

# Special Report



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## Highlights

- State aid was cut by \$94.3 million or 18.7% with \$23 million cut mid-year in fiscal 2009 and \$71.3 million in fiscal 2010.
- State aid cuts after the Mayor presented his budget in April required the City to further cut spending and increase revenues to plug a \$31.3 million gap.
- While inflation increased by 26%, pensions grew by 56%, health insurance 54% and salaries 24% over the last five years.

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## Boston Approves Balanced FY10 Budget

*City may face more difficult financial challenges in FY11*

As challenging as it was for the City of Boston to achieve a final adopted budget of \$2.394 billion, factors are in play that could make balancing the fiscal 2011 budget even more difficult. This year's operating budget represents a decrease of \$26.3 million or 1.1%. Achieving a balanced budget required a reduction of 689 positions or 4% of the City's workforce including 429 layoffs, a total departmental budget reduction of \$53.9 million or 3.3% and the application of \$55.3 million of non-recurring revenues. Not factored in these figures are the absorption of increased contractual and cost-of-living expenses within the departmental reduction number and the application of \$20.1 million of federal ARRA stimulus revenues. (For more details visit [www.bmrb.org](http://www.bmrb.org))

The financial challenges facing the City will extend beyond one year and could continue into fiscal 2012. A few issues that could make fiscal 2011 more difficult by driving expenditures up and limiting revenue growth include the following:

- Health insurance costs will increase at a higher level than this year's 4.4%. The fiscal 2010 budget of \$275.9 million was due to aggressive negotiating with health insurance providers, the final phase-in of city employees paying

### City of Boston General Fund Revenue and Expenditure Summary

*Figures in Millions*

#### Where the Money Comes From

Account	FY09 Budget	FY10 April Budget	FY10 June Budget	Change April-June	%	Change FY09-FY10 June	%
Gross Property Tax	\$1,400.0	\$1,460.6	\$1,460.6	\$0.0	0.0%	\$60.6	4.3%
Overlay	(35.4)	(35.6)	(35.6)	0.0	0.0%	(0.2)	0.5%
Net Property Tax	\$1,364.6	\$1,425.0	\$1,425.0	\$0.0	0.0%	\$60.4	4.4%
State Aid (Net Pensions)	\$504.6	\$455.2	\$410.3	(\$44.9)	-9.9%	(\$94.3)	-18.7%
Teacher Pensions	105.4	118.8	118.8	0.0	0.0%	13.4	12.7%
Total Excise	91.5	79.9	79.9	0.0	0.0%	(11.6)	-12.7%
Other Recurring	308.8	295.9	304.4	8.5	2.9%	(4.3)	-1.4%
Non-Recurring	45.3	50.3	55.3	5.0	9.9%	10.0	22.2%
<b>General Fund Revenues</b>	<b>\$2,420.1</b>	<b>\$2,425.1</b>	<b>\$2,393.8</b>	<b>(\$31.3)</b>	<b>-1.3%</b>	<b>(\$26.3)</b>	<b>-1.1%</b>

#### Where the Money Goes

Department	FY09 Budget	FY10 April Budget	FY10 June Budget	Change April-June	%	Change FY09-FY10 June	%
Departmental	\$1,625.5	\$1,582.8	\$1,571.6	(\$11.2)	-0.7%	(\$53.9)	-3.3%
Non Departmental	9.7	10.1	10.1	0.0	0.0%	0.5	4.7%
Benefits/Mandatory [1]	784.9	832.2	812.1	(20.1)	-2.4%	27.1	3.5%
<b>General Fund Expenses</b>	<b>\$2,420.1</b>	<b>\$2,425.1</b>	<b>\$2,393.8</b>	<b>(\$31.3)</b>	<b>-1.3%</b>	<b>(\$26.3)</b>	<b>-1.1%</b>

[1] Includes health insurance for schools and city, pensions, debt service, MBTA etc.

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an additional 5% over two years for insurance premium costs and the introduction of a new lower-cost but comparable indemnity plan. These factors will not be repeated in fiscal 2011.

- Pension costs will grow to \$238 million in fiscal 2011 based on the current schedule, an increase of \$10.1 million. If the Administration requests an actuarial analysis of the State-Boston Retirement System as of January 1, 2009, the 25% asset loss in 2008 would be recognized sooner and require a higher than normal growth rate over the next few years.
- The City's negotiated wage-freeze with 22 unions that produced \$8.7 million in savings for fiscal 2010 is not anticipated to be repeated in fiscal 2011.
- Most of the City's collective bargaining contracts will expire on June 30, 2010 and would add significant spending pressure if new contracts were negotiated. It is not expected that the next Mayor will rush to negotiate new contracts but the employees who agreed to the wage freeze will receive credit for the fiscal 2010 salary increase in June 2010 which will produce a salary increase in fiscal 2011 even if new contracts are not negotiated that year. Also, salary step increases total \$14.5 million this year and will increase personnel spending at a

similar level next year without a new contract.

