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Highlights

- Since 2004, when Boston's local aid was last cut, the City added 1,209 positions, with 165 in the last year.
- Health insurance costs have increased by 53%, pensions by 54%, and salaries by 24% since 2004, for a total personnel spending increase of 33%.
- Reducing employee costs will be more difficult now as fewer tools are available than during the last economic downturn.

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Personnel Level Unsustainable Amid Fiscal Stress

The City of Boston is entering turbulent financial times with a personnel level it cannot sustain, built up through annual employee increases over the past five years. Since 2004, 1,209 positions have been added and personnel spending for salaries and benefits has increased by 32.7% for an average annual increase of \$83.3 million. Faced with a significant budget gap in fiscal 2010 starting this July, city officials must cut back the current \$2.4 billion budget, particularly the \$1.7 billion devoted to employee expenses that represents 69.8% of the budget.

Federal stimulus funds allocated to the School and Police Departments and city reserves will be applied to help close the budget gap next year but the Mayor and City Council must carefully use these one-time revenues while planning for a prolonged budget crisis that will extend into fiscal 2011 and the next year. Stimulus funds should be applied to projects with long-term benefits such as technology improvements and support only positions that can be sustained after the stimulus money stops in two years. However, employee reductions will have to be a part of the City's efforts to bridge the budget gap. In this report, all employee numbers are presented in full-time equivalencies (FTEs).

- Personnel spending increased by \$416.3 million since 2004, of which \$219.5 million or 52.7% was from rising salary expenses due to negotiated raises, rising overtime and added positions. Health insurance and pension costs, which grew twice as fast as salaries, represented 40.7% of the total increase.
- Boston's local aid decreased by 8.2% in fiscal 2003 and fiscal 2004. Because spending needed to be reduced in the short-term, the City cut 1,515 positions or almost 9% of its workforce.
- Of the 1,209 positions added since 2004, 88.1% of these positions were in the School, Police and Fire Departments. In the past year, the workforce grew by 1% or 165 positions.

Employee Levels vs. Personnel Spending: 2002—2009



Personnel Trends										
Department	1/02	1/04	1/08	1/09	2002-2004		2004-2009		2008-2009	
					Change	% of Total Change	Change	% of Total Change	Change	% of Total Change
School	8,509.4	7,799.5	8,475.9	8,572.2	(709.9)	46.8%	772.8	63.9%	96.4	58.3%
Police	2,964.0	2,782.4	3,048.2	3,039.3	(181.6)	12.0%	256.9	21.3%	(8.9)	-5.4%
Fire	1,697.5	1,610.5	1,688.5	1,645.2	(87.0)	5.7%	34.7	2.9%	(43.3)	-26.2%
Subtotal	13,170.9	12,192.3	13,212.6	13,256.7	(978.5)	64.6%	1,064.4	88.1%	44.2	26.7%
All Other (45)	4,400.1	3,863.2	3,886.5	4,007.6	(536.9)	35.4%	144.4	11.9%	121.1	73.3%
City-Funded Total	17,570.9	16,055.5	17,099.1	17,264.3	(1,515.4)	100.0%	1,208.8	100.0%	165.2	100.0%
External Total	2,918.8	2,684.2	2,626.2	2,510.5	(234.6)	--	(173.7)	--	(115.7)	--
All-Funds Total	20,489.7	18,739.7	19,725.3	19,774.9	(1,750.0)	--	1,035.1	--	49.5	--

* Numbers may not add due to rounding

Seven Years of Workforce Fluctuation

Employee levels have risen and fallen in tandem with local aid changes, with the largest departments experiencing the most activity. When local aid declined in fiscal 2003 and 2004, 1,515 city-funded positions or 8.6% of the workforce was reduced. The three largest departments, School, Police, and Fire, accounted for 64.6% of total reduction with a cut of 979 positions. The 45 smaller departments were reduced by 537 positions or 35.4% of the total cut.

As local aid and city revenues grew, positions were restored and employee levels began to rise. However, the School, Police, and Fire Departments have added more positions than they lost, comprising 88.1% of the position growth since 2004 with 1,064 positions. This leaves the remaining 45 departments with a collective growth of 144 positions, slightly over a quarter of what they lost. Personnel information by department can be found on our website at www.bmrb.org.

