

Analyzing Mayor Wu's Property Tax Classification Proposal

Mayor Michelle Wu's proposed Home Rule Petition to temporarily change property tax classification in Boston aims to tackle the consequences of a possible divergence of property values between residential and business properties. What does this proposal entail and why the urgency for change now? Will it alleviate a potential new burden on residential taxpayers, or does it impose new challenges on businesses, or perhaps both? What lessons can we draw from Boston's past experience with a similar measure?

In addition to answering these questions, the Research Bureau suggests other steps the City should consider taking, which alone or in combination may be effective in ameliorating the potential increase in residential property taxes.

Report Objectives

This report provides information and insights on:

- What is classification?
- A look into Boston's fiscal status.
- A dive into what businesses pay in Boston.
- In an uncertain economy, how to keep Boston financially healthy.
- Alternatives to consider.

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

[Arlington Advisory Partners](#) | [Blue Cross Blue Shield of Massachusetts](#) | [Citizens Bank](#) |

[Comcast](#) | [P&G Gillette](#) | [State Street Corporation](#) | [The Drew Company](#) | [Verizon](#) |

Background & Findings

Boston is grappling with a convergence of challenges: the after-effects of COVID-19, shifts in office use dynamics, and a chronic housing shortage. Changes in work and shopping patterns and service delivery have cast uncertainty over the future of urban centers, potentially devaluing certain types and classes of real estate, while housing prices in Boston remain strong, buoyed by sustained high demand and limited supply.

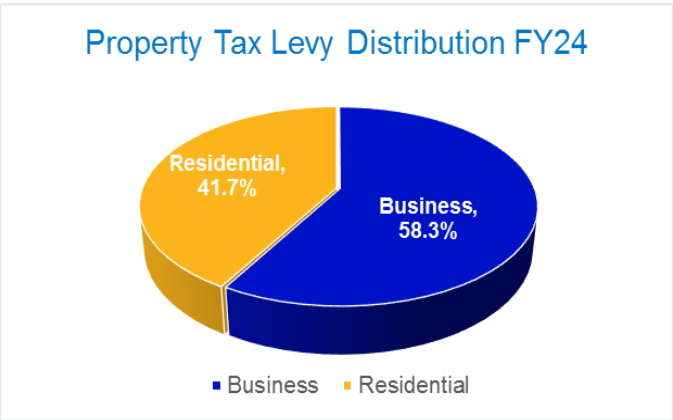
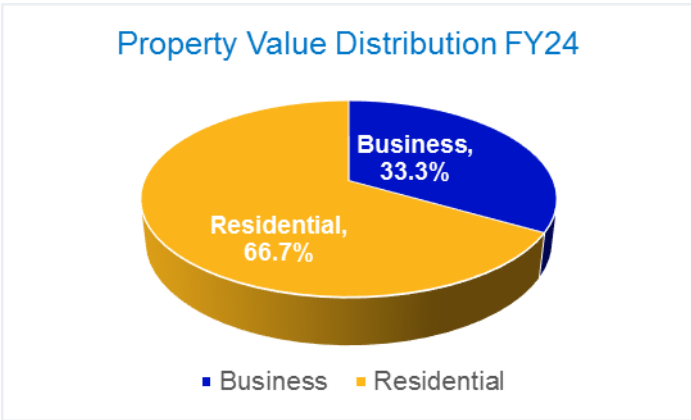
Mayor Wu and her administration anticipate that these factors combined could result in a significant divergence of property value if business properties¹ drop considerably and residential property values increase significantly. This could lead to a sharp increase in residential tax bills.

Mayor Wu submitted a Home Rule Petition to the City Council to temporarily change Boston’s property tax classification structure. The proposal would temporarily allow Boston to shift more of the tax levy onto business properties. This report provides information on the Mayor’s proposal, classification, Proposition 2 ½ and the City’s financial position.

What is Classification?

State law allows the City, in conjunction with the City Council every year, to set two property tax rates, and by doing so, shift a portion of the property tax levy (the total amount collected) to business property. Classification was established in 1978 intentionally to give relief to residential properties, so that business properties pay the bulk of the tax bill in Boston. This shift works in both economic growth periods and downturns as long as the growth or drop in property values between the business and residential classes trend similarly or are not materially different. When business property values drop dramatically while residential property values appreciate significantly, more of the tax burden will be shifted to residential property unless the rate differential is increased between residential and business property.

Boston has historically maximized the benefit to residential property owners through the adoption of full classification. The present maximum shift is up to 175% of what the business share would have otherwise been without classification. Before classification is applied, all property would be taxed



¹ Business property = Commercial, Industrial & Personal (CIP) property

at a single flat rate. That flat rate, increased by 175%, results in the business tax rate for the year. This can occur as long as the residential share of the levy (tax bill) is not less than 50% of its full value share. **(Appendix A)**

The result is that business properties are taxed at a higher rate than residential properties, pay more, and are more valuable in terms of revenue generation. In FY24, the business tax rate was \$25.27 per thousand dollars of value, more than double the residential tax rate of \$10.90 per thousand. Business properties in FY24 paid 58.3% of Boston’s tax bill while holding only 33.3% of the property value in the City.

