

SPECIAL

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REPORT

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SETTING BOSTON'S FISCAL 2003 TAX RATES CREATES LEVY SHIFT

When Boston set its tax rate on December 17, 2002, it introduced a year of firsts: the gross tax levy exceeded \$1 billion, the business share of the tax levy reached its allowable maximum of 175% of full value, and business taxable value decreased for the first time since fiscal 1994. The latter two events and a solid increase in residential value combined to create a situation in which the City's overall property tax burden shifted to residential property by 1.8%, producing a noticeable rise in residential tax bills. This trend is expected to continue in fiscal 2004, which would result in another large increase in residential property tax bills. The Menino Administration has introduced legislation intended to maintain the business-residential share of the tax levy at a 70%-30% split. Boston's taxable value increased by \$3.3 billion or 6.2% in fiscal 2003, and the tax levy increased by \$63 million or 6.5%, in large part due to record new growth of \$38.5 million. For the second consecutive year, the residential and business tax rates increased slightly in fiscal 2003 as a consequence of the divergence of property values and the mechanics of classification.

PROPERTY TAX VALUES: RESIDENTIAL UP, BUSINESS DOWN

Boston's total taxable property value in fiscal 2003 is \$57.5 billion, an increase of \$3.3 billion or 6.2% over fiscal 2002. This increase is the smallest percentage growth since fiscal 1997. Values for fiscal 2003 were set as of January 1, 2002, and thus reflect 2001 market conditions.

FY03 Values and Tax Rates
Figures in 000's

Residential property is valued at \$35.1 billion in fiscal 2003, \$3.4 billion or 10.6% higher than in fiscal 2002. Condominium value showed the largest dollar increase, mainly from the construction of 1,497 new units. Business property is valued at \$22.4 billion, a reduction of \$29.6 million or 0.1% from fiscal 2002. Commercial and industrial properties showed value losses of 1.4% and 2.5%, respectively, which were offset by a substantial gain in personal property, primarily from utility growth. New growth from construction and rehabilitation of buildings added \$1.7 billion of value, an increase of \$279.6 million or 19.2% over fiscal 2002.

| Type | FY02 | FY03 | Change | % Change |
|----------------------|--------------|--------------|-------------|----------|
| Residential | \$31,774,558 | \$35,147,998 | \$3,373,440 | 10.6% |
| Condominiums | 9,609,897 | 10,977,641 | 1,367,744 | 14.2% |
| Single Family | 7,084,453 | 7,830,712 | 746,259 | 10.5% |
| Two/Three Family | 8,834,726 | 9,985,320 | 1,150,595 | 13.0% |
| Multi-Family | 4,299,538 | 4,521,593 | 222,055 | 5.2% |
| All Others | 1,945,944 | 1,832,731 | (113,213) | -5.8% |
| Business | \$22,414,949 | \$22,385,347 | (\$29,602) | -0.1% |
| Commercial | 18,445,791 | 18,189,908 | (255,883) | -1.4% |
| Industrial | 1,079,344 | 1,052,860 | (26,484) | -2.5% |
| Personal | 2,889,815 | 3,142,579 | 252,764 | 8.7% |
| Total Value | \$54,189,508 | \$57,533,345 | \$3,343,838 | 6.2% |
| Residential Tax Rate | \$11.01 | \$11.29 | \$0.28 | 2.5% |
| Business Tax Rate | \$30.33 | \$31.49 | \$1.16 | 3.8% |

PROPERTY TAX LEVY: RECORD NEW GROWTH

The property tax levy, the City's largest revenue source, totals \$1.035 billion in fiscal 2003, exceeding \$1 billion for the first time. The levy increased \$63 million or 6.5% from fiscal 2002 and represents 56.7% of the City's fiscal 2003 operating revenues. Of this increase, new growth accounted for \$38.5 million and the normal 2.5% increase added \$24.3 million. The new growth of \$38.5 million represents the largest increase in new growth in any one year for Boston. This new growth exceeded original budget estimates by approximately \$16 million, which allowed the City to offset local aid cuts of \$14 million from former Governor Swift's budget vetoes. One-time value increases from utility construction and the addition of value from several new buildings such as 111 Huntington Avenue, the Belvedere at the Prudential and the Millennium project on lower Washington Street contributed to this year's record growth. 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 2003.

