Greater Boston Chamber of Commerce

July 16, 2024

Senator Susan Moran, Chair
Joint Committee on Revenue
State House, Room 312-D
Boston, MA 02210

Representative Mark Cusack, Chair
Joint Committee on Revenue
State House, Room 34
Boston, MA 02210

Dear Chair Moran and Chair Cusack,

On behalf of the Greater Boston Chamber of Commerce, I write to express concerns with H.4805, *An Act relative to property tax classification in the City of Boston.* After years of rapid city budget growth and strong federal financial assistance, H.4805 adds to the already high property tax burden on commercial real estate in Boston. While businesses struggle with the transition to remote work and changes to downtown commerce due to the pandemic, the bill makes it more difficult for companies of all sizes to survive and thrive in downtown. We urge the city to prioritize public policy solutions that ease the cost of doing business and incentives that encourage both employers and employees to remain or relocate to Boston.

While this legislation on its face is a local, home rule petition, the precedent and resulting impact will be felt statewide. Boston remains the economic engine for New England, yet as it becomes more difficult for businesses to justify strong presences in the city, employers will relocate to more hospitable and less costly locations - hurting the state's economy. And Boston is not alone in confronting a decrease in commercial property values - cities across the Commonwealth, and across the country, must adjust to permanent changes in the workplace and new foot traffic patterns in commercial districts. H.4805 does not address these underlying concerns and instead exacerbates the problem of struggling downtown commercial districts.

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

Boston currently utilizes a split 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, which is 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 heavily 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 declining commercial property valuation circumstances, and more importantly, in larger economic downturns the city is not experiencing now but may experience in the future.

Concerned with the consequences to residential taxpayers as some commercial property values decrease in the city, H.4805 further increases the tax burden on commercial properties beyond what is currently allowed in statute. 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 this context, as the added tax burden is often automatically passed along through rent increases, while commercial properties retaining their value will see a guaranteed tax increase. Recent data shows that the commercial office vacancy rate in the Boston

[1] https://www.boston.gov/departments/budget/fy25-operating-budget

metro area is at 23%, exceeding peak levels during the Global Financial Crisis[2]. Commercial owners and operators already confronting higher interest rates, lower demand for office space, and reduced property values will now face higher property tax rates should this proposal advance. H.4805 also offers no tangible goals that would at least provide commercial property tax owners with predictable outcomes due to the tax burden shift.

**Asking More of Business Without Addressing City Spending**

After filing this docket with the Boston City Council, the city moved forward with an FY25 budget with 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]. H.4805 is framed as a temporary legislative tool to address the fiscal health of Boston, but the city itself has not restrained its budget growth to reflect any such apprehensions. Instead, it pursued increases in spending to avoid tough budget decisions that business owners must confront every day. When compared to a similar proposal made by Mayor Menino in 2003, the city's budget growth that fiscal year was only .55%, and eliminated hundreds of positions to mirror fiscal conditions.

This contrasts with the Legislature's budget approach which, in response to state revenue uncertainty, prioritized fiscal restraint while preserving key investments. 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. The city also avoided a menu of alternative options that would mitigate increases in residential property tax bills without placing more of the burden on commercial buildings, such as tapping into a healthy rainy-day fund or increasing the residential exemption, ideas that were raised to city policymakers prior to the passage of the FY24 budget.[6]

Finally, it is important context to remember that H.4805 is under consideration during a time of job growth and low unemployment. Massachusetts's unemployment rate is at 3.0% in June, a full 1%[7] lower than the national unemployment rate. Economic conditions are uncertain, but the city and state do not face a recession or economic upheaval that may otherwise necessitate uncommon budget solutions.

**A Changing Real Estate Environment**

Fueled by post-pandemic work patterns that are no fault of any policymaker, the real estate market in downtown Boston is undergoing a non-cyclical shift. The way we use commercial space in downtowns will fundamentally change from pre-pandemic norms. Small businesses located in the city's center continue to struggle with reduced foot traffic and fewer customers. The average commute has nearly tripled for the average worker from before and after 2020.[8] Many have settled into hybrid work schedules where they are willing to live further away and spend less time in downtown Boston.

The Commonwealth'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 that result in new industries, new jobs, and new opportunities for individual and business growth. And as a result, Boston reaps the rewards through tax revenue to support robust public programs, while employers and residents benefit from strong city

[2] Colliers 24Q1 Boston Office Market Report April 23, 2024

[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

[6] https://www.bmrb.org/analyzing-mayor-wus-property-tax-classification-proposal/
[7] https://lmi.dua.eol.mass.gov/lmi/NewsRelease/state
[8] https://www.masstaxpayers.org/real-estate-market-downtown-boston

services. This is a symbiotic relationship – a partnership between the private and public sectors that mutually benefit each other, and all residents. A balanced approach is necessary to ensure this partnership continues to succeed. Asking too much of our employers without addressing the underlying circumstances contributing to the decline in commercial property tax revenues and other competitiveness issues risks further exacerbating the revenue problem, and again exposing the city budget to further strain.

We appreciate the intent of the city's Administration to avoid revenue source volatility that could impact city residents and the delivery of city services, but Boston 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 H.4805.

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

Sincerely,

James E. Rooney

James E. Rooney
President & CEO