Special Report

BOSTON MUNICIPAL RESEARCH BUREAU

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Highlights

- Boston's average single-family tax bill for fiscal 2016 is $3,530, a $10 or 0.3% increase over fiscal 2015. The average tax bill is one of lowest in the area.
- If property were taxed without classification, $509 million of the tax burden would shift from business to residential property.
- 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.

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Boston's Taxable Value Grows to $128 Billion

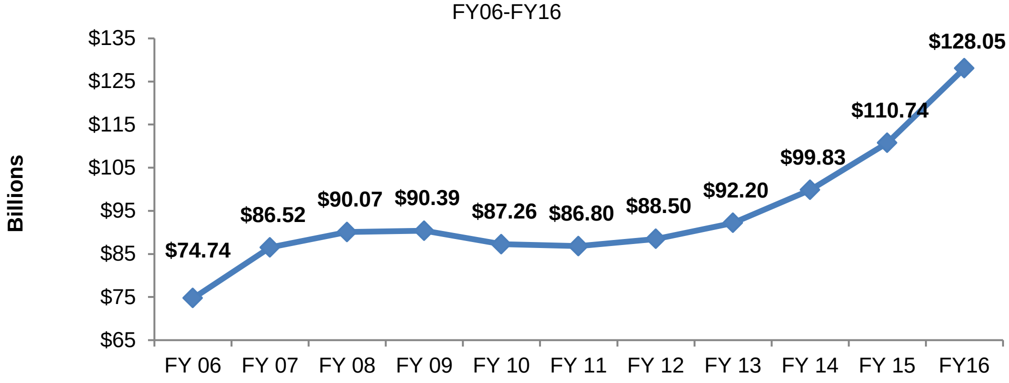
City's taxable value has increased by 45% over the last 4 years

Boston's fiscal 2016 taxable value as of January 1, 2015 jumped to $128 billion, an increase of $17.3 billion or 15.6%, surpassing the value growth of 10.9% in fiscal 2015. Growth in this full revaluation year was split fairly evenly with residential value increasing by 15.7% over fiscal 2015 and business value by 15.5%. Business property consists of commercial, industrial and personal property (CIP). Taxable value has now increased for five consecutive years. This report describes the factors involved in the fiscal 2016 tax rates which were set in December 2015. The fiscal 2016 values are determined as of January 1, 2015, reflecting market conditions in 2014.

Boston's fiscal 2016 net tax levy (levy less overlay) is $1.92 billion, an $84 million or 4.6% increase over fiscal 2015. Over the five years since fiscal 2011, the City's tax levy for operations has increased by $419.6 million or 27.2%, while Boston's state aid for operations has increased by only $28.8 million or 7.3% during the same period. Other highlights include:

- The City relies on the property tax for 67% of its General Fund operating revenue which is greater now than it was in 1981, the last full year before the implementation of Proposition 2½ when the property tax represented 61% of total General Fund revenues.
- In fiscal 2016, residential value growth of $11.4 billion represents 66% of the City's total taxable value increase and business value growth of $5.9 billion represents 34% of the total value increase.
- Business property, especially commercial property, pays higher taxes due to absolute values and classification, which subsidizes city services to residential neighborhoods. Business property represents 35% of the total taxable value, but will pay 61% of the tax levy due to the City's application of classification.
- New growth totals $47.6 million in fiscal 2016, representing 50.5% 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-FY16



Property Tax Values

Boston's total taxable property value for fiscal 2016 is $128 billion, a $17.3 billion or 15.6% increase over last year's value. The value is of January 1, 2015, reflecting market conditions in 2014. This increase marks the fifth consecutive year of value growth with this year's increase due to a rising real estate market, a full parcel-specific revaluation and robust new development. Boston's taxable value of $128 billion is its highest level ever. In fiscal 2015, taxable value increased by $10.9 billion or 10.9%.

Table 1

City of Boston Value Summary

Values in Billions

Class	FY15	FY16	Change FY15-FY16	% Change FY15-FY16
Residential				
Condominiums	$29.7	$33.6	3.8	13.0%
Single Family	$13.6	$15.3	1.6	12.0%
2/3 Family	$14.8	$17.4	2.7	18.2%
All others	$5.5	$7.2	1.7	30.2%
Multi-Family	$8.7	$10.2	1.5	17.6%
Total Residential	**$72.3**	**$83.7**	**11.4**	**15.7%**
Business				
Commercial	$32.6	$38.2	5.6	17.2%
Industrial	$0.7	$0.8	0.1	14.2%
Personal	$5.2	$5.4	0.2	4.5%
Total Business	**$38.4**	**$44.3**	**5.9**	**15.5%**
Total Value	**$110.7**	**$128.0**	**17.3**	**15.6%**