Included in the gross tax levy is a reserve for abatements called the overlay. Boston is required to set an overlay of at least 5.0% of net property taxes, but not more than 6.0%. For this year only, the Department of Revenue authorized the City to set its overlay reserve at 4.0% of net property taxes, or \$39.8 million, after demonstrating a decline in abatements in recent years and a sufficient overlay reserve balance. This action freed up \$10 million in additional operating revenue for fiscal 2003.

FY02-03 Tax Levy Growth
Figures in 000's

| | FY02 | FY03 | Change | % Change |
|--------------------|-----------|-------------|----------|----------|
| Prior Year Limit | \$917,750 | \$972,449 | \$54,699 | 6.0% |
| 2 1/2% Levy Growth | 22,944 | 24,311 | 1,367 | 6.0% |
| New Growth | 31,755 | 38,532 | 6,777 | 21.3% |
| Total Levy Limit | \$972,449 | \$1,035,293 | | |
| Property Tax Levy | \$972,234 | \$1,035,271 | \$63,037 | 6.5% |

PROPERTY TAX CLASSIFICATION: RESIDENTIAL SHIFT

Boston’s residential property owners will pay a larger share of the property tax levy this year due to the divergence of business and residential property values and the mechanics of classification. Since 1989, full tax classification has resulted in the business class paying 69.9% of the levy, while the residential class paid 30.1%. However, this year, business values declined or were stagnant while residential values increased. As a result, under classification, the business share of the tax levy was capped at 68.1%, which in turn required the residential share to increase by 1.8% to 31.9% to compensate.

By law, Boston’s residential share of the tax levy cannot be less than 30.1%. From fiscal 1989 to fiscal 2002, the business and residential markets have moved in similar directions allowing the City to maintain a 70%-30% split in the tax levy. Even so, over the past two fiscal years business value has not appreciated as much as residential property and its share of taxable value has been decreasing. Thus, when total business value decreased by 0.1% and residential value increased by 10.6% in fiscal 2003, the business levy burden reached its allowable maximum of 175% of full value share. Consequently, the traditional business levy share of 69.9% was required to be reduced to 68.1%, causing the residential share to increase to 31.9%. This shift caused the residential tax rate to go up to \$11.29, a 2.5% increase over the prior year. Had business and residential values moved in the same direction, the residential tax rate actually would have decreased in fiscal 2003. The Menino Administration has introduced legislation that would increase the maximum business share of the levy to 200% of its full value share and reduce the residential share to 45% to maintain the 70%-30% split.

CLASSIFICATION IN BOSTON

Classification, a 1978 amendment to the Massachusetts Constitution, permits, in Boston’s case, the creation of two classes of property for taxation purposes: residential and business (commercial, industrial and personal property). With classification, Boston can determine the share, within limits, of the annual levy to be borne by each class. The residential share may be reduced to 50% of its share of the total taxable valuation and the business share may be increased to 175% of its full value share. Without classification, residential property would pay 61.1% of the tax levy and business 38.9% in fiscal 2003. However, with full classification, residential property in Boston will pay 31.9% of the tax levy and business will pay 68.1%. This year, classification will save residential owners, on average, between \$1,700 and \$2,000 in annual taxes.

PROPERTY TAX RATES: MOVING UP

For the second consecutive year, the City’s residential and business tax rates increased slightly. Prior to last year, Boston’s tax rates had decreased for seven consecutive years because of strong value growth and the Proposition 2½ requirement that limits the levy increase to 2.5% of the prior year levy limit. The fiscal 2003 residential rate of \$11.29 is an increase of \$0.28 or 2.5% from fiscal 2002, while the business rate of \$31.49 is up \$1.16 or 3.8%. In addition to the tax advantages of classification, homeowners benefit from the full 30% residential exemption for property used as a principal residence. The fiscal 2003 residential exemption provided a tax cut of \$988.15 per eligible homeowner, an increase of \$107 from the prior year.

FISCAL 2004 OUTLOOK

The same factors that contributed to the 1.8% property tax levy shift to the residential class in fiscal 2003 could produce a slightly larger shift to residential property in fiscal 2004. Residential value is expected to show positive value growth while business value may decrease further after next year’s full revaluation of property. Such a shift could produce a larger increase in the residential tax bills next December. Also, new growth is not expected to increase the tax levy as much as it did this year due to the one-time nature of some development this year and less new construction coming online next year.