# Special Report

BOSTON MUNICIPAL RESEARCH BUREAU

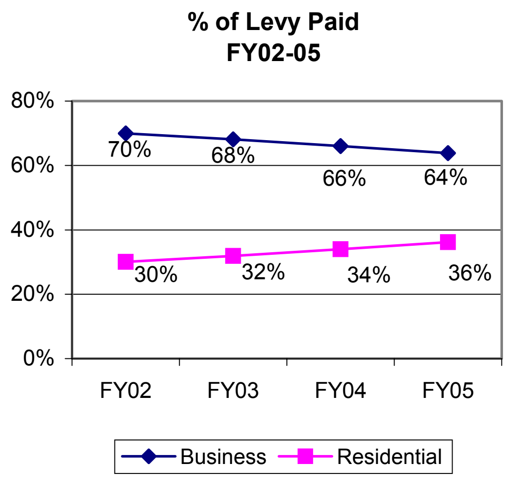
February 15, 2005
No. 05-1

## Highlights

- The tax ceiling for business was increased from 175% to 200% in FY04, decreased to 197% in FY05 and will drop to 190% next year.
- Business property represents 32.4% of taxable value yet pays 63.8% of the property tax bill.
- The FY05 average single-family tax bill increased by 11.6% to $2,520.
- Homeowners should prepare for another above-average tax bill increase in FY06 and FY07.

# Boston's Tax Levy Shift Continues

Property tax trends over the past three years indicate that residential property may be required to absorb an increasingly larger share of Boston's tax levy for the next few years. That may mean that homeowners should prepare for above average tax bill increases for fiscal 2006 and fiscal 2007. The traditional 70%-30% levy split between business and residential property has moved to a 64%-36% split in fiscal 2005. While business and residential values in fiscal 2005 tracked more closely, the continual reduction of the business tax ceiling over the next four years will add tax pressure to residential property owners. Classification legislation approved in 2004 has helped mitigate a much greater increase in homeowners' tax bills.




In fiscal 2005, Boston's homeowners received a double-digit property tax bill increase due to the decrease in the business tax ceiling by 3% and residential value growing faster than business value. However, had a decrease of $361.4 million in telecommunication value not occurred this year, business and residential value would have followed a similar growth trend and paid slightly less in taxes. Next year, the business ceiling under classification will decrease by 7% to 190% which will drive above average residential tax bill increases even if business and residential values trend closer together.

## Property Tax Values

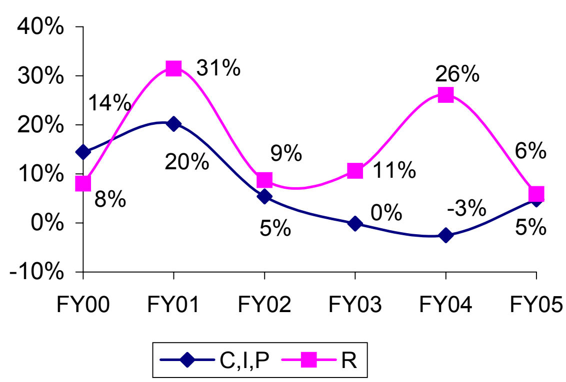
Boston's total taxable property value in fiscal 2005 is $69.3 billion, an increase of $3.1 billion or 4.7% over fiscal 2004. This increase is the smallest percentage growth since fiscal 1999. Values for fiscal 2005 were set as of January 1, 2004, and thus reflect 2003 market conditions. Residential property is valued at $46.8 billion in fiscal 2005, $2.5 billion or 5.6% more than in fiscal 2004. This increase is much less than the fiscal 2004 increase of 26.1%, due to fiscal 2005 not being a revaluation year and the impact of a cooling residential market. Once again, condominium value showed the largest residential growth due to the construction of new units and condominium conversions.

**FY04-05 Values and Tax Rates**
**Values in Billions**

| Class | FY04 | FY05 | Change | % |
|---|---|---|---|---|
| Residential | $44.31 | $46.82 | $2.50 | 5.6% |
| Condominiums | 13.84 | 15.11 | 1.27 | 9.2% |
| Single Family | 9.94 | 10.47 | 0.53 | 5.3% |
| Two/Three Family | 12.96 | 13.53 | 0.58 | 4.5% |
| All Others | 2.11 | 2.20 | 0.09 | 4.2% |
| Multi-Family | 5.47 | 5.50 | 0.03 | 0.6% |
| Business | $21.83 | $22.44 | $0.61 | 2.8% |
| Commercial | 17.31 | 18.18 | 0.86 | 5.0% |
| Commercial Office | 10.72 | 11.25 | 0.53 | 4.9% |
| Other Commercial | 6.59 | 6.93 | 0.34 | 5.1% |
| Industrial | 1.09 | 1.13 | 0.04 | 3.5% |
| Personal | 3.42 | 3.13 | (0.29) | -8.5% |
| Total Value | $66.14 | $69.25 | $3.11 | 4.7% |
| Residential Tax Rate | $10.15 | $10.73 | $0.58 | 5.7% |
| Buisness Tax Rate | $33.08 | $32.68 | ($0.40) | -1.2% |

Business property is valued at $22.4 billion, an increase of $609 million or 2.8% from fiscal 2004. While modest, this increase is stronger than the fiscal 2004 reduction of 2.5%, due to new construction and an improved commercial office market compared to the prior year. Commercial office value, including new growth, increased by 4.9% in fiscal 2005. Personal property value decreased by $290.7 million or 8.5% from fiscal 2004, primarily due to a reduction of telecommunication value of $361.4 million or 51.6% as set by the state Department of Revenue. This significant decrease was attributable to a change in corporate structure for some firms that reduced their taxable personal property liability and a higher level of depreciation than in previous years.