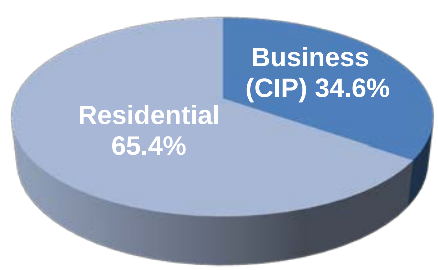
Residential value grew by $11.4 billion or 15.7% to a total of $83.7 billion in fiscal 2016, with growth across all residential property classes and throughout Boston's neighborhoods. Business value increased to $44.3 billion, an increase of $5.9 billion or 15.5%. Approximately 64% of this value growth is concentrated 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 2016, business property represents 34.6% of the total taxable value, but will pay 60.6% of the tax levy. Residential property represents 65.4% of the total value, but will pay 39.4% of the total tax levy. The residential value increased slightly more than business value over the past six years (FY10-FY16), causing the residential levy share to increase by 1.5% and the business share to decrease by 1.5%.

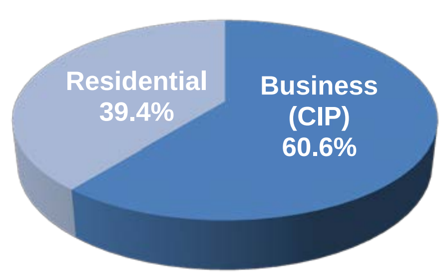
Classification allows the City to shift the property tax burden to business property up to 175% of what its share would be without classification, as long as the residential share of the levy is not less than 50% of its full value share. Each year the City has shifted the maximum tax burden to business property. 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 $509.3 million or 42.9% and be shifted to residential property. However, this lower tax burden on residential property serves as an incentive for developers to create residential units which are greatly needed in the city.

Figure 2

Property Value Distribution FY16



Property Tax Levy Distribution FY16



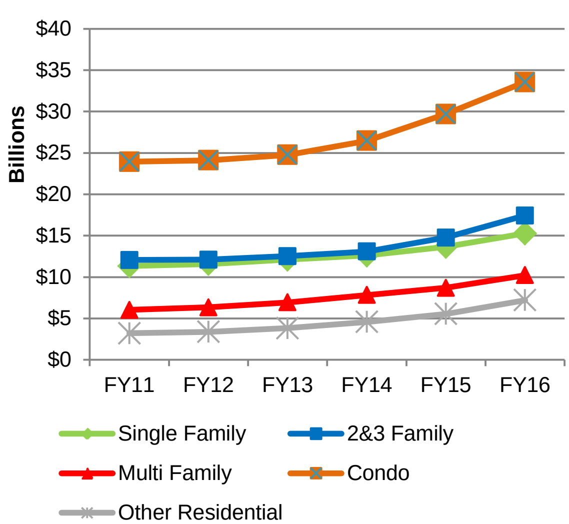
Residential Property - Due to higher aggregate property values, appreciation and new growth of residential property represented 65.7% of the City's total value growth. For the fifth consecutive year, all categories of residential value increased with a strong aggregate growth rate of 15.7% in fiscal 2016. The rising value of existing housing in the City accounted for 88.8% of the total residential value growth with 11.2% of the increase due to new growth. Residential value grew by 10% or more in 21 of Boston's 22 Wards, or 95% of the City.

As condominiums are the largest residential class, condominiums produced the largest value increase of $3.8 billion or 13.0%. Condominium values are heavily concentrated in the Back Bay and Downtown, which together represent 58% of the condominium growth. Single-family homes were the slowest growing residential categories, but still increased by $1.6 billion or 12.0%. The value of two and three-family homes increased by $2.7 billion or 18.2%. Of this total residential increase, only $61.9 million or 2.3% is due to new construction, while the remaining $2.6 billion reflect the rising values of the City's existing housing stock and the full revaluations that occurred in fiscal 2016.

Figure 3

Residential Property Value Trends

FY11-FY16



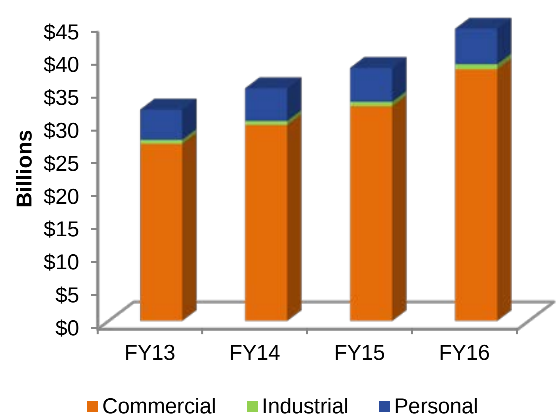
Multifamily homes (more than 3 units) increased by $1.5 billion or 17.6%. All other property, which includes residential land and parking, showed strong growth of $1.7 billion or 30.2%. Condominium parking values grew by 27.8% due the continued efforts of the Assessing Department to carve out tax bills for condominium parking in order to bring uniformity to the treatment of condominium parking units.

