



# Diversifying Municipal Revenues

City of Boston

Thomas M. Menino, Mayor

March, 2007

## *Reliance on the property tax continues to increase to pre-Proposition 2 1/2 levels State Aid has not been restored to pre-recession amounts*

- 80% of the resources supporting Boston's FY07 Budget are from Property Tax or State Aid
- In FY07, property tax revenue accounts for 59.3% of the Boston's total revenue -- in FY81 it accounted for 60.3%
- The average single family tax bill in Boston has increased 77.6% from FY02 to FY07
- Boston's FY07 net state aid remains \$66.2 million, or 15.5% below FY02 levels
- *Nationally, municipal revenue structures are more diversified.* For example, most major American cities have local taxing authority over restaurant meals among other local activities

### Local Taxes on Meals

#### Selected Major Cities

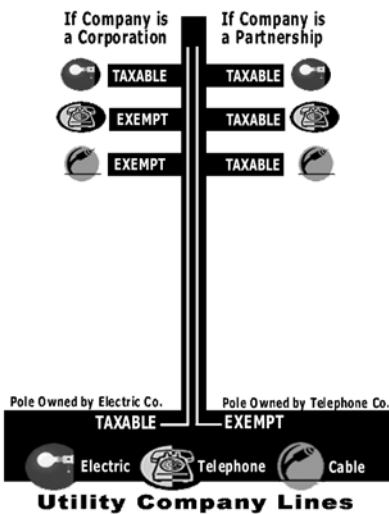
<u>Cities</u>	<u>State</u>	<u>City</u>	<u>Other Local**</u>	<u>Total</u>
Chicago	5.00%	2.50%	2.75%	10.25%
Washington D.C.	0.00%	10.00%	0.00%	10.00%
Seattle	6.50%	0.85%	1.95%	9.30%
New Orleans	4.00%	2.50%	2.50%	9.00%
New York	4.25%	4.125%	0.25%	8.63%
San Francisco	6.25%	2.25%	0.00%	8.50%
Austin	6.25%	1.00%	1.00%	8.25%
Atlanta	4.00%	1.00%	3.00%	8.00%
Denver	2.90%	4.00%	0.80%	7.70%
Philadelphia	6.00%	1.00%	0.00%	7.00%
Boston (PROPOSED)	5.00%	1.00%	0.00%	6.00%

\*\* County, Transit authority districts, or other taxing authorities.

Compiled by Office of Budget Management, City of Boston

- In FY06, the Commonwealth collected over \$580M through the 5% statewide meals tax.
- In FY08, if all municipalities in Massachusetts adopted a 1% meals tax, *more than \$120M is estimated to be available* to cities and towns in Massachusetts. Boston alone would receive \$20M from a 1% increase in the meals tax.
- In addition, removal of a property tax exemption enjoyed by Telecommunications companies would greatly aid cities and towns with additional revenue.

- Laws providing for the taxation of telecommunications property were enacted in the 1920s when the industry was a monopoly. Since that time, deregulation and advanced technologies have transformed the industry into a highly advanced, multi-billion-dollar enterprise, while relevant tax law remained unchanged.



### *Anatomy of a Utility Pole on a Public Way*

The taxable status of a utility pole and wires located on a public way depends on the **owner(s)** of the pole and the **corporate structure** of the owner(s).

- Poles owned by electricity providers are taxed, while poles owned by telephone companies are exempt.
- All wires owned by electricity providers are taxed.
- Wires owned by corporate telephone and broadband companies are exempt
- Telephone wires owned by a partnership are taxed.

### *Verizon's Impact*

- Approximately 60% of Verizon's property is exempt.
- \$2 billion in assessed value removed from municipal tax bases.
- Verizon's total state and local tax bill declined by nearly \$50 million, from \$100.9 million in 2003 to \$54.3 million in 2005.

### Highest Telecomm Revenue Gains FY 2007

Boston	\$15.4 M
Burlington	\$1.0 M
Cambridge	\$2.4 M
Chicopee	\$1.1 M
Framingham	\$2.4 M
Holyoke	\$1.2 M
Lexington	\$1.1 M
Newton	\$1.3 M
Quincy	\$1.1 M
Springfield	\$2.7 M
Waltham	\$1.4 M
Worcester	\$2.5 M

### **Telecommunications exemptions raise residential and business property taxes statewide.**

### *Legislation*

- Closes the loophole that exempts telephone poles and wires over public property.
- Removes the exemption for machinery (mainly switching equipment) of telephone companies.
- Results in an estimated \$78.1 million in new revenue for cites and towns.
- The removal of this exemption would return \$15.4M back to Boston.

Combined, the increase in the meals tax and removal of the telecommunications tax exemption would increase revenues to Boston by \$35M.

In his March 12th speech to the Boston Municipal Research Bureau, Mayor Menino vowed to return revenues from these items to taxpayers by foregoing the allowed property tax increase, meaning that residential and commercial property tax bills will not go up next year if these bills pass.

This would mark the first time since the implementation of Proposition 2 ½ in 1982 that the City did not tax to the full limit.