

**City Manager's message to City Council for September 26, 2005 tax rate hearing**

September 26, 2005

To The Honorable, the City Council:

The establishment of the FY06 property tax rate by the Board of Assessors, subject to the approval of the Massachusetts Department of Revenue, is the final step in the annual fiscal process that begins in the Spring of each year 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, to the fullest extent legally possible, the taxes on residential properties. In addition, you will find an analysis of the FY2006 property tax levy, property values and other supporting information.

**OVERVIEW**

I am pleased to inform you that the actual FY06 property tax levy reflects no increase from FY05. The FY06 Budget adopted by the City Council in April, projected a property tax levy increase of \$5.5 million or 2.5% (the lowest increase in a decade) to \$228,470,842 in order to fund operating and capital expenditures. However, based on the continued growth in non-property tax revenues (motor vehicle excise, hotel/motel tax, and interest earnings) and an increase in the City's undesignated fund balance (also know as free cash), I am recommending that the \$5,510,552 increase be funded by these increased revenue sources instead of property taxes (see chart below). **Therefore, the final levy for FY2006 is \$222,960,290, a 0% increase.** This is the first time since FY96 that the property tax levy has not increased.

<b>Tax Levy Adjustments</b>	<b>Amount</b>
State Aid Adj. (Actual)	- \$ 108,201
Additional Free Cash	- \$4,000,000
Revenue Increases	- \$1,412,641
Overlay Adjustment	<u>+10,290</u>
<b>Net Decrease</b>	<b>- \$5,510,552</b>

As a result, the FY06 residential tax rate is \$7.38 per thousand of value, which is a decrease of \$0.40, or 5.1% from FY05. The commercial tax rate is \$17.86, which is a decrease of \$0.42, or 2.3% from FY05.

In addition, this recommendation includes the use of \$8 million in reserve accounts to lower the property tax levy. This includes \$6 million from free cash and \$2 million from overlay surplus. Also, \$2 million from the Debt Stabilization Fund was used to offset increases in the debt services that would otherwise have been funded from property taxes.

As a result, 76% of residential taxpayers will see a reduction (46%), no increase or an increase of less than \$100 (30%) in their FY06 tax bill.

**TABLE I  
Change in the Residential Taxes Bills\***

<b>Change in Tax Payment</b>	<b>Number of Parcels</b>	<b>Percentage</b>
Less than \$0	8,212	46.2%
> \$0 and less than \$100.00	5,313	29.9%
>\$100.00 less than \$250.00	3,299	18.5%
>\$250.00 and less than \$500.00	649	3.6%
Greater than \$500.00	312	1.8%
<b>Totals</b>	<b>17,785</b>	<b>100%</b>

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

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 all 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, since the reserves would no longer be available, or dramatically reduce expenditures (services). The City cannot spend its entire reserves twice. The City's prudent and planned use of its reserves has been positively recognized by the three major credit rating agencies which are reflected in our AAA credit rating.

The City Council and City Administration realized that the FY05 increase in property values and taxes placed a burden on some property owners. We have taken steps over the last year to address these concerns, including:

- Adopting in March 2005 a 0% water rate increase and a 7.5% sewer rate increase to produce a combined rate increase of 4.8% which was well below the 9% projected
- Adopting a FY06 Budget with a 0% property tax levy increase
- Strategically using an increased amount of non-property tax revenues and reserves to lower property taxes without jeopardizing our long-term fiscal health
- Refining our mass appraisal model to reflect legitimate concerns raised by homeowners regarding their property values
- Appointing a special Committee on Taxation, at the request of the City Council, to explore potential changes to property tax legislation and opportunities for alternative revenue sources to fund the Budget. This Committee is actively reviewing proposals and hopes to submit them soon to the City Council for consideration
- Issuing three newsletters to better inform residents about the Budget, how property taxes are determined, an update and explanation of FY06 taxes and property values, answers to frequently asked questions, and information about the abatement and exemption application process.

It is my belief that we have collectively listened to the taxpayers and residents through these actions and have responded effectively.

#### **AVERAGE AND MEDIAN TAX BILLS**

The analysis below explains in further detail how the City determines property values and property tax rates for FY2006.

