

Bureau Update

Boston Municipal Research Bureau, Inc.

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NEWS & NOTES

Thank You

Thank you to John Hancock, the Platinum Underwriter for the Research Bureau's 72nd Annual Meeting.



Research Bureau Officers for 2004 are:

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Douglas S. Horan of NSTAR, Vice-Chair
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BPS Appointment

Superintendent Payzant has appointed Barbara McGann, a retired Navy Rear Admiral, as the new Director of Human Resources. Ms. McGann is the former CEO of the American Red Cross of Rhode Island and a graduate of the Broad Center for Superintendents. Ms. McGann began her post on February 2nd. This is a critical appointment because recruitment, hiring and transfers are an integral part of improving teaching and learning in the classrooms.

MAYOR'S SPEECH

Mayor Menino's annual address to almost 500 business and civic leaders at the Research Bureau's Annual Meeting on February 24th was far-ranging, covering 14 different topics. The most notice was given to the Mayor's announcement that an economic study on the Democratic National Convention showed that the 4-day event would generate \$154M, most of which would be collected by the State. His call for a share of that revenue for the City resulted in quick responses questioning that strategy. This study is the beginning of a longer look by different parties at the state-local relationship in the 21st Century that may recommend new approaches for local initiative. The Mayor also stressed the importance of protecting industrial land in Boston to preserve manufacturing jobs for Boston residents and maintain the City's diverse economic base.

RATING BOSTON IN 2004

Boston's bond rating was upgraded by Standard & Poor's from AA- to AA in conjunction with the City's \$143.2M bond issue on February 11, 2004. Interest costs will total \$44.4M through FY24 for a total cost of \$187.6M. Standard & Poor's waited to evaluate the City's response to the difficult fiscal and economic environment of the past two years before increasing the rating. The upgrade was expected at some time to bring it level to Moody's rating of Aa2 but the timing was somewhat of a surprise given the current issues facing Boston. Fitch retained its rating of Boston at AA-.

In May 2002, the Bureau issued a comprehensive financial assessment that concluded that the City of Boston would be able to manage successfully through the last two years even with cuts in local aid, which was the conclusion reached by Standard & Poor's. The credit reports of the three rating agencies stated that their ratings reflected the City's:

- Strong management and demonstrated ability to make budget adjustments as necessary to maintain balance during difficult financial times.
- Sound financial position with sufficient reserves.
- Manageable debt burden with prudent debt policies.
- Stable, well diversified tax base that has doubled in value since 1996.

The reports noted Boston's history of balanced operations spanning eighteen consecutive years. The City's core industries of finance, health, hospitals and higher education were felt to provide stability during economic downturns. Interestingly, three of these four industries are tax-exempt, indicating their importance to Boston. The City's efforts to control expenditures through reduction of its employment base was recognized. Ample reserves were highlighted with the recognition that most of these funds are not accessible for operations under Massachusetts law. Concern was raised about the unresolved labor negotiations but the expectation was that they will be resolved successfully. The leveling of state aid, of which the City relies on for about 27% of its operating revenue, and the City's outstanding pension liability are other concerns raised.

The sale of \$143.2M in GO bonds consisted of two parts: (1) \$65M for FY04 capital projects and (2) the refunding of \$78.2M of existing city debt. The refunding of \$78.2M at lower interest rates will generate a net present value savings of \$3.9M that will be used to reduce the City's debt service costs primarily over the next three years. The bonds were sold in two separate issues at a combined True Interest Cost (TIC) of 3.2%.

STATE AID STABLE...SO FAR

On January 28th, Governor Romney proposed a \$22.9B state budget for FY05. The budget is an increase of \$1.1B or 5% over FY04, due mainly to higher costs for pensions, Medicaid and debt service. The Governor's budget was designed to pay for this increase without reducing overall local aid, thus breaking a trend of two successive years of local aid cuts. The Governor's plan balances the budget through the use of nearly \$500M in one-time savings, with another \$500M generated from higher revenue collections and other cost saving measures.

The Governor's budget contains \$520.7M in local aid for Boston, an increase of \$7.8M or 1.5% over FY04, most of which comes from a \$7.7M increase in the Retired Teachers Pension reimbursement account. Elsewhere, the City's three major local aid accounts, Chapter 70 school aid (\$200.5M), Additional Assistance (\$164.2M) and Lottery distributions (\$54M), remain level-funded from FY04.