School Department

In January 2009, half of all city employees worked for the School Department. As the largest department and with education a high priority, the Boston Public Schools System (BPS) accounts for \$660.5 million of the \$1.7 billion personnel expense.

The BPS lost 710 positions from 2002 to 2004, a workforce reduction of 8.3% that accounted

for 46.8% of the citywide position loss. Over the past five years, the BPS grew beyond its 2002 employee level, adding 773 positions to be 63 positions over its 2002 level in January 2009. Teacher and classroom aide positions comprised 57.9% of the increase. The 773 additions accounted for 63.9% of the citywide position growth during the same period, and occurred while student enrollment dropped by over 6,000 students. Staffing needs rose with the implementation of initiatives to improve academic offerings and raise student achievement, including:

- Expanding full day kindergarten, K-8 schools, and alternative education options.
- Creating small learning communities in large comprehensive high schools.
- Supplying more family and community outreach support.
- Investing in the BPS special education programs to reduce out-of-district costs.

Despite a budget shortfall and pressure to cut operational spending, the BPS added 96 positions in the past year. As seen before, the large School Department workforce will constrict as local aid declines. Superintendent Johnson's preliminary fiscal 2010 budget projects a 917 position reduction, with more cuts possible to close a \$24.7 million gap. Federal stimulus funds earmarked for education are expected to mitigate some layoffs.

Public Safety

The Police Department has fully restored its position losses (-182) with additions (+257) that push the workforce above its 2002 level. This increase represented 21.3% of the citywide position growth since 2004 and was fueled by a commitment to increase force levels and an attempt to reduce overtime costs. Police Department personnel declined slightly this year (-9) after fewer recruits graduated from the Academy than anticipated.

The Fire Department was the only one of the three large departments to not restore personnel to its 2002 level. From 2002 to 2004, the Department lost 87 positions and has since regained 35. The cancellation of a fall firefighters class caused a small reduction of 43 positions in calendar 2008. Both the Police and Fire Departments have cancelled spring recruit classes to preempt expected layoffs.

Other Departments

The 45 other departments lost 537 positions from 2002 to 2004 and gained a net 144 positions, with 121 positions added in the last year. Despite representing 35.4% of the position loss from 2002 to 2004, these departments account for only 11.9% of position growth since 2004. However, 73.3% of the position growth in the past year was mainly due to EMT and security additions to the Public Health Commission (+68) and new parking officers in the Transportation Department to enforce parking regulations and increase revenue collection (+23). Otherwise, most departments have seen limited growth, leaving less room to cut before affecting core services.

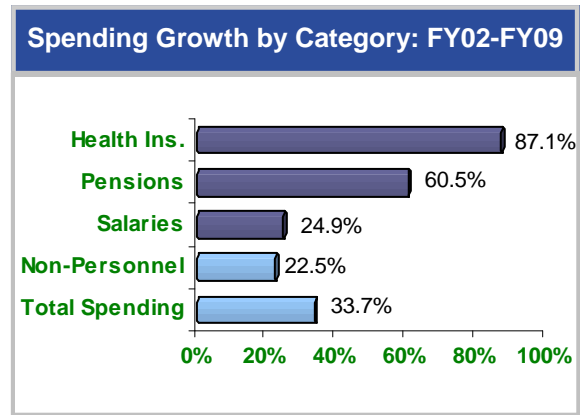
External Positions

Along with the 17,264 positions funded from the City's General Fund, an additional 2,511 positions are funded externally by federal, state, and private grants. Boston has experienced a net decline of 408 external positions since 2002, with 235 lost from 2002 to 2004 and an additional 174 lost since then. From January 2008 to January 2009, the City lost 116 positions, a combination of a 157 position loss in the School Department due to declining

funding in Title I and other grants and a 42-position gain in other departments.

Personnel Spending

Spending for employee salaries and benefits is the City's fastest growing expense, which increased despite employee cuts from 2002 to 2004. Even while the workforce decreased by 1,515 positions, personnel spending increased by \$60.1 million. This was fueled by a \$32.7 million escalation in health insurance costs, a \$6.2 million rise in pension costs and \$6.8 million increase in salary expenses.