There are three major factors which determine a property tax bill. These factors are: The Budget, Commercial-Residential Property Tax Classification and Property Values. As discussed below, all 3 factors contributed to lower tax bills for many homeowners.

The Budget: If the City Council adopts the proposed recommendations there will be no increase in the property tax levy required to balance the FY06 Budget.

Commercial-Residential Property Tax Classification: As a result of commercial values increasing more than residential values for the first time in recent years, and residential values moderating, the share of property taxes paid by commercial taxpayers will increase as a result of tax classification, which allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. In FY06, the commercial property owners will pay 63.2% of the property tax levy, an increase from the 61.3% share in FY05. Consequently, residential property owners' share of the FY06 tax levy is 36.8%, down from 38.7% in FY05.

Property Values: FY05 was a state mandated re-valuation year, which required the City to certify that property values represented full and fair market value. Based on the market conditions, some residential property owners saw a significant increase in their property values in FY05. However, based on market activity in calendar 2004 which is the basis of the FY06 property assessment, increases in total residential property values have moderated (less than 1% overall). This factor, coupled with the City's ability to better analyze and incorporate adjustments to residential values using the new mass appraisal model, has allowed the City to make changes to various assessment districts or to eliminate some altogether to better reflect values.

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

	<b>FY05 Value</b>	<b>FY05 Tax Bill</b>	<b>FY06 Value</b>	<b>FY06 Tax Bill</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Single Family	\$958,593	\$5,800	\$972,698	\$5,631	(\$169)	(2.9%)
Condominium	\$406,869	\$1,507	\$414,125	\$1,509	(\$ 2)	(0%)
Two Family	\$816,944	\$4,698	\$748,982	\$3,980	(\$718)	(15.3%)
Three Family	\$836,538	\$4,850	\$816,926	\$4,481	(\$369)	(7.6%)

\* Includes Residential Exemption

**TABLE III**  
**Percentage of Properties Above/Below Average Value**

	<b>Below</b>	<b>Above</b>
Single Family	71%	29%
Condominium	64%	36%
Two Family	63%	37%
Three Family	57%	43%

The chart below shows the change in the median tax bills by property class. The median value is the mid-point value, which has an equal number of values below and above it, and better reflects changes in value because it is a more stable measure.

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

	<b>FY05 Value</b>	<b>FY05 Tax Bill</b>	<b>FY06 Value</b>	<b>FY06 Tax Bill</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Single Family	\$637,300	\$3,300	\$651,600	\$3,261	(\$39)	(1.2%)
Condominium	\$352,400	\$1,083	\$365,850	\$1,152	\$69	6.37%
Two Family	\$655,900	\$3,445	\$669,100	\$3,390	(\$55)	(1.6%)
Three Family	\$769,900	\$4,332	\$781,100	\$4,217	(\$115)	(2.7%)

\* Includes Residential Exemption

**CITY-WIDE ASSESSED VALUES**

FY06 values are based on market activity that occurred during calendar year 2004 which saw a modest increase in Residential Real Estate valuation (less than 1% overall) coupled with an increase in Commercial Real Estate valuation (5.5% overall). This is a reverse of the trend of escalating residential values outpacing commercial values. The commercial market has stabilized in both rental rates and vacancies in office buildings. The major component of the commercial value, however, has been continued new construction of life science buildings and taxable personal property associated with these developments. As a result, the tax burden has been shifted slightly back to the commercial taxpayers from the residential taxpayers which was the opposite case in the past two years.

For FY2006, the total assessed value of taxable property in the City of Cambridge totals \$21,846,898,010, a 2.3% increase over FY2005 values. The Tables below break out new value and taxes paid due to new construction by property type.

**TABLE V**  
**New Construction Breakdown in FY2006**

<b>Property Class</b>	<b>New Value</b>	<b>FY2006 Taxes Paid By New Value</b>
Commercial Property	\$405,926,366	\$ 7,249,845
Personal Property	\$210,258,130	\$ 3,755,210
Residential Property	\$289,716,745	\$ 2,138,110
<b>Total New Growth</b>	<b>\$905,901,241</b>	<b>\$13,143,165</b>