Current Classification Proposal - 2024

On April 1, Mayor Wu submitted a Home Rule Petition to the City Council to change Boston's property tax classification structure for a five-year period. This bill would temporarily allow Boston to reduce the residential share of the levy from its current 50% to 45% of its full valuation and increase the business share from 175% to 200% of its full valuation, thereby shifting more of the burden of Boston’s tax bills to business properties. A change in classification will not change the amount Boston can legally levy but aims to maintain the current split of who pays. The Mayor’s goal is to keep the split similar to what it is today: business property pays 58.3% and residential property pays 41.7%.

Under the Home Rule Petition, both the business ceiling and residential floor will be determined according to a five-year schedule outlined in the chart to the right. This legislative measure is intended to be implemented on a temporary basis, activated when Boston chooses one of three schedules, with five-year intervals starting in: FY25 (shown in the chart), FY26, or FY27 (an option that would effectively extend the impact of the proposal to 2031).

Proposed Classification Schedule

Fiscal Year	Maximum Business Ceiling	Minimum Residential Floor
2025	200%	45%
2026	197%	47%
2027	190%	49%
2028	183%	50%
2029	175%	50%

* 5-year schedule based on FY25 start.

Since the divergence of property values described above is only projected at this point - the uncertainty of the real estate market is far more difficult than in previous economies to predict. This is why the Home Rule Petition includes a three-year opt in period. Boston is required to revalue all property in the City every five years; this is occurring in 2024, with preliminary assessed value forms already sent to all business property owners. By mid-summer, the City should have preliminary information as to the direction of business property values in Boston.

If the City Council approves the Home Rule Petition, it will be filed as a bill in the State Legislature, which will have until the end of the legislative session on July 31 to act on it.

Has This Situation Been Experienced Before?

The Wu administration is using a 2004 law that temporarily changed classification in Boston as a blueprint for its proposed change in 2024. As a result, it is useful to review that legislation and some of the key indicators from the early 2000s.

In FY04, the City implemented a new statute that temporarily shifted more of the tax burden to business properties. This action was deemed necessary due to market changes in the three years leading up to 2004, when business and residential property values in Boston began to diverge. This divergence would have required residential property tax bills to grow significantly, prompting the need for intervention to mitigate the potential impact on homeowners. In FY03, the divergence in values was further compounded with Boston reaching the business ceiling of 175%, causing a shift of \$19M in tax burden from the business to the residential class. In FY04, this same dynamic was expected to shift about \$113M in tax burden to the residential class under the 175% classification limit.

The 2004 legislation offered relief to residential property owners from steep rises in tax bills. Without this legislation, it was estimated that the average single-family homeowner tax bill in Boston would have increased by \$816 or 41.4% in FY04. Instead, the legislation resulted in an average single-family tax bill increase of \$272 or 13.8%.

In FY03, business property paid 68.1% or \$704.9M of the tax levy. In FY04, without the classification legislation, business property would have paid 57.7% or \$631.1M of the tax levy. With the business ceiling raised to 200% in FY04, business property paid 66.0% or \$721.3M of the levy, \$90.2M more.

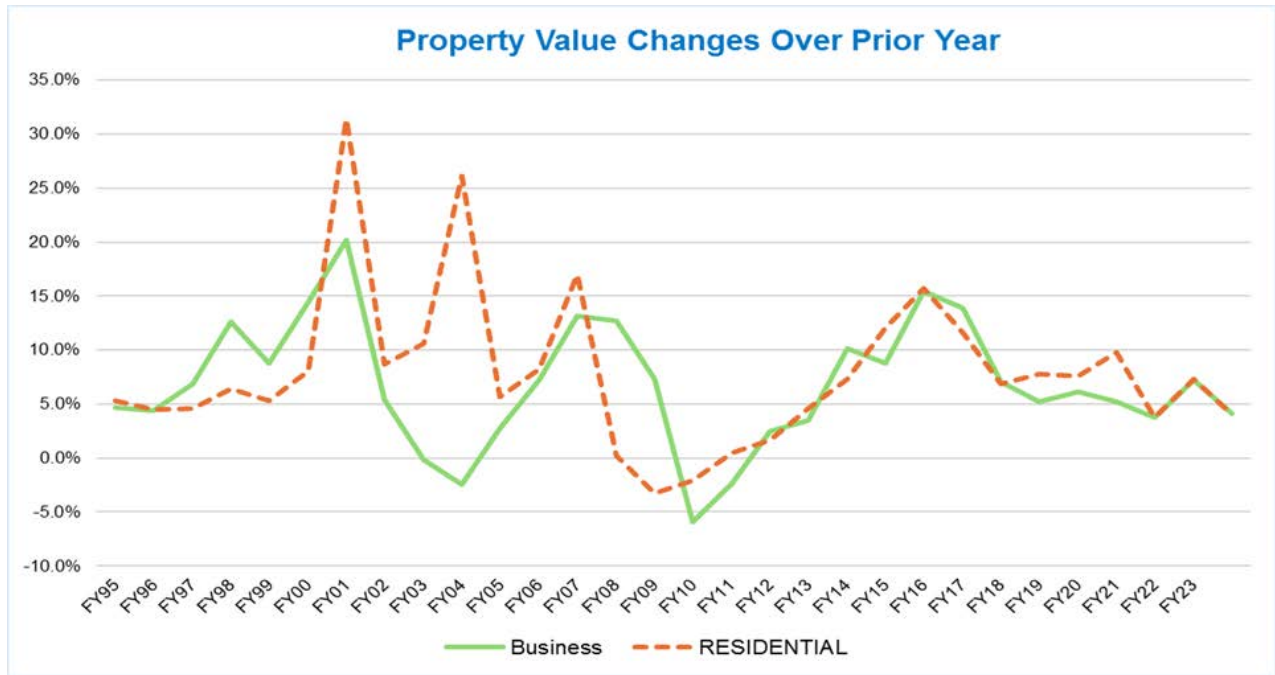
The 2004 legislation sought to provide a temporary solution to a market anomaly, with the expectation that either the market would self-correct or residential owners would have additional time to adapt to a new normal.

