

# Special Report



June 3, 2009 No. 09-2

## Highlights

- Departmental budgets will decrease by 2.6% while employee benefits will increase by 5.6%.
- Net state aid is estimated to decrease by \$62.2 million due to revenue cuts and assessment increases.
- Boston relies more heavily on the property tax in fiscal 2010 than in fiscal 1980, the year Proposition 2½ was approved.

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## Change for Mayor's \$2.4 Billion FY10 Budget

The City Council is currently reviewing the Mayor's recommended \$2.425 billion budget for fiscal 2010, a \$5 million or 0.2% increase over fiscal 2009. However, this budget will change due to revised city priorities and state decisions on local aid cuts and whether to approve municipal relief proposals such as a meals tax in fiscal 2010. The state budget passed by the Senate on May 21st provides Boston with \$39.1 million less in net General Fund state aid than estimated in the Mayor's recommended budget. The Mayor's proposed fiscal 2010 budget assumes essentially flat revenue growth and cuts departmental budgets to compensate for increasing costs in employee benefits and mandatory expenses such as debt service and state assessments. This report focuses on how the Mayor's recommended budget was balanced. Key findings of the proposed fiscal 2010 budget include:

- **Departments** - The budgets of practically all departments will be cut in fiscal 2010 by a total of \$42.7 million or 2.6%. Several departmental budgets reflect promising changes that should deliver city services more efficiently.
- **Employees** - The workforce is expected to drop by 757 FTEs, 68% due to layoffs and 32% due to not filling vacant positions and attrition. Salaries for employees are budgeted to be cut by \$28.8 million or 2.5% from fiscal 2009.
- **Budget Distribution** - Four departments account for 52.3% of the recommended budget, 34.7% will be used in areas with limited ability to reduce spending in the short-term such as health insurance, pensions, debt service and targeted budget reserves and 13% will go to the other 45 departments.

### City of Boston General Fund Revenues and Expenditures Summary

#### Where the Money Comes From

Account	FY09 Budget	FY2010 April Budget	Change FY09-FY10	%
Gross Property Tax	\$1,400,014,578	\$1,460,646,858	\$60,632,280	4.3%
Overlay	(35,434,230)	(35,625,533)	(191,303)	0.5%
Net Property Tax	\$1,364,580,348	\$1,425,021,325	\$60,440,977	4.4%
State Aid (Net Pensions)	504,598,011	455,215,634	(49,382,377)	-9.8%
Teacher Pensions	105,420,350	118,840,799	13,420,449	12.7%
Total Excise	91,495,000	79,875,000	(11,620,000)	-12.7%
Total Other Recurring	308,752,594	295,874,692	(12,877,902)	-4.2%
Total Non-Recurring	45,276,744	50,309,000	5,032,256	11.1%
<b>General Fund Revenues</b>	<b>\$2,420,123,047</b>	<b>\$2,425,136,450</b>	<b>\$5,013,403</b>	<b>0.2%</b>

#### Where the Money Goes

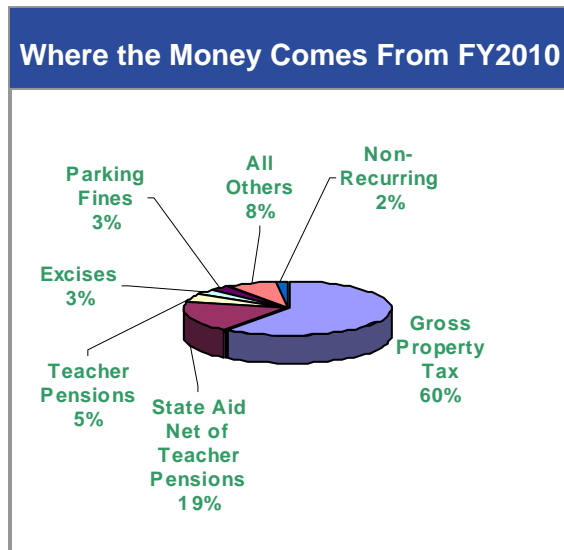
Department	FY09 Budget	FY2010 April Budget	Change FY09-FY10	%
Departmental	\$1,625,532,958	\$1,582,810,252	(\$42,722,706)	-2.6%
Non-Departmental	9,671,000	10,125,000	454,000	4.7%
Benefits/Mandatory [1]	784,919,089	832,201,198	47,282,109	6.0%
<b>General Fund Expenses</b>	<b>\$2,420,123,047</b>	<b>\$2,425,136,450</b>	<b>\$5,013,403</b>	<b>0.2%</b>

[1] Includes health insurance for schools and city, pensions, debt service, MBTA etc.

## Where The Money Comes From

The primary General Fund revenue sources for Boston in fiscal 2010 continue to be the property tax and state aid (net of teacher pensions), which constitute 79% of the total \$2.425 billion recommended budget. In fiscal 2010, the property tax is a more stable revenue source, growing by 4.3% over fiscal 2009, while state aid is estimated to drop by 9.8% in the current budget. All other revenue sources are projected to be weak with only a few accounts expected to post increases in fiscal 2010. Revenue estimates are less conservative than in past years but are prudent.

