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Boston's Legacy Costs Good by Comparison

Boston's pension, debt service and OPEB costs are below average

In a comparison of the legacy costs of debt service, pensions and retiree health insurance (OPEB) as a percent of the total operating budget, the City of Boston ranked second lowest among the 32 U.S. [cities](#) with populations exceeding 500,000. This analysis was prepared by Merritt Research Services for Governing Magazine due to concerns that legacy costs are rising, taking up a larger share of budgets. Based on an average of these three legacy expenses for three fiscal years (2014-2016), Boston's average share of the total operating budget was 14.2%. Seattle was the city with the lowest share of 12.4% and Milwaukee had the highest of 42.6%. The median legacy share was 22.4% in FY16.

There are many factors that play into these percentages and having a low percent is not necessarily good if a city is not adequately addressing its need to improve and maintain its infrastructure or not keeping up with pension payments.

Why Boston's Share Is Low

The City of Boston's overall low share of the cost of pensions, debt service and OPEB as a percent of the total operating budget is attributable to a conservative debt policy, full payment of annual pension costs with some advanced payment and state law changes and local decisions regarding health insurance expenses that include retirees.

Debt Service – The City has maintained a conservative debt policy that annual gross debt service costs will not exceed 7% of the General Fund expenditures. Also, at least 40% of the

overall debt is repaid within five years and 70% within ten years. In the City's current five-year capital plan, capital spending will increase and other revenue sources, such as parking meter fees, will be used to help support this increase.

Legacy Costs for Cities

City	% of Operating Budget
Seattle	12.4%
Boston	14.2%
San Francisco	22.1%
Austin	24.0%
Chicago	26.5%
Indianapolis	27.6%
Milwaukee	42.6%

Pensions – Each year since FY1990, the City has paid its full actuarial annual pension payment and is scheduled to reach full funding of its pension liability in 2025 due to an aggressive funding schedule. Pension expenses increased by 11% in FY2018. On at least two occasions, the City allocated additional funds beyond the annual requirement to the pension fund.

Retiree Health Insurance (OPEB) – Currently, there is no actuarial funding requirement for OPEB payments so the City pays the annual retiree employee health insurance premiums and appropriates \$40M to the OPEB Trust for investment. State law in 2011 requiring eligible retirees to enroll in Medicare, and the City's agreements with its unions about higher premium payments for retirees have helped to manage annual health insurance costs.