Boston currently spends \$1.7 billion on personnel-related expenses, an increase of \$416.3 million or 32.7% since fiscal 2004 and \$476.4 million or 39.3% since fiscal 2002. The rate of increase for the components of personnel spending continues to outpace non-personnel and total spending, an alarming trend creating stress on the operational budget.

Personnel Spending: FY02-FY09

Figures In Millions

Category	FY02	FY04	FY09	FY02-FY04	FY04-FY09
Salaries	\$909.9	\$916.7	\$1,136.2	\$6.8	\$219.5
Health Ins.	145.0	177.7	271.3	32.7	93.6
Pensions	135.4	141.6	217.3	6.2	75.8
Other*	23.1	37.6	65.0	14.5	27.4
Total	\$1,213.4	\$1,273.5	\$1,689.8	\$60.1	\$416.3

* Includes OPEB Reserve

Past Strategies and Consequences

When local aid was cut by 8.2% in fiscal 2003 and fiscal 2004, the City's primary short-term response was to reduce the workforce by almost 9%. Two retirement incentives and not filling

vacant positions allowed this reduction to be achieved with few layoffs. A local option Early Retirement Incentive (ERI) implemented in 2002 allowed employees to add five years to their years of service or age or combination of the two to reach retirement eligibility. While 476 employees retired under the ERI, the City's pension liability increased by \$62 million, creating short-term savings for a long-term cost. A Voluntary Retirement Incentive implemented in 2003 offered retirement-eligible employees a bonus of 20% of their salary if they retired by June 30, 2003. Of the 490 employees who participated, most were public safety officers and teachers who were not eligible for the ERI.

Attrition also contributed to voluntary position reduction as city employees leaving for the private sector created vacancies that were not filled. In the current economic climate, the City will not be able to rely on employees leaving for private sector jobs as it did in 2002 and 2003.

Steps Already Taken

As revenue projections deteriorated for fiscal years 2009 and 2010, the Menino Administration took preemptive steps to control personnel spending. A hiring slowdown was instituted in October, with only essential positions being filled. Since then, 54 positions have been approved to be filled, leaving 330 positions vacant and saving \$14 million a year if the positions remain open.

The Mayor also has asked all unions to agree to a one-year wage freeze, which is projected to save \$42.1M million and help reduce layoffs and preserve basic services. To date, \$4.3 million is saved through 17 unions agreeing to the freeze, and \$2.8 million saved through non-union employees' participation. The City renegotiated health insurance premiums for an additional \$4.9 million in savings. These actions combined with \$21 million in stimulus funds create a current fiscal 2010 gap of \$107.2 million.

Conclusion

The City of Boston faces serious fiscal challenges in an uncharted economic climate. This time, reducing spending will be more difficult since fewer tools are available than during the last economic downturn. The

Menino Administration's proposal for a wage freeze illustrates the need for new strategies this time around. The Research Bureau supports this strategy and also urges the adoption of the following recommendations.

- **Use federal stimulus funds strategically:** One-time federal stimulus funds will offer some help with school and police operating spending, but the City will need to support initiatives with long-term benefits and not artificially prop up positions only to be cut in two years when the stimulus funds stop.
- **Do not increase the City's pension liability:** Even if authorized by the state, the City should not adopt an ERI that would allow employees to retire before they are eligible. The liability already will increase over the next few years due to the 25% loss in the State-Boston Retirement System's investment portfolio in 2008.
- **Do not extend the deadline for full pension funding:** Boston should maintain its schedule to reach full funding of its pension liability in 2023. The legal deadline is 2028 but the City must do more to address its retiree health insurance liability (OPEB) which now is larger than its pension liability.
- **Continue partial funding of OPEB liability:** The City should not decrease its appropriation of funds for its OPEB liability. These funds are only a small share of what would be required if a full funding schedule were adopted but those costs already earned should not be shifted to the next generation.
- **Require long-term cost analysis of school initiatives:** Education initiatives with long-term staffing obligations are the source of the BPS personnel growth that drives citywide employee levels. Though these policies have worthy goals, the School Committee should not approve new initiatives without considering data on the long-term personnel and operating costs of the program.