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Highlights

- Question 3 is a state ballot measure to roll back the Massachusetts sales tax from 6.25% to 3% effective January 1, 2011.
- For Boston, the impact of Question 3 in FY12 could mean a \$43 million reduction in state aid.
- Between FY02 and FY11, Boston has lost \$125.9M in state aid.

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Question 3 Threatens City Services

Boston has fewer tools to absorb large local aid cuts

On November 2 voters across the Commonwealth will decide on Question 3, the state ballot initiative to roll back the Massachusetts sales tax from 6.25% to 3% effective January 1, 2011. Question 3 would result in a loss of \$1 billion in state sales tax over the last five months of fiscal 2011 and a total of \$2.5 billion in fiscal 2012. The state is already bracing for a \$2 billion budget shortfall in fiscal 2012 due to reliance on non-recurring revenues in fiscal 2011 that will not be available in fiscal 2012. For Boston, passage of Question 3 could mean a \$43 million or 11.4% reduction in state aid based on estimates developed by the Massachusetts Municipal Association (MMA).

The nature of Boston's financial structure means that a \$43 million reduction in state aid would require all departments to share in the burden, impacting basic city services. The City's four largest departments (School, Police, Fire and Public Works) represent 81% of the total departmental budget this year which means that they cannot escape cuts in their budgets. Approximately 32% of Boston's budget is devoted to less flexible cost items such as pensions and debt service which, in aggregate, will continue to increase spending.

Question 3 would take effect when the City of Boston is preparing for a third consecutive year of local aid cuts in fiscal 2012 in addition to the loss of federal American Recovery and Reinvestment Act (ARRA) funds used for operations. Since fiscal 2009, Boston has reduced departmental spending by \$54.9 million or 3.4% and relied on one-time federal ARRA funds to support operations. Many of the tools used will not be available in fiscal 2012.

TABLE 1
City of Boston General Fund Spending Summary

Department	General Fund Revenues in 000's				
	FY2009	FY2010	FY2011 June Budget	Variance FY09-FY11	%
Net Property Tax	\$1,365.3	\$1,440.2	\$1,491.4	\$126.1	9.2%
State Aid Net of Teacher Pensions	477.7	413.2	396.8	-81.0	-17.0%
Recurring Revenues	424.8	396.2	395.1	-29.7	-7.0%
Non-Recurring Revenues	39.2	53.6	51.3	12.1	30.8%
Net Revenues	\$2,307.1	\$2,303.3	\$2,334.6	\$27.5	1.2%

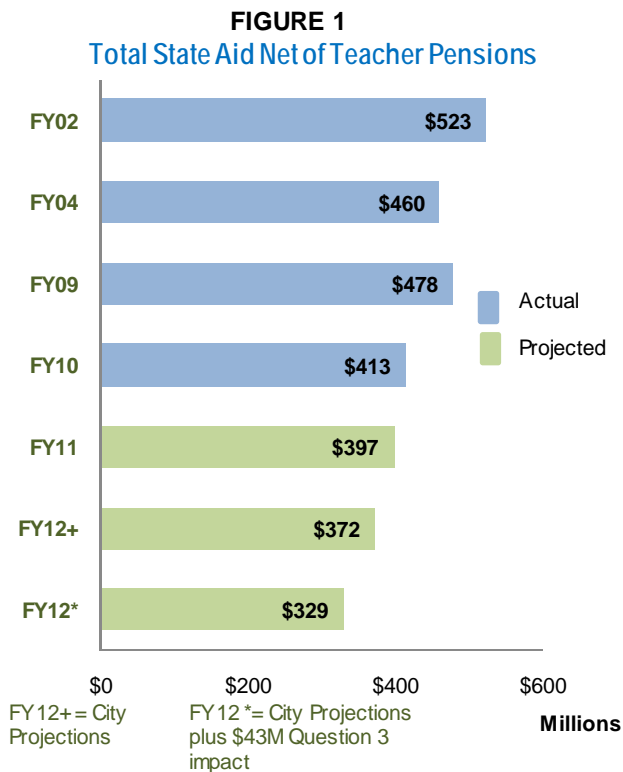
General Fund Expenditures in 000's					
Departmental	\$1,637.4	\$1,587.4	\$1,582.4	-\$54.9	-3.4%
Mandatory	305.9	322.4	341.3	35.4	11.6%
Health Insurance	265.3	275.9	293.6	28.4	10.7%
Net Pensions	94.4	108.5	117.2	22.8	24.1%
Net Expenditures	\$2,302.9	\$2,294.2	\$2,334.6	\$31.7	1.4%

* FY09 includes \$23.3M in ARRA Funds used for general fund purposes.