The 2004 legislation was endorsed by some members of the business community with confidence that, because it was a temporary measure, the market would restore the “anomaly” back to historical levels. Furthermore, it was understood at the time that the temporary change would either mitigate the problem while the market corrected itself over the 5-year period or it would provide a longer time for residential owners to adjust to a new tax reality even with significant business subsidization.

The Real Estate Market in the early 2000s

From 2001 to 2003, the Boston real estate market experienced a period of adjustment and uncertainty following the collapse of many internet-based companies during the dot-com bubble burst and the broader economic downturn after the September 11 attacks. Commercial real estate faced particular challenges as businesses reassessed their space needs and financial commitments. Vacancy rates increased in some commercial submarkets, especially downtown, as companies downsized or consolidated their operations. From 1999-2003 (Q2), average asking rents dropped by about 19% for selected downtown commercial properties while building expenses increased by 28%. At the end of the third quarter of 2003, the vacancy rate for Boston commercial office buildings was 13.8%.

The residential real estate market also faced headwinds, although it generally remained more resilient compared to the commercial sector. While home prices continued to rise, albeit at a slower pace, there were signs of cooling as buyer confidence wavered amidst economic uncertainty.

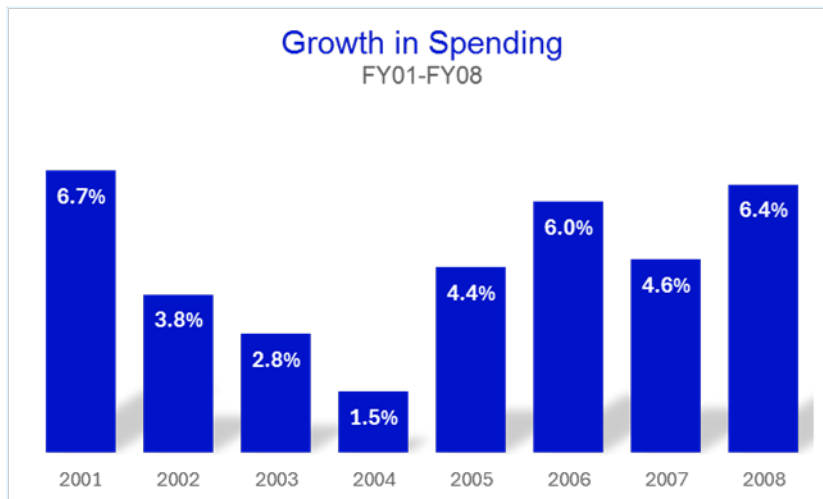


What was the City’s fiscal situation like?

Boston slowed its spending growth in FY02, and it did so again in FY03 due to the prospect of a 10% cut in state aid and a slower increase in new property growth. While the total tax levy continued to grow in Boston, the decline in state aid and other factors necessitated a budgetary correction, eventually leading to a restructuring of revenue sources for the city. In FY04, net property tax comprised 55.6% of Boston’s revenues.

Boston’s Recovery after FY04

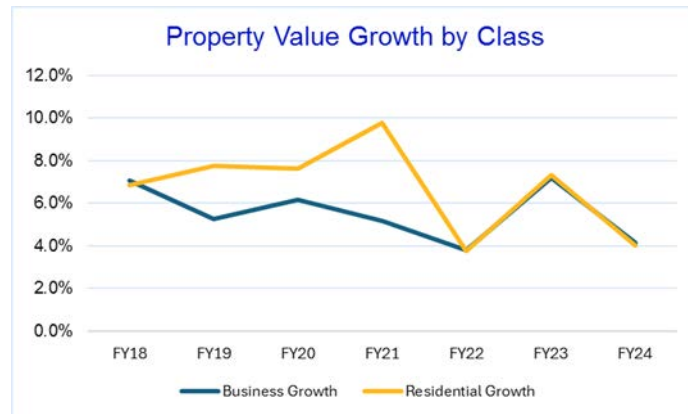
Despite the challenges facing Boston's real estate market, the diverse economy and strong fundamentals in sectors such as healthcare, education, and technology helped improvements in the



overall economy and ultimately benefited Boston’s fiscal situation in the early to mid-2000s. Government initiatives aimed at urban reinvestment and infrastructure improvements also helped stabilize the market. As the real estate market recalibrated, the implementation of the temporary change in classification helped residential owners manage the impact of increased taxes.

