

June 2010

## Mayor Menino's Resubmitted FY11 Budget

*Increases recommended for School and Library Departments but fiscal uncertainty looms*

The Mayor's revised \$2.3B budget for FY11 is \$49.4M or 2.2% higher than the FY10 budget and it represents a net increase of \$4.1M over his original April submission, excluding the teacher pension reductions in revenues and expenses. The Library budget was increased by \$654,450 to enable the four branch libraries designated for closing to stay open for a total of nine months to further facility planning. The BPS received an added \$2.5M to retain 42 of 83 custodians slated to be laid off. Full funding of the firefighter's contract in FY11 required an additional \$782,160 beyond funds reserved. [See related table.](#)

### Teacher Pensions

The revised FY11 budget is the first to reflect new legislation that requires actuarial funding of Boston teacher pensions rather than pay-as-you-go and the transfer of teacher pension assets to the state PRIT fund for investment. The change resulted in Boston's expenses being reduced by \$127.7M and its revenues decreasing by \$126.9M for a net revenue benefit in FY11 of \$861,209. The savings were applied to the new city budget expenses.

### Fiscal 2012

The escalating fiscal challenges facing Boston over the next 2-3 years must be of paramount concern as the Mayor and City Council finalize the FY11 budget. Hard choices will continue to have to be made as all expectations are that FY12 will be even more difficult with deeper local aid cuts as one-time

resources used by the state will be far less available in FY12. FY13 will not fare much better without significant employment growth in Massachusetts.

### Issues to Watch

**Reserves** - This budget relies on \$45M of reserves to support ongoing operating expenses. Boston's budgetary fund balance (Free Cash) was certified by the state at \$139M which leaves a balance of \$94M that should be retained to address revenue shortfalls and unanticipated costs over the next two years. A cash reserve of \$94M for a \$2.3B operation is far less than recommended by the Governmental Finance Officers Association or proportionately required by the large non-profit institutions in Boston.

**OPEB** - The Mayor has recommended an appropriation of \$35M for a trust for retiree health insurance costs when due. This amount represents a small fraction of what would be required if a formal funding schedule were adopted. Based on the most recent actuarial schedule, Boston's required annual contribution (ARC) in FY11 would be \$372.7M. Of that total, \$141.6M represents the estimated normal cost that will be earned by active employees in FY11 even though it will be paid after retirement. Last year the City Council forced a cut in this account from what had been recommended. That should not be repeated with this budget.