapter 59, Section 5, Clause 41D.

11. 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 ($55,000) and for a married couple ($82,000), as allowed under MGL Chapter 59, Section 5, Clause 41A. The dollar amounts listed may be indexed by Massachusetts DOR for FY15. 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 FY15.

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

- **Authorize $12,650,000 in Free Cash to Reduce the FY15 Tax Levy.** For the fiscal year that ended June 30, 2014, the City of Cambridge has a certified Free Cash balance of $160,476,318, an increase of approximately $18.3 million from the previous year. This balance represents the highest amount in the City's history.

  The $12.65 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 additional Free Cash authorization offsets funding for IT initiatives in the FY15 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 $13.2 million in overlay balances as of June 30, 2014. 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 $2.0 million of this surplus to decrease the tax levy. Based on the level of the overall current surplus, the City would continue to use $2.0 million for this purpose in future years. 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 $563,765 in School Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects, the City established a School Debt Stabilization Fund and has made contributions to it over the past several years. The balance in this Stabilization Fund is approximately $4.3 million as of June 30, 2014. The Adopted FY15 Budget included $563,765 from this source to fund debt service costs for the War Memorial.

- **Appropriate $12,000,000 in Free Cash to the City's Stabilization Fund.** This Free Cash Appropriation of $12.0 million to the City's Stabilization Fund will be used to mitigate anticipated debt service costs in future years for the City's major capital projects especially in relation to the School Reconstruction Program. This appropriation will help stabilize tax levy increases in future years.

- **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.

  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 56.1250% this year will be a residential property share of the total tax levy of 34.5615%. Commercial property will pay 65.4385% of the levy, which brings the commercial portion of the levy to 170% of what it would be with a single tax rate.

- **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 Maximum Residential Exemption of 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 FY15, there are approximately 14,475 residential exemptions on the Assessing Department files. Overall, approximately 91% of the owner occupied homes benefit from the 30% residential exemption. 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 $6.36 instead of $7.82. 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 FY15, the break-even assessed value is approximately $1,282,800.

30% Residential Exemption

	FY2013	**FY2014**	**FY2015**
Value Exempted	$202,699	$215,649	$239,500
Tax Savings	$1,755.37	$1,807.14	$1,872.89

Ï **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 must vote annually for this increase. I am recommending that the Council do this for FY15, 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 (CPI-U) during the previous calendar year. The percentage increase for this period was 1.37%. Therefore, the FY15 exemption amounts, income limits or asset limits under these local options will increase over the FY14 amounts and limits. Therefore, the FY15 exemption will be $302.

In addition, under Clause 17E, cities and towns can increase the asset amounts by the CPI percentage for this same group. The FY15 amounts increases to $59,961 from $59,151.

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 FY15 the income limits will be $24,793 for those who are single, $37,190 for those who are married, and the asset limits will be $49,584 for those who are single and $68,178 for those who are married.

Ï **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 payment 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 $55,000 for a single person and $82,000 for a married couple, which may be indexed by Massachusetts DOR for FY15), 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

In June, the City Council adopted an FY15 Budget which accomplishes the following: maintains City and school services, supports City Council goals and provides for a strong capital plan, which includes funding to continue the multi-year school reconstruction program. This has been achieved with a moderate increase in the property tax levy, which supports the City Council goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers while providing a high quality of city services." This Budget continues to provide stability and reinvests in our community.

Approximately 66% of the revenues that fund the City's 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 FY15, the City will make a $2.0 million contribution to the OPEB Liability Trust Fund, yielding a total of $7.0 million in contributions to date. It is the City's intention to continue the $2.0 million annual appropriation and to use the excess appropriations that will result when the pension liability is met to increase our contributions to the OPEB Liability Trust Fund. Based on the City's most recent Pension Actuarial study as of January 2014, the funding schedule shows that the City is on target to be fully funded in 2026, three years earlier than the previous schedule.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of residential property taxes in FY15. In addition, with City Council approval, the City will use $14.65 million of reserves in FY15 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.