- State aid to Boston is expected to decrease in fiscal 2011 as a consequence of the Commonwealth's reliance on reserves this year that will not be available in fiscal 2011. In fiscal 2009, the state started out with a rainy day fund balance of \$2.1 billion but due to changing revenues and expenditures factors, the reserve balance may be closer to \$500 million by the end of fiscal 2010. In order to pay the last quarter's Chapter 70 education state aid to cities and towns in June, the state used federal state stimulus funds that were intended for fiscal 2011.
- New growth in property tax revenue is expected to be less than the \$25 million estimated in fiscal 2010 as access to credit continues to be tight and the market for commercial space is soft due to increasing vacancy rates as businesses continue to down-size positions.
- The City relied on several one-time revenue increases in fiscal 2010 that likely will not be duplicated in fiscal 2011. To balance the budget in June, the City utilized an additional \$5.0 million in budgetary fund balance reserves (free cash), bringing the total to \$45 million, up \$10 million from fiscal 2009. Due to a delay in administrative rule changes, Municipal Medicaid

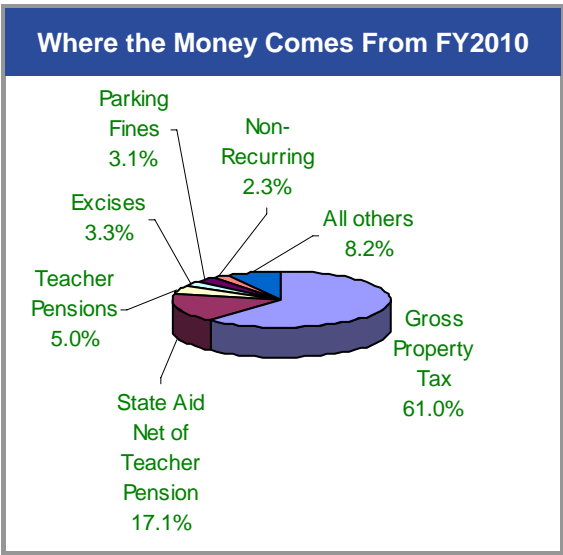
### **State Aid 9C Cuts in Fiscal 2009**

Further impacting Boston's revenue picture are reductions in state aid that occurred half-way through fiscal 2009. In January 2009, acknowledging that state revenues would not reach adequate levels to pay for the authorized budget, the Governor authorized \$128 million in 9C local aid cuts for fiscal 2009, reducing the Lottery and Additional Assistance aid amounts by 9.7%. This resulted in a \$23 million cut for Boston (-\$16M Additional Assistance and -\$7M Lottery). Despite occurring halfway through the fiscal year, the City was able to tighten spending, not fill vacant positions, gain spending efficiencies and utilize fiscal 2009 revenues that are expected to exceed budget estimates to manage through this reduction. Some budget measures that were initiated as part of the fiscal 2010 budget process produced savings in fiscal 2009. With the \$23 million 9C cuts addressed in fiscal 2009, the City had to manage state aid cuts of \$71.3 million in developing a balanced budget for fiscal 2010.

reimbursement to Boston increased by \$5 million for a total of \$10 million in fiscal 2010.

- Boston’s federal Title I school funding will face a sharp decrease next year based on the President’s current proposed fiscal 2010 budget. If realized, this reduction will put pressure on city operating funds to restore services. Other federal education funds may be flat or experience reductions next year.

**Revenues in Brief -** Boston’s two primary General Fund revenue sources, the property tax and state aid, represent 78.1% of the total \$2.394 billion budget, but moved in opposite directions this year. The property tax increased by \$60.6 million or 4.3% over fiscal 2009.



State aid decreased by \$94.3 million, 18.7% from the start of fiscal 2009. An additional \$5.1 million in operational state aid was approved after the City’s budget was adopted. However, external state education grants are expected to be cut by an even greater amount this year offsetting this gain.

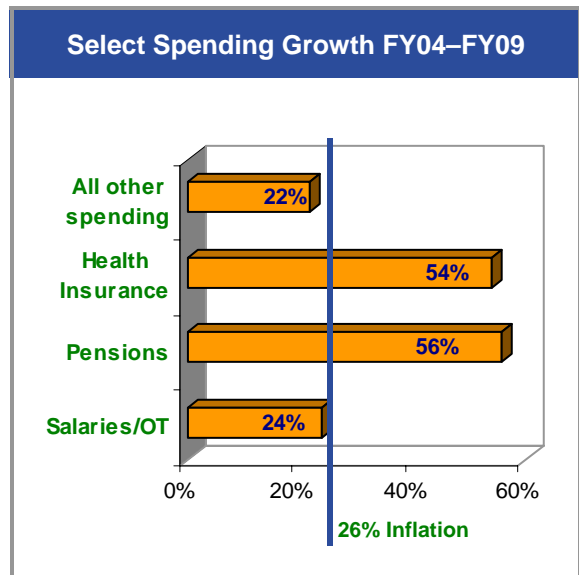
City own-source revenues directly tied to the economy will decrease, contributing to an overall cut in other city revenues of \$16 million or 4% from fiscal 2009. Some accounts, such as parking fines, payments-in-lieu-of-taxes and

parking meter fees will experience growth in fiscal 2010.