	\$ in Millions			
BOSTON	Actual FY02	Actual FY03	Budget FY04	Gov. FY05
Local Aid	\$580.5	\$542.4	\$512.9	\$520.7
Change	\$21.3	(\$38.1)	(\$29.5)	\$7.8
%	3.8%	-6.6%	-5.4%	1.5%
FY02-FY04 Cut			(\$67.6)	

Now the Legislature begins its turn with the state budget. Will it buy the Governor's plan to use nearly \$500M in one-time savings to fund operating costs? If not, will its proposed budget reduce local aid in this election year, and by how much? Time will tell, with the House Ways and Means Committee's budget proposal expected in March.

STATE HOUSING \$\$\$

Governor Romney teamed with the state's affordable housing bank, MassHousing, to create the Priority Development Fund (PDF), a \$1.1B housing finance initiative. It is expected to finance 5,000 new units of mixed-income housing over the next three years. If this program is successful MassHousing will be doubling the number of new units its finances yearly. Despite the increase, one of the tenets of this program will continue to be fast turn around of proposal evaluations, averaging 45 days. The program is expected to jump start many housing proposals that have not been fully financed.

MassHousing funds of \$100M will be provided to developers, which is expected to then leverage MassHousing mortgage loans, low-income housing tax credits, and state and federal grants totaling an additional \$1B. The fund has been divided between 3 project types: \$75M for mixed-income developments, \$22M for housing near transit, and \$3M for community planning. Funds will be awarded to proposals that take into account "smart growth" criteria, as well as those with the potential to leverage other funds, have a strong affordability component and include family units within project plans (units with 3 or more bedrooms).

At least 20% of all units proposed must be reserved in advance for occupants with less than 80% of the median income, or \$62,650 for a family of four in Boston. How much of these funds will go to Boston is unclear, but what funds reach the City will help build on the momentum of the Leading the Way program. In 2001-2003, Boston spent \$33M and leveraged another \$1.7B to permit 7,913 new units of housing in the Leading the Way program. Additional information about the PDF and application procedures are available at www.masshousing.org.

CHARTER SCHOOLS

Governor Romney has proposed removing the caps governing charter schools. He also should support revising the tuition distribution formula that shifts funding for the students from the district to the charter school. Commonwealth charters operate independently of local school districts and union contract rules. They differ from Horace Mann charters, which operate under contract with the local school board, but with the benefits of charter schools. Three caps limit the development of Commonwealth charters:

- Max. Commonwealth charters statewide 72
- Max. % state public school enrollment 4%
- Max. % district pays in charter tuition 9%

Since the highest concentration of Commonwealth charters is in Boston (34.9%), removing the caps will have financial implications for the BPS. Boston's assessment for charter school tuition has already reached 7% of its net spending in FY04. Since not all Boston Commonwealth charters have yet reached their grade maxima, the enrollment of Boston students in Commonwealth charters is likely to reach the 9% cap in the coming years even without new charters being awarded.

Boston Commonwealth Charter School Facts

Boston's FY04 charter school tuition	\$39.9M
% of net school spending	7%
Commonwealth charter schools in Boston	15
Commonwealth charter schools statewide	43
Boston Commonwealth charter students in FY04	4,026
Boston Commonwealth charters not yet at grade maxima	6
Boston Commonwealth charters approved but not yet opened	1

Charter schools offer an important alternative to parents, promote flexibility in educational structure, and create incentive for public school improvement. However, the tuition distribution formula is not equitable, and should be revised. Boston is required to pay charter tuitions based on its average cost per pupil, inclusive of all regular, SPED, and English Language Learners. This per pupil cost, that is higher in urban districts, is paid even though the student's actual costs to a Commonwealth charter may be less because of educational program or grade level. A bill (H1852) is pending before the Legislature that would restore equity to the formula by funding Commonwealth charters based on the grade levels and educational programs of its students.

72nd ANNUAL MEETING

OF DIRECTORS & MEMBERS

The Research Bureau acknowledges with grateful appreciation the sponsors of our Annual Meeting on February 24, 2004.

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