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## Testimony of the Boston Municipal Research Bureau

### Before the Boston City Council's Committee on Ways and Means

April 25, 2016

#### Regarding: Mayor's Recommended Fiscal 2017 Operating Budget

Mr. Chairman, I am Samuel R. Tyler, President of the Boston Municipal Research Bureau, and I am here to speak at this first overview hearing on the Mayor's recommended fiscal 2017 operating budget. This is Mayor Walsh's third budget which is built with conservative revenue estimates and fiscal discipline as were the first two budgets. However, this budget is an especially thoughtful budget as a consequence of the Administration's two years of experience and the findings and recommendations of some of the departmental audits that were commissioned. This budget also reflects the understanding that greater efficiencies and budgetary savings are needed to help fund new initiatives.

The Mayor's recommended fiscal 2017 operating budget totals \$2.97 billion, an increase of \$114.8 million or 4.0%. An additional \$322.7 million in external funds will also support services in fiscal 2017, but my remarks are focused on the General Fund recommended budget for the next fiscal year.

#### Revenue Budget

The Mayor's General Fund fiscal 2017 recommended budget estimates revenues that total \$2.97 billion, an increase of \$114.8 million or 4.0%. It is important to note that 93% of the total revenue growth in this budget comes from Boston's own-source revenues.

**Property Tax** – For fiscal 2017, the property tax totals \$2.02 billion, an increase of \$93.6 million or 4.9%. The property tax represents 68% of the budget's total operating revenue, but 82% of the fiscal 2017 total revenue increase. That increase is made up of the 2.5% base value levy increase and 2.4% from new growth, for a total levy increase of 4.9%. The City has been fortunate that new development has been strong over the past few years producing a levy increase approximate to the 2.5% annual base levy increase. Nevertheless, Boston relies too heavily on the property tax compared to other peer cities.

**State Aid** – State aid is Boston's second largest revenue source, which for fiscal 2017 is estimated at \$432.2M, an increase of \$8.1M or 1.9%. This budget estimate is based on the Governor's fiscal 2017 recommended budget and is subject to change in the legislative process. State aid represents 14.5% of total revenue, but only 7.1% of the revenue increase in fiscal 2017. The City's high reliance on the property tax is due to the decline in state aid as a percent of total revenue.

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Over the past five years from fiscal 2011 to fiscal 2016, total city General Fund spending increased by 22%. During that time, the property tax increased by 27.8%, but gross state aid increased by only 7.3%. Over the last five years, Boston School Department spending increased by 23.4%, but gross state Chapter 70 education aid for Boston increased by only 4.1%.

**Excise Revenues** – Boston’s motor vehicle, room occupancy, jet fuel and meal excise revenues are growth revenues, but represent a small part of the City’s total revenue sources. For fiscal 2017, total excise receipts are estimated at \$190.7 million, an increase of \$11.3 million or 6.3%. These excise revenues represent 6.4% of total General Fund revenues and 10% of the fiscal 2017 revenue increase.

**Non-Recurring** –The only non-recurring revenue included in the Mayor’s recommended budget is \$40 million from Fund Balance (Free Cash) for the OPEB Trust. As the Administration continues to focus on reaching full funding of the City’s pension liability by 2025, it is funding the pay-as-you-go costs of the retiree health insurance, and in recent years has been appropriating \$40 million into the OPEB Trust. The Public Health Commission also pays into the OPEB Trust. The total payment in fiscal 2017 is planned at \$163.8 million. That compares with the Annual Required Contribution (ARC) of \$178.4 million, which is the annual amount needed to fully fund the OPEB liability over 30 years, a difference of \$14.6 million. The Bureau has recommended that the City strive to fully fund the OPEB ARC each year.

**Revenue Assessment** – The Research Bureau has reviewed the revenue estimates for the fiscal 2017 budget and believes the estimates are reasonable and comfortably conservative. The City’s policy of building a budget based on conservative revenue estimates has served it well over the years. It is important now to protect the City should the cost of collective bargaining agreements in fiscal 2017 exceed the collective bargaining reserve in the budget or the cost of Police and Fire overtime or Execution of Courts expenditures exceed their respective increased appropriations for fiscal 2017.

