CITY OF CAMBRIDGE • EXECUTIVE DEPARTMENT

Robert W. Healy, City Manager *Richard C. Rossi, Deputy City Manager*

September 25, 2006

To The Honorable, the City Council:

The establishment of the FY07 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 FY07 property tax levy, property values and other supporting information.

OVERVIEW

I am pleased to inform you that the actual FY07 property tax levy of $231,787,094 reflects an $8,826,803 or 3.96% increase from FY06. The FY07 Budget adopted by the City Council in May, projected a property tax levy increase of $12.3 million or 5.5% to $235,278,123 in order to fund operating and capital expenditures. At that time I informed the City Council that an actual tax levy increase of less than 5% was likely, based on potential additional state aid that would be available once the State finalized its FY07 budget and anticipated additional non-property tax revenues that would be available based on FY06 actual collections.

These assumptions proved correct. A reduction of $3,491,029 from the original projected property tax levy was possible because of continued growth in non-property tax revenues, an increase in the City's undesignated fund balance (also known as "free cash"), an increase in Parking Fund revenues, an increase in state aid, and an overlay adjustment. The resulting final property tax levy for FY07 is $231,787,094, an increase of 3.96%. This is the lowest percentage increase since FY2000, excluding last year.

Tax Levy Adjustments	Amount
Revenue Increases	- $944,099
Additional Free Cash	- $1,000,000
Additional Parking Fund Revenues	-$500,000
State Aid Adj. –Revenues and Assessments (Actual)	- $974,024
Overlay Adjustment	-$72,906
Net Decrease	**- $3,491,029**

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

Based on a property tax levy of $231.8 million, the FY07 residential tax rate is $7.48 per thousand of value, which is an increase of $0.10, or 1.36% from FY06. The commercial tax rate is $18.30, which is an increase of $0.44, or 2.46% from FY06.

As a result, approximately 65% of residential taxpayers will see a reduction, no increase or an increase of less than $100 in their FY07 tax bill. In fact, about 19.2% will see a reduction in their tax bill. An additional 45.6% will see either no change or an increase of less than $100.

TABLE I
Change in the Residential Taxes Bills*

Change in Tax Payment	Number of Parcels	Percentage
Less than $0	3,494	19.2%
> $0 and less than $100.00	8,298	45.6%
>$100.00 less than $250.00	4,349	23.9%
>$250.00 and less than $500.00	1,401	7.7%
Greater than $500.00	655	3.6%
Totals	18,197	100%

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

I am also recommending that $8 million from free cash be appropriated to the City's Debt Stabilization Fund to offset potential additional debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center, War Memorial and CRLS renovations) as a result of higher construction costs. This one-time appropriation will help stabilize tax levy increases related to these projects in future years. For the fiscal year that ended June 30, 2006, the City of Cambridge has a certified Free Cash balance of $68,010,377, an increase of approximately $14.5 million from FY06.

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, and is reflected in our AAA credit rating.

MEDIAN TAX BILLS

The analysis below explains in further detail how the City determines property values and property tax rates for FY07.

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 three factors contributed to lower tax bills for many homeowners.

The Budget: If the City Council adopts the proposed recommendations, there will be 3.96% increase in the property tax levy required to balance the FY07 Budget.

Commercial-Residential Property Tax Classification: Tax classification allows municipalities to tax commercial taxpayers at a higher rate than residential taxpayers. As a result of commercial values increasing more than residential values, and residential values moderating, the share of property taxes paid by commercial taxpayers will increase. In FY07, the commercial property owners will pay 63.4% of the property tax levy, an increase from the 63.2% share in FY06. Consequently, residential property owners' share of the FY07 tax levy is 36.6%, down from 36.8% in FY06.

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. Based on market activity in calendar 2005 which is the basis of the FY07 property assessment, increases in total residential property values have moderated (approximately 1.2% overall). Conversely, increases in total commercial property values have increased 1.9%. This is the second year in a row during which commercial values have increased more than residential values. These factors, coupled with the City's improved ability to analyze and incorporate adjustments to residential values using the new mass appraisal model, have allowed the City to make changes to various assessment districts or to eliminate some altogether to better reflect values.

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.