2024: Boston's Financial Resilience and Property Values

The City of Boston’s recent history of economic resilience continued during the COVID-19 pandemic, particularly due to its heavy reliance on the property tax for around 70% of the City’s total revenue. Where other cities in the United States saw a major contraction of their use-based revenue sources such as sales and income taxes, Boston saw consecutive years of revenue increases and spending growth. This stability allowed Boston to use the majority of its federal COVID relief funds to address longer term issues rather than merely sustaining day-to-day operations. Additionally, ending FY23 with a record \$192.6M surplus, new growth reaching an all-time high of \$121.8M in FY24, and sustaining a AAA bond rating for the 10th year in a row, all underscore the city's strong fiscal position.



With shifts in office dynamics and housing shortages now a reality, Boston must confront new challenges, particularly within its real estate sector. Overall property values have continued to increase, and, in contrast to 2002 and 2003, a substantial divergence of values between the business and residential properties is not yet evident. Will the values diverge significantly in 2025 and, if so, will the shift be long-lasting?

The Real Estate Market & Assessed Values in 2024

Boston’s real estate market has been at the heart of the pre- and post-pandemic economy. Prior to COVID, both business and residential markets were in an expansion phase. That trend, coupled with the educational and medical economy in Boston, carried the City through the COVID shut down.

Property Value Trends (Values in billions)

Fiscal Year	Business Values	Variance	Residential Values	Variance	Total Taxable Value	Total Taxable Variance	Business % of Value	Residential % of Value
2020	\$60.4	6.1%	\$115.8	7.6%	\$176.2	7.1%	34.3%	65.7%
2021	\$63.5	5.2%	\$127.1	9.8%	\$190.7	8.2%	33.3%	66.7%
2022	\$65.9	3.8%	\$131.9	3.7%	\$197.8	3.8%	33.3%	66.7%
2023	\$70.7	7.2%	\$141.5	7.3%	\$212.2	7.3%	33.3%	66.7%
2024	\$73.6	4.1%	\$147.2	4.0%	\$220.9	4.1%	33.3%	66.7%

Source: City of Boston Assessing Reports

Boston’s overall assessed property values have continued to increase, with growth over the last five years ranging from 4.1% in FY24 to 8.2% in FY21. The lead-up years to the 2024 classification legislation show a different pattern of growth than twenty years ago. From FY22 to FY24, both business and residential property values have been growing at a similar pace. In FY20 and FY21, during the onset of COVID, residential property values grew more than business property values. The most significant divergence occurred in FY21 when business property grew by 5.2% and residential property by 9.8%, far different than the FY03 value business reduction of 0.1% and residential value growth of 10.6%.

2024 is a property revaluation year, and business property values are likely to recalibrate. Boston’s commercial office market has changed dramatically over the last few years, and it is difficult to predict the direction of the real estate market in Boston. According to Colliers, in the 4th quarter of 2019, the vacancy rate for Class A office property in Boston was 7.2% and Class B was 11.1%. This grew to a Class A vacancy rate of 21.4% in FY23 and Class B vacancy rate of 28.3%.

Office Vacancy Rates in Boston

Q4	Class A	Class B	Total Office
2019	7.2%	11.1%	7.9%
2020	13.4%	17.8%	14.2%
2021	11.9%	19.8%	14.1%
2022	16.2%	23.9%	16.2%
2023	21.4%	28.3%	23.1%

Source: Colliers, 2024

Average Single Family Tax Bill

Classification lessens the burden on residential taxpayers, but they still face increasing tax bills as property values appreciate. Since 2020, the average single family tax bill has increased by \$1,684 or 43.9% as the residential market increased significantly due to high demand and low inventory. However, as shown in the chart at right, at \$5,522 in FY24, Boston still has one of the lowest average residential tax bills among surrounding communities.

Boston’s Financial Status 2024

Exploring a temporary alteration in classification should be accompanied by a close examination of Boston's financial status. Key indicators include operating surplus/deficit, bond rating, fund balance, and cash flow, among others.

