

May 20, 2015 No. 15-3

Highlights

- Boston's average single-family tax bill for fiscal 2015 is \$3,520, a \$103 or 3.0% increase over fiscal 2014. The average tax bill is one of lowest in the area.
- If property were taxed without classification, businesses in Boston would pay \$486 million or 43% less in fiscal 2015.
- Boston is at a competitive disadvantage by its inability to have more control over new revenues in order to reduce its reliance on property tax revenue.

A special thank you to the Research Bureau's Cabinet Members for their generous support.

Beacon Capital Partners
Blue Cross Blue Shield of Massachusetts
BNY Mellon
Citizens Bank
Comcast
Fidelity Investments
John Hancock
KPMG LLP
Liberty Mutual Insurance
Partners HealthCare, Inc.
P&G Gillette
State Street Corporation
The Drew Company
Verizon

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

Boston's Taxable Value Surpasses \$100 Billion

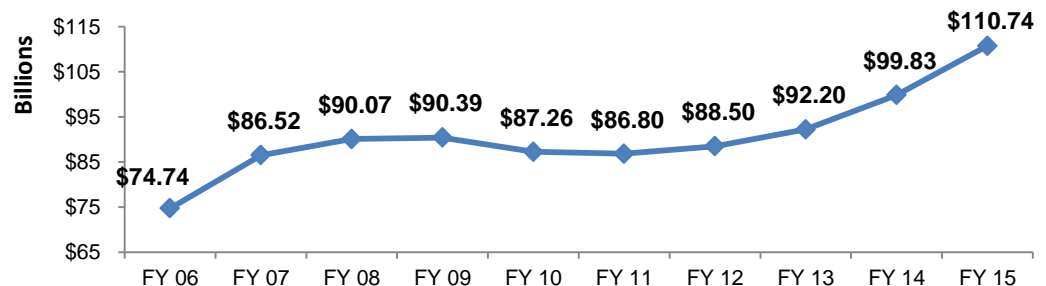
Downtown development and rising housing sales drive value increases

Boston's fiscal 2015 taxable value as of January 1, 2014 has surpassed \$100 billion for the first time in Boston's history. Boston's fiscal 2015 taxable values rose to \$110.7 billion, a \$10.9 billion or 10.9% increase over fiscal 2014. Residential value continues to drive growth with a 12.1% increase over fiscal 2014. Business value, which consists of commercial, industrial and personal property (CIP), increased by 8.8%. Fiscal 2015 is the fourth consecutive year that taxable values increased after two years of value decline during the recession. This report describes the [factors](#) involved in the fiscal 2015 tax rate. The fiscal 2015 values are set as of January 1, 2014, reflecting market conditions in 2013.

Boston's fiscal 2015 net tax levy is \$1.83 billion, an \$87 million or 5.0% increase over fiscal 2014. The property tax constitutes 67% of Boston's fiscal 2015 operating revenue budget. Since fiscal 2009, the City's net tax levy has increased by \$466.6 million or 34.2%, while Boston's net state aid has decreased by \$147.6 million or 42.2% during the same period. Other highlights include:

- In fiscal 2015 residential value growth of \$7.8 billion represents 72% of the City's total taxable value increase and business value growth of \$3.1 billion represents 28% of the total value increase.
- At 67% of all General Fund revenues Boston relies more on the property tax now than it did in 1981, the last full year before the implementation of Proposition 2½ when the property tax represented 61% of revenues.
- Business property, especially commercial property, cross-subsidizes low residential tax rates. Based on Boston's application of the classification law, business property represents 35% of the total taxable value, but will pay 61% of the tax levy.
- New growth totals \$44.5 million in fiscal 2015, representing 50% of the total tax levy increase, demonstrating the importance of development to continued revenue growth for Boston.

