

Special Report



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Highlights

- Business property owners would pay 62% of the CPA surcharge and residential owners would pay 38% based on fiscal 2016 data.
- The CPA surcharge for a \$500,000 owner-occupied house would be \$24 and for a non owner-occupied house \$44. A business valued at \$50M would pay \$13,378.
- CPA funds will be tied to city plans, but also should be available for “community requests” for housing, open space and historic resources.

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What If Boston Adopts the CPA?

Housing and preservation funding for a 1% property tax bill surcharge

Boston's voters will decide on November 8th whether to adopt the Community Preservation Act (CPA) which would result in a 1% surcharge on real property tax bills less exemptions. Revenue generated will be used to create open space and preserve historic resources, rehabilitate parks and other recreational areas and create and preserve affordable housing. If approved the CPA would go into effect in fiscal 2018. Using fiscal 2016 tax data, this surcharge would generate \$16.5 million. A state distribution starting in fiscal 2019 could bring the total to \$20 million annually.

This report is not intended to support or oppose adoption of the CPA in Boston, but rather to provide useful information for voters to make an informed decision.

The intent of the CPA is to help support the creation of low and moderate income housing and provide resources for quality of life projects. The 1% surcharge would add to the taxpayers' property tax, a revenue source for which the City is already dependent on for 68% of its total operating revenue.

On May 11, 2016, the City Council approved a CPA ballot question for the November 8th election that would implement a 1% property tax surcharge. This ballot question includes exemptions from the CPA surcharge for:

- \$100,000 of the value of each taxable parcel of residential, commercial and industrial real property
- Property owned and occupied as a domicile by a resident who would qualify for low income housing or low or moderate income senior housing

The CPA has been adopted by 161 municipalities representing 46% of all cities and towns in Massachusetts and 44% of the total state population. Boston and fifteen other cities and towns have placed the CPA question on their November 8th ballots.

Other highlights of this report include:

- CPA funds are intended to augment or increase public dollars for eligible purposes, not supplant or replace them
- CPA funds can be used to support moderate housing for households whose income is less than 100% of AMI (< \$98,100 for a family of four)
- The Community Preservation Committee is charged with developing a community preservation program and financial plan to identify long-term and short-term goals and the uses of CPA funds

Adoption of the CPA

Adoption of the Community Preservation Act by a city or town requires a majority of registered voters participating in a state or local election to approve a ballot question. There are two ways in which the CPA question can be placed on the ballot. The most common approach is for the legislative body (City Council in cities) to approve the question. The second method requires a petition to be signed by 5% of a city or town's registered voters.

Community Preservation Funding

The CPA creates a local Community Preservation Fund that receives revenues primarily from the CPA surcharge, but also from state CPA distributions and, if a municipality elects, from other city revenues.

CPA Surcharge

The CPA provides for a voter approved real estate tax surcharge of up to 3%. In Boston, the City Council approved the ballot question with a 1% surcharge and all eligible exemptions beginning in fiscal 2018. The surcharge is applied to each tax bill, net of the allowable exemptions. The surcharge applies to all residential, commercial and industrial real property tax bills.

State Distribution

In addition to the CPA surcharge, municipalities that adopt the CPA also receive a yearly distribution from the state Community Preservation Act Trust Fund. Proceeds from a surcharge on most documents filed at each state Registry of Deeds are allocated to this Fund.

From fiscal 2003 through fiscal 2008, municipalities received a 100% state match from this Trust Fund. However, as more communities have adopted the CPA and deed revenues decline from a slowdown in housing sales, the state distribution has decreased as a percentage of the surcharge.

Since fiscal 2014, the Legislature has appropriated additional funding for the Fund from the year-end operating budget surpluses of the prior year. While not guaranteed each year, the state allocation was

\$25 million in fiscal 2014, \$11.4 million in fiscal 2015, and \$10 million in fiscal 2016. This yielded a distribution of 29.7% in fiscal 2016. In fiscal 2017, \$10 million is expected. With a surcharge of 1%, Boston would be eligible for a match in the first of three rounds, during which 80% of the fund balance is distributed.

In April, the state Department of Revenue released a [memo](#) that estimated that the state CPA Trust Fund has sufficient funds to provide a 19% match in round one of fiscal 2017 to the 161 communities that have adopted the CPA. If Boston and the fifteen other communities approve the CPA, they would be eligible for state distributions in fiscal 2019. The added distribution to Boston and other communities will require increased funding for the state CPA Trust Fund to maintain or increase the state share.