Boston's Local Aid

Boston stands to lose \$43 million or 11.4% in local aid from fiscal 2011 under the full impact of Question 3. This reduction comes on the heels of a series of annual local aid cuts for Boston. City officials have estimated that Boston's state aid for fiscal 2012 could be cut by \$25 million aside from the Question 3 loss. Thus, the City could face a total state aid cut of \$68 million in fiscal 2012.

Between fiscal 2002 and fiscal 2011, Boston experienced a state aid loss of \$125.9 million or 24.1%. The largest annual cut of \$64.5 million occurred in fiscal 2010. Adding the City's projected local aid cut of \$25 million in fiscal 2012 would bring the total cut in local aid to \$150.9 million over nine years before considering Question 3.



Fiscal Context

The impact on Boston of a \$43 million reduction in state aid is better understood when existing constraints on revenue sources, limitations on spending, and several years of

local aid reductions are illustrated. Boston's projected shortfall in fiscal 2012 and the expiration of one-time federal funds that had helped to balance the budget in fiscal years 2009 through 2011 mean that Boston will have fewer tools at its disposal next year to mitigate the revenue loss.

Revenue—Property taxes and state aid represent 81% of Boston's operating revenue in fiscal 2011. State aid is Boston's second largest revenue source so cuts in local aid have a material impact on the delivery of city services. The City updates its fees, permits and charges on a periodic basis so these charges are not a source of substantial new revenue, especially in a sluggish economy.

Since fiscal 2009, Boston has relied on the assistance of one-time funds from the American Recovery and Reinvestment Act (ARRA) to support the budget. The School Department is utilizing \$21.4 million in fiscal 2011 ARRA funds used for recurring expenses that will expire at the end of this fiscal year. Additionally, the Police Department is utilizing the remaining \$595,000 from a one year federal Byrne Grant that funds approximately 50 uniformed police officers. This grant ends during FY11.

TABLE 2

Expiring Stimulus Funds FY12

Dept.	Grant	Amount
Schools	ARRA-Title I	\$12,420,106
Schools	ARRA-IDEA	9,016,561
Police	ARRA -Byrne	595,478
City of Boston Total		\$22,032,145

Boston applied \$45 million in reserve funds to support spending in fiscal 2011. Free cash certification for fiscal 2012 will likely exceed \$100 million but the City will need to continue to be careful in allocating these reserves to ensure that adequate funds will be available in subsequent years due to the slow economic recovery.

Expenses—The fiscal 2011 budget for city and school departments that provide basic services totaled \$1.58 billion and represents 67.8% of the total operating budget. The largest four departments (School, Police, Fire and Public Works) represent 81% of the total departmental budget. Over the last two fiscal years from fiscal 2009 to fiscal 2011, operational spending for departmental services was reduced by \$54.9 million or 3.4%.

With spending for personnel representing over 70% of the operating budget, the City has reduced its personnel levels significantly since January 2009 due to budget constraints. Between January 2009 and January 2010, Boston cut 789 FTE positions or 65% of the personnel added between 2004 and 2009. As a result, large position reductions have been made in the School (362), Police (172) and Fire (83) Departments. In January 2010, the City’s general fund FTEs totaled 16,487, one of the lowest employee levels over the past ten years. Further position reductions are expected as the City wrestles with a budget shortfall for fiscal 2012. The larger line departments will be affected by these cuts which will have an impact on service delivery. Passage of Question 3 would require even deeper cuts in employee levels and services.

