April 16, 2024

Councilor Gabriela Coletta, Chair
Committee on Government Operations
1 City Hall Square Room 550
Boston, MA 02210

Councilor Benjamin Weber, Vice Chair
Committee on Government Operations
1 City Hall Square Room 550
Boston, MA 02210

Dear Councilor Coletta and Councilor Weber,

On behalf of the Greater Boston Chamber of Commerce and our 1,200 members, I write to express concerns with docket #0642, *Petition for a Special Law: An Act relative to Property Tax Classification in the City of Boston.* After years of strong city budget growth and ample federal financial assistance, the Petition seeks to add to the high property tax burden on commercial real estate in the city. Already struggling with the transition to remote work and changes to downtown commerce because of the pandemic, the Petition adds to an increasingly uncompetitive business climate instead of exploring public policy solutions that ease the cost of doing business in the city, encourages employers to remain or relocate to Boston, and rebalances and diversifies the city's heavy reliance on commercial property taxes. I urge the Committee to refocus its efforts on downtown vitality and attracting employees and employers to the city.

Split Tax Rates and Boston's Reliance on Commercial Property Taxes

The City of Boston currently utilizes a spilt property tax approach that applies different tax rates to residential and commercial properties, a practice common throughout cities in Massachusetts and governed by state law. The current FY24 rates are $10.90 per one thousand dollars in property value for residential property and $25.27 per one thousand in property value for commercial property, 231.8% the residential rate. This rate differential reflects the maximum allowed under state law – meaning there is no margin for adjustment legally allowed without a change to state statute (section 1A of chapter 58 of the Massachusetts General Laws). While this has an advantageous effect of shielding residents from higher tax burdens, it leaves the City no room to maneuver in difficult economic times when commercial property tax revenue recedes.

The foundation of Boston's city budget is highly reliant on property tax revenue. The share of property tax revenue has grown from 52% of city budget revenues in FY02 to over 70% of budget revenues in FY25[1]. Of that revenue, almost 60% comes from commercial property. This exposes the City to budget strains during the current commercial property valuation circumstances, and more importantly, in larger economic downturns the city is not experiencing now but will likely experience sometime in the future. Addressing this growing imbalance, and diversifying and rebalancing the city's revenue resources, should be a long-term priority and reduce exposures to fluctuations in particular economic conditions.

Concerned with the consequences to residential taxpayers as some commercial property values decrease in the city, the Petition further increases the tax burden on commercial properties beyond what is currently allowed in state law. Imposing higher taxes on commercial properties that are losing value only deepens the difficult conditions these property owners face, while increasing rents on tenants. Small businesses are particularly vulnerable in the current context, while commercial properties retaining their value will see a guaranteed tax increase. Recent data shows that the commercial office vacancy rate in the Boston metro area is at 23.1%, exceeding peak levels during the Global Financial Crisis[2]. Commercial owners and operators currently contending with higher interest rates, lower demand for office space, reduced property values and now, will face higher property tax rates should this proposal advance. The proposal also offers no tangible goals that would at least provide commercial property tax owners with predictable outcomes due to the tax burden shift.

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[1] https://www.boston.gov/departments/budget/fy25-operating-budget
[2] Colliers 23Q4 Boston Office Market Report January 18, 2024

Asking More of Business without Addressing City Spending

After filing docket #0642, the Administration filed a FY25 budget proposal that recommends an 8% spending increase[3], a year-over-year spending increase higher than in any city budget since 2000, despite potential long-term revenue concerns. This increase follows years of robust budget growth, including budget filings recommending increases of 6.8%[4] in FY24 and 5.9% in FY23[5]. The Petition is framed as a temporary legislative tool to address the fiscal health of the City, but the City itself has not restrained its budget growth to reflect any such apprehensions. Instead, the City pursues dramatic increases in spending to avoid tough budget decisions that business owners must confront every day. If there is concern with revenue uncertainty, the city should take appropriate measures for the potential impacts on revenue by curbing spending. While many city programs are commendable initiatives, the city must spend within its means, particularly when budgets are constrained. Annualizing one-time federal revenues and expanding programs may be desirable but should not occur amid budget uncertainty. When compared to a similar proposal made by Mayor Menino in 2003, the city's budget growth that fiscal year was only .55%, and the city eliminated hundreds of positions to mirror fiscal conditions.

State leaders, in response to current state revenue uncertainty, have taken a different approach. Governor Healey and the Massachusetts House of Representatives settled on a far more modest budget growth, with the House unveiling a budget last week with 3.3% budget growth as state revenues reflect similar adjustments to post-pandemic economic conditions. This is a more pragmatic approach. In addition, Boston is not required to increase its tax levy a full 2.5% under Proposition 2½ and could curb property tax growth to ease cost burdens on both residential and commercial property if it is concerned about the city's tax burden.

Finally, it is important context to remember that the Petition is under consideration during a time of job growth and low unemployment. Massachusetts unemployment is at 2.9% and it added 6,600 jobs in February. Economic conditions are uncertain, but the city and state do not face a recession or economic upheaval that may otherwise necessitate uncommon budget solutions.

Broader Context of Increasing Costs on Businesses

This proposal to increase the commercial property tax burden on employers cannot be viewed in isolation. The Administration has proposed new transfer taxes on residential and commercial property, rent control, higher linkage fees, strict energy efficiency and reporting requirements, and steep affordability requirements on new construction – policies that significantly increase costs to our businesses and developers.

While again asking more of the commercial industry, progress on policies that make it easier to locate or do business in Boston is slow. Initiatives such as permitting reform have not gained traction or delivered meaningful improvement on easing burdens to development – development that could provide critical budget resources to the city that it may need in both the short-term and long-term fiscal environment. As we struggle to attract, and even just keep, employers and employees in downtown Boston, policies to make downtown more attractive by easing the cost of doing business are largely idle. Instead, the commercial sector faces another proposal to pay more. This impacts the city's competitiveness, and other cities and states will take advantage by offering lower costs, lower regulatory burdens, and a welcoming public policy environment to attract our workers and employers.

We should not take the City's strong commercial industry for granted. Boston's economic strength lies in its highly educated and diverse talent and workforce, its nation leading health care, financial, and higher education institutions, its innovative technology and biotech ecosystems. The region thrives in its dynamic and interconnected business network that is at the forefront of emerging economic and investment trends

[3] https://www.boston.gov/departments/budget/fy25-operating-budget
[4] https://www.boston.gov/departments/budget/fy24-operating-budget
[5] https://www.boston.gov/departments/budget/fy23-operating-budget

that result in new industries, new jobs, and new opportunities for individual and business growth. And as a result, the City reaps the rewards through tax revenue to support robust public programs, while employers benefit from strong city services. The is a symbiotic relationship – a partnership between the private and public sectors that mutually benefit each other, and all residents of the City. A balanced approach is necessary to ensure this partnership continues to succeed. Asking too much of our employers without addressing competitiveness issues risks further exacerbating the recent decrease in commercial property valuation, and again exposing the city budget to further strain.

We value the intent of the Administration to avoid revenue volatility that could impact city residents the delivery of city services, but the City must address key drivers of volatility including accelerating budget spending, an overreliance on property tax revenue in general, and an overreliance on the commercial tax base to fund the budget. We urge the Committee to oppose docket #0642 at this time.

Thank you for your attention and please reach out with any questions.

Sincerely,

James E. Rooney

James E. Rooney
President & CEO

CC: Members of the City Council Committee on Government Operations

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