**Property Tax** - The mainstay of Boston's General Fund revenue is the property tax of \$1.461 billion, an increase of \$60.6 million or 4.3%. As a consequence of continued growth in the property tax levy and slower growth or cuts in state aid, Boston's reliance on the property tax is greater now than it was in 1980 when Proposition 2½ was approved in response to a taxpayer revolt. In fiscal 1980, the property tax represented 58.5% of the City's total operating revenue. The planned state aid reduction in the Mayor's recommended budget would increase the City's reliance on the property tax to 60.2% of operating revenues.



In fiscal 2010, the increase in the property tax represents the normal 2.5% increase over the prior year's levy limit (\$35 million) and an estimated \$25 million in new growth. Tight access to credit and less demand for new office

space will directly affect the extent of future new growth.

**State Aid** - The second largest revenue source for Boston is state aid, which is budgeted at \$455.2 million (net of teacher pension) in fiscal 2010. This represents a decline of \$49.4 million or 9.8% from fiscal 2009. With an increase of state assessments of \$12.9 million, the net state aid cut is \$62.2 million. The difference between the City's net General Fund state aid estimate for fiscal 2010 and the Senate's budget figure is \$39.1 million. Final numbers will be worked out in Conference Committee but it is evident that state aid will be less than planned in the Mayor's budget and that further budget adjustments will be required.

**Other City Revenues** - City own-source revenues directly tied to the economy will decrease, contributing to an overall cut in other city revenues of \$24.5 million or 6.1%. Sharp declines are expected in excise taxes, investment income and licenses and permits. Small increases are projected in some revenues as shown below.

Other City Revenue Detail				
Figures in Millions				
Account	FY09 Budget	FY10 Budget	Variance FY09-10	%
Excises	\$91.5	\$79.9	(\$11.6)	-13%
Parking Fines	71.0	73.5	2.5	4%
PILOTS	32.5	34.0	1.5	5%
Urban Redv.	64.1	65.8	1.7	3%
Investment Income	18.5	12.8	(5.8)	-31%
All Others	122.7	109.8	(12.9)	-11%
<b>Other Revenues</b>	<b>\$400.2</b>	<b>\$375.7</b>	<b>(\$24.5)</b>	<b>-6%</b>

**Non-Recurring Revenue** - The Mayor's budget depends on \$50.3 million in non-recurring revenue to be balanced. The Administration plans to utilize \$40 million of budgetary fund balance (free cash), a \$5 million increase over fiscal 2009. Also included in the fiscal 2010 budget is nearly \$6 million in one-time surplus property disposition funds.

## Grant & Stimulus (ARRA) Funds

Approximately \$395.5 million in external state and federal funds, including American Recovery and Reinvestment Act (ARRA) or stimulus funds, are expected to be combined with the \$2.4 billion General Fund budget in fiscal 2010. The School and Neighborhood Development Departments account for 74.3% of grant funds expected to be received by the City.

Only the School and Police Departments will receive ARRA funds that can be used for direct operations. The School Department will utilize \$16.2 million and the Police Department \$3.9 million to retain a total of 250 positions. In addition, school ARRA funds of \$15.3 million will support strategic investments in areas such as technology improvements and professional development that will have long-term benefits.

## Where the Money Goes

With flat revenues, increases for employee benefits and mandatory expenses are forcing significant decreases in departmental spending. Areas with limited ability to reduce spending in the short-term such as health insurance, pensions, debt service and targeted budget reserves will grow by \$47.7 million. Consequently, departmental budgets are cut by \$42.7 million which is achieved through the

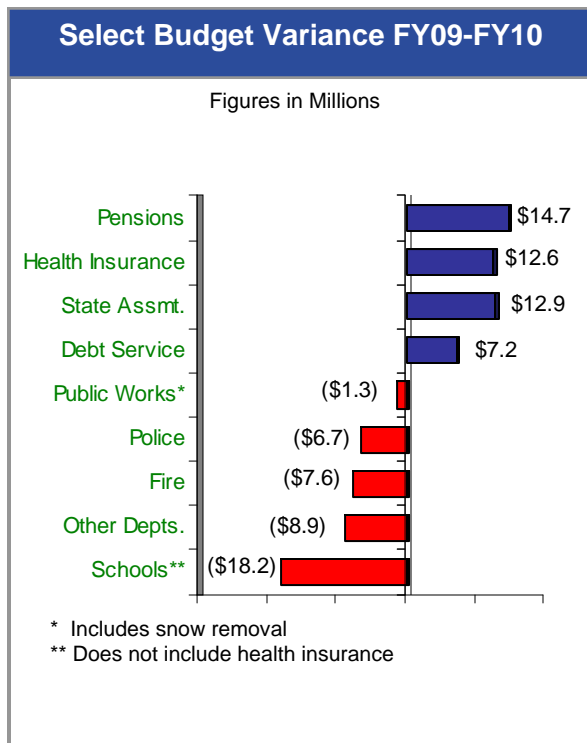
reduction of employees, reorganization of programs and elimination of some services.

