

Bureau Update

Boston Municipal Research Bureau, Inc.

333 Washington Street, Boston, MA 02108 VOICE (617) 227-1900 FAX 227-2815 www.bmr.org



Seasons Greetings

November/December 2003

NEWS & NOTES

Save The Date

- **February 24, 2004**
Bureau's 72nd Annual Meeting
Keynote speaker:
Mayor Thomas Menino
For more information, contact
Diane Smith at dsmith@bmr.org
- **Property Tax Classification**
Commission Hearing: **December 30, 2003, 10:00 A.M.** Gardner Auditorium, State House
- **Free Cash** - On December 9th the DOR certified free cash for the City in the amount of \$61.1M. Of this amount, \$25M is budgeted for FY04 operations, subject to appropriation by the City Council. Look for more in the Bureau's January Update.

TAX CLASSIFICATION ISSUE HEATS UP

Pressure is building after the Legislature decided to take a longer look at the property tax implications for residential and business properties in FY04. (See Oct. 2003 Bureau Update) Rather than approve Boston's classification bill before recessing for the year on November 19, the Legislature established a special five-member commission to report back with recommendations by January 12, 2004. The legislation (Ch. 138 of the Acts of 2003) established parameters to guide the commission in its recommendations. They are:

- The current business ceiling of 175% of full value share could be increased temporarily to not exceed 200%.
- No city or town would be able to increase its current business threshold by more than 25 percentage points. For Boston, this change would substantially reduce the residential tax increase, considerably lessen the tax decrease for commercial office properties and increase taxes for other business properties.
- The business ceiling would be reduced back to 175% in no less than four subsequent years.
- The 175% ceiling could be reached sooner than four years if growth in business value reduced the residential share of the levy to its FY03 level.

Ch. 138 authorized cities and towns using a quarterly tax payment system to issue third-quarter preliminary tax bills by any amount up to 125% of the first quarter bill. This step allows impacted communities to mitigate the large increase of the fourth quarter tax bill in April by paying a portion of the increase in the third quarter bill in January. However, guidelines issued by the Department of Revenue may limit utilization of this provision. Finally, the commission is authorized to consider mechanisms such as a small business exemption. The amount of the exemption would not reduce the tax levy raised; just shift a portion of the burden from small business properties to higher valued businesses.

In an effort to inform Boston taxpayers as legally required in this year's revaluation process and to turn up the heat on the commission and the Legislature, the City has mailed out revaluation assessment notices to all property owners. These notices will indicate their FY04 preliminary property values and their estimated annual tax bills under the current classification law. Additional materials will explain the tax changes due to the value increases or decreases and the purpose of the Mayor's proposed classification bill. With the average homeowner being informed of an \$800 tax bill increase, these notices will generate greater public and media interest in the work of the commission. The commission will hold a public hearing on changes of the classification law on Tuesday, December 30th at 10:00 A.M. in Gardner Auditorium at the State House.

F.Y.I.

The Port of Boston:

- Supports 9,000 jobs
- Serves five of the world's largest steamship lines.
- Handles 1 million metric tons of containerized cargo annually worth \$1 billion.
- Processes 15 million tons of bulk cargo every year, including petroleum, salt and scrap metal worth \$1 billion.
- Berths 100 cruise ships every season at the Black Falcon Cruise Terminal.
- 200,000 passengers pass through its cruise terminal annually.
- Imports 10,000 Audi and Subaru automobiles and processes 10,000 trucks every year.
- An average of 200,000 lbs. of fish are off-loaded at the Fish Pier per month.
- The top New England imports include: beer & ale, wine, footwear, furniture, paper, plastic products, electronics, machinery, fish and ceramic tiles.

\$40M FOR HOTELS & CONDOS

Completing a process it began in August, the City selected 2 mixed use hotel/condo developments and the new Convention Center's headquarters hotel as recipients of its \$40M Hotel Development Loan Fund through HUD's Section 108 Loan Guarantee program. (See Bureau Update, August 2003) Details of the selected developments are provided below.