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

	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>
Commercial Property	\$ 6,215	\$ 6,563	\$ 6,625	\$ 7,010	\$ 7,280
Personal Property	\$ 305	\$ 368	\$ 444	\$ 467	\$ 605
Residential Property	\$10,317	\$10,820	\$12,158	\$13,871	\$13,962
<b>Total Assessed Value</b>	<b>\$16,837</b>	<b>\$17,751</b>	<b>\$19,227</b>	<b>\$21,348</b>	<b>\$21,847</b>

For FY06, the City was able to increase its levy limit by approximately \$20.4 million, to \$288 million. Approximately \$13.5 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 FY2006 value of newly constructed or renovated property multiplied by the FY2005 tax rate. The remaining \$6.9 million is the 2.5 percent increase over the FY2005 levy allowed by Proposition 2½ plus a revised new value calculation from FY2005. The City's excess levy capacity increased by 45.6% to \$65 million in FY06.

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

	<b>Actual FY02</b>	<b>Actual FY03</b>	<b>Actual FY04</b>	<b>Actual FY05</b>	<b>Estimated FY06</b>
Levy Limit	\$217,907	\$233,914	\$251,018	\$267,653	\$288,048
Actual Levy	\$187,445	\$197,721	\$209,599	\$222,953	\$222,960
% Actual Levy Increase over Prior Year	5.0%	5.5%	6.0%	6.4%	0%
Excess Levy Capacity	\$ 30,462	\$ 36,193	\$ 41,419	\$ 44,700	\$ 65,088
% Actual Excess Levy Increase Over Prior Year	28.4%	18.8%	14.4%	7.9%	45.6%

In addition to providing greater flexibility under Proposition 2 1/2, tax payments from newly constructed properties also work to mitigate increases on existing properties.

For a detailed listing of tax bill changes by district please see Attachment 1.

### **FY2006 VALUATION PROCESS**

During the FY05 the Board of Assessors conducted a mass revaluation of all property within the City of Cambridge using new residential and commercial valuation models. The City chose FY05 to coincide with the Commonwealth of Massachusetts Department of Revenue mass appraisal review and certification to ensure a complete and thorough review of the new valuation models.

The new valuation model was based upon sales of property that had taken place during calendar year 2003 to establish the market value of all property as of January 1, 2004. The market data indicated that some assessing neighborhoods had been historically under assessed because of the limited sales sample size. The small sales sample occasionally skewed the values and did not allow for a reliable indication of value to be shown, thereby underestimating the assessed value when using a citywide average for those districts. The new valuation models introduced in FY05 used all sales data to indicate the market value for the improvements and then establish the proper land value in each district. The end result was an assessed value which was far more indicative of the true market value of Cambridge real estate. The unfortunate part of the reappraisal process is that some taxpayers saw large increases in the assessed value of their homes and, consequently, in their real estate tax bills. Although the impacted taxpayers were benefiting for a number of years from lower assessed values and, therefore, lower real estate taxes, the end result was difficult for many individuals. The Board of Assessors appeared on three occasions at City Council meetings to explain in depth about the impact of the new valuation system and how taxpayers could ensure they were now correctly assessed. Over 1,600 property owners took advantage of the real estate tax abatement process allowing the Board of Assessors a chance to inspect the property and review the data information to ensure accuracy.

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. Using the FY05 model and first half of calendar year 2004 sales data the model showed the following results:

<b>Property Type</b>	<b>Sale Count</b>	<b>Mean Sale Price</b>	<b>Mean Assessment</b>	<b>Assessment Ratio</b>
<b>Single Family</b>	<b>155</b>	<b>\$944,064</b>	<b>\$874,614</b>	<b>94%</b>
<b>Two Family</b>	<b>68</b>	<b>\$704,455</b>	<b>\$660,794</b>	<b>94%</b>
<b>Three Family</b>	<b>30</b>	<b>\$868,219</b>	<b>\$813,267</b>	<b>96%</b>
<b>Condominiums</b>	<b>624</b>	<b>\$439,706</b>	<b>\$398,976</b>	<b>92%</b>

The chart above shows that the FY05 assessed values were at 92-96% of calendar 2004 sales which means that assessed estimate of values were below actual market sales.