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

	FY06 Value	FY06 Tax Bill	FY07 Value	FY07 Tax Bill	Dollar Change	Percent Change
Single Family	$651,600	$3,261	$674,800	$3,522	$261	8.0%
Condominium	$365,850	$1,152	$366,800	$1,218	$66	5.7%
Two Family	$669,100	$3,390	$669,100	$3,479	$89	2.6%
Three Family	$781,100	$4,217	$758,500	$4,148	($69)	(-1.6%)

* Includes Residential Exemption

CITY-WIDE ASSESSED VALUES

FY07 values are based on market activity that occurred during calendar year 2005, during which the overall valuation of the City's residential property increased by a modest 1.2% and the overall valuation of commercial property increased by 1.9%. During the past two years, the commercial market has stabilized in both rental rates and vacancies in office buildings. The major component of the increased commercial value, however, continues to be new construction of life science buildings and the personal property associated with these developments.

For several years prior to FY06, escalating residential values outpaced increases in commercial value, resulting in a shift of the tax burden from commercial to residential property owners. However, in FY06, this trend reversed. In FY07, the continued strong commercial market, coupled with the slow-down in residential property value increases has resulted in the tax burden shifting slightly back to commercial taxpayers from residential taxpayers for the second year in a row.

For FY07, the total assessed value of taxable property in the City of Cambridge equals $22,167,135,334, a 1.5% increase over FY06 values. The Tables below break out new construction value and tax base levy growth due to new construction by property type. Additionally, new construction growth has allowed for a further shift in taxes from the residential taxpayer for the second year in a row and increases the City's excess levy capacity overall.

TABLE III
New Construction Breakdown in FY2007

Property Class	New Value	FY07 Tax Base Levy Growth (New Growth)
Commercial Property	$225,694,353	$ 4,130,207
Personal Property	$202,319,670	$ 3,702,450
Residential Property	$339,117,857	$ 2,536,602
Total New Growth	**$767,131,880**	**$10,369,259**

TABLE IV
Assessed Values
(in millions)

	FY03	FY04	FY05	FY06	FY07
Commercial Property	$ 6,563	$ 6,625	$ 7,010	$ 7,280	$ 7,372
Personal Property	$ 368	$ 444	$ 467	$ 605	$ 659
Residential Property	$10,820	$12,158	$13,871	$13,962	$14,136
Total Assessed Value	**$17,751**	**$19,227**	**$21,348**	**$21,847**	**$22,167**

For FY07, the City was able to increase its levy limit by approximately $17.4 million, to $305 million. Approximately $10.2 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 FY07 value of newly constructed or renovated property multiplied by the FY06 tax rate. The remaining $7.2 million is the 2.5 percent increase over the FY06 levy allowed by Proposition 2½ plus a revised new value calculation from FY06. The City's excess levy capacity increased by $8.6 million, or 13.2%, to $73.7 million in FY07.

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

	Actual FY03	**Actual FY04**	**Actual FY05**	**Actual FY06**	**Estimated FY07**
Levy Limit	$233,914	$251,018	$267,653	$288,048	$305,445
Actual Levy	$197,721	$209,599	$222,953	$222,960	$231,787
% Actual Levy Increase over Prior Year	5.5%	6.0%	6.4%	0%	3.96%
Excess Levy Capacity	$ 36,193	$ 41,419	$ 44,700	$ 65,088	$ 73,658
% Actual Excess Levy Capacity Increase Over Prior Year	18.8%	14.4%	7.9%	45.6%	13.2%

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 assessment changes by district please see Attachment 1.

FY2007 VALUATION PROCESS

Each year, the Board of Assessors conducts a reappraisal of all property within the City of Cambridge using the residential and commercial valuation models first introduced in FY05. 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 FY07 valuation model is based upon sales of property that occurred during calendar year 2005 to establish the market value of all property as of January 1, 2006. Once again in FY07 the number of residential assessing districts has been reduced to create a larger sales sample size. The small districts with a limited 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 end result is an assessed value, which is far more indicative of the true market value of Cambridge real estate.

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 FY06 model to calendar year 2005 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	**140**	**$804,250**	**$716,400**
Two Family	**56**	**$690,000**	**$643,300**
Three Family	**21**	**$785,000**	**$751,200**
Condominiums	**784**	**$410,000**	**$392,400**

The assessment ratios were at 92-95% of calendar 2005 sales, which means that assessed estimate of values for FY06 were below actual market sales.

