

Special Report



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Highlights

- The City's top 8 budget accounts represent 84% of the total FY18 budget and 76% of the total increase.
- City-funded employee levels will increase by 277 positions to 17,399, with 47% of the growth attributable to the School Department.
- State Aid in FY18 grew by \$10.7M, but assessments increased by \$19.1M, resulting in \$8.4M less state operating revenue for Boston than in FY17.

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Boston's FY18 Budget Increases by 5.0%

The property tax provides 69% of total operating revenue

The City of Boston's adopted fiscal 2018 General Fund operating budget totals \$3.15 billion, an increase of \$148.4 million or 5.0% over the prior year's budget. Personnel expenses totaling \$2.14 billion represent 68% of the recommended budget and 72% of the budget increase. Departmental spending, including reserves for collective bargaining, totals \$2.19 billion, an increase of 4.3%. Spending for mandatory accounts that include health insurance, pensions, debt service and state assessments represents 28% of the budget and grew at a faster pace of 7.3%. Spending for employee expenses due to salaries and additional employees and a higher rate of spending for non-discretionary expenses account for most of the budget increase, but some funds are available for selected new initiatives. The five-year capital budget (FY18-FY22) totals \$2.08 billion and plans on higher borrowing by the City and the utilization of other revenue sources.

General Fund revenue estimates match the expenditure totals with 93% of the total increase coming from the City's own revenue sources. The City relies heavily on the property tax. The net property tax levy (gross levy less overlay) of \$2.16 billion represents 69% of total operating revenue and 77% of the total revenue increase. State aid, the City's second largest revenue source, totals \$440.5 million and accounts for 14% of total revenue, but only 7.2% of the total revenue increase. The City's revenue estimates continue to be necessarily conservative. Supplementing General Fund revenues are \$304.9 million in External Funds, primarily from federal, state and private funding, earmarked for specific purposes.

City of Boston General Fund Revenues & Expenditures Summary

(\$ in millions)

Where the Money Comes From

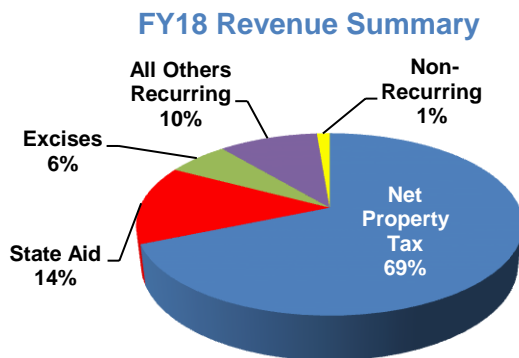
Account	FY17 Current	FY18 June	% of Total	FY17-FY18 Variance	% Variance	% of Increase
Net Property Tax	\$2,047.9	\$2,161.7	68.7%	\$113.7	5.6%	76.6%
State Aid	\$429.9	\$440.5	14.0%	\$10.7	2.5%	7.2%
Excises	\$188.3	\$192.1	6.1%	\$3.8	2.0%	2.5%
All Others	\$331.3	\$351.6	11.2%	\$20.2	6.1%	13.6%
Revenues	\$2,997.4	\$3,145.8	100.0%	\$148.4	5.0%	100.0%

Where the Money Goes

Department	FY17 Current	FY18 June	% of Total	FY17-FY18 Variance	% Variance	% of Increase
Total Departmental	\$1,986.3	\$2,070.7	65.8%	\$84.4	4.2%	56.8%
Non Departmental	\$14.2	\$15.3	0.5%	\$1.1	7.8%	0.7%
Benefits/Mandatory	\$992.9	\$1,059.8	33.7%	\$66.9	6.7%	45.1%
Supplemental for BHA	\$4.0	\$0.0	0.0%	-\$4.0	-100.0%	-2.7%
Expenditures	\$2,997.4	\$3,145.8	100.0%	\$148.4	5.0%	100.0%

Where the Money Comes From

The primary revenue source for Boston's General Fund operating budget continues to be the net property tax which in fiscal 2018 totals \$2.16 billion and represents 68.7% of total operating revenues and 76.6% of the total revenue increase over the prior year. The second largest revenue source is state aid at \$440.5 million followed by excise revenues totaling \$192.1 million. The City is relying on its own revenue sources for 93% of its total operating revenue increase. The City continues to follow its prudent practice of using conservative revenue estimates in developing its operating budget.