Although the calendar year 2004 sales demonstrated that the FY05 model was an accurate representation using overall property class statistics, the individual neighborhoods were not as consistent and required review. As a result, the FY06 sales data from calendar year 2004 real estate market has been utilized along with what was learned from the prior year abatement activity to establish the FY06 assessed values as of January 1, 2005. The FY05 valuation model relied upon the long established assessing valuation districts. These districts were created prior to the current advancements in technology. New technologies, such as the Geographical Information System (GIS), allow for a more in-depth review of data. Using GIS, the Board of Assessors has been able to visually view the market activity and thereby redefine the assessing districts using this information. For FY06, the number of

assessing districts was reduced from 21 to 18 which allowed for larger sample sizes and smoother transitions between neighborhoods.

Several other modifications were made including changes in the size adjustment curve and expansion of the difference in the condition factors. Another major change was to reclassify some large two unit homes from two family use to single family use with a small secondary unit. This change resulted in the model not comparing traditional two families to homes which derive their value from the larger main section of the dwelling with an average assessment in the \$3,500,000 range. In addition, approximately 3,250 inspections were completed along with a detailed field review of property. These inspections serve to insure consistency within neighborhoods and across the city.

The analyses 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 approximately 22,000 parcels, the Assessors used a state-of-the-art Computer Assisted Mass Appraisal system (CAMA) developed by the Vision Appraisal Technology, which continued a higher level of technology first employed in FY05. Market adjusted cost approach models, extracted from residential sales for calendar year 2004, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of 1267 houses and condominium units were analyzed to develop these valuation models by property type (one-family, two-family, three-family, and condominium units). The FY06 real property assessments reflect the resultant analysis of the real estate market for the calendar year 2004.

**COMMUNITY PRESERVATION ACT SURCHARGE**

In November of 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 protection of open space. The local portion of CPA funding is raised through a 3% surcharge on taxes. To date, the City has appropriated/reserved a total of \$47.1 million in CPA funds. The City has received \$15.9 million in state matching funds through FY05 and expects to receive an additional \$5,900,000 in October 2005.

The CPA surcharge has an essentially neutral impact on tax bills because funding of affordable housing, historic preservation and open space initiatives has been shifted from the tax levy to the surcharge. The City continues to allocate a similar amount of local funds to these initiatives. However, the state match has enabled the City to double the amount of funding appropriated for these initiatives. To date, Cambridge has received more CPA matching funds from the Commonwealth than any other participating community. Consequently, Cambridge residents will benefit from important housing, historic preservation and open space initiatives throughout the City for years to come.

**TABLE VIII  
Community Preservation Act Surcharge**

	<b>FY05 Average CPA Surcharge Amount</b>	<b>FY06 Average CPA Surcharge Amount</b>	<b>FY06 Average Tax</b>	<b>FY06 Average Tax &amp; CPA Surcharge Amount</b>
Single Family	\$136	\$147	\$5,631	\$5,778
Condominium	\$ 20	\$ 23	\$1,509	\$1,532
Two Family	\$106	\$ 97	\$3,980	\$4,077
Three Family	\$111	\$112	\$4,481	\$4,593

**RECOMMENDATIONS**

1. That the City Council authorize the further use of Free Cash of \$10,061,000 to offset the 2006 tax rate as follows:
  - a. Operating Budget: \$ 2,731,000 as adopted in the FY2006 Budget
  - b. Public Investment: \$ 1,330,000 as adopted in the FY2006 Budget
  - c. Tax Support Reduction: \$6,000,000 an Increase of \$4.0 million from FY05
  
2. 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 57.6419%.

3. 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 \$7.38 and commercial tax rate of \$17.86 upon final approval by the Massachusetts Department of Revenue.
4. That the City Council vote to double the normal value of the statutory exemptions.
5. That the City Council vote to increase the FY2006 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from \$236.30 to \$242.92, as allowed by state statute.
6. That the City Council vote to increase the income limit for deferral of real estate taxes by elderly persons from \$20,000 to \$40,000, as allowed under MGL Chapter 59, Section 5, Clause 41A.
7. That the City Council vote to authorize \$2,000,000 in overlay surplus/reserve be used for reducing the FY06 tax levy.
8. That the City Council vote to authorize \$2,000,000 from the Debt Stabilization Fund be used as a revenue source to the General Fund Budget which was included in the FY06 Adopted Budget.