Additionally, the appropriation of $12.0 million from Free Cash to the City's Debt Stabilization Fund will be used to offset anticipated debt service costs in future years for the City's major capital projects, especially in relation to the school reconstruction program. This appropriation will help stabilize tax levy increases in future years.

Our current five-year debt schedule is projected to be approximately $190.4 million. The multi-year school reconstruction program makes up $143.0 million which anticipates the completion of two schools and is therefore one of the major priorities affecting future City budgets.

With this recommendation, the Debt Stabilization Fund will have a balance of $33.3 million to help offset some of the debt service costs of the school reconstruction program and other municipal projects. The City will continue to pursue opportunities for reimbursement through the Massachusetts School Building Authority (MSBA) program; these funds are not included in our current financial projections.

The past fiscal year was the strongest financial year in the City's history, with total assessed values and excess levy capacity increasing; actual revenues far exceeding projections and prior year collections; and controlled expenditures. However, it would not be prudent for the City to expect or project future revenues based on FY14 actuals.

While the City used approximately $29.7 million in Free Cash in FY14, the highest amount in its history, it was still able to increase its Free Cash position. With this recommendation, the City will use $24.65 million in Free Cash. The City is also currently compiling a list of prioritized projects that will require funding from certified Free Cash. We hope to come to you with recommendations as soon the analysis is complete and we have a financial plan, as has been our practice in prior years.

These strong financial indicators, combined with an AAA credit rating, provide the City with enormous flexibility to respond to the many needs facing this community and to provide the services that the majority of our residents expect from the City, without sacrificing our fiscal stability and flexibility. 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, and enabled us to weather uncertain economic times.

The long-term outlook for Cambridge continues to be very strong as long as we continue to manage our resources wisely. We will continue to use our five-year financial and capital plan, debt and reserve policies and the City Council goals as a blue print for our long-range planning. Our current financial projections indicate that we will be able to produce future budgets that will reflect a moderate growth in the property tax levy, which is slightly above our 5-year annual average increase.

I believe that lessening the tax burden on our taxpayers is a prudent use of the City's reserve balances that we have created over the years, while maintaining our fiscal flexibility and continuing to position Cambridge as a favorable place to live and do business.

