RESEARCH UPDATE

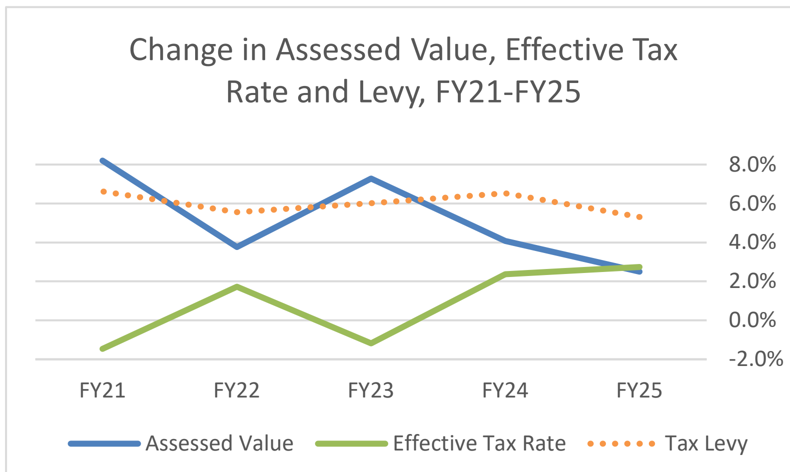
January 2025

BOSTON MUNICIPAL RESEARCH BUREAU

FY25 Tax Rates Rise as Pace of New Growth Slows

With Boston's revaluation process complete and tax bills for the second half of fiscal year 2025 received, property owners now have a clear picture of the taxes they owe, with tax rates rising for both residential and business properties. Driven by a strong increase in residential values, Boston's assessed property value grew for the fourteenth straight year in FY25, yet business (CIP)[1] property valuations fell by 1.7%, the first such decline since FY11. At the same time, new growth slowed from FY24, particularly driven by a drop in commercial new growth. The decline in commercial assessed values and the slowdown in commercial new growth are noteworthy and of concern for FY26 and beyond given Boston's disproportionate reliance upon business property taxes to fund its budget. The property tax levy limit, the total revenue the City can raise through real and personal property taxes, increased by $170.0M or 5.3% to $3.36B in FY25.

Tax Rates & Classification - Tax rates for both residential and business properties increased this year, with residential rates growing faster than business. Residential tax rates increased by $0.68 or 6.2% to $11.58 per thousand dollars of value, while the business tax rate of $25.96 increased by 2.7% or $0.69. As a result of the City's application of full classification, which allows the City to shift the property tax burden from residential to CIP, business property holds only 32.0% of the taxable value in the city yet will pay 55.9% of the tax levy. Residential property represents 68.0% of total taxable value but will pay 44.1% of property taxes. FY25 marks the highest share of the levy paid by residential property and the lowest paid by business property in at least four decades.



Property Values - The assessment date for FY25 is January 1, 2024 and captures the market activity of 2023, meaning the property assessments used to calculate FY25 taxes do not reflect current market conditions. FY25 was a revaluation year for the City, which is required by state law to update property valuations every 5 years to ensure that they reflect full and fair cash value.

Boston's Taxable Value

$ in billions

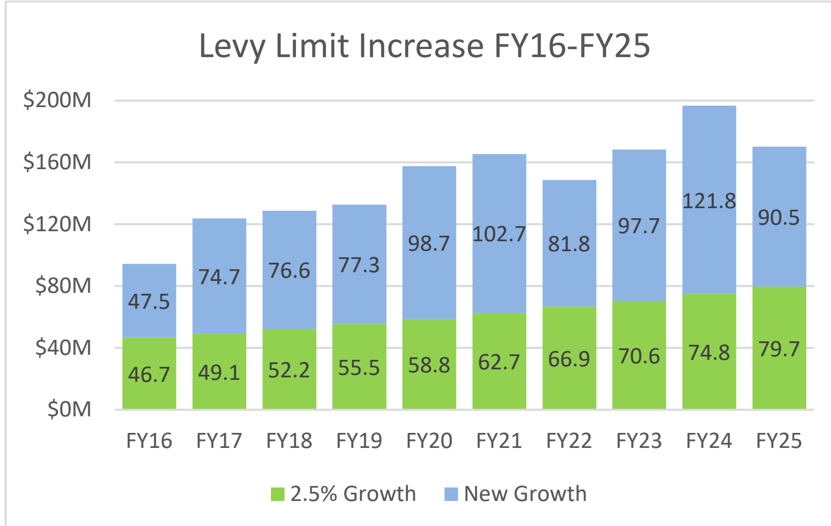
	FY24	FY25	Change	%	% of FY25 Total
Commercial	$63.03	$61.18	-$1.85	-2.9%	27.0%
Industrial	$1.40	$1.48	$0.07	5.1%	0.7%
Personal	$9.17	$9.69	$0.52	5.6%	4.3%
CIP Subtotal	$73.61	$72.35	-$1.26	-1.7%	32.0%
Residential	$147.24	$154.03	$6.78	4.6%	68.0%
Total	**$220.85**	**$226.37**	**$5.52**	**2.5%**	**100.0%**

Boston's growth in FY25 taxable value represents an increase of $5.52B or 2.5%, substantially less than last year's growth of $8.64B or 4.1%. By class, residential value increased by $6.78B or 4.6%, while business value fell by $1.26B or 1.7%. Business assessed value dropped for the first time since FY11, with commercial falling by $1.85B

[1] The business tax rate is applied to the Commercial, Industrial, and Personal property tax classes, referred to collectively as CIP.

or 2.9%. Meanwhile, industrial increased by $71.6M (5.1%) and personal property (mainly the equipment and machinery of utilities and office equipment) rose by $515.5M or 5.6%.

Levy Limit & New Growth - New growth, a critical component of the annual tax levy increase that permits the City to increase its tax revenue beyond 2.5 percent, came in at $90.5M, a decrease of $31.3M or 25.7% from last year's record of $121.8M. While down from FY24, the figure exceeds the $60M included in Boston's FY25 budget.



As a result, Boston's levy limit is expected to increase by $170.0M or 5.3% this year, down from 6.6% in FY24 and the slowest increase since FY16. New growth accounts for 53.2% of the levy limit increase, down from 62.1% in FY24 and the lowest proportion since FY16. For the last decade, new growth has represented more than half of the tax levy limit increase, meaning that Boston has relied on taxes from new development to fuel its budget growth.

New Growth by Class - The decline in new growth from FY24 was driven by a substantial decrease in commercial new growth. Residential new growth slightly increased from FY24, coming in at $26.8M, a 2.5% increase ($651k) from FY24. Meanwhile, business new growth, which historically has driven the City's ability to levy above the 2.5% base increase, fell by $32.0M (-33.4%) to $63.7M. Commercial property accounted for almost all of the decrease, with commercial new growth declining by 43.2% (-$31.8M) year-over year. Industrial new growth grew by $105k (71.7%) and personal property new growth fell by $240k (-1.1%). The decline in business new growth is of concern given Boston's heavy reliance on it to fuel overall budget growth.

New Growth Detail

$ in millions

	FY24	FY25	Change	%	% of FY25 Total
Commercial	$73.59	$41.77	-$31.82	-43.2%	46.2%
Industrial	$0.15	$0.25	$0.10	71.7%	0.3%
Personal	$21.89	$21.65	-$0.24	-1.1%	23.9%
CIP Subtotal	$95.62	$63.67	-$31.96	-33.4%	70.4%
Residential	$26.18	$26.83	$0.65	2.5%	29.6%
Total	**$121.80**	**$90.49**	**-$31.31**	**-25.7%**	**100.0%**