

Understanding Your Taxes



★ NEWSLETTER FROM THE CITY OF CAMBRIDGE ★ EXECUTIVE DEPARTMENT ★

Dear Residents and Taxpayers of Cambridge:

I am again writing to update you about the City's budget, property assessments and tax bills.

In May, the City Council adopted an FY08 Budget that continues to reflect the City's commitment to the high level of services that Cambridge residents and businesses have come to expect and provides for a strong capital plan. In addition, we have begun construction on four major capital projects (Main Library Expansion, West Cambridge Youth and Community Center, Public Safety Facility and the War Memorial Facility). These accomplishments should not be taken for granted in light of the fiscal challenges facing many cities and towns in the Commonwealth.

Approximately 60% of the revenues that fund the City's budget are raised through property taxes. Massachusetts communities are limited in how they can raise revenues, which results in a greater reliance on the property tax, since it is the largest and most stable revenue. The City of Cambridge 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 non-property tax revenues, new construction, controlled budget growth and the prudent use of reserves.

During the past two fiscal years, we have been able to produce budgets which have resulted in a 0% property tax levy increase in FY06 and a 3.96% increase in FY07. For FY07, this resulted in having approximately 65% of the residential taxpayers receiving a property tax bill that was

lower, the same as, or only slightly higher (less than a \$100) than the previous year.

As City department heads and I developed the FY08 Budget, we were mindful of the City Council's Goals including the goal to "evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers." As a result, I am happy to report that the FY08 Budget has increased only 3.75%. Additionally, the City Council recently adopted an FY08 water and sewer rate, which reflected no increase from the previous year.

I anticipate that the majority of the property tax levy increase to support the budget will be borne by commercial property owners, based on the continued increase in commercial property values and the moderation in residential property values. The exact distribution will not be known until late September when the City Council votes on the City Manager's FY08 property tax and classification recommendations.

I encourage you to examine this publication, and to seek out City staff from the departments listed on the back cover with any questions or comments.

Sincerely,

ROBERT W. HEALY, CITY MANAGER

Cambridge Residential Tax Rate Continues to be the Lowest Among Surrounding Communities and One of the Lowest of Any City in the Commonwealth!

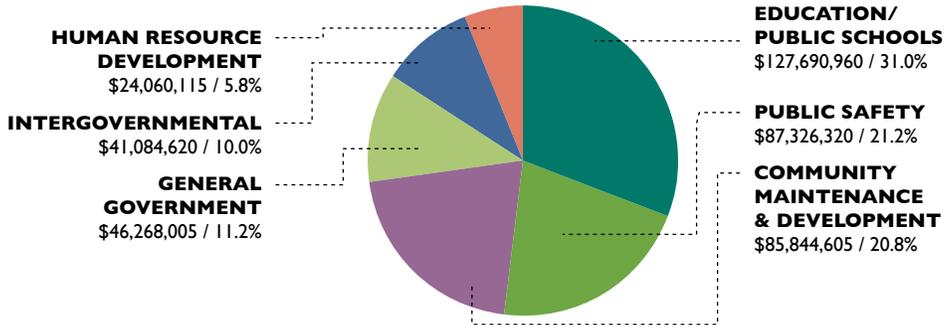
	FY07 TAX RATE (PER \$1,000)	TAX BILL \$400,000 HOME	TAX BILL \$800,000 HOME
CAMBRIDGE*	\$ 7.48	\$1,466	\$4,458
BROOKLINE*	\$ 9.73	\$ 2,274	\$ 6,166
SOMERVILLE*	\$ 10.15	\$ 2,474	\$ 6,534
BOSTON*	\$ 10.99	\$ 2,871	\$ 7,267
WATERTOWN*	\$ 10.45	\$ 3,136	\$ 7,316
BELMONT	\$ 10.31	\$ 4,124	\$ 8,248
ARLINGTON	\$ 10.95	\$ 4,380	\$ 8,760

* Includes residential exemption for owner occupied homes. The residential exemption has not been adopted by all communities.

