City of Boston, Massachusetts
Office of the Mayor
Michelle Wu

December 8, 2024

Dear Jim, Marty, Tamara, and Doug,

This letter is in response to your request for more detailed information about our earlier projections related to H. 5114, the City's home-rule petition to provide stability to all taxpayers, filed as negotiated compromise legislation and passed by the Boston City Council and House of Representatives.

When we initially introduced this home-rule petition eight months ago in April 2024, we were very clear that our standard annual assessing processes would not be finalized until late in the calendar year, so the legislative language included built-in guardrails to make it a preventative tool that could only be used if there were significantly impactful valuation changes. At the time of filing, we did not have enough data to know with certainty whether the tool *would* be needed, but we knew it was important to begin the process once we had enough certainty that it *could* be needed, as the legislative cycle would not allow enough time to wait for final numbers before acting.

That is why the legislative language always presented a maximum shift level (up to 200% in the original filing; up to 181.5% in the compromise deal) instead of prescribed shift figures. As you know, the guardrail language set an additional, potentially lower ceiling based on the levy percentage paid by residential property in the prior fiscal year; in other words, this limitation prevents any levy shift from increasing the burden on the commercial sector beyond the 58% share of the total levy contributed by commercial properties in FY24.

On May 2nd, the Boston Municipal Research Bureau released a report with the underlying assumption that commercial properties would drop 10% and residential properties would rise 5%. We applied these assumptions to demonstrate how this legislative authority would work, with the maximum possible shift under the built-in guardrails calculated to be 192.5%, thus establishing an even lower ceiling than the full 200% backstop.

In late September, the City had early modeling to make our first projections based on real data. We were explicit at every step that these numbers were not final, but worth looking at since they didn't paint as dire of a picture as the numbers released by the Boston Municipal Research Bureau earlier in the year. The rough data with a margin of error suggested a range of commercial values dropping 5-7% and residential values rising 2-4%. To help inform the conversation around our legislation, we released the preliminary data publicly, using the maximum delta of these two figures to quantify the worst case scenario that we would seek to avert: residential values increasing 4%, and commercial values decreasing 7%. These fiscally prudent estimates, if ultimately true, would have capped the maximum possible shift at 186.5% if the 200% maximum legislation were passed.

Each time we released examples using early numbers, including at the hearing before the Joint Committee on Revenue held on July 16th and at our group meeting in the Senate President's office on September 26th, we reiterated that these figures were estimates and that they should not be taken as final. That caveat was explicit on every example sheet given in writing throughout the last eight months, and it was expressed verbally every single time any of these numbers were discussed. On November 22nd, our Assessing Department communicated with the Department of Revenue (DOR) that the City's values and growth sheets had been filed, with some pending adjustments; on November 25th this final data was uploaded for DOR review, and further documentation was submitted on November 27th.

On December 4th, after months of further model revisions, and after thousands of data changes were made to properties throughout the City consistent with standard processes (and with 14,932 of the City's 180,000 parcels having changes due to various revisions or error checking since late September), the Department of Revenue certified the City's property values, affirming that we are meeting our obligation to value the City at fair market value as of January 1, 2024. These final figures indicate that the commercial market decreased by 5% and that the residential market increased by 3%. These certified valuations would limit the maximum shift to 182.5% under the original guardrails, or 181.5% under the revised bill presently before the Senate.

These final numbers were within our range of the margin of earlier uncertainty, and are also extremely close to the figures used in the public examples from September. So while we are relieved that the final valuations for this year avoid the worst case scenario projections, these numbers are not materially different from the estimates provided earlier, and we stand fully behind the integrity of our process. With multiple cascading rounds of calculations that filter the valuation changes through calculations of the total tax levy, maximum shift, tax rate, and then to the total tax bill—very small changes in market valuations can ripple through to larger shifts in the average tax bill. Even with valuations finalized, the process is still ongoing, and the examples with final values are still subject to change due to final adjustments to tax rates based on ongoing exemption approvals and other standard steps.

Since we assumed it would be unlikely that our legislation would have the luxury of waiting for final numbers, we incorporated the internal guardrails cap to account for the fact that each year as assessing data comes in, models are revised and the final figures become more precise. This tool was always meant to give the city the ability to stabilize both residential and commercial values during a period of market instability. This design objective has been reiterated at every single public hearing on this matter.

The certified numbers confirm the need for this stabilization, as the final change in residential tax rates without legislation would be significantly greater than the five-year annual average and more than double the ten-year annual average. Without legislation, the annual increase for the average single-family home would be the second-highest annual increase since 2010, and the jump in the residential share of total taxes would be the highest single-year increase since 2007. This would be a significant burden of compounding high tax increases for families and especially seniors struggling to afford to stay in Boston. Most of all, this bill is needed to guarantee stability for the next three years in a period of continued uncertainty that begins again with the new valuation process in January.

Sincerely,

Michelle Wu

Mayor Michelle Wu

Attachment: Impact of Legislation on the average single family home and an example $5 million commercial property experiencing value decrease

May 2024 - Residential increase 5%; Commercial decrease 10%

Average Single Family Home Receiving Residential Exemption					
Assumed 5% increase	Taxes	Annual % Change	Q2 bill	Q3 bill	Bill-to-Bill % Change
FY24 - $838K Value	$5,522				
FY25 with 192.5% shift (max shift)	$5,710	3.4%	$1,380	$1,474	6.8%
FY25 with 175% shift (baseline)	$6,432	16.5%	$1,380	$1,835	33.0%

September 2024 - Residential increase 4%; Commercial decrease 7%

Average Single Family Home Receiving Residential Exemption					
Applying 5% increase	Taxes	Annual % Change	Q2 bill	Q3 bill	Bill-to-Bill % Change
FY24 - $838K Value	$5,522				
FY25 with 175% shift (baseline)	$6,290	13.9%	$1,380	$1,764	27.8%
FY25 with 181.5% shift	$6,013	8.9%	$1,380	$1,626	17.8%
FY25 with 186.5% shift (max shift)	$5,795	4.9%	$1,380	$1,516	9.9%

$5M Commercial Property			
Applying 9% decrease	Taxes	$ Change	% Change
FY24 taxes - $5,000,000 Value	$126,350		
FY25 with 175% shift (baseline)	$117,936	-$8,414	-6.7%
FY25 with 181.5% shift	$122,304	-$4,046	-3.2%
FY25 with 186.5% shift (max shift)	$125,671	-$679	-0.5%

December 2024 - Residential increase of 3%; Commercial decrease of 5%

Average Single Family Home Receiving Residential Exemption					
Applying 4% increase	Taxes	Annual % Change	Q2 bill	Q3 bill	Bill-to-Bill % Change
FY24 - $838K Value	$5,522				
FY25 with 175% shift (baseline)	$6,095	10.4%	$1,381	$1,667	20.8%
FY25 with 181.5% shift	$5,811	5.2%	$1,381	$1,525	10.5%

$5M Commercial Property			
Applying 7% decrease	Taxes	$ Change	% Change
FY24 taxes - $5,000,000 Value	$126,350		
FY25 with 175% shift (baseline)	$120,668	-$5,682	-4.5%
FY25 with 181.5% shift	$125,085	-$1,265	-1.0%