

# SPECIAL

## BOSTON MUNICIPAL RESEARCH BUREAU

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# REPORT

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## BOSTON IN FY2003: SETTING PRIORITIES & MANAGING BETTER

The certainty of additional local aid in fiscal 2003 has created a new challenge for Boston. The desire to address unfunded budget priorities should be balanced with a cautious application of estimated additional state aid at this time. Decisions made now need to reflect the reality that the City is facing a 2-3 year fiscal problem and that future spending should be controlled and management improvements and cost saving initiatives should be implemented. Based on its review of the budget, the Council's Ways and Means Committee has issued a report listing its spending priorities and management recommendations. The Mayor will respond to this report and show how the Administration plans to allocate at least a portion of the expected additional local aid when he re-submits his revised fiscal 2003 budget to the Council on June 18<sup>th</sup>. A week later on June 26<sup>th</sup>, the Council is expected to act on the Mayor's recommended fiscal 2003 operating budget.

### FISCAL 2003 AT A GLANCE

On April 10<sup>th</sup>, Mayor Menino presented his fiscal 2003 recommended operating budget to the City Council totaling \$1.784 billion, an increase of only \$12.6 million or 0.7%. This budget follows nine years of steady spending growth. Property taxes were estimated to increase by \$58.2 million while state aid was budgeted at \$65.4 million below funds available in fiscal 2002. Other recurring revenues brought revenues even with spending, leaving the use of \$12.0 million in reserves to fund the budget increase. City spending was expected to increase for debt service, pensions and refuse collection and disposal. Despite initial concerns of a potential financial crisis, the Administration was able to balance its fiscal 2003 budget responsibly without significant cuts to basic services or major reductions in personnel by tightening spending, reducing the City's overlay reserve and using a limited amount of reserves. Most union contracts expire on June 30<sup>th</sup> and salary increases from contracts to be negotiated were not included in this budget.

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### INCREASED STATE AID

The Mayor's recommended budget planned on a 10% across-the-board reduction in state aid as suggested by the House Ways and Means Committee. However, the House on May 16<sup>th</sup> and the Senate on June 13<sup>th</sup> approved approximately \$1.2 billion in new taxes that enabled both houses to approve budgets that would increase Boston's local aid by \$40-\$55 million over its current recommended estimate. However, this range may be reduced, depending on how the House/Senate Conference Committee addresses the fact that current estimates of fiscal 2003 state revenues are approximately \$500 million below the amounts now budgeted. Final local aid distributions may not be known until after the city budget is approved.

### MANAGING THE FISCAL 2003 BUDGET SMARTER

The certainty of additional state aid does not lessen the importance of the Mayor and Council moving forward with the management changes and cost savings planned for most departments. After nine years of steady growth, spending needs to be slowed, expectations need to be more realistic and new approaches to providing cost-effective services should be initiated. Specifically, the Bureau recommends that the City should:

- **Focus attention on improving service delivery and cost savings** - Last month the Bureau issued a report, *A Budget Correction: Boston's Financial Picture 1997-2004*, that made several recommendations to cut costs and improve basic service delivery that should be adopted by the City. These recommendations cover areas such as work force reduction, adoption of competitive service delivery (i.e. custodial services in 3 new schools), departmental operation reviews and student assignment. These steps should be addressed first before any consideration is given to new revenue sources.
- **Limit the Early Retirement Incentive (ERI) program** - The Administration expects to realize approximately \$2.0 million in fiscal 2003 salary savings with approximately 250 employees opting for the ERI and backfilling positions that cost no more than 20% of the achieved salary savings. The Administration should not include Group 4 (public safety) employees in the ERI since each of these retirements would have to be filled due the critical nature of these positions, creating a net cost to the City.
- **Assign more police officers to street patrol** - The Police Department should proceed with its plan to transfer officers currently performing certain desk duties to assignments in the field, with civilians assuming the administrative/clerical responsibilities. This administrative transfer, the addition of a police class that graduates in September and the expectation that fewer officers will retire this year than first anticipated should preclude the need for a new police class in 2002. A new class in 2003 will be needed to offset retirements anticipated after July 2003.

## ALLOCATING ADDITIONAL STATE AID

Boston should be conservative in its estimate of any additional state aid that is applied to the City's fiscal 2003 budget next week. Even so, some decisions can be made now even if final state aid is not known until after June 30<sup>th</sup>. Unexpected costs since April 10<sup>th</sup>, such as higher refuse collection and disposal bids, will absorb some funds. Depending on the amount of aid available, other items for consideration include the following:

- **Address strategic Boston Public School needs** - The recommended fiscal 2003 budget forced deeper cuts in the BPS than in other departments. Critical school-based teaching and other positions planned to be eliminated for budget reasons should be restored. The budget for repair and maintenance needs in the schools should be increased, as should funds for direct service support for summer school and transitional programs.
- **Do not use the \$12.0 million reserve** - The current economic slowdown is expected to create a 2-3 year fiscal problem for the State and City and is not a one-time occurrence. Given the uncertainty of future state aid, the City should retain the \$12.0 million in the Undesignated Fund Balance account.
- **Fund a reserve for collective bargaining** - Approximately 21 labor contracts that affect approximately 7,500 city workers will expire on June 30<sup>th</sup>. Negotiation of these contract renewals will be a key issue in fiscal 2003 even though contract talks may not be finalized this year. A reserve of 1%-2% of salaries should be funded in this budget to prepare for this expense.
- **Affordable Housing** - In the future, the City should allocate operating funds to the general fund housing account on an annual basis. However, before initiating this plan, the Administration should address the factors that delay the execution of its \$33 million, three-year *Leading the Way* housing program. Of the initial \$13 million appropriated to this program in fiscal 2001 from non-recurring revenues, only \$9.1 million has been spent to date.
- **Add a new police class** - The budget should include funds for a new police class to be ready by July 2003 when a larger number of retirements are expected due to the first round of officers retiring after having earned three years of higher Quinn Bill salaries. The City will then have to begin funding larger annual pension costs based on these higher salaries.
- **Restore the Boston Finance Commission's budget** - The cut of \$92,000 has been politically costly to the Mayor. Recommendations by the Finance Commission will generate savings far greater than the dollars restored.
- **Increase support for the Cultural Affairs budget** - The creativity of arts and culture is an important factor in establishing an urban environment attractive to businesses and individuals. The arts have shown to contribute to growth in Boston's neighborhoods. The city appropriation for the Office of Cultural Affairs should be increased.