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## Boston Projects Budget Shortfall in Fiscal 2010

*Early projections do not reflect latest turmoil – bigger problem now expected*

City officials are backing away from an early estimate of a budget shortfall in the next fiscal year because national and state economic conditions have worsened and the problem is now more serious. Officials in August estimated a shortfall for FY10 of over \$30M but that assumed increases in state aid, interest on investments and building permits. Since then, the Federal Reserve Board has reduced the federal fund rate two times to 1.0% and the state is expected to cut local aid in FY10 as it responds to changes in state income, sales, corporate and capital gains taxes. The deteriorating financial picture makes it clear that the August shortfall estimate could be significantly increased and city and schools officials need to begin preparing for this challenge now.

After the City Council approves the next fiscal year's operating and capital budgets in June, the Administration publishes the adopted budget to reflect any changes made. Not commonly known is the fact that this budget also includes a feature not found in the Mayor's original submission - a two-year summary budget that shows the city budget just approved and a projection of the budget a year from now. That budget was finalized in August and projected a shortfall of over \$30M.

In the two prior completed fiscal years, the second year's budgets projected a small shortfall and the City ended the year with a \$15.2M surplus in FY07 and a \$15.8M surplus in FY08 due to conservative revenue estimates and spending controls. However, the original FY10 projection was tighter than in the past and revenue estimates

projected increases in accounts that will likely decrease next year.

Based on current staffing levels and expected costs for union contracts, benefits, energy and other contractual obligations and inflationary growth, total operational expenditures were projected last August to increase by over 5%. At the same time, state aid and revenue sources directly affected by the economy that were projected to increase slightly, such as motor vehicle excise and interest on investments, will likely decrease. Current talk by state leaders of a possible reduction in next year's state budget in the ballpark of 8% would translate into a cut in Boston's local aid of approximately \$40M. Next year's budget problem is getting bigger and will be more difficult to solve since some tools used to reduce spending during the last recession will not be available. The Mayor's response to this situation will be known on April 8, 2009 when he presents his recommended FY10 budget to the City Council.

### FY09 December Budget Adjustments

The City will set its FY09 tax rates in December and at that time it can adjust its revenue and spending estimates based on more current information to insure a more balanced budget. The Administration is in the process of reviewing the trends of revenue sources such as motor vehicle excise, interest on investments and building permit receipts to determine if any adjustments are needed this year. Steps to control costs through a hiring freeze were initiated by the Administration in October.