

# Special Report

August 16, 2016 No. 16 - 4

## Highlights

- Four departments account for 82% of all departmental spending, while the remaining 18% of spending is allocated among the other 40 departments
- Benefits and mandatory expenses represent 30% of the budget but 39% of the total budget increase
- In the five years since FY12, the City's charter tuition assessment has grown by 111.7%, while Chapter 70 education aid has increased by 5.2%

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## City of Boston Adopts Balanced FY17 Budget

*Boston is increasingly reliant on its own local revenues*

The City of Boston's fiscal 2017 budget, approved on June 29, is set at \$2.975 billion, an increase of \$118.0 million or 4.1% over the fiscal 2016 budget. Employee expenses total approximately \$2.010 billion or 68% of the budget and represent 78% of the total operational budget increase. Since the Mayor's original submission in April, \$4.68 million more has been added to the Boston Public Schools (BPS) budget. In addition to the operating budget, grant funds in fiscal 2017 total \$322.7 million. Also, the City's five-year capital plan (fiscal 2017-2021) totals \$1.91 billion, with borrowing expected to increase by 11%.

This budget is heavily reliant on own-source local revenues to provide city services. State aid, the City's second largest revenue source, is budgeted to increase by only \$8.54 million or 2%. Assessments for state services, mainly MBTA and charter school tuitions, have increased by \$10.8 million or 4.6%, resulting in a decline in the net state aid available to the City. The City now is increasingly reliant on revenue from the property tax, its excises, and city fees and fines.

Due to rising expenses, the City is relying on greater savings from efficiencies to support new initiatives. Much focus has been on the pressure faced within the Boston Public Schools budget. Despite the City increasing the BPS budget by \$15.4 million, the growing cost of services resulted in tough decisions at the school level. With total education spending on BPS and charter tuitions already representing 40% of city expenditures, challenges remain in managing the increasing cost of services and bringing long-term fiscal stability to the BPS.

## City of Boston General Fund Revenues & Expenditures Summary

Where the Money Comes From (figures in 000's)

Account	FY16 Current	FY17 June	% of total	Variance FY16-FY17	%	% of Increase
Net Property Tax	\$1,923.4	\$2,017.0	67.8%	\$93.6	4.9%	79.3%
State Aid	\$424.0	\$432.6	14.5%	\$8.5	2.0%	7.2%
Excises	\$179.4	\$190.7	6.4%	\$11.3	6.3%	9.6%
All Others Recurring	\$290.3	\$294.9	9.9%	\$4.6	1.6%	3.9%
Subtotal Non-Recurring	\$40.0	\$40.0	1.3%	\$0.0	0.0%	0.0%
<b>General Fund Revenues</b>	<b>\$2,857.1</b>	<b>\$2,975.1</b>	<b>100.0%</b>	<b>\$118.04</b>	<b>4.1%</b>	<b>100.0%</b>

## Where the Money Goes

Department	FY16 Current	FY17 June	FY17 % of total	Variance FY16-FY17	%	% of Increase
Total Departmental	\$2,012.6	\$2,083.6	70.0%	\$71.0	3.7%	60.2%
Non-Departmental	\$13.6	\$14.2	0.5%	\$0.7	5.0%	0.6%
Benefits/Mandatory	\$831.0	\$877.3	29.5%	\$46.3	5.0%	39.2%
<b>General Fund Expenses</b>	<b>\$2,857.1</b>	<b>\$2,975.1</b>	<b>100.0%</b>	<b>\$118.04</b>	<b>4.1%</b>	<b>100.0%</b>

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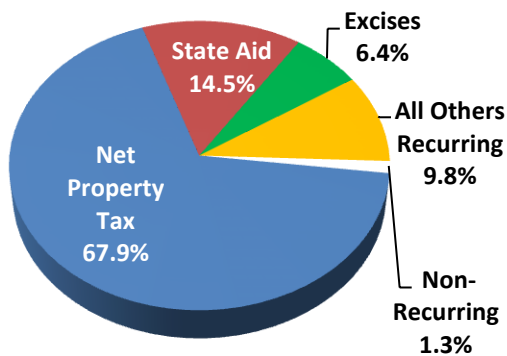
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## Where the Money Comes From

The primary General Fund [revenue](#) sources for Boston in fiscal 2017 continue to be the property tax and state aid, which constitute 82.3% of the total \$2.975 billion recommended budget. The property tax is the more dependable revenue source, growing 4.9% over fiscal 2016 which represents 79.3% of the total operating revenue increase. Total state aid is estimated to increase by 2.0%. All other revenue sources are expected to increase by only \$15.9 million or 13.5% of the total revenue increase. Budget revenue estimates are appropriately conservative and prudent.

