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Information and Updates on Current Issues

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BOSTON BALLOT QUESTION ONE WILL CAUSE JOB LOSSES

Increases in the commercial and industrial real estate tax rate that have taken place since 1990 will, by 2002, have cost Massachusetts 51,175 jobs.¹ A proposed increase in Boston property tax rates being put before Boston voters next month would cause the state job loss tally to rise by 1,510 to 52,685. Boston alone would lose substantially more than 1,510 jobs. This is according to analysis performed by the Beacon Hill Institute at Suffolk University.

The tax increase proposal is the result of an effort by advocates of open space, community preservation and affordable housing. It will be the first time Bostonians will be asked to vote on the Community Preservation Act of 2000 (CPA). The CPA enables local cities and towns to enact surcharges on real estate taxes outside the levy limitations of Proposition 2_.

The Boston initiative would impose a 2 percent property tax surcharge that would exempt \$100,000 of residential property. The initiative also includes exemptions for low-income homeowners.

If approved by voters, the surcharge is expected to raise \$14 million a year over the next five years from Boston taxpayers. Under the CPA, the state will match this amount over the same period, bringing the total to as much as \$140 million.²

Thus far the debate has focused on the demands for affordable housing, open space and historic preservation. Advocates claim that affordable housing is a growing problem for Massachusetts. While this may be the case, there are two questions that Boston voters must consider: First, whether, in approving the initiative, they'd be accelerating city and state job losses already occurring due to higher property tax rates and the slowing economy. And second, whether they might be ill-advised to take on a responsibility that other communities throughout the state appear to be dodging.

¹ These decreases take into account any changes that may have occurred as result of changes in the business cycles.

² The total may be less than \$140 million if demands from other communities make it difficult for the state to provide dollar-for-dollar matching funds.

Worsening the Recession

Like most major cities in the United States, Boston's largest revenue source is the property tax. The city relies on the property tax for 52 percent of its total general fund revenue. It also relies heavily on business. Owners of commercial and industrial property pay 70 percent of property taxes, while owners of residential property pay the remaining 30 percent. In FY 2001, the city of Boston collected \$641.6 million in commercial and industrial real estate tax revenue while collecting \$276.1 million from residential levies.

The last decade was a period of generally rising commercial property tax rates both in Boston and in the state as a whole. See Table 1. The Beacon Hill Institute calculated an average commercial tax rate for

Table 1
Average Tax Rates on Commercial Property in Massachusetts and in Boston, 1990-2001

Period	Average Tax Rates	
	Massachusetts	Boston
1990	1.867%	2.39%
1991	1.985%	2.51%
1992	2.395%	3.43%
1993	2.726%	4.00%
1994	2.936%	4.27%
1995	3.045%	4.27%
1996	3.109%	4.26%
1997	3.120%	4.15%
1998	3.000%	3.85%
1999	2.923%	3.70%
2000	2.788%	3.42%
2001	2.561%	3.02%

the state as a whole and employed regression analysis to determine how increases in this tax rate reduces Massachusetts jobs. BHI then calculated the year-by-year Massachusetts job losses that are attributable to tax rate changes that have taken place since 1990. See Figure 1 below. We found, as shown, that there are 50,668 fewer jobs in 2001 than there would be if tax rates had not generally risen, as they have, since 1990.³ The job loss tally will rise to 52,685 in 2002 if the property-tax increase is approved.

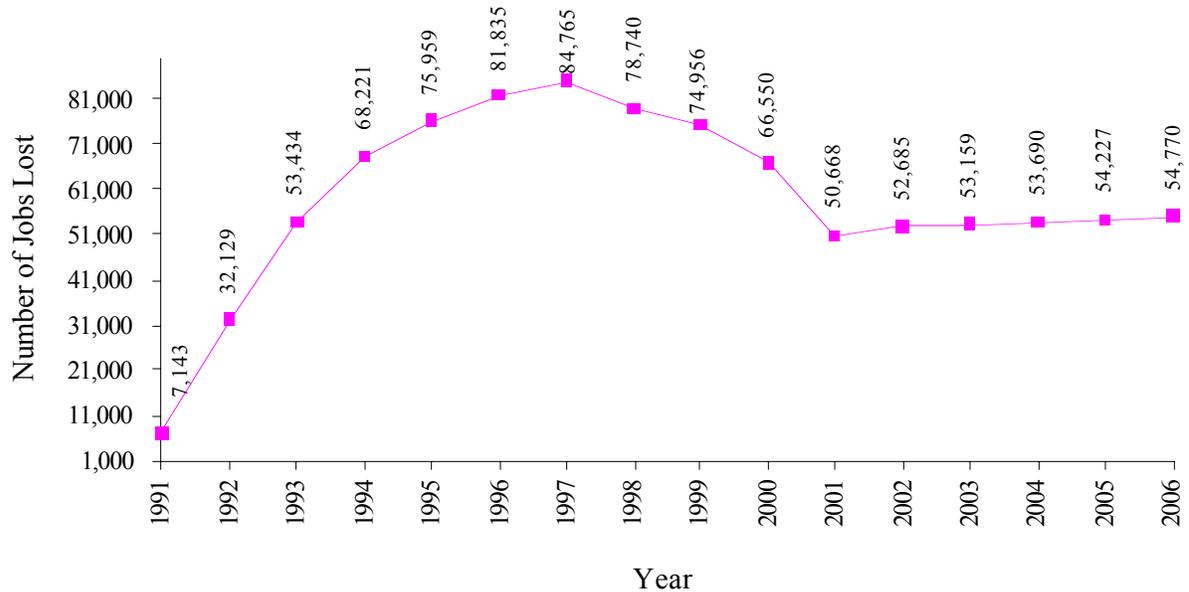
The Boston surcharge would increase *Massachusetts* job losses by 1,510. It would increase *Boston* job losses by substantially more.