Business Property (CIP) – Commercial, industrial and personal properties are valued at $44.3 billion, a $5.9 billion or 15.5% increase over fiscal 2015. The appreciation of existing business value accounted for 80.9% of the total business value increase with 19.1% of the value increase due to new growth. Commercial properties drove the CIP value increase, accounting for 95% of the total business value growth with its increase of $5.6 billion or 17.2% over fiscal 2015 values. Industrial values increased over the prior year by $96.3 million or 14.2%. Personal property, consisting mainly of the equipment and machinery of the utilities and also office equipment, is valued at $5.4 billion or 12.1% of total business value in fiscal 2016. From the past year, personal property value increased by $233.3 million or 4.5%.

Figure 4

Business Property (CIP) Value Trends

FY13-FY16



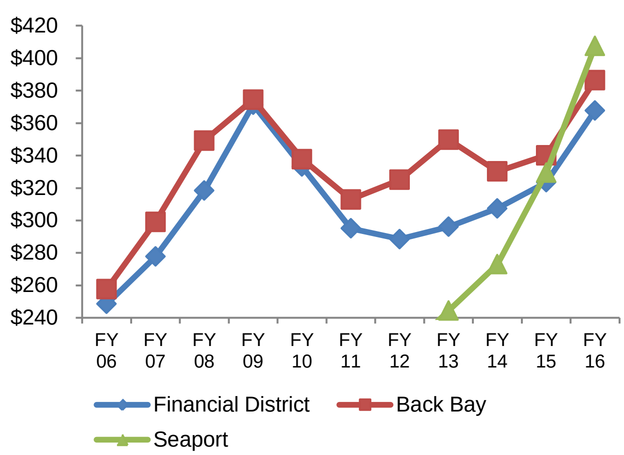
Business property not only pays higher taxes because of absolute values and classification, but it also imposes less of a cost burden on the City. Business, especially commercial property, subsidizes city services to Boston residents. The application of classification in Boston creates a business tax rate that is greater than two times the residential rate. Thus, in terms of revenue generation, the property tax revenue produced by existing business value appreciation and new business development is advantageous for Boston and its residents.

Towers – Boston's A and A- commercial office tower value is $16.5 billion in fiscal 2016, a $2.3 billion or 16.1% increase over the prior year. The increase in tower values represents 41.0% of the overall growth in commercial value for fiscal 2016.

Figure 5

Class A/ A- Tower Average Value Per Sq. Ft.

FY06-FY16



In the ten years between fiscal 2006 and fiscal 2016, the average Class A and A- value per square foot grew by $128.71 or 50.0% to $386.48 in the Back Bay and $119.16 or 47.9% to $367.76 in the Financial District. The Seaport District has experienced growth of $327.60 or 409.7%. With average value per square foot of $407.55 in fiscal 2016, the Seaport District has the most expensive average tower values for the first time in history.

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 three fiscal years due to greater supply coming online in the Back Bay and a more active market in the Financial District.

In fiscal 2016 the average value per square foot in the Financial District increased by $44.35 or 13.7%, which is in-line with an increase of $46.36 or 13.6% 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 $78.19 or 23.7% due to new construction in the area and the full revaluation that occurred in fiscal 2016.

Property Tax Levy

Boston's net property tax levy in fiscal 2016 totals $1.92 billion which is a $91.5 million or 5.0% increase over the prior year. The net property tax levy is the gross tax levy of $1.961 billion less the overlay of $38.0 million set aside for abatements and uncollected taxes. The net property tax levy represents the full amount available for operations.

Table 2

Tax Levy Growth*

Figures in Millions

	FY15	FY16
Gross Property Tax	$1,867,767,429	$1,961,476,603
Overlay	($35,866,506)	($38,045,747)
Net Property Tax	**$1,831,900,923**	**$1,923,430,856**
Increase Over Prior Yr.	-	$91,529,933
Percent Increase	-	5.0%

*As determined when tax rate set in December

The net property tax is the City's largest revenue source, representing 67% of its operating revenue in fiscal 2016. Each year the City raises the tax levy to the maximum level possible without seeking an override. 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 revenue.

Levy Limit – The levy limit is 2.5% over the prior year's levy limit, the total the City is permitted to increase the levy from its tax base without seeking an override. Since Boston's tax levy is below 2.5% of its total taxable value (levy ceiling), the City was able to increase its fiscal 2015 levy limit by the full 2.5% or $46.7 million in fiscal 2016. In addition, new growth from development or the conversion of tax-exempt property to taxable status increased the tax levy by $47.6 million for a total levy limit of $1.962 billion. However, Boston's fiscal 2016 gross property tax levy of $1.961 billion is less than the levy limit because the tax rates have to be adjusted to the last penny to insure that the full levy increase does not exceed 2.5% of total taxable value.