Other City Revenues

CPA municipalities may choose to designate additional funds to their Community Preservation Fund from local revenue sources to increase their state distribution. Possible sources for Boston include:

- Linkage fees
- Inclusionary development payments
- Parking fines and surcharges
- Room occupancy excise
- Existing dedicated housing, open space and historic preservation funds

Any revenues selected to be included in the state match would be required to be appropriated following CPA guidelines and would not be available for other municipal purposes. Use of linkage and inclusionary development policy funds could be complicated given their current established policy for distribution of those funds.

Allocation of Funds

Decisions regarding the distribution of CPA funds start with a new public entity at the beginning of the CPA budget process.

Community Preservation Committee

If the CPA is adopted in Boston, the City Council would be required to approve an ordinance that established a Community Preservation Committee (CPC) to administer the program. The ordinance would establish the CPC's composition, length of terms and rules under which the Committee will operate. The CPC will make recommendations to the Mayor and City Council for the appropriation of CPA funds for the purposes established by law. At least one public hearing is required to be held by the CPC each year.

Role of City Council

In addition to creating the CPC ordinance by a majority vote, the City Council must approve the appropriation of the City's CPA funds for use on projects based on the recommendations of the Mayor and CPC. The City Council may approve, reduce, or reject a recommendation, but may not increase any recommended appropriation.

Role of Mayor

The Mayor's authority is tied to his normal appropriating authority under the City Charter for the final approval of CPA funds which means he must agree with the recommendations of the CPC before they are submitted to the City Council. The Mayor appoints the Board Members of the five public entities listed in the CPA legislation so the CPC and the Mayor should be able to reach consensus on the recommendations.

Uses of CPA Funds

If the CPA was effective in Boston in fiscal 2016, it would have generated approximately \$16.5 million from the 1% surcharge. In the following year, the City would be eligible to receive a state CPA distribution which could be \$4.0 million or more.

These funds can only be used for three core purposes which are intended to improve the quality of life in Boston and support the three services on a higher level than would occur with the City's normal operating and capital budgets. The three core areas are community housing, open space which includes parks and recreation, and historic preservation. At

Community Preservation Committee

The Community Preservation Committee must consist of at least five members which may be increased by up to four "at large" members for a total of nine members.

By statute, five CPC members must be designees of the following public entities:

1. Conservation Commission
2. Planning Board (BPDA)
3. Historical Commission
4. Housing Authority
5. Board of Park Commissioners

If a Board or Commission listed above has not been established, the ordinance can identify another municipal body with similar functions to designate a member to serve on the CPC. For example, the Boston Landmarks Commission could substitute for the Historical Commission.

The City Council can decide to add up to four additional positions to the CPC and which organizations should be designated to name a delegate or whether an elected body should designate a member. The additional members can benefit the CPC by providing broad experience in any of the three core areas or additional expertise in relevant disciplines.

The CPCs of cities in Massachusetts are all nine members with one exception. However, the process for selecting the four "at-large" positions differs.

least 10% of the annual CPA funds must be allocated to each area reserve account. The Committee may recommend that CPA receipts be accumulated in one or more of the fund reserves for future use for larger projects. CPA funds are intended to augment public dollars, not supplant them so they must add to the City's normal General Fund appropriation for the three areas.

CPA funds can be used for capital improvements in all three areas for the reconstruction or alteration of real property that would materially add to the value of the real property. CPA funds cannot be used for maintenance, which is defined as "incidental repairs," which do not add to the value of the real property or appreciably prolong its life. Also, Boston could issue General Obligation bonds for community preservation purposes with debt service paid with CPA funds with CPC approval.

Also to prepare for the use of CPA funds and inform the public, the CPC is charged with developing a community preservation program and financial plan that should identify long-term and short-term goals and how CPA funds would be utilized in the three authorized areas, and to update the plan annually.

Open Space

Under the CPA, open space would include the acquisition, creation or preservation of land for conservation purposes or passive recreation. Open space recreation would include the acquisition, creation, preservation and rehabilitation of land for recreational use including land for trails, youth and adult sports and the use of land as a park, playground or athletic field. Rehabilitation of land for recreational use includes the replacement of playground equipment and capital improvements to the land or facilities on the land to make the land or facilities more functional for their intended recreational use. CPA funds are prohibited from being used for the acquisition of artificial turf for athletic fields.

