

Inflexible Costs Represent Increasing Share of Boston’s Spending

Over the past five years inflexible costs have grown at over twice the rate of overall spending

Across the country the growth of inflexible costs such as state assessments, debt service and pension payments have put pressure on the departmental expenditures of municipalities. That situation is no less true for the City of Boston. From FY11 to the current FY16 budget, Boston’s inflexible costs have grown as a share of the total operating budget from 16% in FY11 to 21% in FY16.

During this five-year period, the inflexible costs have grown by 51.2% compared to departmental spending growth of 20% and overall General Fund operating growth of 17.9%. The City has been able to manage the growth of [health insurance](#) expenses to 1.2% over the five-year period though negotiations with the insurance providers and the public unions, limiting further diversion of resources from core departmental services.

Five-Year Expenditure Shift

in millions

Account	FY11 % of Total	FY16 % of Total
Inflexible Costs	16.0%	20.6%
Health Insurance	11.8%	10.1%
Departmental	66.0%	67.2%

State Assessments

The largest increase of inflexible costs is due to the growth in [state assessments](#), which are mainly charges for MBTA services and the tuition payments to Commonwealth charter schools. The annual growth of the MBTA assessment cannot exceed 2.5% under Proposition 2½ unless new services are provided. The charter tuition assessment is based on the Ch. 70 education aid that follows Boston students attending

Commonwealth charter schools and has grown by \$79M or 115.7% in the five years since FY11.

Inflexible Cost Growth

in millions

Account	FY11	FY16 Budget	Change	%
State Assessments	\$152.0	\$238.8	\$86.7	57.0%
Debt Service	\$126.7	\$164.4	\$37.8	29.8%
Pensions*	\$109.9	\$184.5	\$74.7	68.0%
Reserves	\$0.2	\$0.2	\$0.0	9.6%
Inflexible Costs	\$388.7	\$587.9	\$199.2	51.2%
Health Insurance	\$284.8	\$288.2	\$3.4	1.2%
Departmental	\$1,598.7	\$1,919.2	\$320.5	20.0%
All Other*	\$151.6	\$62.1	-\$89.4	-59.0%
General Fund	\$2,423.8	\$2,857.4	\$433.6	17.9%

*Less one-time pension payment of \$82M in FY11, which is included in All Other account to maintain official General Fund expenditure totals

Pensions

The City has an outstanding [pension liability](#) of \$1.69B. The City remains committed to a schedule of reaching full funding by 2025, which is expected to require an annual appropriation increase of 7.75%. This rate outpaces annual revenue growth, but when the system reaches full funding in 2025, the annual payment will be reduced by approximately 70%. Those freed-up funds then could be applied to address the City’s \$2.1B retiree health insurance (OPEB) liability.

Debt Service

Debt service payments finance the City’s principal and interest for [capital](#) expenditures. The City’s debt service standard is 7% of the operating budget, but actual debt service is budgeted at 5.2% in FY16.