

Bureau Update

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NEWS & NOTES

Research Bureau Wins National Award

The Research Bureau received the Governmental Research Association's *Outstanding Policy Achievement* Award for local government at its national conference this summer. This prestigious award was given for our reports and work regarding educational reform in the current Boston teachers' contract.

This award recognizes the tangible improvements in public policy, management, service delivery or cost savings as a result of an organization's reports, recommendations and actions.

FINANCIAL TEAM

The City's financial team will stay in tact as the Menino Administration last month selected Palmer & Dodge as its Bond Counsel and Public Financial Management as its Financial Advisor. Both firms were the low bidders and received one-year contracts with the option for two one-year renewals.

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ELECTION 2003

Based on the nomination papers received, Boston's preliminary election on September 23rd will have three races. Candidates will be certified on August 20th but it appears that incumbents Charles Yancey (District 4) and John Tobin (District 6) will have two challengers each. Seventeen candidates submitted papers for the at-large race. The top eight finishers in this race will appear on the final ballot on November 4th.

RESERVES 101

The Menino Administration is in negotiations with all the major employee unions that believe that the City has reserves that can be tapped for salary raises. The city budget does provide for a \$17M collective bargaining reserve for FY04. The City did report an undesignated fund balance of \$345.8M as of June 30, 2002. However, this fund balance is based on national Generally Accepted Accounting Principles (GAAP) and those dollars cannot be appropriated for operations.

Why? Because the Commonwealth of Massachusetts' statutory accounting standard requires the City to first delete legally required reserves (Tregor), accrued receivables, abatement reserves and goods and service commitments and add deferred tax revenues and other accrued revenue that combine to produce a smaller \$114.8M statutory fund balance. When the City submits its FY03 financial statements to DOR in September, the Bureau of Accounts will exclude other receivables and fund deficits from the statutory fund balance and certify what's left as budgetary fund balance (free cash) that can be appropriated for operations. The Administration has estimated that DOR will certify between \$65M and \$70M. The City's FY04 budget includes \$25M of budgetary fund balance. What is left 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 overlay reserve for abatements is also a factor and the Administration will take action based on a review underway regarding what surplus might be available from earlier levy years. Such action will be dictated by the City's fund balance policy that the GAAP undesignated fund balance should not go below 10% of the GAAP general fund expenditures and should be applied for only specified purposes.

Budgetary fund balance and overlay surplus funds are non-recurring and will have to be applied judiciously over the coming years. Boston must retain healthy reserves for future flexibility, credit rating purposes and existing long-term liabilities. Neither the budgetary fund balance nor overlay surplus should be used for recurring operational expenses of funding new collective bargaining agreements.

LOANS, HOTELS & JOBS

Mayor Menino unveiled the City's \$40M Hotel Development Loan Fund on August 6th to help selected hotel developments in Boston access the gap financing needed to proceed with construction. The City will receive a \$40M loan from HUD under the Section 108 Loan Guarantee program with the City's future CDBG grant monies used as collateral. That money will then be loaned probably to three qualified hotel development projects that are ready and approved to move forward but for a final piece of gap financing. The loans will be repaid to the City and in turn to HUD, from the revenue generated by the project.

The Loan Fund is good for Boston at this time because it is a strategic use of resources that will create jobs, generate revenue and is structured to limit the City's financial risk. The City estimates about \$12M annually will be generated from the hotel excise and property taxes and another \$6M generated from linkage fees paid by developers. A rate of return of at least 12% from the loan is expected.

The City will meet HUD program rules that 1 job be created for at least every \$35,000 of loan amount, or about 1,100 jobs in the current program. Federal rules also require that 51% of the jobs created must be made available to, or

occupied by, low-moderate income people who earn between 50%-80% of area median income.

The City's risk is relatively low since eligible hotel developments must demonstrate at least 30% equity and funds will be used only to finance projects that would not otherwise move forward without gap financing, thus limiting funding of any one project to 10%-15%. The equity will be in a junior position to the HUD 108 loan. The City plans to identify the projects it will fund and acquire all needed HUD approvals in time for construction to begin at the selected hotel sites in 2004.

PERSONALTY GROWTH

Boston's FY04 tax levy may increase by up to \$4.0M more than budgeted as a result of a move by the state Department of Revenue (DOR) to include for the first time for taxing purposes the personal property value of all machinery of telephone and telegraph entities that are partnerships or LLCs. DOR, not the municipalities, establishes the personal property value of the machinery, poles, wires and underground conduits, wires and pipes of telephone and telegraph companies that are certified by the Commonwealth. Until this year, the machinery value of partnerships and LLCs was limited to generators but now all machinery, including switching equipment, will be valued. DOR based its policy change on a recent decision by the Appellate Tax Board and a 1999 Supreme Judicial Court ruling. The affected telecommunication providers are appealing this policy change but both DOR and Boston are confident that this position will be upheld. New personal property growth certified for Boston totals \$309.5M. Because of the City's aggressive push to capture new personal property over the past few years, Boston's growth in this category was not expected to reach that level. Bell Atlantic Mobile (\$92.9M), MCI Metro Access (\$68.6M) and Sprint Communications (\$51.3M) represent the largest new growth.

NEW WAY TO VOTE

With election time around the corner, the Boston Election Department has ordered 265 "optical scan" voting machines through a seven-year lease-purchase agreement. These optical machines will replace the 900 lb. "lever" machines that Boston has used since the 1940's. By acting now, under the Help America Vote Act of 2002, the federal government will reimburse the City for 60% of the \$1.5 million cost.

Critics of the optical machines recommended a "touch screen" voting system, in which the machines resemble ATM's. A voter would select a candidate using a computer instead of a paper ballot, which the optical system requires. Touch screen voting systems are not certified to be used in any election in Massachusetts. Furthermore, the touch screen technology is more prone to fraud and not always accurate, as reported by several major research institutions. The touch screen machines would cost Boston more due to a state law that requires Boston to purchase 1 machine per 125 registered voters. The cost would be eight times the aggregate of the optical scan machines. The optical scanning machines were successfully tested in the City Council District 9 special election last year and are scheduled to be used in the upcoming City Council preliminary election on September 23rd.