City of Boston Total Taxable Property Value
FY06-FY15



Property Tax Values

Boston's total taxable property value for fiscal 2015 is \$110.7 billion, a \$10.9 billion or 10.9% increase over last year's value. The value is of January 1, 2014, reflecting market conditions in 2013. This increase is the fourth consecutive year of value growth, in fiscal 2014, taxable value increased by \$7.6 billion or 8.3%. This growth is due to robust development and a rising real estate market increasing the values of both residential and commercial property throughout Boston. At \$110.7 billion, Boston's taxable value is at its highest level, surpassing the \$100 billion benchmark for the first time.

Table 1

City of Boston Value Summary

Values in Billions

Class	FY14	FY15	Change FY14- FY15	% Change FY14- FY15
Residential				
Condominiums	\$26.5	\$29.7	\$3.2	12.3%
Single Family	\$12.6	\$13.6	\$1.0	8.3%
2/3 Family	\$13.1	\$14.8	\$1.7	12.9%
All others	\$4.6	\$5.5	\$1.0	21.1%
Multi-Family	\$7.8	\$8.7	\$0.9	11.1%
Total Residential	\$64.5	\$72.3	\$7.8	12.1%
Business				
Commercial	\$29.7	\$32.6	\$2.8	9.6%
Industrial	\$0.6	\$0.7	\$0.1	9.3%
Personal	\$5.0	\$5.2	\$0.2	4.1%
Total Business	\$35.3	\$38.4	\$3.1	8.8%
Total Value	\$99.8	\$110.7	\$10.9	10.9%

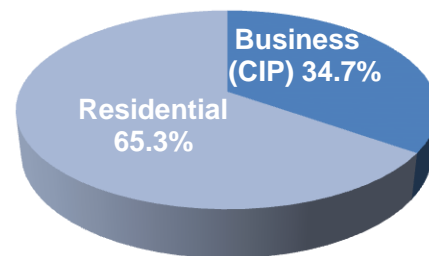
Residential value grew by \$7.8 billion or 12.1% to a total of \$72.3 billion in fiscal 2015, with growth across residential property class and throughout Boston's neighborhoods. Business value increased by \$3.1 billion or 8.8% to a total of \$38.4 billion. This growth is concentrated heavily in the

Downtown (Ward 3), Back Bay (Wards 4+5) and Seaport District (Ward 6) areas of Boston.

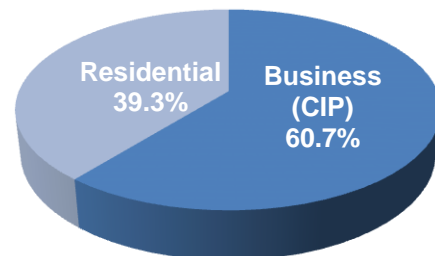
Classification – Based on Boston's application of the classification law in fiscal 2015, business property represents 34.7% of the total taxable value, but will pay 60.7% of the tax levy. Residential property represents 65.3% of the total value, but 39.3% of the total tax levy. The business share of the total levy declined slightly from 61.9% to 60.7% from the prior year due to the greater appreciation of residential value. The extent to which business property subsidizes residential property owners is demonstrated by the fact that if taxes were determined at 100% of value using a single tax rate, business taxes would decrease by \$485.6 million or 42.9% and be shifted to residential property.

Figure 2

Property Value Distribution FY15



Property Tax Levy Distribution FY15

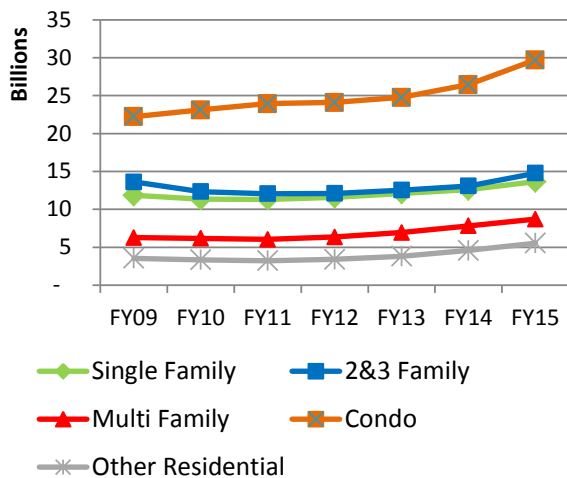


Residential Property – Residential value increased by the appreciation of existing value and new growth at a faster pace than business value over last year, representing 71.6% of the City's total value growth. For the fourth consecutive year, all categories of residential value increased with a strong aggregate growth rate of 12.1% in fiscal

