

# Special Report

July 7, 2004



No. 04-4

## BY THE NUMBERS The FY05 Budget:

### ■ Totals \$2.26B for all funds:

Operating.....\$1.92B  
Grants.....\$0.34B

### ■ Increase from FY04 \$72.4M

% increase  
3.9%

### ■ Increase goes to:

Union contracts.....\$46.8M  
Health insurance..... \$19.7M  
Pensions.....\$9.6M

All other costs drop...(\$3.6M)

### ■ 5-year capital plan \$1.10B

### ■ Employees 16,048 (FTE)

## BOSTON'S FISCAL 2005 BUDGET

### Limited Growth Goes To Contracts, Benefits

Boston will sustain its workforce numbers and provide at least the same level of services to the City's residents and businesses as it did last year. The City earmarked the fiscal 2005 budgetary increase of \$72.4 million to collective bargaining and increases in health insurance and pension costs in its \$1.92 billion operating budget approved by City Council on June 30<sup>th</sup>. Departmental spending, excluding health insurance and collective bargaining, actually decreases by \$6.2 million in fiscal 2005 from the prior year. The clear and present need to fund employee union contracts and keep pace with the rising cost of benefits dictated the City's actions. Moving forward, the City should continue to act on the urgency to find more efficient and less costly ways to provide services. Implementing cost-effective measures is particularly important now because revenue growth could remain slow in the future, while cost pressures will continue to rise.

This report highlights what the fiscal 2005 budget provides for the City, details where the money comes from and where it goes, and explains the need for continued prudent fiscal management.

## WHAT THE \$1.92 BILLION BUDGET DOES

■ **Funds Collective Bargaining Agreements:** The City dedicated \$53.7 million for fiscal 2005 contract costs (\$21.6 million for the BTU and principals and \$32.1 million for all other bargaining units). These funds will support the City's 37 employee contracts and the Public Health Commission's nine contracts.

■ **Retains Personnel Levels:** The City's workforce is projected to remain level at 16,048 full-time equivalent positions by January 2005. This comes after the City's budget contracted in fiscal 2002-2004, which led to a reduction of 1,522 full-time equivalent positions or 8.7% over the past two years.

■ **Funds 2 New Police and Fire Classes:** Two new "replacement" classes for each department will replenish losses due to attrition. The Police Department will bring on 68 recruits, the Fire Department 60.

■ **Maintains Level Service Budget for Schools:** Overall, schools will be able to sustain the approximate level of instruction and services funded in their fiscal 2004 budget. Limited supplemental resources are available for under-performing schools that in future years will require strategic planning and greater resources to address.

■ **Pilots a Prescription Drug Alternative:** A voluntary program designed to reduce health insurance costs, which have grown by 71.6% since fiscal 2000. Members of the City's indemnity plan will be able to fill their prescription needs with a limited number of brand name prescription drugs purchased from Canada through a vendor contracted by the City. First year savings are estimated at about \$1.0 million.

## General Fund Revenue

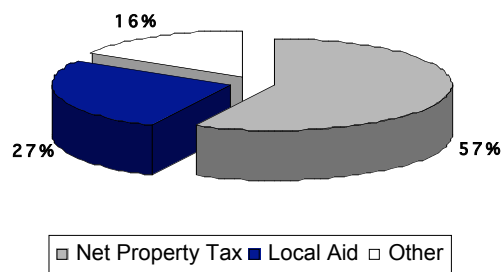
### By the Numbers

- The \$72.4 million increase breaks out as follows:

Net property tax	\$47.9M	66.2%
Local aid	9.4	13.0
Excises	7.8	10.8
Other	7.3	10.0
<b>Total</b>	<b>\$72.4M</b>	<b>100.0%</b>

- Property taxes and state aid continue to hold the largest share of general fund revenues, representing \$1.61 billion or 83.9% of the fiscal 2005 total.
- For the second year in a row, the City will use a portion of its budgetary fund balance, or free cash, to balance the budget. The \$15.0 million amount for fiscal 2005 is \$10.0 million less than fiscal 2004.