Property Tax - The net property tax in fiscal 2018 represents an increase of \$113.7 million or 76.6% of the total revenue increase. The net property tax is the gross tax levy less the overlay set aside for abatements and non-payment of taxes. Due to the decline in abatement applications, this year's overlay was reduced by \$8.4 million which allowed the property tax levy for operations to increase by the same amount. In fiscal 2018, the increase in the property tax comprises the existing base levy increase of 2.5% or \$52.2 million and an estimated \$53 million from new growth. The new growth final budget in fiscal 2017 was \$75 million.

State Aid - State aid for Boston in fiscal 2018 is budgeted at \$440.5 million which represents an increase of \$10.7 million or 2.5%. Even though state aid is the City's second largest revenue source, its increase in fiscal 2018 represents only 7.2% of

the total revenue growth compared with the property tax share at 76.6%. The largest state aid account, Chapter 70 education aid at \$217.4 million, increased by only \$1.3 million or 0.6%. State assessments, are estimated to increase by \$19.1 million primarily due to the charter school tuition assessment. That means the actual net state aid available to Boston for operations in fiscal 2018 is \$8.4 million less than in fiscal 2017.

Other City Revenues - The excise revenue from sources such as the motor vehicle excise, room occupancy excise, jet fuel excise, meals excise and the expected short-term rental housing excise is estimated to total \$192.1 million in fiscal 2018, an increase of \$3.8 million or 2.0%. A short-term rental housing excise of \$3.1 million was added to the Mayor's resubmitted budget in June, but was not included in the final state budget. That gap will be made up with other revenue sources. All other revenue is budgeted at \$311.6 million, an increase of \$24.2 million or 9.9%. Included in this group are revenues from building and other permits, departmental revenues and parking meter fees.

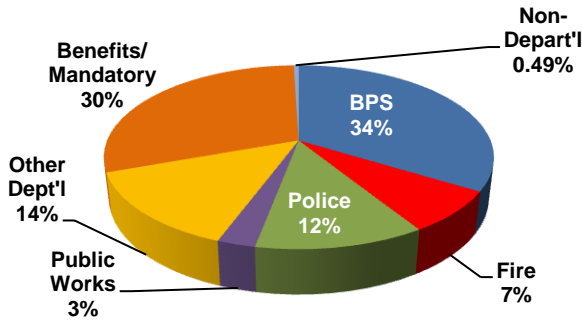
Non-Recurring Revenue - The primary use of non-recurring revenue in the City's fiscal 2018 budget is the appropriation of \$40 million of Budgetary Fund Balance (Free Cash) revenue for the Other-Post Employment Benefit (OPEB) Trust Fund to help fund a portion of the current \$2.26 billion retiree health insurance liability. The OPEB Trust Fund had a balance of \$437 million as of December 31, 2016.

Where the Money Goes

In Boston a significant amount of the total operational spending is accounted for by a small number of budget accounts. That continues to be true in the fiscal 2018 budget in which the top four departments (School, Police, Fire and Public Works) and the top four mandatory accounts (pensions, health insurance, state assessments and debt service) account for \$2.64 billion or 84% of the total fiscal 2018 budget and 76% of the total budget increase. These eight accounts represented the

same budget percent in fiscal 2017, but the fiscal 2018 share will grow when the union contracts are settled and the \$47 million collective bargaining reserve is reallocated to departmental budgets.

FY18 Expenditure Summary



Departmental – The fiscal 2018 budget for departmental services totals \$2.19 billion, an increase of 4.3%. Departmental budgets represent 69.5% of the total budget and 61.2% of the total increase. Departmental spending also reflects a few budget accounts representing a large part of the total budget. The fiscal 2018 budgets of the top four departments of School, Police, Fire and Public Works total \$1.75 billion or 81.9% of the departmental total of \$2.14 billion, not including collective bargaining reserve. The aggregate budget increase of these four departments totals \$52.1 million, an increase of 3.1%.

A second subset of nine departments, including Library, Transportation and Parks & Recreation, received budget increases of at least 4.4%. The aggregate budget in fiscal 2018 for these departments is \$117.4 million which represents 3.7% of the total city budget.

The aggregate budget of the remaining 34 departments, offices or agencies in fiscal 2018 totals \$270.6 million which represents an increase of \$1.6 million or 0.6% over the prior year. Of the 34 agencies or offices, nine have budget increases of 1.0% or less and 17 have budget decreases.

A collective bargaining reserve of \$27 million for city employees and \$20 million for school employees will increase departmental budgets as the respective union contracts are settled.