Although the calendar year 2005 sales demonstrated that the FY06 model was an accurate representation using overall property class statistics, the individual neighborhoods were not as consistent and required review. As a result, the FY07 sales data from calendar year 2005 real estate market has been utilized along with what was learned from the prior year abatement activity to establish the FY07 assessed values as of January 1, 2006. Using new 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 the market activity and thereby redefine the assessing districts using this information. For FY07, the number of assessing districts was reduced from 18 to 17, 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. In addition, approximately 3,400 inspections were completed along with a detailed field review of property. These inspections serve 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 approximately 22,000 parcels, the Assessors uses a state-of-the-art Computer Assisted Mass Appraisal system (CAMA) developed by Vision Appraisal Technology. Market adjusted cost approach models, extracted from residential sales for calendar year 2005, were refined to best reflect the equity of comparable properties as demonstrated in the various neighborhoods. Sales of 1,466 houses and condominium units were analyzed to develop these valuation models by property type (one-family, two-family, three-family, and condominium units). The FY07 real property assessments reflect the resultant analysis of the real estate market for the calendar year 2005.

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 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 $59.6 million in CPA funds. The City has received $21.8 million in state matching funds through FY06 and expects to receive an additional $5.9 million in October 2006.

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 VII
Community Preservation Act Surcharge

	FY06 Median CPA Surcharge Amount	FY07 Median CPA Surcharge Amount	FY07 Median Tax	FY07 Median Tax & CPA Surcharge Amount
Single Family	$ 76	$ 83	$3,522	$3,605
Condominium	$ 12	$ 14	$1,218	$1,232
Two Family	$ 80	$ 82	$3,479	$3,561
Three Family	$104	$102	$4,148	$4,250

RECOMMENDATIONS

1. That the City Council appropriate $8,000,000 from Free Cash to the City's Debt Stabilization Fund.

2. That the City Council authorize the further use of Free Cash of $17,000,000 to set the 2007 tax rate as follows:

   a. Operating Budget: $ 2,000,000 — as adopted in the FY07 Budget
   b. Public Investment: $ 1,000,000 — as adopted in the FY07 Budget
   c. Tax Support Reduction: $6,000,000
   d. Debt Stabilization Fund: $8,000,000 — see appropriation order

3. That the City Council vote to authorize $2,000,000 in overlay surplus/reserve be used for reducing the FY07 tax levy.

4. 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 FY07 Adopted Budget.

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 57.3857%.

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 $7.48 and commercial tax rate of $18.30 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 FY07 exemption allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17D from $243.00 to $251.00.

9. That the City Council vote to increase the FY07 asset limits allowed under Massachusetts General Laws (MGL) Chapter 59, Section 5, Clause 17E from $48,372 to $49,968.

10. That the City Council vote to increase the FY07 income and assets limits. Income limits of $20,000 to $20,660 for those that are single and $30,000 to $30,990 for those that are married, asset limits of $40,000 to $41,320 for those that are single and $55,000 to $56,815 for those that are married, as allow under MGL, Chapter 59, Section 5, Clause 41D.

11. 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.

12. That the City Council, as recommended by the Special Committee on Taxation, vote to lower the annual simple interest rate from 8% to 4% for deferral of real estate taxes by elderly persons, as allowed under MGL Chapter 59, Section 5, Clause 41A.

ISSUES/REQUIRED VOTES

- **Authorize the use of $8,000,000 in Free Cash**. This Free Cash authorization of $8,000,000 to the City's Stabilization Fund will be used to offset potential additional debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center, War Memorial and CRLS renovations) as a result of higher construction costs. This one-time appropriation will help stabilize tax levy increases related to these projects in future years. It should be noted that the $17 million authorization detailed below includes this $8 million.

- **Authorize $17,000,000 in Free Cash.** For the fiscal year that ended June 30, 2006, the City of Cambridge has a certified Free Cash balance of $68,010,377, an increase of approximately $14.456 million from FY2005. This increase in free cash is attributable to another strong year in non-property tax collections, increased investment income and effectively monitoring and controlling expenditures and matching bonding schedules with cash flow requirements in order to minimize temporary capital balance shortfalls which can impact free cash negatively.

  The $17,000,000 in the Free Cash authorization requested at this time includes the one-time appropriation of $8,000,000 to the City's Stabilization Fund to offset potential additional debt service costs in future years for the City's major capital projects (Main Library, Public Safety Facility, West Cambridge Youth and Community Center, War Memorial and CRLS renovations) as a result of higher construction costs. This one-time appropriation will help stabilize tax levy increases related to these projects in future years. The authorization also includes a $1 million increase from the initial estimate developed during the budget process because of the significant increase in the free cash balance. Therefore, this additional $1,000,000, when coupled with the $5,000,000 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. In addition, $3 million in free cash is used in the FY07 Budget as a revenue source.