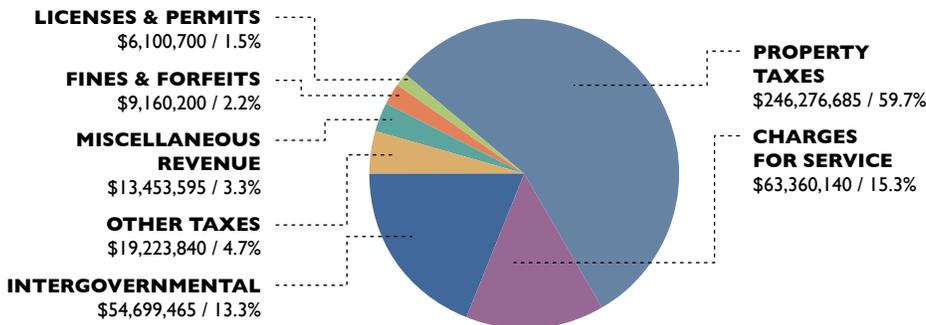
City of Cambridge FY2008 Budget

TOTAL OPERATING BUDGET: \$412,274,625

OPERATING EXPENDITURES



OPERATING REVENUES

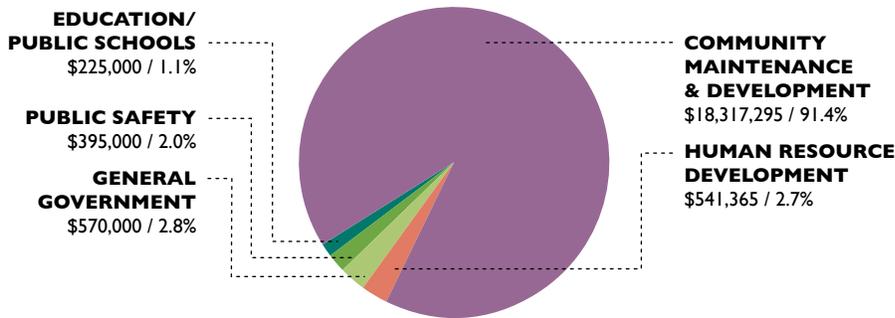


DEPARTMENTS BY FUNCTIONAL GROUPS

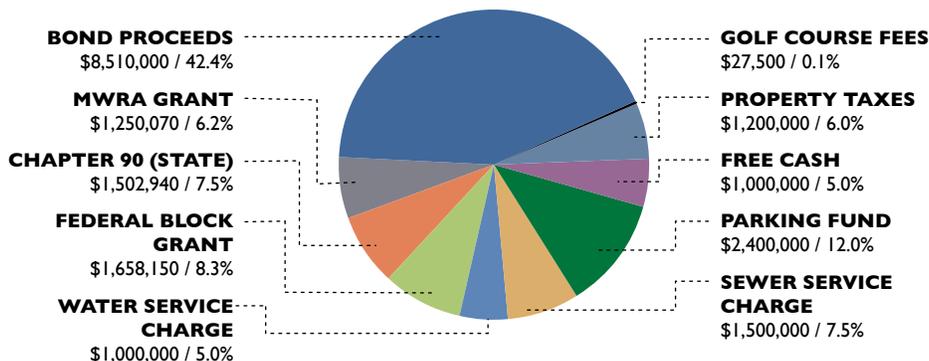
General Government (\$46,268,005)	Public Safety (\$87,326,320)
Mayor	Animal Commission
Executive	Fire
City Council	Police
City Clerk	Traffic, Parking & Transportation
Law	Police Review & Advisory Board
Finance	Inspectional Services
Employee Benefits	License
General Services	Weights & Measures
Election	Electrical
Public Celebrations	Emergency Management
Reserve	Emergency Communications
Community Maintenance and Development (\$85,844,605)	Human Resource Development (\$24,060,115)
Public Works	Library
Water	Women's Commission
Community Development	Human Services
Historical Conservation	Human Rights Commission
Peace Commission	Veterans
Cable T.V.	Intergovernmental (\$41,084,620)
Debt Service	MWRA
	Cambridge Health Alliance
	State Assessments

TOTAL CAPITAL BUDGET: \$20,048,660

CAPITAL EXPENDITURES



CAPITAL REVENUES



FY08 CAPITAL PROJECTS LIST

- Acquisition of Personal Computers/Technology Upgrades
- Fire Vehicles/Equipment
- Replacement of Street Lights/Poles
- Public Safety Communication/Technology Upgrades
- Street/Sidewalk Reconstruction
- Accessibility Improvements
- Park and Cemetery Tree Pruning
- Parking and Roadway Improvements/Traffic Calming
- Water System Improvements
- Sewer Reconstruction
- Housing Rehab & Development
- Employment Program Fund
- Neighborhood Business Development/Façade Improvement
- Public Art Conservation Fund
- Parks and Recreation
- School Equipment/Building Maintenance

How Your Tax Bill is Determined

Basic facts about the real estate tax levy

Three major factors are responsible for calculating a tax bill:

- ★ THE CITY BUDGET
- ★ COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION
- ★ PROPERTY VALUES (ASSESSMENT)

