# Bureau Update



#### **August-September 2004**

# Welcome New Research Bureau Members

Beacon Capital Partners, LLC
Goulston & Storrs
Keegan, Werlin and Pabian, LLP
MassDevelopment
S. R. Weiner & Associates
Suffolk Construction

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### **Boston Housing Cuts**

Finding an apartment or developing affordable rental housing will be more difficult in Boston for those relying on Section 8 housing funds. On September 28, 2004 HUD announced cuts in the FY2005 Fair Market Rents (FMRs) effective October 1, 2004. These cuts of up to 19.6% will hurt pipeline development projects using HOME or projectbased vouchers because they are below the rents developers had expected to be able to charge. The new FMRs will create a serious administrative burden for the Boston Housing Authority as it will have to re-determine rent reasonableness for every unit size where FMRs dropped by more than 5%. Other housing programs, including homeless tenant-based rental assistance, use the FMRs as benchmarks and also will be affected by the cuts.

FMRs for one, two, three and four-bedroom units dropped from 5.1% for a one bedroom unit to 19.6% for a four-bedroom unit as shown below. HUD used data from August 2004 random digit dialing rent surveys to calculate the FY2005 FMRs, a methodology that seems to produce rents lower than the median gross advertised rents in Boston. The rent surveys substituted for initial plans to change housing market areas in setting the FMRs.

HUD Monthly FMR Reduction					
Bed- room	FY04	FY05	Change	%	
One	\$1,135	\$1,077	(\$58)	-5.1%	
Two	1,419	1,266	(153)	-10.8%	
Three	1,775	1,513	(262)	-14.8%	
Four	2,084	1,676	(408)	-19.6%	

#### **Residential Tax Bill Increase**

Boston's average single-family tax bill in FY04 was \$2,257, an increase of 14.5% over the prior year after adopting the classification shift. The statewide average single family tax bill was \$3,413, an increase of 6.5% based on DOR data.

The prospect of much higher residential tax bill increases in several communities due to a divergence of values led to a temporary legislative adjustment to the property classification formula. Impacted communities adopting the provision were allowed to shift the business burden up to 200% of the taxes they would have to pay under a single tax rate in FY04. Thirteen communities, including Boston (200%), increased their business levy share to between 180% and 200%. Of this group, Boston's average single-family tax bill increase of 14.5% was the highest.

The City's maximum shift to the business levy and application of the 30% residential exemption account for Boston's relatively low residential tax bill last year in the table below.

FY04 Single-Family Average Tax Bill				
City/Town	FY04 Tax Bill	% Change		
Milton	\$4,886	3.7%		
Framingham	3,978	5.0%		
Somerville	3,674	-4.3%		
Quincy *	3,639	17.8%		
State Average	3,413	6.5%		
Medford	3,171	6.4%		
Waltham	3,121	4.5%		
Worcester	2,658	5.1%		
Malden	2,624	4.0%		
Boston	2,257	14.5%		
* Did not adopt classification provision				

#### **Land Deal Creates Heritage Center**

After years of searching, the City has found a new site for its official archives, and in the process will consolidate Public Library and other storage space, and possibly develop housing through the sale of city-owned property. The City Council recently approved the Administration's proposal to purchase the property at 201 Rivermoor Street in West Roxbury for \$8.5M and convert it into the City of Boston Heritage Center. The property, currently owned by Keyspan, contains about 145,000 sq. ft. of space on 10 acres. It is not yet clear how much it will cost to renovate the space. The project will allow the City to return the current site of the City's archives – the Hemenway School in Hyde Park – to the School Department for school purposes.

A \$2.0M grant from the Trustees of the Boston Public

Library (BPL) will contribute to the purchase of the property, as will an initial withdrawal of \$6.5M from the City's surplus property disposition (SPD) fund. However, all SPD funds will later be replenished with proceeds from the sale of two storage facilities owned by the BPL. Keyspan will continue to rent about 30,000 sq. ft. of space at the facility, generating over \$1.0M in rental income for the City over 5 years.

In addition to housing the City's archives, the Heritage Center will be the new home of the New England Deposit Library and store BPL materials. While the City will be responsible for the overall management of the property, staff from the BPL and City Clerk's office will support their respective functions in the facility.

#### **FY04 Surplus**

The City closed its books on FY04 with a \$4.4M surplus, on revenues that exceeded budget by \$40.7M and spending that exceeded budget by \$36.3M. The surplus represents 0.2% of the final FY04 budget of \$1.89B. The City was able to address the financial challenges presented in FY04, such as collective bargaining agreements for all of the City's unions, and also maintain the basic service delivery levels it anticipated at the beginning of the fiscal year. A small number of accounts (listed below) contributed to most of the revenue and spending overages.

	Account	Exceeded Budget By			
Rev	Revenues				
	Building Permits	\$11.2M			
	BPS Trans. (State Aid)	9.2M			
	Chapter 121A	8.5M			
	Parking fines	6.6M			
Expenditures					
	Collective Bargaining	15.5M			
	Fire	5.9M			

#### \$4.6M More For '05

The Governor and Legislature recently agreed on a supplemental appropriation to the FY04 budget that includes a provision to distribute an additional \$75.0M in local aid to cities and towns for use in FY05. Distribution amounts were determined using the lottery formula, resulting in an additional \$4.6M for Boston.

To emphasize the one-time nature of the supplemental, the Department of Revenue is requiring mayors and selectmen to sign a document acknowledging the one-time nature. In addition, the state is not reflecting the supplemental in FY04 or FY05 local aid Cherry Sheets, thereby allowing it to consider FY06 local aid amounts without including the \$75.0M as part of the FY05 base.

As such, the City should maintain its policy of using non-recurring revenues only on non-recurring costs, or replenish reserves by allowing the revenue to fall to the year-end fund balance. In either case, the City is not expected to count this revenue as part of the FY05 base in its revenue planning for FY06.

## **Lottery Diversion To End**

The Governor and Legislature have agreed on a 5-year plan to phase-out the state's practice of withholding lottery funds a.k.a. *lottery diversion*. Funds were diverted in order to balance the state budget, otherwise they would have been distributed as local aid to municipalities. The phase-out plan, included as part of the state's FY05 budget, will begin in FY07 and be complete in FY11. The plan uses a formula to reduce by an additional 20% every year the amount that is

diverted between FY07 and FY11. As a result, 100% of the amount available to be distributed to localities in FY11 will be sent to them, setting the lottery back on track for full distribution to cities and towns. Boston's estimated FY05 lottery aid is about \$54.0M, which represents approximately 3.0% of the City's total revenue.