

Bureau Update

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NEWS & NOTES

FY04 BUDGET WATCH

- Mayor Menino will submit his FY04 recommended budget to the City Council on Wednesday, April 9.
- The School Committee approved the FY04 BPS budget of \$619.0M on March 26, a decrease of 4.9% from FY03.
- The Council's Ways & Means Committee is holding several community-based budget hearings to help residents learn more about the budget process and offer suggestions to Councilors. Formal hearings are scheduled to begin in City Hall on April 25th.
- To minimize budget layoffs, the Administration offered a new retirement program with an incentive payment of 20% of salary to eligible employees who retire by June 30, 2003.



BOSTON IS THE LOCOMOTIVE

Mayor Menino gave the President of the Research Bureau a train engineer's cap emblematic of a key theme in his speech at the Bureau's Annual Meeting on February 25th that Boston is the locomotive that pulls the Massachusetts economy. To support this point, he noted that the City generates about 20% of the state's revenues and 17% of its jobs. The Mayor also cited the Longwood Medical Area that brings in \$1.2B annually in National Institutes of Health funding, and reported that 77 new development projects worth \$4.6B are underway.

Because of local aid cuts this year and those expected next year, the Mayor explained that he had imposed a Workforce Reduction Plan 15 months ago, adopted a state Employee Retirement Incentive plan in 2002 and instituted a hiring freeze in January. These steps were taken, he said, because almost 70% of city spending is for employees. Other steps will be in his recommended FY04 budget. The Mayor concluded by emphasizing the need for private sector jobs for Boston kids this summer.

ROMNEY BUDGET SLASHES AID

Faced with closing a \$3B state budget gap in FY04, the Governor's budget has identified local aid cuts of \$232M to cities and towns, among other items, for reductions. Governor Romney's budget would reduce FY04 local aid to Boston by \$65.3M or 13.1% from FY03, which represents 3.6% of the City's FY03 budget. Combined with the \$52.4M reduction from FY02 to FY03, the two-year reduction in local aid would be \$117.7M or 21.3%. Published reports that the Governor's budget would reduce Boston's local aid by \$46.4M or 10.5% include only 6 budget accounts.

Major changes to local aid in the Governor's budget include the elimination of the Additional Assistance account (-\$175.1M) account, a significant reduction in Lottery aid (-\$19.5M), and a revision of the Chapter 70 school aid formula (+\$40.0M). The impact of these and other reductions were offset somewhat by the addition of a Transitional Local Aid Mitigation account (+\$24.5M), and a substantial increase in PILOT payments for state-owned land (+\$87.5M).

The House Ways & Means Committee expects to present its budget plan by April 23, with the Senate following in May. The Legislature may not adopt the Governor's restructuring of accounts, opting instead to maintain existing ones and change the formulas for distribution. The Legislature's budget may bring larger local aid cuts - possibly between 15% -20% - based on its belief that not all the restructuring savings in the Governor's budget will be realized in FY04.

NEW BPS BUS CONTRACT

The Boston School Committee has awarded a new five-year transportation contract to First Student, Inc. (FSI). The bid submitted by FSI will save the BPS over \$10.5M during FY04 from the bid submitted by Laidlaw Transit, the current transportation contractor. The new agreement, effective on July 1, accomplishes a goal of the BPS to achieve competition for the transportation contract particularly

after several years of sharp cost increases under the current provider. The members had voted in December to award the contract preliminarily to FSI, contingent on the requirement that the contractor secure leases for sites to store the Department's fleet of school buses across the city.

On February 11, FSI notified the School Department that it had secured the appropriate sites. FSI's bid of \$21.3M, which includes FY04 costs for management, mechanics, parts, administration, fuel surcharge, overhead, and the FY04-FY09 costs for workers' compensation insurance, was substantially less than its competitor Laidlaw's bid of \$48.2M. During FY04, the estimated cost for the contract, including drivers' wages and fuel, will be \$51.1M, which represents level funding with FY03.



CHARTER SCHOOL GROWTH

Plans to cut Boston's public school budget for FY04 in anticipation of a 10% cut in local aid have focused more attention on the Chapter 70 school aid that follows Boston students to charter schools. Chapter 70 charter school tuition payments are estimated to be \$48.1M in FY04, an increase of \$12.5M over this year's figure of \$35.6M. Currently, Boston pays a tuition rate of \$9,958 for each student attending any of the 12 charter schools in Boston and three regional charter schools. During FY04, 42.3% of all charter schools in Massachusetts either will be located in Boston or will accept Boston students as regional charter schools. Next year, these schools will increase enrollment by 346, and four new charter schools will open with up to 372 students, bringing the total up to an estimated 4,292 students.

While criticized for taking state aid away from the BPS, the charter schools offer public school alternatives with greater flexibility in educational structure and teacher selection to Boston families. A tuition reimbursement plan that phased-out the Chapter 70 loss to towns over three years was eliminated in FY03. Governor Romney's revised Chapter 70 plan does give some credit to communities for additional charter school students in the base cost per student for each community. Legitimate concerns have been raised, however, that because the tuition is based on the district's average costs per pupil inclusive of Boston's high special needs and bilingual costs, it transfers a higher tuition than warranted for regular education students going to charter schools. Boston's per pupil cost for a regular education student this year is \$8,331.

The Mayor has introduced legislation intended to address these issues in charter school funding. The Legislature should consider these bills and the Governor's revision of the cost per student base to ensure fairness in charter school funding formulas.

4-PART BOND SALE

The City sold bonds of \$162M on February 12th at a True Interest Cost (TIC) of 4.02%. The City received 4 bids with Goldman, Sachs being the winning bidder. The bond issue was divided into four separate components as shown below.

\$75.00M	GO bonds for capital program
33.50M	Purchase of 1010 Mass. Ave. building
25.00M	Convert school BANs to GO bonds
<u>28.52M</u>	Refunding of 1993 bonds
\$162.02M	

The \$75M for general capital purposes is the smallest issue in the past five years and compares with bond issues of \$100M in FY02 and \$120M in each of the three years prior to that. In addition to the \$162M sale, the City issued \$34M in BANs (bond anticipation notes) for additional financing of the three new schools that will open in September.

The refunding bonds of \$28.5M produced a net present value savings of \$1.3M. From this issue and 3 others in 2002, the City will realize a total present value savings of \$17.3M on future debt service costs, starting with \$4.5M in the FY04 budget.

HOW BOSTON IS RATED

Moody's kept Boston's bond rating at Aa2, while Standard & Poor's and Fitch IBCA retained its ratings of AA- as all three gave the City high marks for the Administration's steady financial performance and careful debt management. Boston's diverse economic base, the major public investments that are generating significant private development interest and its growing tax base allowed Boston's economic outlook to remain stable. The rating agencies expressed confidence that the City would manage successfully the significant budgetary pressures caused by local aid cuts in FY03 and FY04 by its proven willingness to implement stringent cost control measures and by prudent use of its ample reserves. The City's debt burden is considered modest and conservative debt policies are expected to be maintained, such as keeping debt service costs at 7% of annual expenditures. Credit concerns noted by the rating agencies include the City's vulnerability to continued state aid cuts, the effects of Proposition 2½ on operations and growing debt levels.