

June 10, 2011 No. 11-2

Highlights

- The residential tax rate grew by 7.7% and the business rate by 5.7% over the last year
- The City's average single family tax bill in FY11 is \$3,155, the third lowest among 19 area communities
- If property were taxed without classification using a single rate, business property would pay \$402.2M less in fiscal 2011

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Boston's Base Values Decline in FY11

Condominium and commercial new growth helps mitigate losses

Total taxable property values in the City of Boston declined for the second consecutive year but at a lower rate. Taxable value decreased by \$456 million or 0.5% this year compared to a 3.5% reduction in fiscal 2010. Residential value grew by 0.5% while total business value (commercial, industrial and personal) declined by 2.4%. This drop in value did not affect the City's ability to increase the property tax levy by the full 2.5% plus new growth under the rules of Proposition 2½. Over the last five years, taxable property in Boston has increased by \$12.1 billion or 16.1% to \$86.8 billion. The growth in business value (+25.7%) increased by more than two times the growth in residential value (+11.6%) in that time.

Boston's fiscal 2011 net tax levy of \$1.502 billion accounted for 62.3% of the \$2.4 billion fiscal 2011 operating budget. Net property tax revenues grew by \$62.1 million or 4.3% in the last year. Since fiscal 2006, net property tax revenues have risen by \$335 million or 28.7% for an average annual increase of 6.3%. Over the same five years, state aid net of teacher pensions decreased by \$68.9 million or 14.8%. Boston relies more on the property tax for its operating revenue in fiscal 2011 (62.3%) than in fiscal 1981 (60.9%), the first year of Proposition 2½ even with recent authority to collect more excise revenues (room and meals).

This report reviews the trends and components of Boston's taxable values, tax levy and tax rates. Key findings include:

- Excluding condominium value, residential property value declined by \$545.1 million or 1.6% in fiscal 2011. Condominium value increased by \$829.3 million or 3.6% to \$23.9 billion (due to new units) resulting in the overall residential value increasing by \$284.2 million or 0.5% to \$56.6 billion.
- Business property value declined by 2.4% over the last year to \$30.2 billion. New growth was strong this year, offsetting some reductions in this class. Business property, net of new growth, declined in value by 5.6%.
- Under classification, business property accounted for 34.8% of the taxable value in the City yet paid 61.0% of the tax levy in fiscal 2011. Residential property represented 65.2% of the value but paid 39.0% of the total levy.
- The aggregate value of 50 tower buildings dropped by \$641.7 million or 5.7% from fiscal 2010 to fiscal 2011. The average tax per square foot of rentable space decreased by 0.6% from \$9.20 to \$9.14 in fiscal 2011. New class A development added \$123.4 million of value to this category of properties in fiscal 2011.

Property Tax Values

Boston's total taxable property value in fiscal 2011 is \$86.8 billion, a reduction of \$455.9 million or 0.5% over the prior year. Despite the slowdown of recent years, Boston's total taxable property values have grown by \$12.1 billion or 16.1% since fiscal 2006. Values for fiscal 2011 were set as of January 2010 and reflect market conditions for 2009.

Table 1

City of Boston Value Summary

Values in Billions

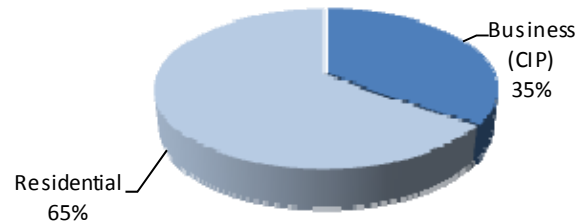
| Class | FY06 | FY10 | FY11 | Change FY10- FY11 | Change FY06- FY11 |
|------------------------------|---------------|---------------|---------------|-------------------------|-------------------------|
| Residential | | | | | |
| Condos. | \$17.1 | \$23.1 | \$23.9 | 3.6% | 40.3% |
| Single Family | 11.1 | 11.3 | 11.3 | -0.1% | 1.9% |
| Two/Three Family | 14.6 | 12.3 | 12.1 | -2.2% | 17.2% |
| All others | 2.3 | 3.3 | 3.2 | -3.6% | 40.8% |
| Multi-Family | 5.7 | 6.2 | 6.0 | -2.3% | 6.1% |
| Total Residential | \$50.7 | \$56.3 | \$56.6 | 0.5% | 11.6% |
| Business | | | | | |
| Commercial | \$19.5 | \$25.4 | \$25.3 | -0.7% | 29.8% |
| Industrial | 1.3 | 1.3 | 0.6 | 53.8% | 52.6% |
| Personal | 3.3 | 4.2 | 4.4 | 3.3% | 31.8% |
| Total Business | \$24.0 | \$31.0 | \$30.2 | -2.4% | 25.7% |
| Total Value | \$74.7 | \$87.3 | \$86.8 | -0.5% | 16.1% |

Over the last year, residential properties have grown by 0.5%, while commercial and industrial property values declined by 3.3% and personal property values increased by 3.3%. Since fiscal 2006, residential property values have grown by \$5.9 billion or 11.6%, commercial and industrial property by \$5.1 billion or 24.8% and personal property by \$1.1 billion or 31.8%.