#### **ISSUES/REQUIRED VOTES**

- **Authorize \$10,061,000 in Free Cash.** For the fiscal year that ended June 30, 2005, the City of Cambridge has a certified Free Cash balance of \$53,554,528, an increase of approximately \$18.7 million from FY2005. This increase in free cash is attributable to a strong year in non-property tax collections, monitoring and controlling expenditures and implementing a process to better match bonding schedules with cash flow requirements in order to minimize temporary capital balance shortfalls which can impact free cash negatively.

The \$10,061,000 in the Free Cash authorization requested at this time reflects a \$4 million increase from the initial estimate developed during the budget process because of the significant increase in the free cash balance. Therefore, this additional \$4,000,000, when coupled with the \$2,000,000 already planned for, will mean that the City will use \$6,000,000 from its free cash balance in order to reduce the property tax levy increase.

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.

- **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:
  1. 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
  2. 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 57.6419% this year will be a residential property share of the total tax levy of 36.8372%. Commercial property will pay 63.1628% of the levy, which brings the commercial portion of the levy to 175% of what it would be with a single tax rate.

- **Residential Exemptions.** Home Rule Legislation allowing the City of Cambridge 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 FY2005 there are approximately 13,500 resident exemptions on the Assessing Department files. Overall, 89% of the owner occupied homes benefit from the 30% residential exemption. If Cambridge did not adopt a residential exemption, the residential tax rate would be \$5.88 instead of \$7.38. The higher tax rate results in a "break-even" value over which the higher valued residential properties are assessed

for higher taxes than would be the case if there were no residential exemption. In FY2006, the break-even value is \$1,031,662.

<b>30% Residential Exemption</b>			
	<u>FY2004</u>	<u>FY2005</u>	<u>FY2006</u>
Value Exempted	\$190,676.00	\$213,151.00	\$209,688.00
Tax Savings	\$ 1,454.86	\$ 1,658.31	\$ 1,547.50

- Double Statutory Exemptions.** 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 amounts 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 FY2006, as it has since FY1987.

The second, enacted in 1995, allows cities and towns 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 CPI increase for FY2006, which was published by the DOR for exemption purpose, is 2.8%. Applying this percentage increase to the FY2005 exemption of \$236.30 raises the exemption to \$242.92.

- Increase Income Limit for Tax Deferral.** Another form of tax relief available to property owners under state law is found in Clause 41A of Section 3, Chapter 59. This statute allows taxpayers over 65 years old to defer tax payment until they are deceased or the property is transferred. The statutory income limit for this deferral is \$20,000, which may be increased to \$40,000 by local legislative action. I am recommending that the City Council take this action.
- 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 \$23 million in overlay accounts with an estimate of potential overlay surpluses of \$20 million as of June 30, 2004 per the City's audited statements. It is expected that the potential overlay surplus as of June 30, 2005 will not change significantly. 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. However, based upon the overall size of the overlay surplus, I am recommending that the City use \$2 million of this surplus to decrease the tax levy. Based on the level of the current surplus, the City would continue to use \$2 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. This same approach was instituted a few years ago in the use of free cash (\$2 million) to reduce the tax levy on annual basis.

- Authorize \$2,000,000 in Debt Stabilization Funds.** In recognition of increases in debt service costs related to major capital projects such as the main library, the City established a Debt Stabilization Fund and has made contributions to it over several years. The balance in this Stabilization Fund is approximately \$9.2 million. The Adopted FY06 Budget uses \$2 million from this source to fund increases in debt service costs.

## CONCLUSION

As noted in the introduction, the City Council and City Administration realized that the FY05 increase in property values and taxes placed a burden on some property owners and we have taken several steps over the last year to address these concerns. In addition, I believe that we have paid attention to the newest City Council goal which is to "Evaluate city expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers" during the last budget process and with a FY06 tax levy that reflects no increase.

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 maximum 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 equals the tax rate for FY2006.

Overall, continued sound financial management and planning has enabled the City Council to limit the growth of the residential property taxes. In addition, with City Council approval the City will use \$8 million in FY06 to lessen the amount to be raised from the property tax levy, which translates into a lower property tax burden to the taxpayers of the City.

I believe that lessening the tax burden on our taxpayers is a prudent use of our 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.

