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Highlights

- In FY06, residential and business property values grew at a more comparable rate than in previous years.
- Boston's taxable value has more than doubled over the past seven years.
- Condominium values showed the largest residential growth in FY06, a \$2 billion or 13% increase over FY05.
- Boston's average single-family tax bill increased by 9.3% in FY06 to \$2,753.

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333 Washington Street, Suite 854
Boston, Massachusetts 02108
617-227-1900 www.bmrb.org

Boston's Property Values Trend Closer Further Tax Shift To Residential Property Still Likely

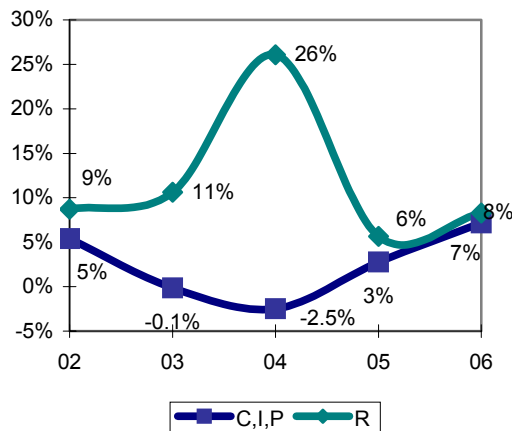
The divergence of values that caused a temporary change in property classification in 2004 has begun to shift, with residential and business values following a similar growth trend in fiscal 2006. Even if this value trend continues, the ongoing reduction of the business tax ceiling over the next three years may mean that the residential share of the tax levy will continue to rise and homeowners should prepare again for above average tax bill increases for fiscal 2007.

- Residential and business property values grew at a more balanced pace of 8.3% and 7.2% respectively in fiscal 2006.
- The residential share of the tax levy grew by 3% to 39% in fiscal 2006 and the average single-family tax bill increased by 9.3%, down from 11.7% last year.
- The growth of office tower and utility values contributed to the 7.2% increase in business value, the largest jump since fiscal 2001.
- Over the last five fiscal years, residential value has increased by 73.4% while business value has grown by 13.1%.

Property Tax Values

Boston's total taxable property value in fiscal 2006 is \$74.7 billion, an increase of \$5.5 billion or 7.9%. Although this is not the sizeable growth seen in previous years, it is above last year's 5% growth in values. Indeed, Boston's taxable value has more than doubled over the past seven years. Values for fiscal 2006 were set as of January 1, 2005 and reflect 2004 market conditions. This year, the growth in residential and business property values has been more balanced than in previous years. Residential property is valued at \$50.7 billion in fiscal 2006, a growth of \$3.9 billion or 8.3% from fiscal 2005. Condominium values showed the largest residential

% Change in Property Values
FY02-FY06



FY05-FY06 Values and Tax Rates

Values in Billions

Class	FY05	FY06	Change	%
Residential	\$46.81	\$50.69	\$3.88	8.3%
Condominiums	15.11	17.06	1.95	12.9%
Single Family	10.47	11.10	0.63	6.1%
Two/Three Family	13.53	14.55	1.02	7.6%
All Others	2.20	2.28	0.08	3.9%
Multi-Family	5.50	5.68	0.18	3.4%
Business	\$22.44	\$24.06	\$1.62	7.2%
Commercial	18.18	19.46	1.29	7.1%
Industrial	1.13	1.26	0.14	12.0%
Personal	3.13	3.33	0.194	6.2%
Total Value	\$69.25	\$74.75	\$5.49	7.9%
Residential Tax Rate	\$10.73	\$11.12	\$0.39	3.6%
Business Tax Rate	\$32.68	\$30.70	(\$1.98)	-6.1%

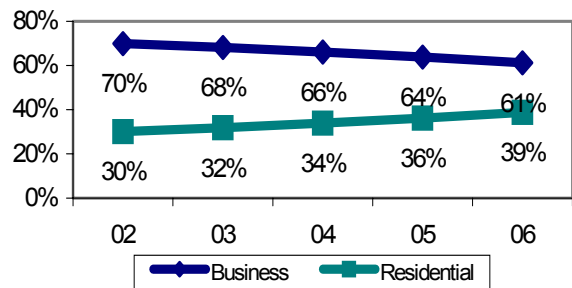
growth, a \$2 billion or 12.9% increase over fiscal 2005. The construction of new condominium units and the conversion of two and three-family homes to condominiums fueled this surge more than price escalations.