**Employees** - This budget anticipates a workforce reduction of 757 FTEs, with 32% due to not filling vacant positions and attrition and 68% due to layoffs. Salaries for employees are projected to drop by \$28.8 million or 2.5%. The largest workforce cuts are expected in schools (-476.6) and public safety (-220.5). Nearly 200 layoffs were averted by the agreement of 22 unions and exempt managers to a one-year wage freeze and up to a 3% wage cut by department heads and non-union senior staff.

**Departmental Services** - Total departmental spending is budgeted to drop by \$42.7 million or 2.6%. Practically all departmental budgets will decline from fiscal 2009. This belt-tightening required departments to be creative in dealing with a sharp cut in available revenues. Many departments are reorganizing and consolidating operations, renegotiating contracts and delaying the filling of vacant positions. Specific money saving examples include:

- Phasing-out the Graphic Arts Department
- Renegotiating contracts for trash removal, street sweeping and street light maintenance
- Expanding the recycling program to reduce trash volume and disposal expenses
- Incorporating the Kirstein Business Library into the main Copley Square library
- Cancelling public safety recruitment classes
- Disbanding the Parks and Police Departments' horse units
- Deferring equipment replacement

**School Department** - The School Department budget of \$817.1 million represents a cut of \$16.2 million or 1.9%. Excluding health insurance, the drop is 2.4%. This budget includes the retention of a one-time \$10 million reserve allocation. School personnel will be reduced by 477 positions through layoffs and attrition. Currently, 124 teachers (19 permanent and 105 provisional) and 131 instructional aides are slated to be laid off. These teachers are in program areas being pared down and are not certified in high need programs for which 150 new teachers will be hired. Additionally, the



School Department will use \$16.2 million in ARRA funding to retain 200 positions in fiscal 2010 that would have otherwise been cut.

**Public Safety** - The Police Department budget of \$278.2 million represents a decrease of \$6.7 million or 2.4%. Police personnel will be reduced by 170.3 FTEs through attrition, layoffs of civilian staff and police cadets, eliminating the mounted unit and cancelling the spring recruit class. The Police Department received a \$3.9 million federal Byrne-JAG grant to retain approximately 50 sworn police officers. The Department has applied for a COPS grant to retain 67 police officers scheduled for layoffs in October. The Fire Department's budget of \$154 million is a cut of \$7.6 million or 4.7% from fiscal 2009. Fire personnel will be reduced by 50.2 FTEs through attrition and not adding two new recruit classes. The budget does not include funds for any new negotiated wage increase. Two fire districts will be consolidated to streamline services.

**Employee Benefits** - Spending for employee benefits is expected to grow by \$30.8 million or 5.6% in fiscal 2010 and will represent 24% of the \$2.4 billion budget. Pension costs of \$227.9 million experienced the largest jump, up \$14.7 million or 6.9%. The total health insurance budget of \$276.9 million will increase by \$12.6 million or 4.8% (including BPS). The relatively contained increase in health insurance is due to controlled premium increases, enrollment in costly indemnity programs declining due to the introduction of a lower cost comparable plan and the increase of employee contribution rates by 5% over two years. Of the health insurance total, approximately 35% is for retirees. The reserve for a small portion of the City's retiree health insurance liability is level-funded from this year's budget at \$25 million.

**Mandatory Accounts** - The mandatory accounts of debt service and state assessments are budgeted at \$289.3 million, an increase of \$20 million or 7.4% over fiscal 2009. Debt service is budgeted at \$133.3 million, a growth of \$7.2 million or 5.7% over fiscal 2009. State assessments for the City's share of the MBTA deficit and charter school tuitions and other state programs total \$156 million in fiscal 2010,

a growth of \$12.9 million or 9%.

**Capital Budget** - Boston's five-year capital budget (FY10-FY14) totals \$1.5 billion. General Obligation bonds (GO) will fund 59.1% of this budget with the balance coming from federal, state and trust funds. In March 2009, the City sold \$100 million of GO bonds, down \$20 million from what originally had been planned.

## Conclusion

Boston is taking a huge hit in net local aid cuts in fiscal 2010 and additional cuts may be required. With a budget base of \$2.4 billion and adequate reserves, the City will weather this budget crisis. Basically most services will continue to be provided but cuts in administrative and program support will affect the quality of some services and cause delay in normal service delivery. Promising new initiatives underway or planned now will be scaled down or postponed.

As the Mayor and City Council deliberate a final city budget to be approved in June, a few caveats should be considered.

- Continued efforts should be made to expand on the reorganization and consolidation of operations as planned in this budget to reduce costs through improved service efficiency.
- The recovery from this recession will be slow in Massachusetts and the City must retain reserves to deal with this problem over a three year period. Caution is needed in the use of more reserves for fiscal 2010.
- No step should be taken that will delay reaching full funding of the City's pension liability by 2023. The sooner the City reaches full funding of the pension liability, the sooner it can more aggressively address the growing retiree health insurance liability being earned now.
- The reserve for Boston's retiree health insurance liability (OPEB) of \$25 million should be approved. The unfunded OPEB liability is greater than the pension liability and the reserve in FY2010 is \$124 million below what should be raised based on a recent actuarial estimate.