

April 2015

## Excise Receipts: Boston's Fastest Growing Revenue Source

*Excise growth is increasingly important as the City relies more on its own-source revenues*

Mayor Walsh's FY16 preliminary budget relies on \$179.9M in excise revenue. At 11% of total revenues, excise receipts represent a small but important source of recurring revenue for Boston. Between FY06 and the FY16 budget excise revenue increased by \$90.2M or 100.6%, compared to total revenue growth of 35.7%. This growth in excise revenue helped mitigate a \$43.2M or 9.3% decline in state aid, the City's second largest revenue source.

### Excise Tax Revenues

*in millions*

Excise Tax	FY06	FY16	Change	%
Motor Vehicle/Boat	\$50.2	\$48.7	-\$1.5	-3.0%
Meals	0.0	25.5	\$25.5	
Room Occupancy	18.0	77.0	\$59.0	327.8%
Vehicle Rental	0.0	1.3	\$1.3	
Aircraft Fuel	19.9	27.0	\$7.1	35.4%
Condo Conv.	1.6	0.5	-\$1.1	-69.5%
<b>Total Excise</b>	<b>\$89.7</b>	<b>\$179.9</b>	<b>\$90.2</b>	<b>100.6%</b>

With a heavy reliance on the property tax and relatively flat state aid growth, additional recurring revenue from excises are favored because they are paid by those who use the services to which the excises apply and consequently a good portion of the excises is exportable to commuters and visitors to Boston. The City does not have the authority to establish excises on its own, but must depend on state approval. Excises are currently applied to motor vehicles, vehicle rentals, boats, condominium conversions, aircraft fuel, hotel and motel room occupancy, and restaurant meals. These excises are all affected by changes to the local economy and annual estimates must be evaluated carefully.

### Excise Growth

The following factors have contributed to excise revenue growth in recent years.

- In FY11 the City refinanced its Boston Convention and Exhibition Center (BCEC) bonds, which allowed room occupancy excise previously earmarked for this debt service to be transferred to the General Fund.
- The BCEC refinancing also allowed the City to receive the \$1.00 vehicle rental surcharge that was part of the BCEC Act.
- Room occupancy excise revenue also benefited from an increase in the excise rate from 4% to 6% in FY10. With 20 hotel projects currently approved by the BRA, this excise will continue to grow.
- The City advocated for a new meals excise which was included in the Municipal Relief Act of 2009. The City Council approved the 0.75% excise on restaurant sales in 2009.
- The 5% excise on the sale of aircraft fuel grew by 35.4%. Spikes in aircraft fuel prices correspond with significant increases in revenue. Due to declining fuel prices, revenues are expected to decline by \$5M or 15.6% from FY15 to FY16.

For a City that relies on the property tax for 67% of its operating revenue, far greater than other competitive major cities, expanded excise opportunities would help diversify Boston's revenue sources. The City and Commonwealth should explore other options for increasing recurring excise revenues.