**FY05 Revenue Distribution**



**Property Tax** – The gross property tax is budgeted at \$1.14 billion, \$49.8 million or 4.6% over fiscal 2004. Of the \$49.8 million increase, the annual 2.5% levy increase allowed by Proposition 2\_ is \$27.3 million or 54.8% of the total, and taxable new growth is \$22.5 million or 45.2%. Excluding the overlay for abatements, the net property tax for spending is \$1.10 billion, \$47.9 million or 4.6% more than in fiscal 2004. The City's reliance on the net property tax as a percentage of all revenues has grown from 50.3% in fiscal 1999 to 57.2% in fiscal 2005. In fact, today Boston relies almost as much on the property tax as a percent of revenue (57.2%) as it did in fiscal 1981 before Proposition 2\_ went into effect (60.9%).

The \$22.5 million in estimated new taxable growth is the lowest amount since fiscal 1999 and is \$10.3 million less than in fiscal 2004. Less new

commercial office construction is expected due to lower demand in light of slow job creation, current vacant space and declining rents.

<b>Property Tax Growth</b>		
<b>FY04 - FY05</b>		
<b>(Figures in 000s)</b>		
	<b>FY04</b>	<b>FY05</b>
<b>Gross Levy</b>	<b>\$1,093,937</b>	<b>\$1,143,785</b>
<b>Overlay</b>	<b>(\$42,074)</b>	<b>(\$43,992)</b>
<b>Net Property Tax</b>	<b>\$1,051,862</b>	<b>\$1,099,793</b>
Change	\$55,832	\$47,931
%	5.60%	4.60%

Enforcement initiatives to capture new personal property value were successful over the past few years but will have lesser results going forward. Last year, the state Department of Revenue's change in the definition of taxable telecommunication property created a one-time increase in value for Boston. The City could experience less new taxable growth in fiscal 2006 and fiscal 2007 as well. New growth has averaged 57.8% of overall levy growth in the last five years, but represents only 45.1% in fiscal 2005.

**State Aid** – Some stability has returned to local aid in fiscal 2005, with the state funding set at \$520.6 million, \$6.6 million more than the City budgeted. As a result, the City will have a little more flexibility in its operating budget to meet spending needs in fiscal 2005 as they arise. Maintaining basic service delivery in the face of a \$78.9 million decline in local aid was the City's major budget challenge over the last two fiscal years.

Fiscal 2005 local aid represents an increase of \$15.6 million or 3.1% over the fiscal 2004 Cherry Sheet amount. The three biggest accounts of Chapter 70, Additional Assistance and Lottery remained level. The increase is due primarily to reimbursements for teacher pensions and charter school tuitions.

In addition, the fiscal 2005 local aid amount represents about 12.0% of local aid to all municipalities. Boston's share of the total local aid has steadily decreased since fiscal 1993 when the City's share was 16.6%.

**Other Revenues** – In aggregate, other revenue sources will grow by \$15.1 million or 5.1% from fiscal 2004. The jet fuel and hotel/motel excise taxes are both expected to increase by \$2.5 million. Even

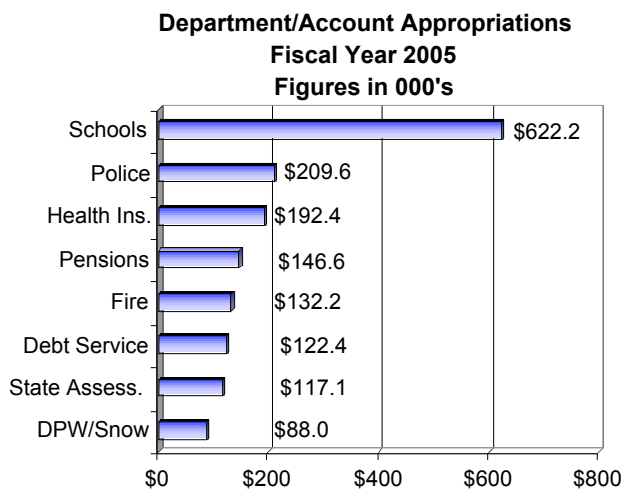
larger are the budgeted increases for motor vehicle/boat excise (+\$2.7 million) and investment income (+\$3.1 million) accounts. Other accounts make up the balance.