Personnel Costs – Government service is labor intensive which is why the City’s fiscal 2018 budget for salaries and benefits totals \$2.14 billion which represents 68.1% of the total operating budget and 72.2% of the total city budget increase over the prior year. The increase of employee costs over the prior year is \$107 million or 5.3%. By January 2018, the Administration expects the number of city employees to total 17,399, an increase of 277 employees since January of 2017. The School Department accounts for 130 or 47% of the increase. Salaries total \$1.50 billion in fiscal 2018, an increase of \$72.5 million or 5.1% over the prior year. Over the past five years since fiscal 2013, salary costs have increased by a total of 24.5% or an average annual increase of 4.5% due to salary increases and an increase in employee levels. Pensions, health insurance and other benefits total \$640.9 million in fiscal 2018, an increase of \$34.7 million or 5.7% over fiscal 2017.

Education Spending – The School Department budget for fiscal 2018 is \$1.06 billion, an increase of 2.8%. This budget represents 34% of the total city budget and 20% of the increase. An additional \$20 million has been reserved for BPS employee contracts when settled. Including the City’s state assessment for charter school tuitions of \$174.4 million and the \$20 million contract reserve, the City’s total education cost is \$1.26 billion or 40.0% of the total fiscal 2018 budget.

Non-Discretionary/Mandatory – Expenses for health insurance, pensions, state assessments and debt service total \$886.8 million in fiscal 2018, an increase of \$60.6 million or 7.3%. These four accounts represent 28.2% of the total city budget and 40.8% of the total budget increase. The pension budget increased by \$21.9 million or 11% while state assessments, primarily driven by the

charter school tuition assessment, grew by \$19.1 million or 7.8%.

Total growth of 7.3% for these four accounts significantly exceeds the cost increase of city departmental spending of 4.3%, with the collective bargaining reserve. This faster growth is a contributing factor to the budget tightening of departments, other than the top four.

Resubmittal Budget Changes – The Mayor’s resubmitted budget in June increased the original April budget by \$6.1 million due basically to the funding of the settled AFSCME union contract and an increase of \$3.0 million for retiree cost of living adjustments for retirees. With a green light from the Walsh Administration, the Boston Retirement Board approved increasing the COLA base from \$13,000 to \$14,000 which required the COLA budget increase in fiscal 2018, but more importantly increased the City’s pension liability by \$25.4 million. The added liability is why the Research Bureau opposed the COLA base increase.

Capital Budget – The City’s five-year capital budget (FY18-FY22) approved in June totals \$2.08 billion, an increase of \$152.9 million or 7.9% over last year’s five-year plan. With several planning initiatives of the Walsh Administration now completed, this five-year capital plan is more ambitious in expected bond funding and will expand the reach of the capital budget by utilizing other revenue [sources](#) to support more capital investment. For example, \$85.7 million from the parking meter fund is planned to be applied to transportation-related projects. The City’s sale of General Obligation (GO) bonds represents 60.2% of the capital project financing over the five years, while expected federal and state funds make up 32.8% of the financing and other source represent 7.0%.

In this five-year plan, the City will issue \$950 million of GO bonds, 23% greater than indicated in last year’s plan. The City issued \$150 million of GO bonds in fiscal 2017 and plans to issue \$173 million

in fiscal 2018. The sale of GO bonds will increase to \$200 million in each of the last three years of the plan. Debt service costs will increase from \$175.0 million in fiscal 2017 to \$240.4 million in fiscal 2022, an increase of \$65.4 million or 37.4%. The Administration believes that the annual increase in net debt service will stay within its debt service standard of not exceeding 7% of the budget.

The capital budget of \$2.08 billion is allocated among 17 departments with 79% of the total accounted for by the five [departments](#) of Public Works, School, Parks and Recreation, Library, and Property Management.

Conclusion

The growth of the City’s budget by 5.0% or \$148.4 million in fiscal 2018 should enable the City to meet its basic service needs. Even so, the City must be vigilant in managing its employee expenses which represent 68% of its total operating budget. That means being firm in its negotiations with the 26 city and school bargaining units that have yet to settle. Expected ongoing increases in the non-discretionary accounts of pensions, debt service, health insurance and state assessments will continue to intensify budget pressure on departmental services and require tighter control over personnel expenses.

The City is fortunate that the growth in the property tax from the base levy increase of 2.5% and new growth can represent 77% of this year’s revenue increase. However, the City must prepare for a time when the robust development pipeline will slow down. The Walsh Administration does recognize this fact with its new growth estimate of \$53 million in fiscal 2018 compared with its final budget of \$75 million in fiscal 2017. The Commonwealth is not keeping pace with financial aid to its largest city, an important driver of the state’s economy. One good example is that Boston’s largest state aid account, Chapter 70 education aid, increased by only \$1.3 million or 0.6% this year for a \$1.06 billion School Department budget.