The reason that Boston job losses would be greater lies in the way we calculated job losses and in the way businesses respond to property-tax changes. An increase in the Boston tax rate causes the average tax rate for the state as a whole to rise. But, because Boston accounts for only a fraction (albeit a large fraction) of all property taxes collected in the state, the tax increase for Boston alone would be greater than for the state as a whole. Also, a Boston tax increase would induce some businesses to move from Boston to other Massachusetts communities, even as it induces some businesses to leave the state. Jobs lost to other Massachusetts communities are not included in the 1,510. Finally, Boston tax rates are already higher than tax rates for other Massachusetts

³ We see that job losses peaked at 84,765 in 1997 and then fell, owing to subsequent decreases in the property tax rate. Job losses currently remain large, however, because the rate is still substantially higher than in 1990.

communities. Table 1 above shows that the average tax rate for Boston is higher in every year, 1990 to 2001, than the average tax rate for Massachusetts as a whole.

Figure 1
Massachusetts Job Losses Resulting from Increases in Commercial Property Tax: 1991-2006



Let Boston Do It

Approximately 19.6 percent of the more than 250,000 units in Boston fall in the category of affordable housing. Massachusetts requires that 10 percent of housing units in a community be “affordable housing.” However, the cities and towns surrounding Boston fall far short of the Commonwealth’s requirements.

According to the Boston Municipal Research Bureau, 30 towns have enacted surcharges allowed under the CPA. Of these, there is information for 29. Of the 29, only two have met the 10-percent standard. The average for all 29 is 3.8 percent. Because open space preservation benefits voters by increasing their property values, voters apparently opt to use CPA revenues for community preservation rather than affordable housing.

The proposed property tax increase therefore has the effect of shouldering Boston taxpayers with a responsibility being avoided by other Massachusetts taxpayers. It furthermore increases job losses in the city and throughout the state that have taken place as a result of the general drift upward in property tax rates over the last decade. The question for Boston voters is whether they want to accelerate this trend, widen further the gap between local and statewide tax rates and make a sacrifice in money and jobs that other communities are not willing to make.

Methodology

BHI's regression analysis shows that, for every one-percentage point increase in the average effective commercial property tax rate t_{pc} for Massachusetts, there is a 1.985 percent decrease in employment. A two percent increase in Boston's property tax would cause the Massachusetts average effective tax rate to increase from 2.561 percent to 2.582 percent in 2001.⁴ This tax increase results in a loss of 1,510 jobs in the Commonwealth.

Over the years, employment has been declining in part due to the continuous growth in property taxes. We estimated the effect on jobs of an increase in property tax rates for each year over the period 1991-2006 by utilizing employment and tax rate data for that period and the regression results summarized above.

Job losses. We computed the job loss associated with each year by developing a "baseline" estimate of the number of jobs that would exist in that year, given that the tax rate had remained unchanged since 1990 and given "normal" observed growth in that year. We developed this estimate by using employment data from the Bureau of Economic Analysis and growth projections from the New England Economic Project. To see how we developed the *baseline* estimate, let:

- $\Delta labor_y$ = change in labor in year y ,
- Δt_{pc_y} = change in commercial property tax rate in year y ,
- $labor_{baseline_y}$ = baseline projection of number of jobs in year y and
- $growth_y$ = observed growth rate in actual jobs in year y .

We estimated the number of lost jobs, for a given year y , by computing $labor_{baseline_y}$ for that year and computing $\Delta labor_y = \Delta t_{pc_y} \times 0.01985 \times labor_{baseline_y}$, where $labor_{baseline_y}$ equals the estimated number of jobs in the previous year $y-1$, given no change in tax rates since 1990, adjusted for the growth in jobs in year y : $labor_{baseline_y} = (labor_{baseline_{y-1}} + \Delta labor_{y-1}) \times (1 + growth_y)$.

We computed the change in labor in year y that is attributable to tax changes in that year and added that number to the baseline number $labor_{baseline_y}$ for the same year. This gives the estimated number of jobs that would exist in that year, given no change in the tax rate: $labor_{estimated_y} = labor_{baseline_y} + \Delta labor_y$. The jobs loss then equals the actual number of jobs observed for that year minus $labor_{estimated_y}$.

The average tax rate. We computed the average tax rate t_{pc} on commercial property by dividing tax collections by the tax base:

$$t_{pc} = \frac{\sum_k PTC_k}{\sum_k AV_k}, \text{ where}$$

- t_{pc} = average state commercial property tax,
- k = municipality,
- AV = assessed value and
- PTC = commercial property tax collected.

⁴ Since our regression was estimated for the entire state, we computed the effect of this 2% increase in Boston on the average state tax rate.