The faltering economy and corresponding cutbacks in state aid have forced the City to rely on reserves (free cash) for an unprecedented \$45 million in fiscal 2010. This budget also uses surplus property disposition funds and proceeds from the sale of property for a total of \$10 million.

**Spending in Brief -** Declining revenues coupled with increased spending for health insurance, pensions and debt service required significant reductions at the departmental level. Collectively, departmental spending will drop by \$53.9 million or 3.3% from fiscal 2009, which is achieved through the reduction of employees, reorganization of programs and curtailing of some services. This budget anticipates a workforce reduction of 689 positions, with 429 due to layoffs. No police officers will be laid-off due to the receipt of a federal COPS grant that will support 50 positions and due to expected attrition.

Spending for pensions, health insurance and salaries continue to push the budget upward, requiring reductions in other areas. Over the last 5 years, these accounts have grown from 65% of total General Fund spending to the current 67%.



**FY10 Original Budget vs. Final** - In April, the Mayor recommended a fiscal 2010 budget of \$2.425 billion, a \$5 million or 0.2% increase over fiscal 2009. However, this budget changed due to the finalization of the state budget. Actions by the Legislature reduced Boston's revenues by an additional \$44.9 million. In order to limit the amount of further spending reductions needed to meet this revenue cut, the City used more in reserves than originally planned (+\$5M), increased parking meter fund revenues (+\$3M) and Medicaid reimbursements (+\$5M).

Ultimately, the City reduced spending by \$31.3 million from the original April to final June budget. Nearly 40% of this decrease was due to final state assessments (MBTA and charter school tuition) being \$12.3 million less than first estimated. The Police Department budget was reduced by \$7.3 million due to the elimination of Quinn Bill benefits by the Legislature. The City also reduced funding for Other Post Employment Benefits (OPEB) by \$5 million. All departments with more than \$2 million in permanent employee spending, except School, Police, Fire and Library, were cut 1%.

<b>Spending Changes by Account, April-June Budget</b>				
<i>Figures in Millions</i>				
<b>Accounts</b>	<b>FY10 April Budget</b>	<b>FY10 June Budget</b>	<b>Variance June-April Budget</b>	<b>% of Cut</b>
Personnel Services	\$1,241.5	\$1,234.0	(\$7.5)	24%
Contractual Services	281.8	280.9	(0.9)	3%
Supplies & Materials	27.4	26.1	(1.4)	4%
Current Charges & Obligations	225.8	224.7	(1.1)	3%
Equipment	17.7	16.9	(0.8)	3%
Other	84.0	83.5	(0.5)	2%
Pensions (SBRS)	227.9	227.9	0.0	0%
Debt Service	133.3	131.5	(1.8)	6%
State Assessments	156.0	143.6	(12.3)	39%
Suffolk County (net pensions)	4.3	4.3	0.0	0%
Housing Trust SEIU	0.3	0.3	0.0	0%
OPEB	25.0	20.0	(5.0)	16%
<b>GRAND TOTAL</b>	<b>\$2,425.1</b>	<b>\$2,393.8</b>	<b>(\$31.3)</b>	<b>100%</b>

**New Excise Revenues** - The Legislature recently approved a 2% increase in the local hotel room excise and a new local 0.75% meals tax. An estimated \$18 million in new revenue is anticipated for eight months of collections if Boston adopts these taxes. In light of the fiscal challenges in fiscal 2011, the City should restrict its use of these funds this year, if adopted, to restoring the cut of \$5 million in the OPEB reserve and other very limited essential needs.

### **Hard Choices in Fiscal 2011**

Continued financial challenges in fiscal 2011, following the steps taken this fiscal year to balance the operating budget, will force hard choices next year. The City will need to consider additional steps for restructuring and reprioritization of city services and decide what levels of city and school employees are sustainable over the next few years. City departmental budgets this year were all impacted but no department was abolished and no dramatic changes in services were required. A few examples of policy options that should be discussed for fiscal 2011 include:

- Require all eligible retirees to enroll in Medicare to transfer a significant portion of health insurance costs to the federal government. The City should adopt Chapter 32, Section 18 to achieve meaningful savings now. Over 1,700 city retirees are eligible to enroll in Medicare but have not.
- Evaluate the feasibility of reducing fire stations in Boston based on fire incidences and proximity to other nearby stations. Eliminating redundancy in fire stations should be a priority.
- Discontinue the maintenance of fire boxes and transfer the administration of master fire boxes to private security firms.
- Implement a competitive service delivery program to require competitive bids for services provided by city employees but also performed by private vendors. This program has been utilized successfully by cities around the country.