Very truly yours,

Richard C. Rossi
City Manager

Attachment

ATTACHMENT 1

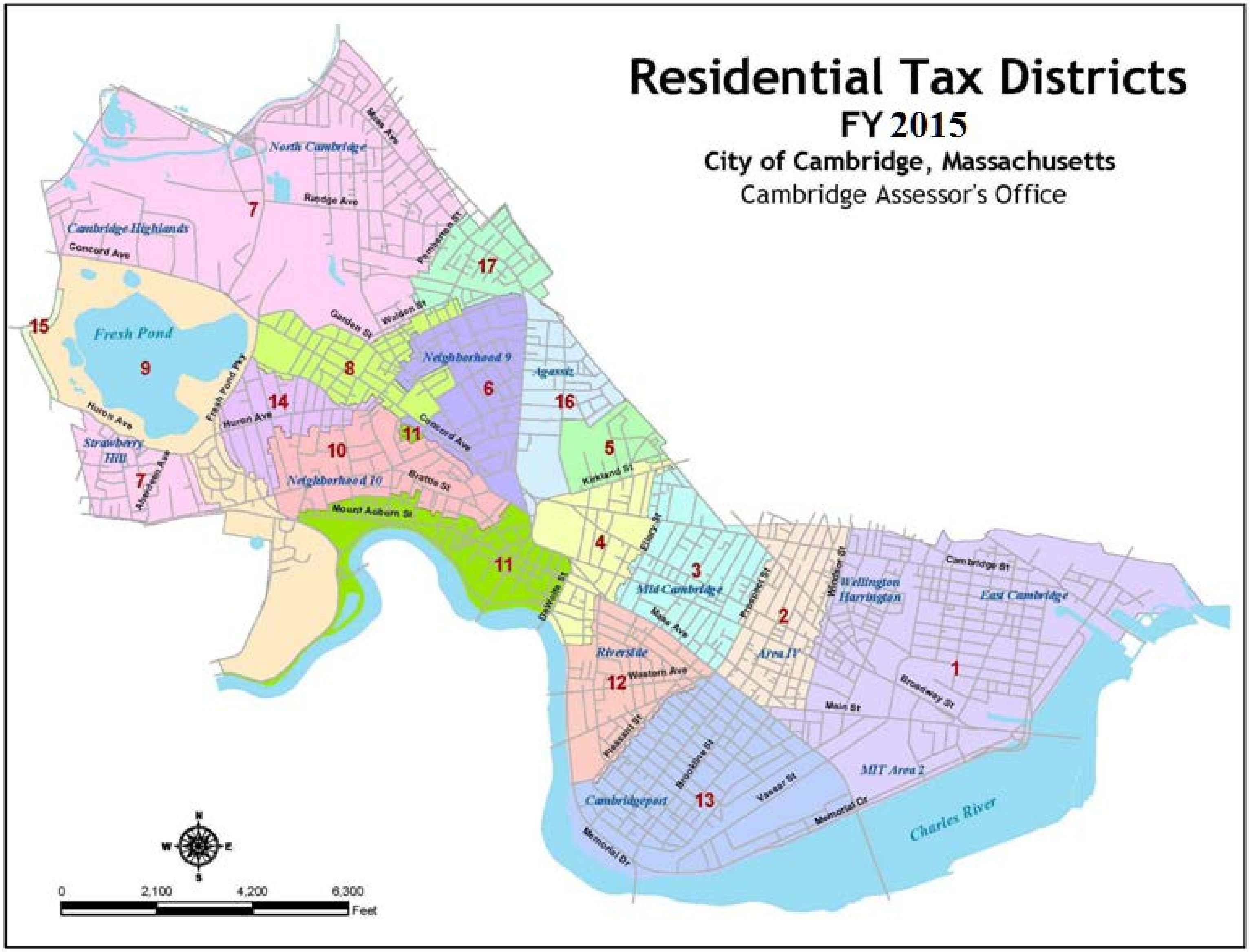
FY2015 Single Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY14 Median Value	FY15 Median Value	Change
R1	391	$ 426,900	$ 495,300	16.0%
R2	204	$ 484,100	$ 557,250	15.1%
R3	231	$ 832,200	$ 910,500	9.4%
R4	86	$ 788,100	$ 840,400	6.6%
R5	61	$ 2,133,000	$ 2,198,400	3.1%
R6	350	$ 1,389,000	$ 1,499,950	8.0%
R7	654	$ 495,950	$ 534,650	7.8%
R8	228	$ 709,150	$ 806,150	13.7%
R9	202	$ 1,109,950	$ 1,170,700	5.5%
R10	338	$ 2,594,400	$ 2,659,000	2.5%
R11	168	$ 1,211,050	$ 1,293,000	6.8%
R12	181	$ 577,400	$ 599,200	3.8%
R13	233	$ 666,100	$ 694,900	4.3%
R14	143	$ 1,086,500	$ 1,218,000	12.1%
R15	33	$ 860,700	$ 909,800	5.7%
R16	154	$ 900,400	$ 950,850	5.6%
R17	187	$ 642,900	$ 716,800	11.5%