Business property is valued at \$24.1 billion, an increase of \$1.6 billion or 7.2% over fiscal 2005. This growth is the largest increase in business property values since fiscal 2001, when a jump of 20.2% was recorded. Over the past five years, business property values have grown slightly or, as in fiscal 2003 and 2004, actually dropped. The strong increase in business property this year is due to office tower values moving steadily upward, additional new growth and a capturing of more personal property. Commercial class A office tower values increased by 5% in fiscal 2006. The vacancy rate was down slightly to 11%. The City recognized \$29.8 million in new growth in fiscal 2006 due to new value from office space coming on line, a rise in utility growth due to new substations and wiring, new condominium values and a spike in personal property.

Personal property values rose this year by \$194.2 million or 6.2%. This increase comes after an 8.5% decline in personal property last year due to a change in corporate tax structure for some

telecommunication firms coupled with a higher level of depreciation than in previous years. This year, that same tax structure exists, and the telecommunication value dropped by \$77.5 million or 23.2%. However, this drop was offset by a substantial growth in other utility projects in the city as well as an aggressive program to enforce the reporting of personal property. Over the past three years, telecommunication values in the city have declined by \$54.1 million or 13.9%.

**% of Levy Paid
FY02- FY06**



Property Tax Levy

The property tax levy is the City's largest revenue source and totals \$1.208 billion in fiscal 2006, an increase of \$57.0 million or 5.0% from fiscal 2005. The breakdown of this increase is shown in the table below. Boston relies on the property tax for 58.9% of its fiscal 2006 operating revenues. Included in the gross levy is the reserve for abatements and uncollected taxes of \$40.8 million, which represents 3.5% of net property taxes. Boston continues to keep its tax levy at the maximum levy limit that cannot be increased further except by an override approved by the voters.

**FY05-FY06 Tax Levy Growth
Figures in Millions**

	FY05	FY06	Change	%
Prior Year Levy Limit	\$1,094.1	\$1,149.2	\$55.1	5.0%
2 1/2% Levy Growth	\$27.4	\$28.7	\$1.4	5.0%
New Growth	\$27.8	\$29.8	\$2.0	7.3%
Total Levy Limit	\$1,149.2	\$1,207.7	\$58.5	5.1%
Net Tax Levy	\$1,106.34	\$1,166.78	\$60.4	5.5%
Gross Tax Levy	\$1,150.59	\$1,207.62	\$57.0	5.0%

Proposition 2½ - 25 Years Later

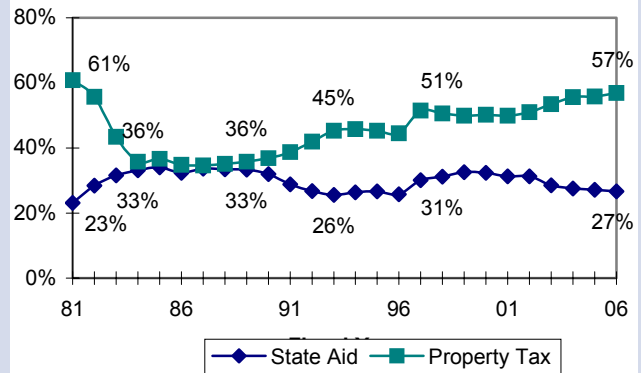
Proposition 2½ reached the 25-year mark this past November. The statewide property tax limitation law essentially imposes limits on the amount of property tax a community can raise. For Boston, the property tax levy and state aid are the two major revenue sources accounting for 84% of fiscal 2006 revenues. Since Proposition 2½ was enacted in 1980, Boston's financial structure and property values have fluctuated considerably. (see charts to the right)

Over the past 25 years, Boston's property tax revenues have grown anywhere from \$8.4 million to \$60.5 million a year. In 1981, the last full year before the full implementation of Proposition 2½, the property tax represented 61% of all general fund revenues available to the City. In recent years, the property tax has been steadily moving towards 1981 levels, with 57% of fiscal 2006 revenues coming from the property tax. In every year, the City has taxed up to the maximum levy allowed. State aid has fluctuated, especially during recessions, but as a percent of total revenue has been relatively consistent over the years.