Every year since FY86, Boston has posted an operating surplus, ranging from \$1.1M in FY03 to a record high of \$192.6M in FY23. These surpluses occurred as Boston’s government expanded and contracted to respond to the external environment and to comply with the requirement of a balanced budget. Over the last 10 years, (FY15 to FY24) Boston’s spending grew by 54.8%, while inflation increased

Average Single-Family Tax Bill

Municipality	FY24 Tax Bill
Chelsea	\$3,036
Everett	\$4,131
Revere	\$5,202
Boston	\$5,522
Watertown	\$6,508
Medford	\$6,551
Norwood	\$6,898
Winthrop	\$7,182
Somerville	\$7,247
Quincy	\$7,277
Melrose	\$7,885
Dedham	\$9,244
Arlington	\$10,751
Cambridge	\$10,965
Milton	\$11,008
Westwood	\$14,934
Needham	\$14,994
Newton	\$15,642
Wayland	\$16,852
Belmont	\$17,057
Wellesley	\$18,690
Brookline	\$22,786

The Making of the Tax Levy

The City of Boston is heavily reliant on the property tax to support its operating budget. In FY25, Boston's net property tax is budgeted at \$3.30B, an increase of 5.1% from FY24. This represents 71.1% of Boston's revenues.

The City's ability to raise revenue through the property tax is restricted by Proposition 2½ (Ch.59, s 21C), which places constraints on the total tax levy the City can raise from real and personal property as well as the annual increase in the tax levy. The primary limitation of Proposition 2½ is that the total property tax levy cannot exceed 2.5% of the total fair cash value of all real and personal property (levy ceiling). A secondary limit prohibits the tax levy from increasing more than 2.5% over the prior year's levy limit.

Each year the City increases the property tax levy over the prior year levy limit by the full 2.5% legally allowed. No effort is made to raise less than 2.5%. In addition to the steady 2.5% increase, the City is allowed to capture new growth, primarily due to new construction each fiscal year, which is not subject to the levy limit. New growth has a more direct correlation to the vagaries of the local economy, but it has been a driver of property tax revenues over the last decade. The new growth addition is calculated by multiplying the incremental increase in assessed value associated with new growth by the prior year's tax rate. That new growth addition is then added to 102.5 % of the prior year's tax levy to form the new tax levy for the fiscal year. Thereafter, that new growth becomes a permanent part of the tax levy, increasing 2.5% annually.

by 31.5%. Over this time, City personnel levels increased by 1,293.1 full-time equivalents (FTEs), or 7.6%, with the majority of the growth in the School Department. The Mayor's FY25 proposed budget anticipates an 8.0% growth in spending and budgeted revenues that support that spending. It is anticipated that property taxes will make up 71.1% of revenue in FY25, up significantly from 55.6% in FY04. **(Appendix B)** A review of cities nationwide reveals that Boston is unique in its reliance on the property tax for such a large portion of its revenues.

New Growth Fuels Levy Growth - At the center of the increase in property tax revenues has been new growth, primarily from new construction of taxable property. New growth, exempt from Proposition 2½ 's levy limit in the year it is first claimed, is a critical component of the annual tax levy increase and has driven the City's increase in the property tax base over much of the last two decades. This resulted in the tax levy rising well above the base 2.5% each year. FY24 had a record new growth of \$121.8M. In the FY25 proposed budget, new growth is projected to total \$60M. Boston requires a steady flow of new development to maintain its fiscal health, balance its budget, provide basic services, and finance new initiatives. The current landscape presents unique challenges, with new growth proving to be less reliable due to economic uncertainties, the costs of capital and construction, and an increasing prevalence of vacant office space.

Operating Surpluses, A Measure of Fiscal Health

– Boston’s operating surpluses have been used sparingly over time, keeping Boston in a solid financial position and in a favorable rating status with the bond market. The City’s fund balance is generally the cumulative total of the operating surpluses. A healthy fund balance is important because it provides an important cushion during times of economic uncertainty or when a large unanticipated expenditure occurs. With Proposition 2½ limits on the property tax, the reduced reliance on state aid over time, and the constraints on the City’s ability to diversify revenues, a strong fund balance gives the City financial flexibility to properly manage its opportunities and ensure continued delivery of basic services. For example, the City relied on this fund to mitigate service cuts in the early 1990s when local aid was cut during the recession. Finally, the bond rating agencies look favorably on Boston maintaining a strong fund balance, allowing the City to borrow at more favorable rates. The fund balance is divided into assigned and unassigned categories; this report will focus on the unassigned fund balance.

Unassigned Fund Balance, FY14-23

(figures in millions)

FY	Unassigned Fund Balance	GAAP Expenditures	Fund Balance as % of Expend.*
2023	\$1,186.9	\$4,159.2	29%
2022	\$994.5	\$3,977.1	25%
2021	\$898.2	\$3,711.9	24%
2020	\$911.7	\$3,627.5	25%
2019	\$794.6	\$3,443.7	23%
2018	\$781.4	\$3,274.0	24%
2017	\$702.1	\$3,119.7	23%
2016	\$682.8	\$2,967.5	23%
2015	\$633.9	\$2,856.2	22%
2014	\$533.0	\$2,745.7	19%

* Boston’s benchmark is 15%

In adherence to sound fiscal management principles, the City has instituted a policy aimed at maintaining an undesignated fund balance equivalent to 15% of Generally Accepted Accounting Principles (GAAP) operating expenditures. Boston’s undesignated fund balance, bolstered by consecutive operating surpluses and judicious expenditure, currently stands at a robust level relative to total operating expenditures. As of FY23, Boston’s unassigned fund balance amounts to \$1.186B, representing 29% of expenditures (GAAP), significantly surpassing the City’s own 15% benchmark. In FY04, when classification was changed temporarily, the undesignated fund balance represented 21% of GAAP operating expenditures. The budgetary fund balances are indicative of the City’s ability to overcome unexpected expenditures or decreases in revenue during times of economic downturn.