The City of Boston has over 2,300 acres of open spaces including 251 neighborhood parks and playgrounds, 127 playlots, 155 athletic fields, 65 tennis courts, and 17 fountains.

Historic Resources

Historic resources are defined as a building, structure, real property, document or artifact that is listed on the state register of historic places or is determined by the local historic commission to be significant in the history, architecture or culture of a city or town. The Boston Landmarks Commission and nine Historic District Commissions are charged with preserving Boston's vast historic resources. These historic sites are a main attraction for Boston's tourism industry. Nonprofit organizations that operate many of Boston's historic sites would be allowed to apply for CPA funds through the CPC.

Community Housing

Community housing under the CPA is defined as low and moderate income housing. Moderate

income housing applies to persons and families whose income is less than 100% of the area-wide median income (AMI). That translates into an annual income of less than \$68,700 to \$113,800 depending on the number of family members. For a household of four, less than 100% of AMI would be income less than \$98,100.

Low income housing is defined as housing for households whose annual income is less than 80% of AMI or less than \$78,500 for a family of four. Persons eligible for low or moderate income senior housing must be 60 years or older.

CPA funds would likely be used to help leverage other housing dollars to support the construction or conversion of low and moderate housing similar to how linkage funds are utilized.

Boston's population is growing and is projected to reach 709,000 by 2030. To accommodate this growth and stabilize the housing market, significant housing construction and preservation for middle, moderate, low, and low and moderate senior housing are needed. Additional housing targeted to workforce households is important for the City's economic growth.

Helping guide how CPA funds for housing could be allocated will be Mayor Walsh's comprehensive housing plan for Boston, [Housing a Changing City: Boston 2030](#) which was released on October 9, 2014. This plan outlines objectives to produce 53,000 new units of housing over this time, a 20% increase. The plan estimated that to meet its goal an additional \$20 million in new housing funds would be required each year of which \$10 million might come from CPA funds if the question was approved.

Administrative Expenses

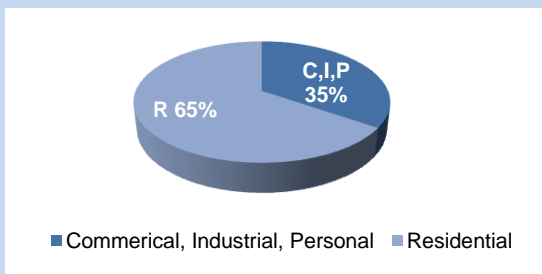
The Community Preservation Fund may also be used for the operating and administrative expenses of the Community Preservation Committee. Expenditures on administration are capped at five percent of annual revenue, and may include hiring staff to assist the Committee.

Boston's Reliance on the Property Tax

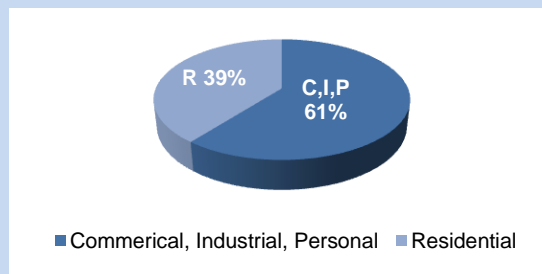
The property tax is the City's largest revenue source budgeted at \$2.02 billion, representing 68% of its operating revenue in fiscal 2017. State Aid is the second largest revenue source at \$432.6 million or 14.5% of total operating revenue. The City relies more on the property tax now than it did in 1981, the last full year before the implementation of Proposition 2½ when the property tax represented 61% of all General Fund revenues. The City relies on the property tax far more than other peer cities in the country, which have a more diverse revenue base.

Tax Burden Shift - Boston has consistently shifted as much of the property tax burden onto business property as possible to protect residential property owners. In fiscal 2016, Boston's total taxable value was \$128 billion of which the residential value was \$83.7 billion and business value (commercial, industrial and personal property) was \$44.3 billion. However, under Boston's application of classification, the maximum tax burden is shifted to business property so that business property that represents 35% of total taxable value pays 61% of the tax levy and residential property that represents 65% of the total value pays 39% of the levy.

