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## Highlights

- Employee costs account for 68% of Boston’s FY18 operating budget and 70% of the City’s total spending increase over four years.
- Pension payments totaled \$221.3M in FY18, an increase of \$68M or 44.7% over the past four years to reach full funding of its unfunded liability by 2025.
- The city-funded workforce of 17,335 as of January 2018 is at its highest point in 16 years. Grant funded positions have declined.

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## Employee Levels and Cost in Mayor’s First Term

*Levels relatively flat until 2017*

During the first term of the Walsh Administration, from January 2014 to January 2018, Boston city-funded employees increased by 353 to 17,335. Personnel expenditures increased by \$356.9 million or 20% over the four years, which outpaced the inflation of government purchasing power<sup>1</sup> of 3.0% over the same period. The City needs to be vigilant in managing its employee headcount and expenditures, both of which are central to retaining Boston’s strong fiscal health. That means exercising tight control over employee headcount, being firm in employee contract negotiations regarding compensation and benefit increases, and improving operational efficiencies through changes in union contract language and utilization of technology. Highlights include:

- Spending for employee salaries and benefits totaled \$2.15 billion or 68% of the City’s fiscal 2018 budget of \$3.16 billion.
- City-funded positions increased by 140 over the first three years. However, in 2017, the total number of city-funded positions increased by 213, primarily due to increases in the School Department. Externally-funded positions declined by 147.
- The three largest departments of School, Police, and Fire represent 78% of the city-funded workforce in 2018 and accounted for an increase of 241 positions or 68% of the total increase during the Mayor’s first term. The remaining 44 departments grew by 112 positions or 32% of the increase.

**City of Boston Personnel Summary**  
 (FTE’s, January 1 of each year)

	2014	2015	2016	2017	2018	Change	
						'17-'18	'14-'18
School Department	8,664	8,789	8,746	8,782	9,005	224	341
Police Department	2,922	2,902	2,882	2,922	2,830	(92)	(92)
Fire Department	1,619	1,625	1,572	1,577	1,610	33	(9)
<b>Sub-Total</b>	<b>13,205</b>	<b>13,316</b>	<b>13,200</b>	<b>13,281</b>	<b>13,446</b>	<b>165</b>	<b>241</b>
All Other Total (44)	3,777	3,799	3,756	3,841	3,889	48	112
<b>General Fund Total</b>	<b>16,982</b>	<b>17,116</b>	<b>16,956</b>	<b>17,122</b>	<b>17,335</b>	<b>213</b>	<b>353</b>
External Funds	1,315	1,184	1,326	1,293	1,168	(125)	(147)
<b>All Funds Total</b>	<b>18,296</b>	<b>18,299</b>	<b>18,283</b>	<b>18,415</b>	<b>18,503</b>	<b>88</b>	<b>207</b>

\*Some totals may not add due to rounding

In this report, all employee numbers are presented in full-time equivalencies (FTEs) and are as of January 1 of each year.

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## Background

City government is labor intensive, and Boston is no exception with 68% of the City's operational spending in fiscal 2018 tied to employee spending through salaries or benefits. Because of its large share of the operating budget, city-funded personnel levels and employee spending need to be closely monitored to ensure Boston maintains its strong financial standing. In times of fiscal stress, reducing workforce numbers is one of the few tools the City has to quickly decrease its spending. That is why the City must be proactive in managing workforce growth even in times of economic expansion to avoid layoffs during an eventual downturn.

## Report Findings

### School Department Drives Growth

Over the Mayor's first term, January 2014 to January 2018, the School Department increased its city-funded employees to 9,005, an increase of 341 or 3.9%. During the four years, the greatest one-year increase was 2017 to 2018, an increase of 224 positions. The School Department's total city-funded workforce in 2018 represents 52% of the total city. The increase over the four years is attributable mainly to the increase of special education teachers (203) and special education aides (178), English Language Learner (ELL) teachers (133) and specialist teachers (80). A decrease in regular education teachers (-220) offsets some of the increase.

The School Department is creating more inclusionary classrooms by encouraging teachers to obtain dual certifications in special education. In doing so, their positions change from regular education to special education. Further, an overall increase in special education students requires more special education teachers and aides. Additionally, the introduction of extended learning time led to an increase in specialist teachers to provide instruction while the classroom teachers are involved in planning time.

From 2017 to 2018, the total number of employees budgeted through the central office increased by 49 positions. However, some school services are budgeted centrally (SSBC) but the employees are assigned to schools to provide services directly, mainly in the areas of facilities management, transportation, and special education. The SSBC employees increased by 39 positions during this time.

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An overall increase in special education students has resulted in an increase in special education teachers and aides.

The number of employees budgeted centrally and assigned to the BPS headquarters in the Bolling Building increased by a net of 10 positions over 2017-2018. However, that figure masks a shift due to the reclassification of professional support positions (-67) and central administrators (+44). Positions formerly classified as professional support in operations and instructional research & development were reclassified as central administrative positions. After a review of how personnel are recorded in FTE reports, BPS decided that these positions more appropriately counted as central administrators and not professional support as they were previously. This reclassification occurred between 2017 and 2018, which explains the increase of 44 central administrator FTEs during this timeframe. A number of smaller position changes within central office contributed to the net increase of 10 positions.