Bond Ratings – A bond rating is a statement by the rating agencies such as Moody’s Investors Service and Standard & Poor’s of the credit worthiness of the City and the bonds it is selling. The ratings assist the financial institutions in evaluating the City’s fiscal health, which guides them in determining the interest rates they will offer for the City’s bonds being sold. Boston’s trend of balanced operating budgets, adherence to prudent fiscal policies, and its conservative approach to managing debt have enabled the City to be successful in the bond market with competitive sales to bolster the ratings even during times of economic slowdown. As a result, Boston’s bond ratings have held at the highest level of AAA over the last decade.

Potential Impact of the 2024 Classification Proposal

As in 2004, it is anticipated that not all business properties will encounter the same impact if classification is shifted on a temporary basis. Depending on their location, size, and type of use, certain business properties (e.g., new Class A office towers) will likely see an increase in taxes, and others (e.g., older Class B and C buildings) will see taxes drop - just not as much as they would have without the change. Additionally, it is important to understand the broad impact this proposal will have. It would impact all commercial tenants whose leases allow the landlord to pass through property taxes. Thus, across Boston, tenants of commercial buildings, including restaurants, retailers, small businesses, and those that rent office space could see their costs grow, making their businesses and the city less competitive. The result will be not only a potential increase to the bottom line of businesses, but it could also further strain the attractiveness of properties throughout the City when owners attempt to fill vacant space.

This proposal does not reduce the amount of revenue the City expects to or may legally raise from the property tax. Mayor Wu has expressed the goal that it be revenue neutral in terms of Boston's budget. Rather, it shifts more of the burden from residential to business property.

In FY25, Boston's property tax levy is projected to grow by 5.1% to \$3.30B. The classification proposal would change how Boston's tax bill is split between residential and commercial taxpayers. The Mayor and City Council have consistently acted to fully utilize classification, shifting as much of the tax burden to business property as allowed by law. Business property owners not only pay higher taxes because of classification, but they and their tenants also impose less of a cost burden on the City. In contrast, residents consume much more in city services than they pay for through the property tax. Business, especially commercial growth, cross-subsidizes Boston's low residential tax rates. Changing the law will increase the burden on business properties, although not uniformly.

Absent exact real estate values, assumptions must be made to illustrate the proposal's potential impact. For illustrative purposes only, the Research Bureau assumed that business property may drop 10% in value while residential properties grow by 5%, that new growth at \$60M is split 1/3 residential and 2/3 business, and that full classification and residential exemptions are in place.

With no change in classification, and the assumptions above, the current classification law (at 175%) would result in a residential tax rate of \$12.11 per thousand dollars of value, up from \$10.90 in FY24 and a business tax rate of \$25.98 per thousand dollars, up from \$25.27 in FY24. This would mean the average single family tax bill would rise by 16.5%, or \$910, over FY24.

Under the temporary classification proposal, using these same assumptions, if the business ceiling was raised by 192.5% (the maximum allowable with the scenario above), the residential tax rate would drop to \$10.75 and the business tax rate would go up to \$28.58. This would mean the average single family tax bill would increase by

Levy Analysis (figures in millions)

	FY24 Levy with Classification (175%)	FY25 With Current (175%) Classification	FY25 With Change in Classification 192.5%
Business	\$1,860	\$1,716	\$1,906
Residential	\$1,329	\$1,552	\$1,362

approximately 2.5% or \$138 over FY24. Reducing a projected residential property tax increase may also limit apartment rent increases by landlords who pass the cost of taxes onto their tenants.

In FY24, due to classification, approximately \$797M of the levy was absorbed by businesses that would have otherwise been paid by the residential class. In FY25, with the assumptions indicated above and no change in the classification law, \$755.2M of the levy is projected to be absorbed by businesses.

What else does the Business Property Class pay?

In addition to the property tax, business properties in Boston are subject to several other levies as a consequence of doing business in the City. These include contributing the majority of the Community Preservation Act fund (CPA), linkage exactions, Inclusionary Development Policy (IDP) requirements, as well as escalated permits and fees linked to development costs. **Appendix C** delineates the fluctuations in these impact fees since their establishment. Moreover, pending legislation regarding rent stabilization and real estate transfer tax fees are additional measures that could further increase the cost of businesses operating in Boston.

Alternatives to Consider

The City of Boston is pursuing a change in classification to deal with a potential sharp increase in residential tax bills that could be financially difficult for some homeowners to bear. The question at hand is whether businesses should take on some or all of that burden and alleviate the rate of property tax increases to residential owners over the next few years. Larger economic forces should inform the answer as it is not clear if the current dynamic is more like a typical economic downturn, from which values can be expected to recover, or if there is something more permanent at play, leading to structural changes in the market.