**% Change in Property Values FY00-05**




## Property Tax Levy

The property tax levy is the City's largest revenue source and totals $1.149 billion in fiscal 2005, an increase of $54.8 million or 5% from fiscal 2004. The breakdown of this increase is shown in the table below. Boston relies on the property tax for 59.5% of its fiscal 2005 operating revenues. Included in the gross levy is the overlay reserve for abatements and uncollected taxes of $43.7 million, which represents 4% 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. The City has no useable excess capacity in fiscal 2005.

**FY04-05 Tax Levy Growth**
**Figures in Millions**

| | FY04 | FY05 | Change | % |
|---|---|---|---|---|
| Prior Year Levy Limit | $1,035.61 | $1,094.12 | $58.51 | 5.6% |
| 2 1/2% Levy Growth | $25.89 | $27.35 | $1.46 | 5.6% |
| New Growth | $32.57 | $27.76 | -$4.81 | -14.8% |
| Total Levy Limit | $1,094.07 | $1,149.23 | $55.16 | 5.0% |
| Property Tax Levy | $1,093.94 | $1,148.74 | $54.81 | 5.0% |

While tax burden shifts have occurred due to value divergence and classification changes, business property still pays a predominate share of the tax levy. In fiscal 2005, business property represents 32.4% of taxable value yet pays 63.8% of the tax levy. Residential property represents 67.6% of the value but pays only 36.2% of the levy, as shown in the table on page one. Thus, classification provides a significant subsidy by business property to residential property compared to what both classes would pay if taxed with a single tax rate.

Even so, the tax shifts over the past three years have not protected the residential taxpayer from tax bill increases far above the norm. The average single-family tax bill increases of 14.5% in fiscal 2004 and 11.6% in fiscal 2005 are more than twice the normal increases paid in recent years. 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 the economic forces explained, the percent of property taxes paid by residential owners

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over the last three years increased from 30.1% in fiscal 2002 to 36.2% in fiscal 2005 while the business share reduced accordingly.

### Property Tax Classification

Boston's maximum business share in fiscal 2005 under classification decreased by 3% to 197%. This drop is the first of five consecutive annual decreases in the business ceiling that will occur as required by 2004 legislation enacted to help mitigate sharp increases in residential tax bills. Boston took advantage of this act (Ch 3, Acts of 2004) to shift the business burden from 175% to 200% of its full value share in fiscal 2004. City officials had estimated that the average single-family tax bill would have increased by over 40% last year. However, with the shift, the average tax bill actually increased by 14.5%. In fiscal 2006, the business ceiling will ratchet down to 190%. As a result of the 3% decrease this year, $11.2 million of tax burden was shifted from the business to the residential levy. This shift added $68 to the average single-family homeowner's tax bill.

**Tax Classification Schedule (Ch. 3 of the Acts of 2004)**

| 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% |
| 2009, participating localities | 170% | 50% |
| 2009, all others | 175% | 50% |

### Property Tax Rates

The fiscal 2005 residential tax rate is $10.73, an increase of $0.58 or 5.7% from fiscal 2004, while the business tax rate is $32.68, a decrease of $0.40 or 1.2%. The tax rate for the residential class is going up in fiscal 2005 even though values are up because residential values are still outpacing business values, and because of the effects of the classification law, as described above. 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 2005, the residential exemption for eligible homeowners represented a tax cut of $1,223, an increase of $123 from the prior year. Consequently, the average tax bill for a single-family home in Boston is $2,520, an increase of $263 or 11.6%.

### Fiscal 2006 Outlook

Looking ahead one year is problematic with so many variables, but Boston homeowners should prepare for another above-average tax bill increase in fiscal 2006. The extent of the tax levy that can be shifted to business will be reduced by 7% to 190% in fiscal 2006. The growth of residential value as of January 1, 2005 may again exceed business growth. Growth in commercial office value is tied to significant job creation, which is currently sluggish. Far more residential projects are in the development pipeline than commercial projects at this time, pointing to increasing residential value from new growth. To create additional business value, the Menino Administration is pushing for a legislative change in what telecommunication property in cities and towns is valued centrally by the state Department of Revenue. Boston's heavy reliance on the property tax and the implications of how it balances this tax burden between business and residential taxpayers require a hard look at the City's revenue structure as well as its spending practices.