### FY17 Revenue Summary



**Property Tax** – The mainstay of Boston’s General Fund revenue is the property tax of \$2.017 billion, an increase of \$93.6 million or 4.9%. Boston’s reliance on the property tax is greater now than it was in 1980 when Proposition 2½ was approved in response to a taxpayer revolt. The property tax represents 67.8% of total operating revenue but 79.3% of the revenue growth. In fiscal 2017, the increase in the property tax comprises the existing base levy increase of 2.5% over the prior year’s levy limit (\$49.1 million) and an estimated \$44 million from new growth.

**State Aid** – The second largest revenue source for Boston is state aid, which is budgeted at \$432.6 million in fiscal 2017, an increase of \$8.6 million or 2.0% over the prior year. State aid

represents 14.5% of total revenue but only 7.2% of the revenue growth. Furthermore, the increase in state assessments of \$10.8 million produces a net state aid cut of \$2.3 million. The City’s General Fund state aid estimate for fiscal 2017 is \$2.7 million more than the state’s final budget figures. In relation to the overall budget of \$2.975 billion, the City will be able to handle this shortfall in state aid. However this reduction does highlight the City’s growing reliance on local revenue over state aid to support growing city services.

A contributing factor to the limited state aid growth of 2.0% is the continual underfunding of the state’s [charter tuition reimbursement](#) obligation. Over the last two years (FY15 & FY16), the City has experienced a total shortfall of \$29.2 million in charter reimbursements. The fiscal 2017 reimbursement shortfall is \$19.2 million.

**Other City Revenues** – The City’s other local revenues will increase by \$15.9 million. The majority of this increase comes from excise revenue, which is projected to increase by \$11.3 million or 6.3%. All other revenue is projected to increase by \$4.6 million or 1.4%.

**Non-Recurring Revenues** – The only use of non-recurring revenue in the Mayor’s fiscal 2017 budget is the appropriation of \$40 million of Budgetary Fund Balance (Free Cash) revenue for the Other-Post Employment Benefit (OPEB) Trust Fund to help fund the current \$2.3 billion retiree health insurance liability.

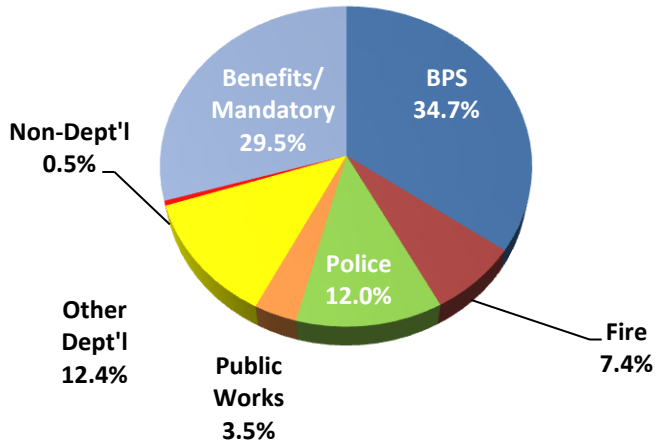
## Where the Money Goes

The majority of city [spending](#) occurs in a small number of departments and accounts. In fiscal 2017, the [top four](#) departments (School, Police, Fire and Public Works) and top four mandatory accounts (State Assessments, Health Insurance, Pensions, and Debt Service) account for \$2.532 billion or 85.1% of total budgeted expenditures.

**Departmental** – Departmental spending is budgeted at \$2.084 billion, an increase of \$71.0

million or 3.5% over the current fiscal 2016 budget. The four largest city departments (School, Police, Fire and Public Works) account for 82% of all departmental spending, while the remaining 40 departments represent 18% of total departmental spending.

### FY17 Expenditure Summary



**Education Spending** – Education spending, the BPS appropriation and the charter tuition assessment, totals \$1.188 billion in fiscal 2017 or 40% of the City’s budget. The BPS budget of \$1.032 billion represents an increase of \$15.4 million or 1.5% over the prior year and continues to equal approximately 35% of the City’s total General Fund expenditures, despite the increase in the charter tuition assessment.

The charter tuition assessment is budgeted at \$156.8 million in fiscal 2017, an increase of \$9.9 million or 6.8% over fiscal 2016. This expenditure has grown rapidly over recent years, despite limited growth in Chapter 70 aid, the main source of state aid for education received by the City. In the five years between fiscal 2012 and the fiscal 2017 budget, the charter tuition assessment has grown by \$82.7 million or 111.7%, while Chapter 70 Aid has increased by \$10.7 million or 5.2%.