2015. The rising value of existing housing in the City accounted for 85% of the total residential value growth with 15% of the increase due to new growth. Condominiums produced the largest value increase of \$3.2 billion or 12.3%, which was driven by construction of high-end condominium property. This growth in value is heavily concentrated in the Back Bay and Downtown, which together represent 58.6% of the condominium growth. Single-family homes were one of the slowest growing categories, but still increased by \$1.0 billion, or 8.3%. The value of two and three family homes increased by \$1.7 billion or 12.9%. Of this increase only \$45.4 million or 2.7% is due to new construction, while the remaining \$1.640 billion reflect the rising values of the City's existing housing stock. Multifamily homes (more than 3 units) increased by \$872.2 million or 11.1%. All other property, which includes residential land and parking, showed strong growth of \$964.4 million or 21.1%. Condominium parking values grew by 49.6% due to an effort by the Assessing Department to carve out tax bills for condominium parking. This effort will bring uniformity to the treatment of condominium parking taxes over time.

Figure 3

**Residential Property Value Trends
FY09-FY15**



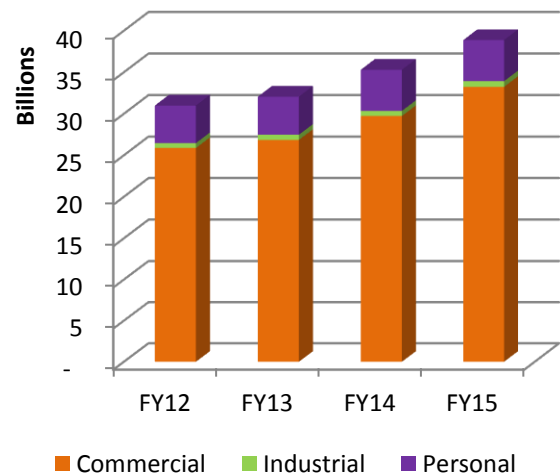
Residential value grew by 10% or more in 17 of Boston's 22 Wards, or 77% of the City. This growth is reflective of a strong housing market that has

driven increases in value throughout Boston's neighborhoods.

Business (CIP) Property – Commercial, industrial and personal properties are valued at \$38.4 billion, a \$3.1 billion or 8.8% increase over fiscal 2014. The appreciation of existing business value accounted for 69.3% of the total business value growth with 30.7% of the value increase due to new growth. Commercial properties drove the CIP value growth with its increase of \$2.8 billion or 9.6% over fiscal 2014 values. Industrial values increased over the prior year by \$57.5 million or 9.3%. Personal property, consisting mainly of the equipment and machinery of the utilities and also office equipment, is valued at \$5.2 billion or 13.4% of total business value in fiscal 2015. From the past year, personal property value increased by \$202.2 million or 4.1%.

