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Highlights

- Boston's FY07 budget grew by 4% or \$80 million.
- Almost 70% of the budget is for employee costs—over 200 new positions are added.
- Concerns that may impact the City's financial status include:
 1. Health insurance growth
 2. Retiree health benefits liability
 3. Collective bargaining costs
- Eight budget accounts out of 61 represent 86% of the total budget.

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Boston's FY07 Budget Is Set, Concerns Loom

The City of Boston's fiscal 2007 budget, approved on June 28th, is set at \$2.142 billion, an increase of \$80.0 million or 3.9% over fiscal 2006. Since the Mayor's original submission in April, \$3.4 million more has been added primarily to double the police classes. This budget adds over 200 positions, and costs for personnel total approximately \$1.471 billion or 68.7% of the budget. Budget initiatives focus on reducing violent crime, closing the achievement gap among students and increasing the City's housing supply. In addition to the operating budget, grant funds in fiscal 2007 total approximately \$314.2 million. Also, the City's five-year capital plan (fiscal 2007-2011) totals \$1.32 billion and includes \$114.2 million in new fiscal 2007 authorizations.

Issues To Watch

This budget is balanced but there are still issues the City must deal with in order to keep its financial status sound. **Health insurance** costs have experienced double-digit increases over the past six years, rising by 92.2% since 2001 to \$234.8 million. Premiums continue to eat away at any new spending and this year's health insurance increase of \$22.9 million represents almost 30% of the total operating budget increase.

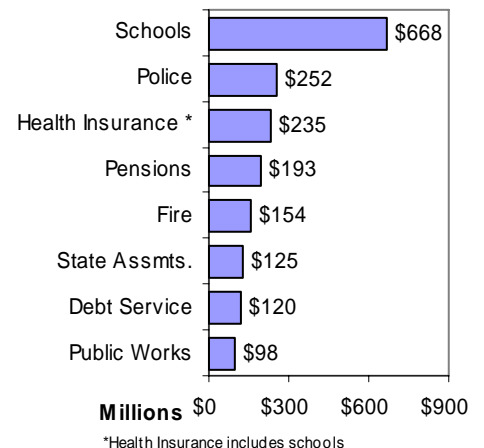
The **liability for retiree health benefits** other than pensions will affect Boston's future budget and financial decisions. Currently funded on a pay-as-you-go basis, the City will soon release a report showing the extent of its actuarial liability which will be significant. The City will need to increase substantially its funding of these benefits which will influence spending decisions in other areas and contractual negotiations.

Collective bargaining contracts are expiring this summer and no funds are provided in this budget to cover costs. The last round of contracts in 2004 cost in excess of \$200 million over the life of the contracts. Driven by escalating personnel costs, city officials should present options to union negotiators about "total compensation" on how increases for salaries and benefits could be allocated within limited revenue parameters.

Revenues That Fund The FY07 Budget

In fiscal 2007, Boston expects to collect \$2.142 billion in revenues to support its spending plan. The budget represents an increase of \$80.0 million or 3.9% over fiscal 2006. A little over 90% of this increase will come from two revenue sources, the property tax and state aid. In fiscal 2007, Boston's revenues are expected to continue on the growth trend of the last few years—regaining some ground lost in prior years.

City of Boston Top 8 Budget Accounts FY07



Revenue Facts FY07

- The bulk of the City's revenue continues to come from the property tax (\$1.218B) which represents 56.9% of the total operating revenues in fiscal 2007. The property tax increased by \$51.4 million which is 64.2% of the aggregate revenue growth over fiscal 2006.
- State Aid (\$567.4M) is the second largest revenue source accounting for 26.5% of revenues, a \$21.2 million growth over fiscal 2006. Once finalized, state aid is expected to grow by an additional \$5 million over the City's approved budget. This would leave Boston with almost a 5% increase in state aid.
- The City is relying on one-time revenues of \$13.3 million to support recurring costs in the fiscal 2007 budget.
- Excise taxes are expected to bring in \$78.7 million in fiscal 2007, a growth of \$6.7 million or 9.3% over fiscal 2006.

Boston General Fund Revenues FY06-07 figures in millions

Account	Budget FY06	Budget FY2007	% Change
Gross Property Overlay	\$1,207.6	\$1,260.8	4.4%
Net Property Tax	\$1,166.8	\$1,218.2	4.4%
State Aid	546.2	567.4	3.9%
Excises	72.0	78.7	9.3%
Parking Fines	64.3	67.3	4.7%
PILOTS	26.8	27.3	2.1%
Urban Redv	53.5	54.8	2.4%
Investment Income	22.8	24.0	5.2%
Miscellaneous	80.6	91.2	13.1%
Subtotal Recurring	\$866.1	\$910.6	5.1%
Fund Balance	\$20.0	\$8.0	-60.0%
Surplus	\$9.2	\$5.3	-42.2%
Subtotal Non-Recurring	\$29.2	\$13.3	-54.4%
Grand Total	\$2,062.1	\$2,142.1	3.9%

Spending Plan for FY07

The initiatives in Boston's \$2.142 billion budget are targeted towards reducing violent crime, closing the achievement gap, narrowing health

disparities and increasing the housing supply. Eight budget accounts out of 61 continue to absorb 86.1% of the budget, with 31.2% for schools. The City's budget growth in fiscal 2007, comes after two years of steady growth of 4.4% in fiscal 2005 and 4.6% in fiscal 2006.

Spending Facts FY07

- Over 60% of the \$80.0 million spending increase falls in three areas: salaries, energy, and health insurance.
- Other non-departmental spending areas such as debt service, pensions and state assessments absorb another 17% of the total spending increase in fiscal 2007.
- The Police Department will increase the number of sworn officers over attrition this year due to a doubling of the planned recruit classes and the transfer of selected Municipal Police Officers.
- The School budget is funded to continue the expansion of full-day kindergarten, restore 1% of the past cuts in schools and address the achievement gap.

Boston General Fund Expenditures FY06-FY07 figures in millions

Department	Budget FY2006	Budget FY2007	% Change
School [1]	\$657.4	\$668.2	1.6%
Police	235.5	252.2	7.1%
Fire	148.0	153.8	3.9%
Public Works [2]	94.7	98.2	3.7%
Other Dept'l	217.0	224.3	3.3%
Suffolk County	4.6	4.8	3.9%
Subtotal	\$1,357.2	\$1,401.4	3.3%
City Health Benefits	151.6	168.5	11.2%
School Health Benefits	60.4	66.3	9.8%
SBRS	186.3	192.9	3.6%
Housing Trust	0.3	0.3	3.1%
Total Benefits	\$398.6	\$428.1	7.4%
Debt Services	117.0	119.6	2.3%
Assessments	120.6	125.1	3.7%
Public Health	61.3	63.6	3.7%
Housing	7.5	4.3	-42.3%
Grand Total	\$2,062.1	\$2,142.1	3.9%

[1] net of health insurance

[2] includes snow removal

For more detailed budget information
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