**Public Safety** — The Police and Fire Departments have the largest budgets outside of the BPS at \$356.3 million and \$221.0 million respectively. In

### BPS Budget “CUTS”

Much of the debate surrounding the BPS budget has focused on “cuts” to school funding, yet overall spending in the BPS has increased by \$15.4 million. The “cuts” are the result of the cost of service, driven by increased costs of salaries and benefits for personnel, increasing at a rate faster than the increased appropriation. In order to balance this trend, the BPS made changes to the weighted student funding formula, which distributed funds to schools based on the needs of the specific students.

The initially proposed reduction in the weight for high school students was restored, but two weight changes were included in the final budget, a reduction in the special needs weights for autism, emotion impairment, and students in inclusive special education programs. However, a reduction in these weights does not mean that the BPS has “cut” these services. Rather, the central office uses the weights to calculate allocations to each school. School leaders have the autonomy to make decisions regarding programmatic support. For example, despite the fact that the weight for three SPED categories, overall spending on SPED programs will increase by \$6.9 million or 3.2%, a larger percentage increase than the overall BPS budget.

Between the April budget submission and the approval in June, the City reassessed its revenues and expenditures, which allowed it to allocate an additional \$4.7 million to the BPS. These funds were used to restore initiatives that were delayed early in the budgeting process in order to maintain the high school weight under weighted student funding. These initiatives include: the Excellence for All Pilot, which seeks to expand access to advanced work curriculum; Extended Learning Time planning to prepare for ELT in 20 additional schools; and a transportation data initiative that will track students’ yellow bus usage and help reduce costs in future years.

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the fiscal 2017 budget, both departments have undertaken a new initiative to manage overtime costs. With the overtime budgets of both departments significantly increased, the departments have committed to reducing overtime hours and keeping total costs within the overtime budgets for a potential savings of \$11.6 million. As a result, the Police Department budget is \$23.8 million or 7.2% over the 2016 budget, but only \$3.9 million or 1.1% over expected fiscal 2016 spending. The Fire Department budget is \$7.3 million or 3.4% over the 2016 budget, but only \$6.6 million or 3.1% over expected fiscal 2016 spending. The Police Department was able to reduce its overtime hours by 9.8% in fiscal 2016, but this initiative will need to be closely monitored throughout the year.

**Fixed Costs** – The mandatory accounts, including debt service, state assessments, health insurance, and pensions are budgeted at \$877.3 million, an increase of \$46.3 million or 5.6% over fiscal 2016. State assessments for the City's share of the MBTA operations and charter school tuitions and other state programs total \$245.4 million in fiscal 2017, a growth of \$10.8 million or 4.6%.

**Personnel Costs** – Government is labor intensive and for the City of Boston, [spending](#) for employee salaries and benefits accounted for \$2.010 billion or 67.6% of the budgeted operational expenditures of \$2.975 billion in fiscal 2017. Over the fiscal year, the City expects to add 207 positions, with the majority in Schools (86), Police (53) and Public Health (34).

Of the \$2.010 billion, salaries constituted the largest share at 70.4%, followed by health insurance at 15.7%, pensions at 9.4%, and other costs at 4.4%. The increase in employee spending over fiscal 2016 is \$91.7 million, which accounted for 77.7% of the total operational expenditure increase. Included in the salaries account is \$13.3 million budgeted for the collective bargaining reserve. When the City and bargaining units settle the 38 contracts that

expire during the fiscal year these funds will be appropriated to the departmental budgets.

**Capital Budget** – Boston's five-year [capital budget](#) (FY17-FY21) totals \$1.91 billion, an increase of \$126.6M or 7.1% over this year's five-year plan. Sale of GO bonds to help fund this plan is expected to increase by 11%, but interest costs will remain within the debt service standard. This plan is intended to align with *Imagine Boston 2030*, the City's comprehensive planning effort, and the ten-year school facilities master plan being developed.

**Cost Savings Initiatives** –In order to fund new initiatives, the City is relying on cost savings measures in fiscal 2017 including:

- Reducing the overtime hours in the public safety and streets departments
- Eliminating 100 vacant positions without impacting service, which is projected to save \$4.7 million
- Reducing costs in a few school areas, most notably transportation
- Lowering utility costs by \$1 million through lower rates and reduced usage
- Savings of \$1.4 million through cost cutting measures in the Public Health Commission

## Conclusion

The fiscal 2017 budget is conservatively balanced, responsible and does include efficiency measures in key departments to help support new initiatives. However, the debate surrounding the School Department budget highlights the need to address the structural deficit that exists. Current planning needs to result in decisions for fiscal 2018 regarding right sizing the district in order to maximize the resources to students and reduce the inherent financial pressures. The City's collective bargaining agreements must be financially responsible and sustainable, but include needed reforms, especially in the next BPS-BTU contract.