It is crucial for the Wu administration to adopt a cautious approach and reassess strategies for fiscal stability for all property owners. Given the uncertainty of the economy and the recalibrating of the real estate market, and the key role that businesses and business property play in the City's fiscal stability, now may not be the time to further burden business property owners and, by extension, their tenants, that include restaurants, retail shops, and small family-owned operations. Prioritizing prudent financial management, exploring alternative revenue sources, and implementing targeted cost-saving measures are essential steps in these uncertain times and will ensure Boston's long-term financial health. While we applaud the administration's proactive approach in proposing a change to the classification law, the Research Bureau suggests other steps the City should consider taking to ameliorate the potential burden of a property tax increase on residential properties. Alone or in combination, these alternatives to the classification proposal may be an effective response to the potential problem of divergent residential and business property values.

- **Budgetary Fund Balance** – In the short term, to prevent or reduce a large increase in residential tax bills, the City could use funds from its budgetary fund balance instead of relying on business properties and a change to classification. The mechanism for deploying these funds for this purpose requires further exploration. As of FY23, Boston's unassigned fund balance amounted to \$1,186,928,000, representing 29% of expenditures (GAAP Basis), significantly surpassing the City's 15% benchmark. If

property values diverge significantly, resulting in a significant increase for residential property owners, this fund would be an appropriate source to offset the impact. A reduction in the FY23 fund balance to 25% of FY23 expenditures would free up \$147.1M while 20% would free up \$355.1M. The intent of this fund is not only to accumulate money, but to put the City's savings to use for one-time or limited time purposes. Government should not be in the business of accumulating excessive reserves. Use of the budgetary fund is a short-term option that allows the City to form a long-term strategic financial plan. This would also be beneficial to an already beleaguered commercial real estate market and one that is relied on for a significant source of revenue for the City.

- **Taming the Budget** - The administration and City Council must now start to take proactive steps to ensure that city services are delivered efficiently and cost-effectively. This involves paying close attention to upcoming collective bargaining negotiations and placing a high priority on productivity and operational efficiencies. While it may be tempting to introduce new programs and policies that expand Boston's budget, both the Mayor and City Council must exercise restraint. Policy decisions made in FY25 will have long-term repercussions for Boston's financial status. A place to start is the proposed FY25 budget, which includes a substantial increase, an approach that contrasts with that taken by Mayor Menino in the years preceding the 2004 classification proposal.
- **Controlling School Spending** - At \$1.53B, the school budget will be the largest single expenditure in Boston's FY25 operating budget. The cost per student will exceed \$30,000 in the year ahead. The School Department must focus on controlling costs and scrutinizing a budget that has notably expanded while enrollment has declined. In particular, the collective bargaining agreement negotiations with the Boston Teachers Union, whose contract expires on August 31, 2024, should aim to control costs. Additionally, the district must close and consolidate schools to bring the number of buildings into alignment with the number of students.
- **Employee Levels** – Boston's workforce has expanded over the last decade by 1,293.1 FTEs, or 7.6%. In FY25, the budget projects the workforce to total 18,906.4 FTEs, of whom 10,209.9 (54.0%) work for Boston Public Schools. The FY25 budget calls for an addition of 497.9 FTEs, 209 of whom are expected through transfers from the Boston Planning and Redevelopment Agency (BPDA). Personnel services, including reserves for future collective bargaining increases, represent 62.4% of the proposed FY25 budget. Effectively managing employee levels, strategically expanding in necessary areas while streamlining in others, will be pivotal in ensuring an efficient and financially sustainable workforce.
- **Revenue Diversification** – Boston is heavily dependent on the property tax for 71.1% of its revenues. This is a difficult position to be in when the real estate market is not in a growth period or when business property values drop and residential properties grow significantly. Over the years, Boston has implemented new revenue sources, but property taxes continue to significantly outweigh other revenues. As spending controls are put in place and other measures are taken, the City should explore revenue diversification as a way to lessen its reliance on property taxes. As this will likely require a home rule petition,

it is not an overnight solution but one which the City should embark on promptly so it can gain the benefit of it as soon as possible.

- **Surplus Property** – Given Boston’s chronic housing shortage, the City should look at all opportunities to increase the production of housing, whether on its own property or through the disposition of its property. This includes expediting the disposition of the City’s tax foreclosed and surplus property, which include vacant parcels, as well as residential, commercial, and industrial properties.
- **Residential Exemption** – Another opportunity to make home ownership more affordable is to increase the residential exemption, which gives a tax reduction to owner-occupied residential properties. While this does not necessarily help those who rent, even if done on a temporary basis, this may be an opportunity for homeowner relief if residential tax bills increase dramatically. This, too, would require a home rule petition.

Boston's ability to navigate the COVID-era showcases its resilience, yet adapting to new challenges in the real estate landscape will be essential to maintaining its financial strength and continued success. Tax classification is but one idea to consider. There are other options for near term action as well as those that may occur in 2025 if work starts now.