Figure 4

**Business Property (CIP) Value Trends
FY12-FY15**

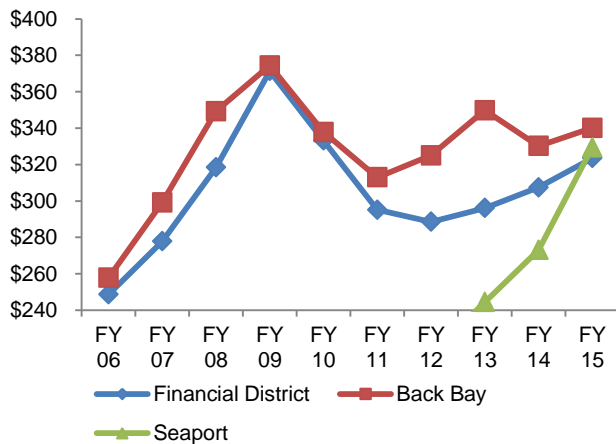


Business property not only pays higher taxes because of absolute values and classification, but it also imposes less of a cost burden on the City. Business, especially commercial property, cross-subsidizes low residential tax rates. The application of classification in Boston creates a business tax rate that is almost three times larger than the residential rate. Thus, in terms of revenue

generation, the property tax revenue produced by new business development is more advantageous than the revenue produced by residential property.

Towers – Boston’s A and A- commercial office tower value is \$14.18 billion in fiscal 2015, a \$1.264 billion or 9.8% increase over the prior year. Tower values represent 40.8% of the overall growth in commercial value for fiscal 2015.

Figure 5
Class A/ A- Tower Average Value Per Sq. Ft.
FY06-FY15



In the nine years between fiscal 2006 and fiscal 2015, the average Class A and A- value per square foot grew by \$82.39 or 32% in the Back Bay and \$74.91 or 30.1% in the Financial District.

Following the recession, values of Class A and A-office towers diverged, with the Back Bay experiencing more robust value growth per square foot than the Financial District. However the gap narrowed over the last two fiscal years due to greater supply coming online in the Back Bay and a more active market in the Financial District.

In fiscal 2014 the Class A and A- tower list was reevaluated to more accurately reflect values in the Back Bay. Eight additional Back Bay towers were added to this class due to the end of a 121A agreement, changes in occupancy, and renovations

or upgrades to existing office spaces. The addition of these buildings to the Class A and A- tower summary decreased the average value per square foot of Back Bay towers in fiscal 2014 by \$19.58 or 5.6% but also more accurately reflects average market values.

In fiscal 2015 the average value per square foot in the Financial District increased by \$16.05 or 5.2%, outpacing an increase of \$9.88 or 3% in the Back Bay. The Seaport District, which had low tower values until the recent surge in development, experienced an increase in value per square foot of \$56.34 or 20.6% due to new construction in the area, including the Vertex project at Fan Pier.

Property Tax Levy

Boston’s net property tax levy in fiscal 2015 totals \$1.83 billion which is an \$87.0 million or 5.0% increase over the prior year. The net property tax levy is the gross tax levy of \$1.87 billion less the overlay of \$35.9 million set aside for abatements and uncollected taxes. Because Boston’s property tax levy is below 2.5% of the City’s total taxable value (levy ceiling), the tax levy was able to increase by \$44.5 million or 2.5% over the prior year’s levy limit. Each year the City raises the tax levy to the maximum level possible without seeking an override. New growth from development or the conversion of tax-exempt property to taxable status also increased the tax levy by \$44.5 million.

Table 2

Tax Levy Growth

Figures in millions

	FY14	FY15
Prior Year Levy Limit	\$1,684	\$1,779
2 1/2% Levy Growth	\$42.1	\$44.5
New Growth	\$53.0	\$44.5
Total Levy Limit	\$1,779	\$1,868
Net Tax Levy	\$1,779	\$1,868
Levy Ceiling	\$2,496	\$2,768

The property tax is the City’s largest revenue source, representing 67% of its operating revenue

in fiscal 2015. Boston relies more on the property tax now than it did in 1981, the last full year before the implementation of Proposition 2½ when the property tax represented 61% of all General Fund revenues.

New Growth –New growth in fiscal 2015 totals \$2.1 billion or 19.4% of the increase in taxable value in fiscal 2015. Tax revenue from new growth was \$44.5 million which represents 50% of the total tax levy increase in fiscal 2015, demonstrating the importance of development to continued revenue growth.

