City of Boston, Massachusetts
Office of the Mayor
MICHELLE WU

October 15, 2024

Boston City Council
1 City Hall Square, Suite 550
Boston, MA 02201-2043

Dear City Councilors:

Thank you for your continued partnership on issues impacting residents across our city. I am writing to share some updates on the Home Rule Petition regarding Property Tax Classification passed by your honorable body on June 5, 2024. As a reminder, with this proven, modest, and temporary legislation to stabilize tax bills, commercial properties would still pay less in taxes next year while protecting residents from a significant tax spike.

Following Council approval, the home rule petition was filed at the State House in June, then passed in a compromise version by the House of Representatives in July. The compromise proposal commits to an Executive Order and other changes to: 1) shorten the duration from the original maximum of five years to three years; 2) reduce the scope from the original ceiling of a 200% ratio to 190%; 3) set aside $45 million over three years to offset potential impacts on small businesses; and 4) increase the annual personal property tax exemption for small businesses from $10,000 to $30,000. Because the original home rule petition language establishes maximums and does not set specific levels, the Executive Order would complement and not conflict with the original language as passed by the Council. The proposal remains pending before the State Legislature, and we continue to communicate with all stakeholders.

Last week, the Assessing Department released preliminary citywide projections of property valuation shifts: overall commercial property values may decline by 7% while residential values increase by 4%, resulting in a 28% quarter-to-quarter spike on average for residential tax bills in January (from $1,380 to $1,765 for the average single family home). The models are subject to further refinement, but these numbers affirm that this legislative tool will be needed this year to stabilize taxes and protect residents who are already struggling to afford housing and living expenses in Boston.

As discussed throughout the public process, we filed this legislation more than seven months in advance of finalizing property revaluations in order to ensure the fullest opportunity for public discussion during the City Council's and State Legislature's formal sessions. The Assessing Department's annual process for estimating, reviewing, and finalizing property values always runs through the fall, and preliminary parcel-level valuations will be available for residents to view in late October 2024. Tax rates must be finalized and approved by the Administration and Council in late November 2024 for the Massachusetts Department of Revenue to certify in December 2024, with bills for the third quarter of the fiscal year

mailed out in January 2025.
Just as when a tax shift was used in 2004, this is not a moment of economic crisis or recession, but of wider transition in the shared burden of property taxes across the residential and commercial sectors. Twenty years ago, Boston stabilized a market adjustment transitioning to a much stronger share of residential due to steadily rising residential property values. Today we are transitioning to an even greater residential share as remote work changes the economy, and we look to provide stability in the same way.

As such, I would like to address proposals that the City could or should implement immediate budget cuts or drain our reserves to issue residential rebates instead of pursuing the proven, modest, temporary legislative authority to stabilize taxes. The scale of tax levy reduction to eliminate the need for this shift would require extremely destabilizing budget cuts of $265 million, or the jobs of 2,231 City workers. Some of the most frequently cited corporate lobbyists, such as the Boston Municipal Research Bureau, have suggested that a 1% ($46.4 million) or 2% ($92.8 million) budget and levy reduction would be a reasonable compromise. As we continue to respond to feedback from all stakeholders, we have analyzed what an immediate 1% budget cut in this current fiscal year could entail. To avoid violating contractual and legal obligations and the disruption of layoffs, the City would have to cut approved personnel who have not yet been hired and planned programs that have not yet been implemented, such as:

1. Cancel Boston Police, Fire, and EMS academy classes ($7 million)
2. Pause largest departments' planned hiring–ISD, BCYF, BTD ($4 million)
3. Pause job reclassification efforts that would adjust key roles to market conditions for more competitive recruitment and retention ($800,000)
4. Delay Boston Police promotional exam ($1.8 million)
5. Withdraw funding for the June 2024 City Council amendments added to the budget—youth summer jobs, housing stability, and more ($3 million)
6. Cancel contracts and new technology procurements for upgrading permitting software to improve processes at ISD and for implementing reforms to BPD paid details as ratified in the police contract ($2 million)
7. Pull back funding for housing stability through the acquisition fund ($2 million) 8.

Eliminate grant programs for youth development, safety, and activation ($1.5 million) 9.
Reduce City contribution to fully funding long-term liabilities such as OPEB ($20 million)

To be clear, these are all critical investments necessary to enhance access and meet community needs, and I strongly reject the assertion that these budget cuts would be a responsible action to take for Boston's residents, businesses, or our larger economy. Maintaining nation-leading standards for safety, cleanliness, and quality of life is crucial for our residents and our businesses to thrive at a time when city competitiveness especially depends on effective service delivery.

Furthermore, the proposed 1% budget cut would not solve the problem of a residential tax spike: a $46.4 million cut would be required by state law to be proportionally shared by both the commercial and residential sectors—reducing the residential tax rate by 16 cents and the commercial tax rate by 36 cents. So, the average single family home with a residential exemption would still see a 25% quarter-to-quarter spike, while generating an additional tax cut for commercial properties on top of the baseline decrease. Our legislative solution is designed to create stability, while this alternative would benefit the commercial sector over the residential sector 2-to-1, providing a corporate windfall on the back of vital City services.

Most significantly for Boston's long-term fiscal stability: state law Proposition 2½ maintains a strict 2.5% cap on property tax levy growth, even though inflation has been 25% higher than this cap each year on average. As a result, taking less than the full 2.5% levy growth in any year would set the City up for a fiscal cliff in all future years. This is why bond rating agencies cite the City's practice of predictably budgeting for the full 2.5% levy growth as an important component of our financial stability and AAA bond rating. As such, the City of Boston has never taken less than the 2.5% levy growth in any year, even in previous economic crises, and certainly not under conditions of economic strength as we are experiencing now. With prudent financial planning, the City has also never proposed taking more than the 2.5% annual levy growth even though state law provides mechanisms for municipalities to do so.

With this strict 2.5% cap and because municipalities in the Commonwealth are restricted from adding any other municipal revenue sources without statewide approval, Boston must plan for slowing spending in the years ahead. Structurally, we will continue pushing to diversify our municipal revenue streams. However, efforts across several mayoral administrations to advocate for state approval of revenue sources that would ease pressure on property taxes have not been successful—including our filing earlier this year for a modest transfer fee on property transactions over $2 million to dedicate funds for housing affordability with a focus on tax relief for seniors. The same corporate lobbyist groups calling for the alternative of diversifying Boston's revenue sources have lobbied against our transfer fee proposal and other tax proposals, so we hold no illusions that this pathway is a timely or substantially likely fix. We welcome proposals from these groups for new municipal revenue sources they would support; as of yet, none have been offered.

We have also analyzed the proposed alternative of using reserves to issue residential tax rebates. Because state law defines every aspect of tax law, which is expressly exempted from municipal home rule authority, unilaterally issuing one-time rebates or rebates to address particular economic circumstances would violate state law and the state constitution's proportionality requirement. Furthermore, as economic indicators related to job growth, tourism, foot traffic, and new business creation continue to show growth, draining our reserves fund now would leave the City vulnerable during an actual economic downturn or fiscal emergency. The more appropriate use of reserves to address the challenges of this moment is through a revolving fund that would provide low-cost equity for housing production to grow our tax base then return those funds upon recapitalization to finance the next set of projects.

As we continue to have discussions with State Senators and other stakeholders, our administration looks forward to discussing this in further detail with the Council. Thank you again for your advocacy for this important legislation affecting every resident of the City of Boston.

Sincerely,

Michelle Wu

Michelle Wu
Mayor of Boston