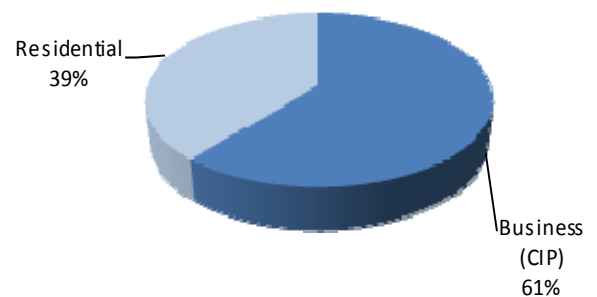
Classification—allows cities and towns to determine the share, within limits, of the annual levy to be borne by each class of property. The classification law provides that the tax share borne by residential property may not be less than 50% of what their share would be without classification and the share paid by commercial, industrial,

Figure 1

Property Value Distribution FY11



Property Tax Levy Distribution FY11

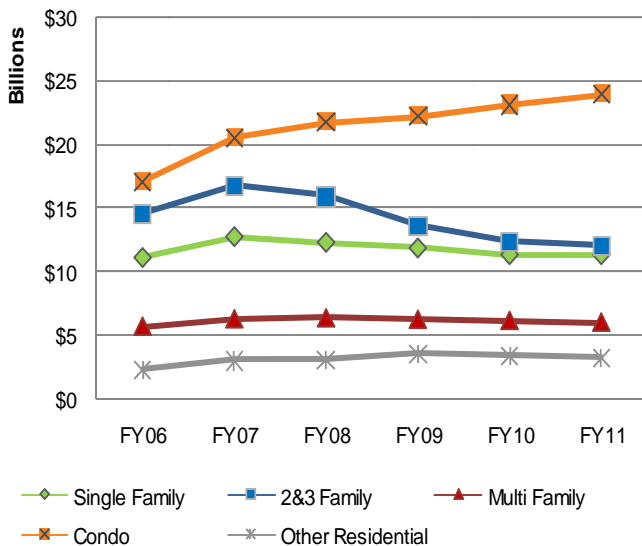


personal property (CIP) cannot exceed 175% of what their full value share would be. Under classification in fiscal 2011, business property accounted for 34.8% of the taxable value in the City yet paid 61.0% of the total tax levy. Residential property represented 65.2% of the value but paid 39.0% of the total levy. Under the City's application of classification, the City continues to shift as much of the tax burden onto business property as allowed and provide preferential tax treatment for residential property. If property were taxed without classification using a single tax rate, business property would pay \$402.2 million less and residential property that amount more in fiscal 2011.

Residential Property—is valued at \$56.6 billion in fiscal 2011, a growth of \$284.2 million or 0.5% over the prior year. Influencing this growth and offsetting declines within this category, are a jump in the number of luxury condominium units delivered to the market during this time in the downtown and seaport areas of the City as well as continuing conversions of apartment buildings to condominiums. Over the last year condominiums

Figure 2

Residential Property Value Trends



added \$829.3 million in value to the total residential base an increase of 3.6% for a total residential condominium value of \$23.9 billion.

Without the impact of condominiums, total residential property values actually dropped by \$545.1 million or 1.6%. During this time all other categories within residential have experienced a decline in property values reflecting the downward trend of the economy. Most notably two and three-family homes city-wide have total values that dropped by \$277 million or 2.2% for a total value of \$12.1 billion. These homes are predominately in neighborhoods that have been greatly impacted by foreclosures.

Commercial and Industrial Properties— are valued at \$25.9 billion in fiscal 2011, a drop of \$879.7 million or 3.3% over fiscal 2010. This is the second consecutive year that the combined values of these two classes of property have declined, reflecting the impact of the slow economy. However, the conversion of 1 Beacon Street from a 121A tax status property to taxable real property coupled with other new growth in commercial property, offset further reduction in value. Netting out new growth, the combined value of commercial and

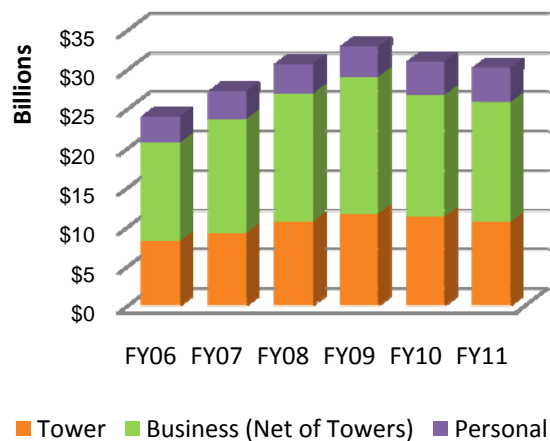
industrial properties dropped by \$1.4 billion or 5.3%.