Non-discretionary spending totals \$752.1 million in fiscal 2011 or 32% of overall municipal spending in Boston. Some of these non-discretionary expenses such as health insurance costs and pension payments are some of the fastest-growing expenses for the

City. Between fiscal 2002 and fiscal 2011, the City’s health insurance costs have risen 111%. Pension costs rose 39% between fiscal 2002 and fiscal 2011. Due to Boston’s pension asset losses in 2008, the City is facing a 22% or \$25.8 million increase in its pension appropriation in fiscal 2012 which will put further pressure on departmental spending.

The Menino Administration is forecasting a budget shortfall of \$69.7 million in fiscal 2012. Passage of Question 3 would exacerbate the fiscal challenges facing Boston.

The \$43M Impact

There are several scenarios for how the potential \$43 million state aid reduction could impact the City of Boston. This reduction will further erode Boston's budget and will be compounded by the fiscal pressures described above. However, this section focuses on one possible impact of only the \$43 million reduction.

Of Boston's \$2.3 billion budget in fiscal 2011, 32% is for spending that cannot be easily reduced due to legal constraints, collective bargaining or because they are connected to other spending (Table 3). This scenario holds these accounts harmless, assuming that it would be too difficult to make meaningful spending reductions in the short term. Any cut in spending would then be concentrated in city departments, including those that provide basic city services. It is important to note that even within city departments there are federal grant requirements or contractual agreements that would impact the City’s ability to reduce staffing levels within these departments. Spending reductions will need to be strategic in departments that generate city revenue.

Table 4 depicts the impact of reducing the fiscal 2011 budgets of the major departments of Police, Fire, Schools, Public Works and Public Health Commission by 1.5%. This would require all other, smaller departments to absorb a 10% cut while holding harmless the 32% of the budget devoted to less flexible spending.

TABLE 3

Non-Discretionary Spending

Figures in 000's

Account	FY11
Health Insurance	\$293.6
Pensions	117.2
State Assessments	148.7
Debt Service	133.1
Other	59.5
Total	\$752.1

TABLE 4
A \$43M Reduction in Boston's FY 11 Budget

Figures in 000's

	FY11 Budget	\$43M Reduction	% Reduced
School [1]	\$735.2	\$11.0	1.5%
Fire	\$176.0	\$2.6	1.5%
Police	\$270.9	\$4.1	1.5%
Public Health Commission	\$69.8	\$1.0	1.5%
Public Works [2]	\$97.2	\$1.5	1.5%
Other Dept'l	\$233.5	\$23.3	10.0%
Subtotal Departments	\$1,582.4	\$43.6	2.8%
Less Flexible Spending	\$752.1	Held harmless	
FY 11 Budget	\$2,334.6		

[1] Does not include health insurance

[2] Includes snow removal

Further pressuring the smaller city departments is the fact that this 10% reduction would come after a modest five year spending growth of almost 6% which translates into an average annual increase of 2%. A 10% cut would affect more directly the delivery of core services in these departments. During the same five-year span, the larger city departments experienced a collective 10.7% rise in spending. In the smaller departments for example, a 10% reduction in the Library Department budget would mean a \$3 million reduction to a department already dealing with library closings and reduced service hours. For the Boston Center for Youth and Families, a 10% cut would mean slicing \$2.2 million out of an already strained budget. For a complete listing of departmental cuts under this scenario [click here](#).

The main finding of this exercise is that no matter how the reduction is allocated, funding for basic city services will be notably reduced

or the fiscal health of the City will be weakened.

Conclusion

A projected \$2.5 billion shortfall in the Commonwealth's fiscal 2012 budget points to a third consecutive year of local aid cuts for cities and towns that will be deeper than experienced this year. This situation becomes more challenging with the loss of most of the federal stimulus funds used to support operations at the local level at the end of this year. With budget cuts already made over the past two years, the remaining options to reducing spending will be more difficult and will target to a greater degree basic services. With government services more labor intensive, further employee reductions can be expected.

Question 3 piles on to this situation with an additional round of local aid cuts that will cause further deterioration of core services. The Legislature is not expected to support new local revenues for cities and towns so spending reductions will be the primary means of meeting the budget targets if the question passes.

Voters should carefully consider the current fiscal stress that Boston and other municipalities are facing before casting their ballots on Question 3.