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Testimony of the Boston Municipal Research Bureau

Before the
City Council's Committee of the Whole

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Regarding: DOCKET #1265 - Order adopting the residential factor for property tax classification and the residential exemption for FY99.

Classification allows cities and towns to determine the share, within limits, of the tax bill that will be paid by the various classes of property. Essentially, municipalities are allowed to shift a portion of the tax burden from residential to commercial, industrial and personal properties (CIP).

- The classification law provides that the share residential property owners pay may be reduced to 50% of their share of the total taxable valuation and the share to be borne by CIP property owners cannot exceed 175% of their share of the total taxable valuation.

- In FY98, the adoption of full classification resulted in CIP property accounting for 42% of the value in the City but paying 70% of the tax bill. On the other hand, residential property accounted for 58% of the value in the City and paid 30% of the tax bill.

The City Council plays an important role in the approval of the residential factor for property tax classification. The adoption of the lowest residential factor should not be automatically approved by the City Council. The City Council must ensure that an appropriate classification system is adopted that will continue to encourage business and job growth and a stable economy while at the same time not placing a disproportionate burden on any one class of property. The decisions made by the Council today will have an impact in the ever changing economic environment of the City. In making the classification decision, the Council should consider the following:

- Boston relies heavily on two revenue sources for the bulk of its budget: (1) property tax at 51% and (2) state aid at 32%. Together these revenues represent 83% of the revenues available for general fund operations.

- The financing for the convention center has taken some of the creative financing options that the City could have used to alleviate its heavy reliance on these two revenue sources.

- Global competition is a reality now more than ever. That means that companies will or already are looking at cost reduction opportunities. In the past, property taxes were not a primary factor in business location decisions. However, now there is a greater sense of urgency to reduce costs in order to remain competitive which will lead companies to look closely at what they pay in taxes. Any “site flexible” company may choose to reduce its property tax liability by moving operations to neighboring cities and towns with lower tax rates (see attached tables). The Council, in conjunction with the Administration, should ensure that Boston doesn’t create a disincentive to developers as well as current commercial and industrial owners.

- Boston’s spending has increased by $299M or 26% since FY94 (not including Health & Hospitals/Public Health Commission) and employee levels have grown by 1,189 or 8%. The City should explore a reduction in the cost of government by first looking to deliver services more efficiently and cost effectively, ensuring that government spending is for appropriate services and finally reducing costs across the board. Reductions should be made with the aim of decreasing the overall tax bill for property owners.

- The City should asses the impact of adjusting the classification rates to take some of the burden off of CIP property. This type of a change in the classification system is not something that can be done all in one year. The City should have a plan to slowly adjust the rates over several years. This will make the change more manageable and help to ensure a diverse and stable economy.