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Testimony of the Boston Municipal Research Bureau

Before the

City Council's Committee on Ways and Means

December 17, 2003

Regarding: Docket # 1576, Appropriation of Free Cash

Mr. Chair, my name is Samuel R. Tyler, President of the Boston Municipal Research Bureau and I am here to testify in favor of Docket #1576, an order from the Mayor to appropriate \$25.0 million in free cash, or budgetary fund balance, to meet current expenses of the City. The Research Bureau supports the appropriation of this amount, and believes it is a prudent one-time use of available reserves. However, given the one-time nature of this revenue, the City should take care to apply these funds for one-time purposes. The budgetary fund balance should not be used for recurring operational expenses, most notably for the funding of new collective bargaining agreements.

On December 9th the Department of Revenue certified that the City has available to it for appropriation \$61.1 million in budgetary fund balance. The City's current request for appropriation of \$25.0 million represents 41% of that total and about 1.3% of the City's overall \$1.9 billion fiscal 2004 budget. This is the first time the City has requested such an appropriation since fiscal 1992. As you know, the use of fund balance in fiscal 2004 was necessitated by the reduction in state aid of nearly 10.0% from fiscal 2003 and a slowing of recurring revenues. While the use of fund balance is a reflection of more difficult economic times, the City's financial position remains strong. In addition, the remaining \$36.1 million in fund balance is intended to be used over the next two years to fund extraordinary and non-recurring costs in anticipation of cuts or limited change in local aid.

The Menino Administration is currently in negotiations with all the major employee unions that believe that the City has reserves that can be tapped for salary raises. The Bureau does not believe it is prudent to utilize one-time reserve resources to fund multi-year collective bargaining agreements. As such, the Bureau recommends that discussions about resources available for collective bargaining agreements focus on the City's \$17.0 million in collective bargaining reserve provided for in the fiscal 2004 budget as well as any other recurring revenue that may be available.

In conclusion, the City's one-time use of \$25.0 million in budgetary fund balance in fiscal 2004 will help offset reduced revenues in the short term, while maintaining adequate reserves for future flexibility, credit rating purposes and existing long-term liabilities that are one-time in nature.

I welcome the opportunity to answer any questions you may have at this time.