CITY BUDGET. The adopted FY08 Budget of \$412.3 million is 3.75% greater than the FY07 adjusted budget. While the City has many sources of revenue, property taxes support about 60% of the operating budget. For FY08, the City projects that it must collect about \$245.1 million in property taxes. This is called the tax levy. Last year, the City Council and City administration produced an FY07 Budget with a 3.96% property tax levy increase, which meant that 65% of the residential taxpayers received a property tax bill that was lower, the same as, or only slightly higher (less than \$100) than the previous year. This modest increase was preceded by a 0% increase in the property tax levy in FY06. The City Council and City administration worked hard during the budget process to produce an FY08 Budget with a modest increase. As a result, the property tax levy is projected to increase between 4% – 5%.

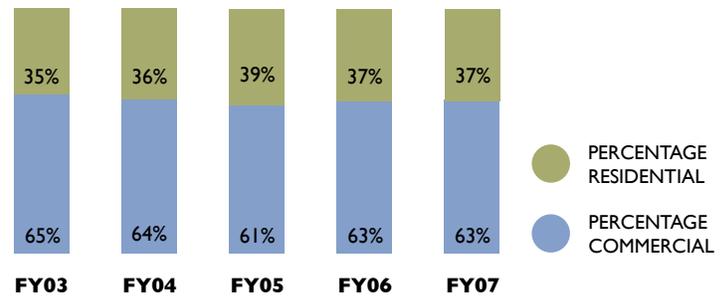
CAMBRIDGE OPERATING BUDGET (in millions)			CAMBRIDGE TAX LEVY (in millions)		
FY 06	FY 07	FY 08	FY 06	FY 07	FY 08
\$380.2M	\$395.5M	\$412.3M	\$223.0M	\$231.8M	\$245.1M (projected)

COMMERCIAL-RESIDENTIAL PROPERTY TAX CLASSIFICATION. Municipalities are allowed to tax commercial property (i.e. office, industrial and retail buildings, hotels and personal property) at a higher tax rate than residential property. This process is known as property tax classification. The State property tax classification law is complex, as are the formulas that determine how much the City may collect in property taxes from both residential and commercial property owners. The State limits how much higher the commercial tax rate may be set above the residential tax rate. Neither the City Council nor the City administration is allowed to increase the proportion of the tax levy paid by commercial owners versus the proportion paid by residential owners of real estate above the current limit under the permanent law. Overall, the property tax classification process has meant that commercial

property owners traditionally have paid approximately two-thirds of the total property taxes.

Since FY04, the City of Cambridge has been at the maximum shift of the tax levy from residential owners to commercial owners allowed by the State. Escalating residential values, which outpaced commercial property values, were the primary reason that Cambridge reached the permanent, state imposed limit on its ability to shift the tax burden from residential taxpayers to commercial taxpayers. As a result, not as much of the property tax levy may be shifted to commercial owners.

PERCENTAGE OF PROPERTY TAX LEVY PAID BY RESIDENTIAL & COMMERCIAL PROPERTY OWNERS



In FY05, the trend of slowing values of commercial real estate, coupled with rising values of residences, required Cambridge to further shift the relative burdens of commercial and residential property owners. This trend was reversed in FY06 when the commercial property owners as a group were required to pay 63.2% of the property tax levy, (up from 61.3% in FY05) with the share paid by residential owners going down from 38.7% to 36.8%. This trend continued in FY07 when the commercial property owners as a group were required to pay 63.4% of the property tax levy with the share paid by residential owners going down to 36.6%.

Preliminary projections for FY08 indicate that the portion of the tax levy to be paid by commercial property owners will increase above the FY07 level.

The Cambridge residential market has shown a 33% increase in condominium units during the six-year period between FY03 and FY08, from 9,001 units in FY03 to 11,973 units in FY08. The robust housing market has also resulted in commercial property being converted to residential use, which has further eroded the commercial base while increasing the residential base. The national trend of residential property values growing at a higher rate than commercial values has leveled and now has reversed direction.

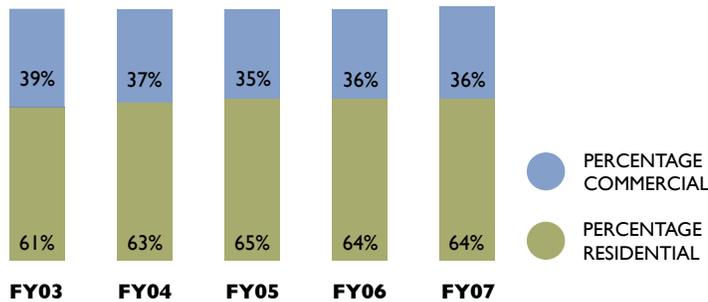
City Council Goal: Evaluate City expenditures with a view of maintaining a strong fiscal position and awareness of the impact on taxpayers.