## GENERAL FUND SPENDING

### By the Numbers

- The \$72.4 million or 3.9% growth in spending is the strongest year-to-year percentage growth since fiscal 2000, when spending grew by 6.5%.
- Of the \$72.4 million, increases for collective bargaining (\$46.8 million), health insurance (\$19.7 million) and pensions (\$9.6 million) total \$76.0 million. All other costs decrease by \$3.6 million.
- The budget allocates 84.7% of spending to eight of 60 departments and services.

**Departmental Spending** – While City departmental spending, excluding schools, will increase by \$27.8 million, \$25.2 million or 90.4% is earmarked for collective bargaining contracts. Net this amount, fiscal 2005 departmental spending is basically flat, increasing by only \$2.7 million or 0.4% from fiscal 2004.



**Note:** School budget does not include health insurance.

**Collective Bargaining** – The City budgeted \$53.7 million for union contract settlements for fiscal 2005, \$46.8 million more than after the fiscal 2004 tax rate was set. The \$53.7 million will provide slightly over 2.0% for salary increases in fiscal 2005 consistent with the contract proposals on the table or settled. For more on funding Boston's collective bargaining contracts, see *Special Report* No. 04-2 at [www.bmr.org](http://www.bmr.org).

**Schools** – The BPS budget is \$622.2 million, an increase of \$13.4 million or 2.2% from fiscal 2004. This amount includes \$21.6 million in contract expenses for the BTU and principals, and excludes health insurance costs of \$53.3 million that are grouped with city benefits. Resources for one-time expenses in fiscal 2004 due to early retirement and unemployment compensation became available in fiscal 2005 to support other spending. Overall, this budget will allow

schools to receive a roughly level service budget based on size, grade level and program offering. It does not begin to restore any of the 8% cuts in school spending from fiscal 2003. Important priorities supported by the budget include summer transition programs, four new Pilot schools, supplemental resources for under-performing schools and high school restructuring.

**Police:** Two new classes of recruits will replenish losses due to attrition - 38 in the fall and 30 in the spring. The Police Department's fiscal 2005 budget of \$209.7 million without contract increases is \$1.7 million less than the prior year as a result of one-time costs incurred in fiscal 2004. Departmental goals in fiscal 2005 continue to be the use of technology in the field, the transition of officers from administrative to direct service positions, and better overtime management based on a new overtime tracking system.

**Fire:** The Department will bring on classes of 30 recruits each in the fall and spring. The Department's fiscal 2005 budget of \$132.3 million is an increase of \$342,368 or 0.3% from fiscal 2004. One of the major focal points for the Department in fiscal 2005 is the management of overtime related to sick and injury costs. The City spends approximately \$50.0 million annually on injury costs, \$20.0 million or 40.0% of which comes from the Fire Department. In an attempt to reduce these costs, the Department will emphasize injured leave case management in fiscal 2005.

**Public Works:** The DPW appropriation will increase by \$6.9 million or 9.4% from fiscal 2004. The transfer of the maintenance of pavement markings, streetlights and traffic signals from the Transportation Department represents about \$2.1 million of the increase, while the rest comes from increased utilities (+\$1.6 million) and the increase in refuse contracts (+\$3.2 million).

## SPENDING FOR EMPLOYEES

### *By the Numbers*

- Overall spending for employees is budgeted at \$1.34 billion for fiscal 2005, an increase of \$96.6 million or 7.8% from fiscal 2004. Employee costs represent 69.7% of the fiscal 2005 budget.
- Spending for salaries and overtime is \$956.7 million, a \$74.8 million or 8.5% increase over fiscal 2004.
- Benefits are budgeted at \$384.2 million, an increase of \$21.7 million or 6.0% over fiscal 2004.