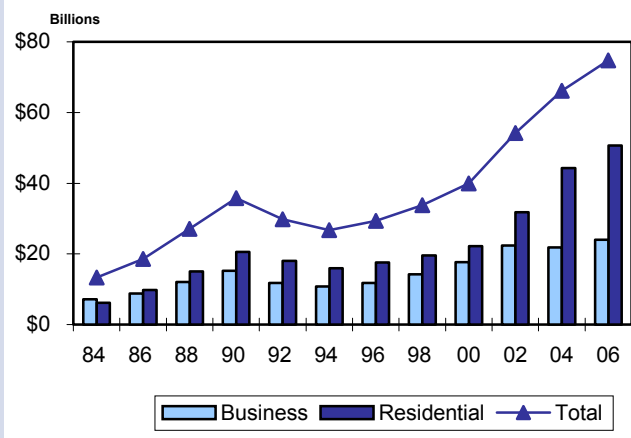
Property values have steadily increased since the economic slowdown of the early 1990's. As noted earlier, Boston's taxable values have doubled over the last seven years. During the past 25 years, Boston, like most other Massachusetts cities, has never sought an override of Proposition 2½.

In fiscal 2006, business property continues to pay a predominate share of the tax levy although its share has shifted downward in recent years (see *Classification section*). In fiscal 2006, business property represents 32.2% of taxable value yet pays 61.1% of the tax levy. Residential property represents 67.8% of the value but pays only 38.9% of the levy. Classification provides a significant subsidy by business property compared to what both classes would pay if taxed with a single tax rate.

City of Boston Property Tax & State Aid as Percent of Total Revenues



City of Boston Property Value History



During the 14 years from fiscal 1989 through fiscal 2002, business and residential values followed a relatively similar trend and their share of the tax levy remained stable at a 70%-30% split respectively. However, due to economic forces, particularly the high rate of residential property growth, the slowing of commercial property values, the reduction of telecommunication values and the City reaching the business ceiling of 175% in fiscal 2003, the percent of property taxes paid by residential

owners over the last four years increased from 30.1% in fiscal 2002 to 38.9% in fiscal 2006. (See graph on page 2) The business share reduced accordingly and currently is 61.1% of the levy. The actual tax shift over the past four years was \$106.1 million.

Property Tax Classification

In fiscal 2004, Boston adopted legislation (Ch.3, Acts of 2004) that was designed to mitigate a sharp increase in residential tax bills. This act allowed Boston and other communities that adopted the bill to shift the business burden from 175% to 200% of its full value share in fiscal 2004 – essentially reducing the average tax bill increase for residential properties. As part of this legislation, the business levy ceiling is reduced each year until it reaches its original ceiling of 175% in fiscal 2008. The business ceiling will be reduced below the initial level by a final 5% in fiscal 2009. In fiscal 2006, the business ceiling has dropped down to 190%. As a result, \$27.2 million of the tax burden was shifted from the business to the residential levy. The shift added \$160 to the average single-family homeowner's tax bill.

Ch. 3 of the Acts of 2004 Tax Classification Schedule

Fiscal Year	Max. CIP Ceiling	Min. R Floor
Prior to change	175%	50%
2004	200%	45%
2005	197%	47%
2006	190%	49%
2007	183%	50%
2008	175%	50%

Property Tax Rates

The fiscal 2006 residential tax rate is \$11.12, an increase of \$0.39 or 3.6% from fiscal 2005, while the business tax rate is \$30.70, a drop of \$1.98 or 6.1%. The average tax bill for a single family home in Boston is \$2,753 in fiscal 2006,

an increase of \$233 or 9.3%. The average single-family residential tax bill increase this year is down slightly from the previous two fiscal years when average tax bills climbed by 14.5% and 11.7%.

Additionally, homeowners in Boston enjoy the significant benefits of classification as well as the 30% residential exemption for residential property used as a principal residence. In fiscal 2006, the residential exemption for eligible homeowners represented a tax cut of \$1,345, an increase of \$122 over fiscal 2005.

Outlook 2007

Commenting on what the future holds is challenging this year. On the commercial side, vacancy rates are declining and lease rates have been growing over the past year. These indicators point to a possible double-digit growth in commercial property value even though the pipeline of new projects is limited. The residential side is less certain and overall value could grow at a slower pace or stay more level.

Fiscal 2007 is most likely to bring less of a gap in value growth between residential and business property. However, with the business ceiling continuing to be reduced over the next three fiscal years, residential taxpayers will receive little relief from above average increases in their tax bills.

Chapter 3, approved in 2004, has been successful in mitigating the tax impact on residential owners due to the value swings. The projected 40% increase in the average residential tax bill in fiscal 2004 was reduced to 14.5% with moderating benefits realized in the last two years as well. However, at 190%, the business tax ceiling is still 15% over the original ceiling of 175%.