INDEPENDENT ASSESSMENTS OF CAMBRIDGE'S FINANCIAL HEALTH

However, Cambridge remains a highly attractive, desirable place to live, with low crime, a highly educated workforce and desirable cultural and business amenities, which support the property values.

The chart below shows the percent of total value of residential and commercial property. In FY07, residential property comprised 63.8% of total value, but residential owners paid only 36.6% of total taxes.

PERCENTAGE RESIDENTIAL & COMMERCIAL PROPERTY VALUES

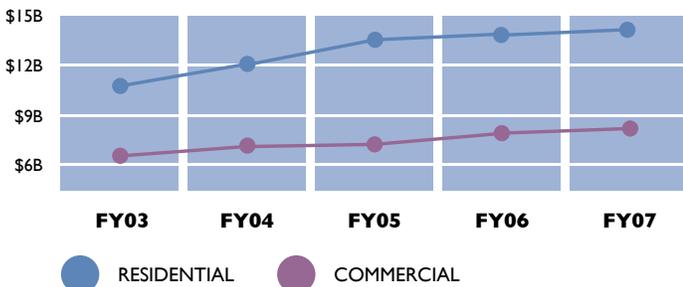


PROPERTY VALUES. Property values are established independent of the above two factors. The Massachusetts State Department of Revenue requires that all property be assessed annually, using approved mass appraisal techniques, at 100% of full and fair cash value. Individual assessments may rise or fall based upon market activities for similar properties and capital improvements. Fiscal year assessments are the property values as of the previous January 1st.

The FY08 property tax bills are based on the assessed value as of January 1, 2007, using calendar 2006 market activity. The tax rate is established by dividing the tax levy by total property value. Your property tax bill is calculated by multiplying your property's value by the tax rate.

The chart below illustrates that residential values have grown at a faster rate in comparison to commercial values but this trend has leveled off. During the past five years, the total residential value has increased by 31% as compared to a 16% increase for commercial property value.

FIVE-YEAR COMPARISON OF RESIDENTIAL AND COMMERCIAL TOTAL VALUES



What do the Rating Agencies say?

Wall Street's three major rating services, Fitch, Moody's, and Standard & Poor's give Cambridge a AAA rating, the highest possible. Cambridge is one of only 20 cities in the United States with three AAA ratings. The critical factor examined by rating services is whether a city has a prudent balance between incoming revenues and outgoing expenditures. Many communities in Massachusetts and the nation pay significantly higher interest rates than Cambridge when borrowing money for capital improvement projects.

“Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Cambridge's series 2007A General Obligation (GO) bonds and also affirmed its 'AAA' rating, with a stable outlook, on the City's preexisting GO debt.

The rating reflects the City's:

- **Continued strong financial position;**
- **Dynamic local economy, which is centered on its two major universities and the biotechnology industry, and continued citywide economic redevelopment;**
- **High wealth and income factors, including a high market value per capita;**
- **Strong and experienced management team that uses detailed modeling to forecast revenue and capital trends; and**
- **Low debt burden and favorable capital plan.”**

Standard and Poor's, February 2007

Other Measures of Success...

- ★ Cambridge is one of only four municipalities in Massachusetts awarded the Certificate of Achievement for Excellence in Financial Reporting and Distinguished Budget Presentation by the Government Finance Officers Association (GFOA).
- ★ In FY07, due to long-term prudent fiscal management, Cambridge had an excess property tax levy capacity of \$73.7 million which is the largest amount of any municipality in the State.
- ★ Worked in partnership with the Henry P. Kendall Foundation to create a non-profit Cambridge Energy Alliance, a large scale energy efficiency implementation project designed to reduce peak power demand by all city (public and private) sectors by 50 Megawatts (15% of current demand). Visit www.cambridgeenergyalliance.org
- ★ For the second time, America's Promise Alliance selected Cambridge as one of 100 Best Communities for Young People. Cambridge was chosen from over 1,200 entries by a distinguished panel of national civic, business and non profit leaders.

Motor Vehicle Excise

All Massachusetts residents who own and operate a motor vehicle must pay an annual motor vehicle excise. The excise is levied by the city or town in which the vehicle is principally garaged. Motor excise bills are created from vehicle registration data collected by the Registry of Motor Vehicles (RMV). The RMV sends billing information to the city or town, which is then responsible for mailing the bills and collecting the tax.