FY2015 Condominium Assessment Data				
Median Assessed Values				
NBHD	Count	FY14 Median Value	FY15 Median Value	Change
R1	2,750	$ 407,100	$ 447,150	9.8%
R2	683	$ 359,000	$ 401,300	11.8%
R3	2,052	$ 367,350	$ 411,150	11.9%
R4	646	$ 326,600	$ 371,000	13.6%
R5	15	$ 1,292,400	$ 1,400,600	8.4%
R6	1,644	$ 345,550	$ 377,300	9.2%
R7	1,698	$ 351,850	$ 382,850	8.8%
R8	422	$ 470,900	$ 510,400	8.4%
R9	49	$ 484,800	$ 528,400	9.0%
R10	35	$ 1,451,100	$ 1,520,800	4.8%
R11	517	$ 634,300	$ 690,600	8.9%
R12	1,080	$ 373,900	$ 405,900	8.6%
R13	1,164	$ 411,700	$ 447,550	8.7%
R14	358	$ 500,850	$ 544,750	8.8%
R16	374	$ 392,900	$ 428,300	9.0%
R17	529	$ 457,300	$ 497,100	8.7%

ATTACHMENT 1

FY2015 Two Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY14 Median Value	FY15 Median Value	Change
R1	290	$ 473,500	$ 572,650	20.9%
R2	173	$ 547,000	$ 645,600	18.0%
R3	213	$ 889,300	$ 1,021,000	14.8%
R4	49	$ 961,800	$ 1,063,500	10.6%
R5	8	$ 1,899,050	$ 2,020,250	6.4%
R6	83	$ 1,152,300	$ 1,343,800	16.6%
R7	616	$ 600,900	$ 681,850	13.5%
R8	212	$ 743,600	$ 877,350	18.0%
R9	12	$ 830,300	$ 960,200	15.6%
R10	12	$ 1,973,850	$ 2,096,700	6.2%
R11	34	$ 1,253,600	$ 1,407,200	12.3%
R12	158	$ 637,550	$ 685,050	7.5%
R13	221	$ 772,400	$ 836,600	8.3%
R14	202	$ 879,650	$ 1,012,800	15.1%
R16	85	$ 941,900	$ 1,035,500	9.9%
R17	135	$ 684,400	$ 800,400	16.9%

FY2015 Three Family Assessment Data				
Median Assessed Values				
NBHD	Count	FY14 Median Value	FY15 Median Value	Change
R1	238	$ 600,650	$ 707,450	17.8%
R2	146	$ 722,450	$ 836,450	15.8%
R3	125	$ 1,012,500	$ 1,154,400	14.0%
R4	32	$ 1,103,200	$ 1,298,850	17.7%
R5	3	$ 3,100,800	$ 3,316,600	7.0%
R6	32	$ 1,376,150	$ 1,567,350	13.9%
R7	179	$ 732,100	$ 815,100	11.3%
R8	53	$ 927,600	$ 1,053,200	13.5%
R9	1	$ 537,700	$ 726,400	35.1%
R10	1	$ 3,215,600	$ 3,402,000	5.8%
R11	17	$ 1,210,000	$ 1,328,600	9.8%
R12	117	$ 745,000	$ 816,100	9.5%
R13	159	$ 847,200	$ 910,700	7.5%
R14	40	$ 972,150	$ 1,106,700	13.8%
R16	46	$ 1,029,700	$ 1,117,650	8.5%
R17	59	$ 799,900	$ 914,300	14.3%


Residential Tax Districts
FY 2015
City of Cambridge, Massachusetts
Cambridge Assessor's Office
North Cambridge
Cambridge Highlands
Fresh Pond
Strawberry Hill
Neighborhood 10
Neighborhood 9
Agassiz
Mid Cambridge
Riverside
Cambridgeport
Wellington Harrington
East Cambridge
Area IV
MIT Area 2
Charles River
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
Mass Ave
Rindge Ave
Concord Ave
Garden St
Walden St
Pemberton St
Fresh Pond Pky
Huron Ave
Aberdeen Ave
Brattle St
Mount Auburn St
Kirkland St
Ellery St
DeWolfe St
Prospect St
Windsor St
Cambridge St
Western Ave
Main St
Broadway St
Pleasant St
Brookline St
Vassar St
Memorial Dr
0
2,100
4,200
6,300
Feet