Appendix A

Property Tax Classification Shift

	FY24
Tax Levy	\$3,188,712,075
Assessed Value	\$220,853,170,734
Flat Rate	\$14.44
Residential Value	\$147,244,423,349
Residential Levy w/Flat Rate	\$2,125,937,649
Business Value	\$73,608,747,385
Business Levy Flat Rate	\$1,062,774,425
Business Rate 175% shift	\$25.27
Business Levy w/175% shift	\$1,860,093,046
\$ shifted to Business	\$797,318,621
% decrease for Business if used flat rate	75.0%
Residential Levy w/175% shift	\$1,328,619,028
\$ decrease for Res w/175% shift	\$797,318,621
% decrease for Res w/175% shift	37.5%
Res Rate w/Business 175% shift	\$10.90

Source: City of Boston Assessing Reports

Appendix B

Property Tax Growth

Fiscal Year	General Fund Revenues *	Net Property Tax	% of Total	Property Tax Variance	% Variance
2001	\$1,710,281,207	\$874,013,302	51.1%	\$49,033,718	5.9%
2002	\$1,769,502,930	\$926,335,850	52.4%	\$52,322,548	6.0%
2003	\$1,809,193,842	\$996,029,799	55.1%	\$69,693,949	7.5%
2004	\$1,831,396,869	\$1,052,066,938	57.4%	\$56,037,140	5.6%
2005	\$1,903,904,442	\$1,106,336,272	58.1%	\$54,269,334	5.2%
2006	\$2,019,088,603	\$1,167,341,618	57.8%	\$61,005,346	5.5%
2007	\$2,108,868,066	\$1,224,171,261	58.0%	\$56,829,643	4.9%
2008	\$2,237,687,105	\$1,295,459,989	57.9%	\$71,288,728	5.8%
2009	\$2,307,054,677	\$1,365,271,913	59.2%	\$69,811,924	5.4%
2010	\$2,303,265,871	\$1,440,193,327	62.5%	\$74,921,414	5.5%
2011	\$2,429,714,338	\$1,504,565,685	61.9%	\$64,372,358	4.5%
2012	\$2,414,406,445	\$1,577,252,692	65.3%	\$72,687,007	4.8%
2013	\$2,504,344,846	\$1,643,366,520	65.6%	\$66,113,828	4.2%
2014	\$2,654,354,485	\$1,744,904,304	65.7%	\$101,537,784	6.2%
2015	\$2,780,419,716	\$1,839,278,749	66.2%	\$94,374,444	5.4%
2016	\$2,883,005,530	\$1,925,045,199	66.8%	\$85,766,450	4.7%
2017	\$2,996,813,523	\$2,053,396,339	68.5%	\$128,351,140	6.7%
2018	\$3,213,291,846	\$2,191,991,487	68.2%	\$138,595,148	6.7%
2019	\$3,371,145,080	\$2,320,882,415	68.8%	\$128,890,928	5.9%
2020	\$3,500,049,058	\$2,466,831,326	70.5%	\$145,948,911	6.3%
2021	\$3,611,054,706	\$2,676,286,339	74.1%	\$209,455,013	8.5%
2022	\$3,867,906,331	\$2,793,794,740	72.2%	\$117,508,401	4.4%
2023	\$4,252,239,960	\$2,969,073,430	69.8%	\$175,278,690	6.3%
2024	\$4,278,164,102	\$3,136,712,074	73.3%	\$167,638,644	5.6%

* General fund revenues are net of teacher pensions.

Source: City of Boston Financial Reports

Appendix C

Boston Impact Fees

Linkage Policy - Started in 1983				
Year	Housing (\$)	Jobs (\$)	Total	
2000	\$5.49	\$1.09	\$6.58	Per sq. ft. over 100,000
2006	\$7.87	\$1.57	\$9.44	
2013	\$8.34	\$1.67	\$10.01	
2018	\$9.03	\$1.78	\$10.81	
2021	\$13.00	\$2.39	\$15.39	
2024 Lab	\$19.50	\$3.59	\$23.09	Per sq. ft. over 50,000
2024 Commercial	\$16.17	\$3.08	\$19.25	
2025 Lab	\$26.00	\$4.78	\$30.78	
2025 Commercial	\$19.33	\$3.76	\$23.09	
Inclusionary Development Policy (IDP)				
Year	Units Required on-site	Units required off-site		
2000	10%	15%		
2003	15%	15%		
2005	15%	15%		
2006	15%	15%		
2007	15%	15%		
2015	13%	15% to 18%		
2023 Small Projects	17%	Not allowed		Less than 50,000 sq. ft.
2023 Large Projects	15%-17% + 3% voucher	20%		50,000 sq. ft. or more
Community Preservation Act (CPA)*				
Year	Fee			
2018		1%		
Proposed Real Estate Transfer Fee				
Proposal	Exempted Value	Fee Rate		
State Local Option	at least \$1M	0.5%-2%		
City Home Rule Petition	\$2M	up to 2%		

*CPA and transfer fee apply to both residential and business (CIP) properties