The aggregate value of 50 tower buildings dropped by \$641.7 million or 5.7% from fiscal 2010 to fiscal 2011. The average tax per square foot of rentable space for class A office buildings decreased by 0.6% from \$9.20 to \$9.14 over the last year.

Within the tower category two properties, 1 Marina Park (Fan Pier) and Atlantic Wharf (Russia Wharf), collectively added \$123.4 million in new value in fiscal 2011. All other towers lost value with the largest loss in 99 Summer Street (-15.4%), 150 Federal Street (12.4%) and 111 Huntington (9.2%). Click [here](#) for a complete listing of tower buildings in Boston.

Figure 3

Business Property Value Trends



Personal Property—values rose this year by \$139.6 million or 3.3%. Personal property value is principally derived from the equipment of major utilities and telecommunication companies but also machinery and office equipment and furniture. Collectively, personal property is valued at \$4.4 billion in fiscal 2011. The growth this year is two-fold. First, key court cases decided in Boston’s favor have led to increased personal property value in fiscal 2011. Second, for the second year in a row,

the Assessing Department has undertaken audits of personal property. These audits have made more businesses aware of personal property valuation requirements as well as improving those values assessed on personal property.

Property Tax Levy

The net property tax levy is the City's largest revenue source and totals \$1.502 billion in fiscal 2011, an increase of \$62.1 million or 4.3%. Since fiscal 2006, the net property tax levy has grown by \$335 million or 28.7%. Boston can increase its levy over the prior year's levy limit by 2.5% each year and by new growth from development or conversion of property from tax-exempt to taxable. The breakdown of this increase is shown below.

Table 2

Tax Levy Growth

Figures in millions

| | FY10 | FY11 |
|-------------------------|----------------|----------------|
| Prior Year Levy Limit | \$1,401 | \$1,465 |
| 2 1/2% Levy Growth | 35 | 37 |
| New Growth | 29 | 38 |
| Total Levy Limit | \$1,465 | \$1,540 |
| Net Tax Levy | \$1,440 | \$1,502 |
| Gross Tax Levy | \$1,476 | \$1,540 |

Boston relies on the net property tax for 62.3% of its fiscal 2011 operating revenue. Included in the gross levy of \$1.54 billion is the overlay reserve for abatements and uncollected taxes of \$37.4 million, which represent 2.5% of net property taxes. Boston continues to raise the maximum levy limit possible which cannot be increased further except by an override approved by the voters.

Boston relies more on the property tax for its operating revenue in fiscal 2011 (62.3%) than in fiscal 1981 (60.9%), the first year of Proposition 2½ even with recent authority to collect a new meal's tax of 0.75% and increase the room occupancy excise by 2%.

New Growth—in the tax levy totaled \$37.8 billion which is a significant increase compared to the \$29.2 billion in fiscal 2010. The majority of new growth is attributed to 1 Beacon Street moving from 121A tax status over to taxable real property, adding \$345.3 million more in value to Boston's tax base.

Additionally, new growth was added from luxury condominiums as well as new office space in the seaport/Atlantic Avenue area. New growth is expected to remain an important factor in fiscal 2012 as St. Elizabeth's Medical Center and Carney Hospital become taxable under Steward Health Care System.

Property Tax Rates

As values remain relatively flat or decline, tax rates by class tend to increase to ensure the City's tax levy increases by 2.5% over the prior year. That is the case in fiscal 2011 as the residential tax rate is \$12.79 (per thousand dollars of value), an increase of \$0.91 or 7.7% from fiscal 2010 and the business tax rate is \$31.04, an increase of \$1.66 or 5.7%. This is the second consecutive year that the residential tax rate has risen and the third straight year of growth for the business tax rate. The average tax bill for a single-family home in Boston is \$3,155 in fiscal 2011, an increase of \$220 or 7.5%. This is the second straight year the average increased. Click [here](#) for single-family tax bill history. Boston has one of the lowest average single-family tax bills of surrounding communities. According to a Boston Assessing Department survey, the average single-family tax bill of \$3,155 in fiscal 2011 ranks Boston the third lowest out of 19 surrounding communities.

Conclusion

Boston relies on the property tax more than most any other major city in the country and should have authority to diversify its revenue base. Even so, the City will need to continue to streamline and consolidate operations to improve service efficiency.