### Public Safety Count Remains Steady

The Police and Fire Departments make up 4,440 or 25.6% of the city-funded positions in 2018. In the Mayor's first term, Police Department FTEs decreased overall by 92, with uniformed officers remaining fairly stable during the four years. The decrease occurred primarily in civilian positions due to School Traffic Supervisors being reclassified

from 1 FTE to 0.4 FTE. The Fire Department FTE positions declined by nine, mostly in firefighter positions due to the timing of the new fire class in February 2018.

The share that the School, Police, and Fire Departments represent of all city-funded employees increased from 75% in 2002 to 78% in 2018.

### Fewer Positions added in Other Departments

Outside the top three departments, the city-funded headcount for the remaining 44 departments increased by 112 employees or 3.0% over four years. This compares to the headcount increase of 241 positions or 1.8% for the top three departments over the same period. The Public Health Commission (PHC) increased by 83 positions due to increases in EMTs and homeless and addiction recovery services. The Parks Department increased its workforce by 13 positions.

### Loss in External Funds Creates Pressure

Continued decline in externally-funded FTEs creates pressure on the City to support the critical positions with city funds. This causes increases in internal positions to offset some losses in external FTEs. Employees funded through federal or state grants totaled 1,168 as of January 2018, which represented a decrease of 147 employees over the past four years. The largest decreases occurred in the School Department (-103), Public Health Commission (-53), and Police Department (-23). Externally-funded school positions declined substantially from 2014 to 2015 (-97) and today remain 103 positions below 2014 levels.

### Employee Spending Remains Largest Budget Driver

Government is labor intensive, and for the City of Boston, General Fund spending for employee salaries and benefits accounts for \$2.15 billion or 68.2% of the total budgeted operational spending of \$3.16 billion in fiscal 2018. Of the \$2.15 billion, salaries constituted the largest share at 70.2%, followed by health insurance at 15.4%, pensions at 10.3% and other costs at 4.1%. The budget increase for employee spending in fiscal 2018 was \$112.9 million, which represented 67.4% of the total operational budget increase in fiscal 2018.

The budget for personnel spending over the last four years increased by \$356.9 million, or 19.9%. This increase makes up 69.6% of the total operational expenditure growth over the four-year period. The growth in employee spending is driven by salary expenditures (64.7%), pension payments (19.2%) and health insurance (12.4%). Salary costs increased due to collective bargaining agreements and increases in employee levels.

Pension payments in fiscal 2018 are budgeted at \$221.3 million, an increase of \$22.0 million or 11.1% over fiscal 2017 and an increase of \$68.4 million or 44.7% since fiscal 2014. This compares with an overall operational expenditure growth of 19.4% over fiscal 2014. The pension share of total personnel spending has increased from 8.5% in fiscal 2014 to 10.3% in fiscal 2018. This high growth is due to the aggressive annual payment schedule adopted by the City in order to reach full funding of its pension liability of \$1.55 billion by 2025.

### Personnel Spending Summary (\$ in millions)

	FY14	FY18	% of FY18 Total	Change	%
Salaries	\$1,279	\$1,510	70.2%	\$231	18.0%
Health Insurance	\$288	\$332	15.4%	\$44	15.3%
Pensions	\$153	\$221	10.3%	\$68	44.7%
Other**	\$76	\$89	4.1%	\$14	18.0%
<b>Total Personnel</b>	<b>\$1,796</b>	<b>\$2,153</b>	<b>100%</b>	<b>\$357</b>	<b>19.9%</b>
<b>Total General Fund</b>	<b>\$2,645</b>	<b>\$3,158</b>		<b>\$513</b>	<b>19.4%</b>
<b>Personnel as % of Total</b>	<b>68%</b>	<b>68%</b>			

\*\*Includes Other Post Employment Benefits, Unemployment Insurance, Workers Compensation, Medicare Pensions and Annuities and BPS Health & Welfare Fund.

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Health insurance expenses for active employees and retirees totaled \$332.0 million in fiscal 2018, an increase of \$44.1 million or 15.3% over fiscal 2014. For its retiree health insurance liability (OPEB) of \$2.37 billion, the City funds annual pay-as-you-go costs and allocates \$40 million to the OPEB Trust for investment. The City's annual payment is still below the actuarially determined contribution (ADC), the amount required to prevent growth in the OPEB liability.

## Conclusion

### Continued Vigilance Needed

At a time when the City has to rely more on its own local revenue sources due to cuts in federal funds and stagnant growth in state aid, the City of Boston needs to be vigilant in managing its employee expenses, which represent 68% of its total operating budget in fiscal 2018 and 70% of the operating budget's growth over four years. That means exercising tight control over employee headcount, being firm in employee contract negotiations regarding compensation and benefit increases, and improving operational efficiencies through changes in union contract language and utilization of technology. This report focuses on personnel spending and the changes in city-funded employees, represented in full-time equivalencies (FTEs). The City should be fair but firm in its discussions with its unions represented through the Public Employee Committee about health care changes involving available plans and premium share for active and retired employees.

The decline in external funds to support personnel has created pressure on the City to fund the critical positions with its own revenue. City-funded employee levels from 2014 to 2017 remained relatively flat, but rose by 213 from 2017 to 2018. Prudent management of employee headcount and spending are critical to retaining Boston's strong fiscal health.

[1] MA Department of Revenue Division of Local Services Implicit Price Deflator