\$40M Loan Fund Recipients

Parcel	Location	Loan (Millions)	Hotel Rooms	Condo Units
HQ Hotel	Convention Ctr.	\$15	1,120	0
Mandarin Oriental	Prudential Ctr.	\$15	168	105
Battery Wharf	North End	\$10	198	120
Totals		\$40	1,486	225

While the Hotel Development Loan Fund was primarily promoted to support the development of hotels that lacked gap financing, the selected projects conform to HUD's program guidelines for financial feasibility and economic development potential. Approximately 10% of the condos at the Prudential Center site will be designated affordable units, while all of the units at Battery Wharf will be market rate. All of the loan recipients are operating union-neutral projects, which allow for union efforts to organize the employees.

BID NOT YET READY

Boston's home rule petition to establish a Business Improvement District (BID) for the Washington Street retail/office area (H. 3815) is still viable even though it was not approved by the Legislature before it recessed in November. A few remaining issues about process should be able to be resolved before the Legislature convenes in January. Initial planning for this BID started over 7 years ago and the Mayor originally submitted a plan to the City Council in 1998. The BID would provide additional services beyond those now provided by the City by focusing on litter removal, coordinated marketing, ambassador services and homeless assistance.

For a district touted as the 3rd most important retail area in the Commonwealth as measured by gross sales, the City has not provided a level of services commensurate with its needs or the amount of property taxes generated in the district. Interestingly, city funds are available for a remake of Boylston Street. Nevertheless, if the businesses in the district support the assessment fee for the higher level of services needed in this district, they should be given the chance to vote to establish the BID. Even after enactment of this bill, implementation of the BID would occur only after the BID is approved by 75% of the taxable property owners who voted in an election and who represent at least 51% of the district's taxable value. A strict sunset provision limits the operation of the BID to five years after which a whole new approval process is required to extend it further.

FIRE OVERTIME = MONEY

A key question for the Fire Department in FY04 is whether it can stay within its FY04 overtime budget. The department has exceeded its overtime budget in recent years, particularly in FY02 and FY03, as evidenced by the table below. The BFD's FY04 overtime budget is almost 8% less than it was in FY03. While actual overtime spending through the first third of FY04 is less than in prior years, the department could exceed its budget again this year if overtime costs are not controlled during the rest of the year. After the first third of the year, the BFD has spent 42% of its overtime budget. The reduced spending thus far in FY04 is attributable in part to the reduction of staff in specialized units from FY03. To stay within its overtime budget this fiscal year, the department must continue to aggressively manage sick leave and control its staffing patterns.

Fire OT, FY01 Thru. Oct. FY04 in 000's

Item	FY01	FY02	FY03	FY04
OT Budget	\$8,100	\$8,500	\$8,250	\$7,616
Actual Thru Oct.	\$3,780	\$3,219	\$4,791	\$3,224
% of OT Budget	46.7%	37.9%	58.1%	42.3%
Final OT Cost	\$9,477	\$11,626	\$12,004	-
Budget vs. Final	(\$1,377)	(\$3,126)	(\$3,754)	-
Final as % of Budget	117.0%	136.8%	145.5%	-

CIRCUIT BREAKER FUNDING



The BPS will be receiving an infusion of unanticipated money into its FY04 coffers due to the projected funding rate of the special education circuit breaker grant from the state. The circuit breaker will reimburse Boston for instruction of special education students that costs above four times the foundation budget level, which is \$29,320. Available funds have limited the rate of reimbursement from the 75% authorized by statute to the 35% that the Department of Education recently projected. Under this projection, Boston will receive \$7M based on claims for 1,184 students.

Since the circuit breaker is replacing the 50/50 fund that had provided similar reimbursement to towns for special education costs, Boston's net yield will be as much as \$2.6M above what would have been received under the former program. BPS officials had not assumed any additional circuit breaker funding into their budget plans because prior efforts to fund this program had failed. The circuit breaker funds will provide flexibility in guarding against currently estimated budget shortfalls.