FY2005 was another strong year for the finances of the City: with the excess levy capacity again increasing; actual revenues above projections; and increased total assessed values. These strong financial indicators combined with a AAA credit rating provide the City with enormous flexibility to respond to many of the needs facing this community that the great majority of our residents expect from the City without sacrificing our fiscal stability and flexibility. By adhering to the proven fiscal policies that have served us so well in the past, we can continue to ensure a stable fiscal future for Cambridge.

Very truly yours,  
Robert W. Healy  
City Manager

**Attachments:**

**FY06 Single Family Assessment Data**

NBHD	COUNT	FY05	FY06	Change
R1	388	378,050	388,350	2.72%
R2	209	404,700	414,300	2.37%
R3	213	748,400	744,000	-0.59%
R4	82	765,050	789,650	3.22%
R5	51	2,193,500	2,313,200	5.46%
R6	324	1,349,100	1,305,950	-3.20%
R7	646	435,400	452,650	3.96%
R8	218	685,850	640,400	-6.63%
R9	201	1,100,000	1,025,300	-6.79%
R10	328	2,723,300	2,582,850	-5.16%
R11	164	1,059,850	1,088,950	2.75%
R12	176	517,450	540,700	4.49%
R13	233	518,400	548,900	5.88%
R14	114	933,800	904,000	-3.19%
R15	33	655,800	705,100	7.52%
R16	145	844,200	822,700	-2.55%
R17	34	582,600	641,350	10.08%
R18	142	546,700	568,550	4.00%

**FY06 Two Family Assessment Data**

NBHD	COUNT	FY05	FY06	Change
R1	311	428,800	447,800	4.43%
R2	198	488,750	502,100	2.73%
R3	237	929,300	879,700	-5.34%
R4	48	1,009,350	1,006,900	-0.24%
R5	20	3,048,100	2,619,300	-14.07%
R6	103	1,328,200	1,205,200	-9.26%
R7	681	573,000	596,800	4.15%
R8	242	718,350	711,250	-0.99%
R9	15	1,114,300	1,024,100	-8.09%
R10	20	2,531,700	2,390,050	-5.60%
R11	42	1,214,300	1,220,050	0.47%
R12	187	598,800	626,000	4.54%
R13	247	655,800	680,900	3.83%
R14	253	986,900	892,900	-9.52%
R15				
R16	96	976,150	911,100	-6.66%
R17	25	616,800	651,100	5.56%
R18	124	676,250	690,950	2.17%

**FY06 Three Family Assessment Data**

NBHD	COUNT	FY05	FY06	Change
R1	262	556,800	576,700	3.45%
R2	174	679,300	686,400	1.01%
R3	143	1,098,800	1,034,600	-5.04%
R4	31	1,150,900	1,149,900	0%
R5	4	2,982,550	2,867,150	-3.87%
R6	42	1,480,450	1,398,000	-5.57%
R7	214	711,200	731,600	2.87%
R8	68	1,002,500	952,400	-5.0%
R9	1	694,200	647,100	-6.78%
R10	1	3,569,100	3,225,700	-9.62%
R11	18	1,252,200	1,188,700	-5.07%
R12	133	752,100	759,600	1.0%
R13	183	781,300	789,000	1%
R14	54	954,700	992,300	3.94%
R15				
R16	51	1,066,300	1,015,400	-4.77%
R17	3	722,800	767,100	6.13%
R18	68	818,950	818,000	0%

**FY06 Condominium Assessment Data**

NBHD	COUNT	FY05	FY06	Change
R1	1,142	389,600	392,700	0.08%
R2	398	308,900	329,450	6.65%
R3	1,728	340,600	351,700	3.26%
R4	628	296,250	315,500	6.50%
R5	7	916,200	936,000	2.16%
R6	1,581	322,000	333,300	3.51%
R7	1,076	318,300	335,200	5.31%
R8	285	432,300	442,900	2.45%
R9	40	430,350	447,350	3.95%
R10	35	1,253,100	1,207,400	-3.65%
R11	482	566,250	600,850	6.11%
R12	729	370,000	381,000	2.97%
R13	750	329,650	341,950	3.73%
R14	266	451,350	471,700	4.51%
R15				
R16	317	365,600	375,100	2.60%
R17	29	318,700	339,600	6.56%
R18	290	429,700	426,000	-0.86%