  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 $19.5 million in overlay balances as of June 30, 2006. 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 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 several years ago in the use of free cash ($2 million) to reduce the tax levy on an annual basis, which was increased to $6 million in FY06.

- **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 $7.5 million. The Adopted FY07 Budget uses $2 million from this source to fund increases in debt service costs.

- **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 57.3857% this year will be a residential property share of the total tax levy of 36.5936%. Commercial property will pay 63.4064% 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 FY2006 there are approximately 13,715 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 $6.00 instead of $7.48. 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 FY07, the break-even value is $1,030,900.

  30% Residential Exemption

	FY2005	FY2006	FY2007
Value Exempted	$213,151.00	$209,688.00	$203,975.00
Tax Savings	$ 1,658.31	$ 1,547.50	$ 1,525.73

  Although the slowdown in residential values has allowed commercial property owners to pay a larger share of the total real estate tax, it has also has reduced the average residential value because of a greater number of units which lowers the residential exemption.

- **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 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 FY07, as it has since FY1987.

  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 CPI increase for FY07, which was published by the DOR for exemption purposes, is 3.3%. Applying this percentage increase to the FY06 exemption of $243 raises the exemption to $251. In addition, under Clause 17E, cities and towns can increase the asset amounts by the CPI percentage for this same group which would mean an increase from $48,372 to $49,968.

Based on new legislation (MGL, Chapter 59, Section 5, Clause 41D), which amends Clause 41C, cities and towns may increase the income and assets limits for elderly persons (age 65) by the CPI percentage. This would increase income limits from $20,000 to $20,660 for those that are single and $30,000 to $30,990 for those that are married, and would increase asset limits of $40,000 to $41,320 for those that are single and $55,000 to $56,815 for those that are married.

- **Increase 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 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.

- **Decrease Interest Rate for Tax Deferral.** Based on new legislation (MGL Chapter 59, Section 5, Clause 41A), communities may vote to lower the annual simple interest rate from 8%. I am recommending that the City Council set the interest rate at 4% for deferral of real estate taxes by elderly persons.

CONCLUSION

Cambridge continues to face the same challenges as every other community in the Commonwealth with regard to municipal financing and reliance on the property tax. The City receives approximately 60% of its revenues from the property tax. Massachusetts communities are limited in the ways they can raise their own revenues, which results in a greater reliance on the property tax since it is the largest and most stable revenue available to a city or town. Cambridge has been able to achieve a lower property tax rate and an overall lower residential property tax bill than other surrounding communities because of its ability to generate non-property tax revenues, new construction growth, controlled budget growth and the prudent use of reserves. However, the pressures of rising health insurance and pension costs, energy costs and debt service increases to fund infrastructure improvements continue to be a major concern.

Last year, through our collective efforts, we were able to produce an FY06 Budget which achieved a 0% increase in the property tax levy when the City Council adopted the City Manager's property tax and classification recommendations in September 2005. While it is unrealistic to have a 0% increase in the property tax levy again in FY07 without significant reductions in services, the City administration and department heads worked hard during the budget process to produce an FY07 Budget with a modest increase in the property tax levy as part of our continuing effort to focus our attention on the City Council Goals which include the goal of "evaluating expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers."

The FY07 property tax levy of $231,787,094 reflects a 3.96% increase. This is the lowest percentage increase since FY2000, excluding last year. As a result, approximately 65% of residential taxpayers will see a reduction (19.2%), no increase or an increase of less than $100 (45.6%) in their FY07 tax bill.

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 FY07.

Overall, continued sound financial management and planning have enabled the City Council to limit the growth of the residential property taxes. In addition, with City Council approval the City will use $10 million of free cash, overlay reserve and debt stabilization in FY07 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. This is in addition to the $3 million in free cash used in the FY07 Budget as a revenue source.

In addition, the appropriation of $8 million to the Debt Stabilization Fund will allow the City to continue its investment in its infrastructure. This one-time appropriation will help stabilize tax levy increases related to these projects in future years.

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.

FY2006 was another strong year for the finances of the City: with the excess levy capacity and free cash 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 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.

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.