WHEN ARE MOTOR EXCISE BILLS SENT? Most people receive their excise bill in February. However, if you buy a car or move into the state during the year, you will receive your first excise tax bill a few months after the car is registered. This bill will be pro-rated for the portion of the year that you own and operate that vehicle in the State of Massachusetts. Thereafter, you will receive your bill in February.

HOW IS MY EXCISE BILL CALCULATED? Each motor vehicle is levied a tax at the rate of \$25 per one thousand dollars of valuation. The value of the vehicle is determined by the State using a formula that considers the manufacturer's list price for vehicles in their year of manufacture and the age of the vehicle. The State formula is as follows:

In the year preceding the designated year of manufacture:	50%
In the designated year of manufacture:	90%
In the second year:	60%
In the third year:	40%
In the fourth year:	25%
In the fifth and succeeding years:	10%

IF I MOVE, WHO DO I CONTACT TO GIVE CHANGE OF ADDRESS INFORMATION? You must inform the Registry of Motor Vehicles of any change in address. Prompt notification of address changes will help ensure that you receive your bill. It is important to note that where you live on Jan 1 of each year dictates where the bill will be sent. If you move after that date, you must contact the community in which you resided on Jan. 1 to make sure that you get that year's bill.

WHO DO I CONTACT IF I DO NOT RECEIVE A BILL? Contact the City's Finance Department at 617 349 4220. According to Chapter 60A, Section 2 of Massachusetts General Laws, a person who does not receive a bill is still liable for the excise plus any interest charges and penalties that accrue. Therefore, it is the responsibility of the owner to contact the City in the event that a bill is not received or forwarded from a former address.

WHAT ARE THE PENALTIES FOR LATE PAYMENT OR FOR NOT PAYING MY EXCISE BILL? If excise is not paid within 30 days, interest will accrue on the overdue bill at an annual rate of 12% from the day after the due date. Additional fees of up to \$64 may be added to an unpaid excise bill. If the bill is not paid within a year of issue, the City will notify the Registry of Motor Vehicles and the owner will be unable to renew the car's registration and/or renew a driver's license until the bill has been paid.

DID YOU KNOW?

TOP TEN CITY REAL ESTATE TAXPAYERS (FISCAL 2007)	NATURE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	% OF TOTAL TAX LEVY
Mass. Institute of Technology	Education	\$1,420,488,100	\$24,374,479	10.52%
Boston Properties	Commercial	468,316,000	8,570,183	3.70
BioMed Realty Trust	Commercial	432,837,100	7,920,919	3.42
Equity Partners	Commercial	244,367,800	4,112,838	1.77
Novartis Pharmaceuticals	Commercial	221,426,400	4,052,103	1.75
New England Development	Commercial	193,047,200	3,532,764	1.52
PREEF American Reit II Corp.	Commercial	180,000,400	3,294,007	1.42
One Kendall LLC	Commercial	177,922,500	3,232,199	1.39
Pres. & Fellows of Harvard College	Education	276,892,410	3,075,356	1.33
Lyme Properties	Commercial	152,607,200	2,421,560	1.04
		\$3,767,905,110	\$64,586,408	27.86%

What If I Have a Tax Related Question or Want More Information?

Ask The Treasurer

E-MAIL: treasurer@cambridgema.gov

SEND MAIL TO:

The City Treasurer
Cambridge City Hall
795 Massachusetts Avenue
Cambridge, MA 02139

VISIT THE CITY'S WEBSITE: www.cambridgema.gov

Sign up for Cambridge E-Line to receive periodic electronic newsletters, alerts and City publications.

CONTACT A DEPARTMENT:

Assessing Department for Property Value Info. 617 349 4343

Budget Office for Expenditure/Revenue Info. 617 349 4270

Finance Department for Tax Bill Info. 617 349 4220

City Manager's Office 617 349 4300

Important Dates & Publications

SEPTEMBER 2007

- City Council sets residential and commercial tax rates

OCTOBER 2007

- FY08 Tax Bills Mailed
- FY08 Tax Newsletter Mailed (Including info on Abatements and Exemptions)
- Community Q&A meetings scheduled at various locations

NOVEMBER 2007

- Exemptions Newsletter Mailed

www.cambridgema.gov

★ NEWSLETTER #1 ★

www.cambridgema.gov

Tel 617 349 4300

Cambridge, Massachusetts 02139

795 Massachusetts Avenue

City of Cambridge

A Publication of the Office of the City Manager



PRESORTED
FIRST-CLASS MAIL
U.S. POSTAGE PAID
BOSTON, MA
PERMIT NO. 54302