## Expense Budget

General Fund fiscal 2017 recommended budget expenditures total \$2.97 billion, an increase of \$114.8 million or 4.0%. What is noteworthy is how a few budget accounts can represent such a large percent of the total budget. Out of over 50 different budget accounts, 10 accounts represent 87.1% of the total.

**Top Accounts** - The recommended budgets of the largest four departments of School, Police, Fire, and Public Works total \$1.71 billion or 58% of the total budget and 47% of the total increase in fiscal 2017. Benefits and mandatory accounts total \$878.8 million or 29% of the budget but 40% of the total budget increase. Together these four departments and approximately six benefit/mandatory accounts total \$2.59 billion or 87% of the total FY17 recommended budget. That leaves \$383.8 million or 13% of the budget for the remaining 44 city departments and other non-departmental accounts.

**Benefits/Mandatory** - The Benefits/Mandatory group, which represents 40% of the budget increase, consists of the following accounts:

- Health insurance – Increased by \$10.5 million or 5.3% due mainly to pharmaceutical cost drivers. It should be noted that Boston’s share of total health care costs for its most popular health plan is 78%. The equivalent share by the state Group Insurance Commission (GIC) is lower at 68%.
- Debt Service – Increased by \$13.4 million or 8% due to the Administration’s plan to issue more General Obligation bonds than in recent years.

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- State Assessments – Increased by \$12.3 million or 5.2% due to the charter school tuition and MBTA assessment increases. The MBTA assessment increase cannot exceed 2.5% annually.
  - Pension - Increased by \$5.3 million or 2.9%, which is less than the normal 8% increase due to the agreement to have the Boston Water and Sewer Commission (BWSC) directly support its own pension liability. With few BWSC employees still on its payroll who previously worked for the City's Public Works Department when the Authority was created in 1977, Boston will now reimburse the BWSC for its share of the pension liability for the former Public Works employees. This change is a significant reform in managing Boston's unfunded pension liability.

**Additional BPS Funding** – The School Department restored funding to high school budgets by delaying \$6 million in new initiatives. The Mayor has pledged that any additional resources the City receives for charter tuition reimbursements will be used to restore these initiatives. Based on the House budget for fiscal 2017, it is not clear yet whether additional funding in this account will be forthcoming to Boston.

**Employee Expenses** - Employees and benefits account for almost 78% of the total appropriation in the fiscal 2017 budget. These expenses will require disciplined management over personnel levels and expenses. In upcoming collective bargaining negotiations, salary increases should be moderate given the low growth in the cost of living, and manning levels or benefits should not be expanded. The fiscal 2017 budget provides for an increase of 175 positions by January 1, 2017 primarily in the School Department (+64), Public Health Commission (+34 due, in part, to 20 new EMTs) and Police Department (+53 due to a new class of recruits).

**Efficiencies and Savings** – The budget uses service consolidations or transfers or new initiatives to achieve more efficient operation of services and savings. A few examples are:

- Transfer Neighborhood Business Services from DND to Economic Development Cabinet
- Merge Licensing Board and Consumer Affairs and Licensing Department
- Move Emergency Shelter Commission from Public Health Commission to DND
- Plan to “true up” overtime expenses in Police and Fire Departments
- Transfer Recreation from BCYF to Parks Department
- Split Property and Construction Management Department into Property Management Department and Public Facilities Department
- Transfer Animal Control from Property Management to Inspectional Services Department in Environment Cabinet
- Transfer Environmental Monitoring program from Public Works to Parks Department
- Eliminate 100 vacant positions

**Recommendation** – After the recommended budget is approved in June and possibly revised in December before the tax rate is set, the Research Bureau believes the City Council's Ways and Means Committee should schedule two public hearings in January and May before the end of the fiscal year to review how the revenue and expenditure estimates in the adopted fiscal 2017 budget compare with actuals and how effectively initiatives have been implemented and savings achieved.