**Health Insurance** - Health insurance costs for fiscal 2005 of \$192.4 million grew by \$19.7 million or 11.4% from last year. While the City's operating budget has grown by 19.1% since fiscal year 2000, health insurance costs have grown by 71.6%. Even so, the City still pays 90.0% of the premiums for the HMO plans and 75.0% for the indemnity plan. The absorption of these growing costs represents an indirect salary increase for employees. The cost for all employees including schools would have been higher had the City not reduced the number of HMO health care providers from four to two in fiscal 2004. The City's drug importation pilot program is designed to help mitigate these rising costs.

**Pensions** - Pension costs for fiscal 2005 are budgeted at \$146.6 million, an increase of \$9.6 million or 7.0% over fiscal 2004. Approximately \$3.0 million or 31.3% of that increase is due to the first-year retirement costs associated with the 476 participants in the fiscal 2004 Early Retirement Incentive program. The remaining \$6.6 million is an increase in pension payments based on the current actuarial pension schedule. The next schedule for fiscal years 2006-2008 will require a substantial increase in pension spending due to asset loss and increased liability from retirements.

**OTHER FY05 HAPPENINGS** - Other selected items in the budget include:

- The Office of Special Events and Tourism has been moved from the Basic Services Cabinet to the Mayor's Office Cabinet to form the new Arts and Cultural Development Department.
- To create efficiencies, the Property and Construction Management Department will assume preventive maintenance and repair of the

plant and equipment in 26 Boston Center for Youth and Family buildings.

- The Department of Public Work's summer youth street cleaning program has been restored.

## GRANT FUNDS

In addition to the General Fund, \$335.4 million in external grant funds is expected to be received in fiscal 2005. Three departments - School, Neighborhood Development and Homeland Security - are expected to receive a combined \$257.6 million or 76.8% of total grants. New in fiscal 2005, the Office of Homeland Security was created to coordinate interdepartmental and intergovernmental homeland security grant programs totaling \$44.1 million. Grant estimates have increased by \$26.1 million or 8.4% from fiscal 2004.

## CAPITAL BUDGET

Boston's five-year capital budget (fiscal 2005-2009) "Together, We CAN" (Cities Are Neighborhoods), reflects Boston as a city of neighborhoods and the capital plan's design as an integrated tool to meet neighborhood needs.

The five-year plan supports 491 capital projects at a projected investment of \$1.10 billion, most of which will go to schools, public works and parks projects. Highlights include \$39.8

million to build an addition to the Burke High School with a neighborhood branch library and gym, continued funding of the Back Streets program to construct public infrastructure to support commercial and industrial areas in neighborhoods, and fund improvements to the Strand Theater and various parks throughout the city.

The \$1.10 billion capital budget is a \$100.8 million or 8.4% reduction from last year's five-year plan, and reflects efforts to balance capital needs with controlled spending. The City's general obligation borrowing in fiscal 2005 will total \$75.0 million, \$10.0 million more than in fiscal 2004. Debt service is budgeted at \$122.4 million, and represents 6.4% of operational spending, well within the City's 7% standard.

FY05 Capital Authorization (000's)		
Dept.	Amount	%
BPS	\$38,587	41.0%
DPW	15,685	16.7
DND	13,800	14.7
Parks/Rec.	10,585	11.3
Fire	4,654	4.9
Other	10,712	11.4
Total	\$94,022	100.0%

## CONCLUSION

While the workforce and services will remain stable in fiscal 2005, it is not time to celebrate just yet, as revenue growth may be slow in the coming years while the cost of doing the business of local government will continue to rise. Therefore, it is important for the City to continue to identify ways to reduce costs and make operations more efficient.

Over the coming year, the Administration will study suggestions for greater efficiencies, some put forth by the City Council. The long-term financial implications of any recommendation should be assessed carefully, especially the idea of merging the Municipal Police with the Boston Police Department.