**Table 3
New Growth Summary**

Values in Millions

Class	Change FY14-FY15	New Growth	% New Growth
Residential			
Condominiums	\$3,242.2	\$434.4	13.4%
Single Family	\$1,043.7	\$35.7	3.4%
2/3 Family	\$1,682.1	\$45.4	2.7%
All others	\$964.5	\$422.5	43.8%
Multi-Family	\$872.2	\$230.8	26.5%
Total Residential	\$7,804.7	\$1,168.8	15.0%
Business			
Commercial	\$2,839.3	\$403.9	14.2%
Industrial	\$57.5	\$15.1	26.2%
Personal	\$202.2	\$531.1	262.6%
Total Business	\$3,099.1	\$950.0	30.7%
Total Value	\$10,903.8	\$2,118.9	19.4%

Personal property accounted for the largest new growth, with significant increases coming from infrastructure improvements by major utility companies, such as NSTAR and Keyspan. Contributing to commercial growth was development by Liberty Mutual and Vertex which combined accounted for \$3 million in new revenue despite both receiving Tax Increment Financing (TIF) agreements. Additionally, \$1.1 million was added

to the tax rolls due to the expiration of the 121B agreement for the Crosstown Hotel. The largest single condominium project is Millennium Place which added \$2.6 million in new taxes.

Property Tax Rates

Both the business (CIP) and residential tax rates decreased for the second consecutive year in fiscal 2015 due to property value increasing at a rate higher than can be captured under Proposition 2½.

**Table 4
Tax Rate**

Per \$1,000 in Value

	FY14	FY15	Change	%
Business	\$31.18	\$29.52	(\$1.66)	-5.3%
Residential	\$12.58	\$12.11	(\$0.47)	-3.7%

Under Proposition 2½, Boston must adjust its two tax rates based on the changes in residential and business values so that the tax levy does not exceed 2.5% over the prior year’s levy limit.

Boston’s average single-family tax bill is \$3,520 in fiscal 2015, an increase of \$103 or 3.0% over the fiscal 2014 average. This increase was driven by the increasing value of residential property in the City.

Boston’s application of classification and the utilization of the residential exemption have enabled the City to have the 3rd lowest average single-family tax bill in fiscal 2015 in a [comparison](#) of Boston and 19 other surrounding communities. The City’s tax bill this year is also below the statewide average single-family tax bill of \$5,225. In fiscal 2015, the 30% residential exemption, for residential property used as the principal residence, represented a tax cut of \$1,880, an increase of \$116 over fiscal 2014. The \$1,880 tax exemption is equivalent to a property value reduction of \$155,205. Also, the application of classification saves homeowners, on average, \$2,122 on a single-family home.

The City’s effective tax rate, taxes as a percent of value, is 1.69%. Under the provisions of Proposition

2½, the property tax cannot exceed the levy ceiling of 2.5% of the value of all taxable property. With a levy ceiling of \$2.77 billion and the gross tax levy of \$1.87 billion in fiscal 2015, Boston's property tax levy is \$900.5 million below the levy ceiling.

Outlook

The recent surge in property values in Boston reflects a rising real estate market, which increased the values of both residential and commercial property throughout Boston, and a robust development pipeline. In fiscal 2016, the City will undertake its tri-annual full revaluation of properties which is expected to further increase values as of January 1, 2015. The appreciation of existing property values and solid new growth are

good news for a City that relies on the property tax for 67% of its operating revenues, but it is too high a reliance for the City on a single revenue source. Boston's inability to have more control over its own financial operations because of a restrictive home rule structure in Massachusetts puts it at a competitive disadvantage with other major cities in the country. Several other states such as Delaware, Illinois, Maryland, New Jersey and Pennsylvania have singled out its major city for greater flexibility for revenue generation, recognizing the importance of the city to the state's overall economic vitality. That same reasoning should apply to Boston to further diversify its revenue sources and reduce its heavy reliance on property tax revenue.