Property Value Distribution FY16



Property Tax Levy Distribution FY16



Tax Impact in Boston

If the CPA is adopted in Boston, the vast majority of revenues deposited in the Community Preservation Fund will come from the 1% surcharge on real property tax bills less exemptions for commercial, industrial and residential property. The 1% surcharge is not on the assessed value of the property. Based on fiscal 2016 tax information, this surcharge would generate \$16.5 million. (Table 1)

Table 1

CPA Surcharge Revenue FY16

Class	CPA Surcharge*	% CPA
Residential	\$6,310,404	38%
Commercial, Industrial	\$10,205,012	62%
Total	\$16,515,416	100%

* Based on FY16 data

CPA Tax Impact

The voters' approval of Question 5 to adopt the CPA for Boston would increase the property tax bill by imposing a 1% property tax surcharge on a revised

net tax owed on commercial, industrial and residential real property after the \$100,000 value and low income exemptions are applied. Personal property is not subject to the CPA. If the CPA were applied in fiscal 2016, the business tax rate of \$26.81 and the residential rate of \$11.00 would be applied to the real property value less the exemptions to produce a net tax. The 1% CPA surcharge would be applied to the net tax to establish the surcharge amount. Owner occupied residential units benefit from the 30% residential exemption, which lowered fiscal 2016 tax bills by \$1,962 and would reduce the surcharge by \$20.

For example, a homeowner whose house or condominium is valued at \$500,000 would pay a 1% CPA surcharge of \$24.00 for a year with the residential exemption and \$44.00 without the exemption based on fiscal 2016 data. (Table 2)

Table 2

CPA Surcharge for Residential Property *

Taxable Assessed Value	1% CPA Surcharge	1% CPA Surcharge w/Residential Exemption
\$250,000	\$17	\$0
500,000	44	24
750,000	72	52
1,000,000	99	79
10,000,000	1,089	1,069

*Based on fiscal 2016 taxes using residential tax rate of \$11.00

A small business owner with taxable real property of \$500,000 would benefit from the \$100,000 exemption and pay a surcharge of \$107.00 based on fiscal 2016 data. A larger business owner of real property valued at \$100 million would pay a surcharge of \$26,783 and one valued at \$500 million would pay \$134,023. (Table 3)

Table 3

CPA Surcharge for Commercial & Industrial Property *

Taxable Value	1% CPA Surcharge	Total Tax Bill
\$500,000	\$107	\$13,512
1,000,000	241	27,051
10,000,000	2,654	270,754
50,000,000	13,378	1,353,878
100,000,000	26,783	2,707,783
250,000,000	66,998	6,769,498
500,000,000	134,023	13,539,023

* Based on FY16 taxes using commercial tax rate of \$26.81

Click on these links for a more extensive list of the surcharge for [residential](#) and [business](#) (commercial and industrial) owners by value levels.

Boston property owners can visit the City of Boston Assessing Department’s website (<http://cpainfo.boston.gov/>) to enter their parcel to learn their CPA surcharge based on fiscal 2016 data. As a result of the \$100,000 exemption and the residential exemption, owner occupied units valued at less than \$278,325 would pay no CPA surcharge.

Tenant Impact

Retail and commercial tenants in commercial buildings in sections of Boston have experienced increased lease costs due to the building’s increased property taxes. Through standard tax-escalation clauses in most leases, tenants are responsible for paying a portion of any increase in real estate taxes. The tax escalation impact on retail leases in the Back Bay has been noted recently.

Other Considerations

The CPA surcharge would be in addition to other charges different business segments pay. Business already supports affordable housing efforts as commercial developers make linkage payments for affordable housing and job training. Housing developers build or pay for affordable housing following the City’s inclusionary development policy. Some IDP requirements were increased in January, 2016 to generate more affordable units and larger IDP pay-outs. Linkage fees are expected to increase in February 2017 as allowed by law. Additionally, businesses in the Downtown Boston Business Improvement District pay a property tax surcharge to provide services not available from the City.

Conclusion

Approval of Question 5 to adopt the CPA is intended to provide important quality of life services funded by a 1% surcharge that will increase the tax on real estate for most owners. Boston voters should carefully review the facts associated with this question so they can make informed decisions when they mark their ballots on November 8th.

How the CPA funds are allocated will involve the close working relationship among the Community Preservation Committee (CPC), the Mayor and City Council. The CPC is expected to develop a CPA program and funding plan that can be a guide for short and long-term goals. While CPA funds will be tied to City of Boston plans, a portion of the annual funds should be available for “community requests” in all three areas.