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

Very truly yours,

Robert W. Healy
City Manager

Attachment

Attachment 1

FY07 Single Family Assessment Data

NBHD	Count	FY06	FY07	Change
R1	389	$ 387,300	$ 412,400	6.5%
R2	208	$ 413,800	$ 428,300	3.5%
R3	217	$ 744,000	$ 725,200	-2.5%
R4	83	$ 794,500	$ 812,300	2.2%
R5	56	$ 2,364,250	$2,178,900	-7.8%
R6	331	$ 1,316,400	$1,322,700	0.5%
R7	648	$ 452,650	$ 459,200	1.4%
R8	223	$ 641,300	$ 641,600	0.0%
R9	202	$ 1,036,700	$1,055,500	1.8%
R10	331	$ 2,581,100	$2,500,500	-3.1%
R11	164	$ 1,092,000	$1,114,750	2.1%
R12	175	$ 539,700	$ 547,500	1.4%
R13	231	$ 548,900	$ 554,200	1.0%
R14	117	$ 903,300	$ 970,600	7.5%
R15	33	$ 705,100	$ 719,200	2.0%
R16	146	$ 823,700	$ 842,400	2.3%
R17	177	$ 573,200	$ 620,200	8.2%

FY07 Two Family Assessment Data

NBHD	Count	FY06	FY07	Change
R1	310	$ 447,800	$ 467,350	4.4%
R2	191	$ 497,700	$ 501,700	0.8%
R3	232	$ 878,950	$ 842,650	-4.1%
R4	48	$ 994,000	$1,000,950	0.7%
R5	14	$ 2,587,650	$2,218,150	-14.3%
R6	96	$ 1,177,150	$1,144,200	-2.8%
R7	655	$ 595,200	$ 598,700	0.6%
R8	232	$ 704,250	$ 703,250	-0.1%
R9	14	$ 930,350	$ 901,300	-3.1%
R10	17	$ 2,370,200	$2,058,900	-13.1%
R11	40	$ 1,220,050	$1,225,850	0.5%
R12	183	$ 626,000	$ 625,800	0.0%
R13	245	$ 681,300	$ 680,800	-0.1%
R14	248	$ 892,400	$ 885,600	-0.8%
R16	96	$ 911,100	$ 925,750	1.6%
R17	154	$ 687,050	$ 712,700	3.7%

FY07 Three Family Assessment Data

NBHD	Count	FY06	FY07	Change
R1	253	$ 574,000	$ 585,500	2.0%
R2	166	$ 690,550	$ 677,000	-2.0%
R3	138	$ 1,034,600	$ 984,750	-4.8%
R4	32	$ 1,131,200	$1,112,850	-1.6%
R5	5	$ 2,948,300	$2,718,300	-7.8%
R6	44	$ 1,398,000	$1,373,000	-1.8%
R7	211	$ 724,000	$ 716,100	-1.1%
R8	65	$ 951,400	$ 905,900	-4.8%
R9	1	$ 647,100	$ 609,200	-5.9%
R10	1	$ 3,225,700	$3,153,900	-2.2%
R11	17	$ 1,149,500	$1,157,200	0.7%
R12	125	$ 759,600	$ 735,600	-3.2%
R13	172	$ 777,000	$ 752,000	-3.2%
R14	51	$ 984,000	$ 942,600	-4.2%
R16	50	$ 1,002,800	$ 978,550	-2.4%
R17	75	$ 817,600	$ 828,000	1.3%

FY07 Condominium Assessment Data

NBHD	Count	FY06	FY07	Change
R1	1310	$ 379,550	$ 379,450	0.0%
R2	432	$ 325,800	$ 328,950	1.0%
R3	1780	$ 353,250	$ 356,000	0.8%
R4	628	$ 315,500	$ 315,200	-0.1%
R5	7	$ 936,000	$ 921,800	-1.5%
R6	1581	$ 333,300	$ 335,400	0.6%
R7	1067	$ 334,900	$ 336,100	0.4%
R8	303	$ 440,100	$ 445,500	1.2%
R9	40	$ 447,350	$ 474,550	6.1%
R10	35	$ 1,207,400	$1,300,700	7.7%
R11	507	$ 583,100	$ 578,800	-0.7%
R12	786	$ 374,850	$ 358,750	-4.3%
R13	823	$ 339,500	$ 358,600	5.6%
R14	271	$ 471,800	$ 475,000	0.7%
R16	331	$ 374,500	$ 375,200	0.2%
R17	384	$ 425,800	$ 437,250	2.7%