Table 3

Tax Levy Limit Growth

Figures in Millions

	FY15	FY16
Prior Year Levy Limit	$1,779	$1,868
2 1/2% Levy Growth	$44.5	$46.7
New Growth	$44.5	$47.6
Total Levy Limit	$1,868	$1,962
Increase Over Prior Yr.	$89	$94
Percent Increase	5.0%	5.0%
Levy Ceiling	**$2,768**	**$3,201**

New Growth – New growth in fiscal 2016 totals $2.3 billion or 14.1% of the increase in taxable value in fiscal 2016. Tax revenue from new growth was $47.6 million which represents 50.4% of the total tax levy increase in fiscal 2016, demonstrating the importance of development to continued revenue growth.

Personal property accounted for the largest new growth, with significant increases coming from infrastructure improvements by major utility companies such as NSTAR and Keyspan, wireless providers New Cingular and Verizon, and Merk Pharmaceuticals. Contributing to commercial growth was development by the new PriceWaterhouseCoopers office building in Seaport Square and New Balance's headquarters in the Boston Landing development in Brighton. Additionally, $2.2 million was added to the tax rolls as a result of the expiration of the 121A agreement for Two Financial Center by South Station.

Table 4

New Growth Summary

Values in Millions

Class	Change FY15-FY16	New Growth	% New Growth
Residential			
Condominiums	$3,849.1	$297.1	7.7%
Single Family	$1,639.8	$31.6	1.9%
2/3 Family	$2,656.6	$61.9	2.3%
All others	$699.6	$478.3	68.4%
Multi-Family	$1,528.2	$292.6	19.1%
Total Residential	**$10,373.4**	**$1,161.4**	**11.2%**
Business			
Commercial	$5,580.3	$654.7	11.7%
Industrial	$123.3	$11.0	8.9%
Personal	$233.3	$468.3	200.7%
Total Business	**$5,936.9**	**$1,134.0**	**19.1%**
Total Value	**$16,310.2**	**$2,295.4**	**14.1%**

Property Tax Rates

Both the business (CIP) and residential tax rates decreased for the third consecutive year in fiscal 2016 due to the increasing property values and the Proposition 2½ limits.

Table 5

Tax Rate

Per $1,000 in Value

	FY15	FY16	Change	%
Residential	$29.52	$26.81	($2.71)	-9.2%
C,I,P	$12.11	$11.00	($1.11)	-9.2%

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 $3,530 in fiscal 2016, an increase of $10 or 0.28% over the fiscal 2015 average. This increase was driven by the increasing value of residential property across the City.

Boston's application of classification and the utilization of the residential exemption have enabled the City to have the 2nd lowest average single-family tax bill in fiscal 2016 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 $5,438. In fiscal 2016, the 30% residential exemption, for residential property used as the principal residence, represented a tax cut of $1,962, an increase of $82 over fiscal 2015. The $1,962 tax exemption is equivalent to a property value reduction of $178,325.

Also, the application of classification saves homeowners, on average, $2,156 on a single-family home. Thus, the benefit of classification and the residential exemption for the average single-family home is a reduction in the tax bill of $4,118. The tax benefit from classification is proportional across residential classes. On average classification saves homeowners $2,310 on a two-family home, $2,403 on a residential condominium, and $2,508 on a three-family home. The residential exemption is the same dollar savings for all eligible residences, but it provides a greater relative tax benefit to lower valued homes.

The City's effective tax rate, taxes as a percent of value, is 1.53%. Under the provisions of Proposition 2½, the property tax levy cannot exceed the levy ceiling of 2.5% of the value of all taxable property. With a levy ceiling of $3.2 billion and the gross tax levy of $1.96 billion in fiscal 2016, Boston's property tax levy is $1.24 billion below the levy ceiling.

Outlook

Boston has experienced a 45% increase in assessed value since 2012, with a value of $128 billion in 2016 representing an increase of 15.5%. The City ended the last two years with double-digit value growth. The City will continue to benefit from what is considered its biggest expansion in its history with a robust pipeline including 314 projects with over 64 million square feet and $24 billion in value, according to the Boston Redevelopment Authority.

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 that is too high a reliance on a single revenue source for a major city. While Boston has undertaken efforts, with state approval, to diversify its revenue base through both excise taxes and payment-in-lieu-of-taxes (PILOT), state aid, the City's second largest revenue source has remained relatively flat, putting greater financial pressure on the City's own-source revenues to fund growing personnel costs, long-term benefit liabilities, debt service and state assessments.

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.