

## Mayor Wu: FY23 Proposed Budget responds to “A moment of urgency and possibility”

Boston’s FY23 Recommended Budget was released by the Wu Administration and is now in front of the City Council for review.

The budget not only illustrates the priorities of the Administration, but also marks the first time that the City Council can exercise its newfound powers to amend the budget.

How will this change impact Boston’s budget? How does Boston propose to support the spending plan? What are the Administration’s priorities for the new fiscal year? How is \$3.99B distributed to meet the needs of Boston in this moment Mayor Wu identifies as one of urgency and possibility?

### Report Objectives

Our report provides information and insights on:

- Fuelling Boston’s spending: The property tax
- Where the money goes: Boston’s \$3.99B operating budget examined
- Spending priorities of education, housing, and public health

A special thank you to the Research Bureau’s Cabinet Members for their generous support.

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## Overview

The first budget of the Wu administration is making its way through Boston's new budget process and continues the tradition of conservative budgeting for both revenues and spending. Focusing on building a more connected city for everyone, this budget also navigates the continued uncertainties of the pandemic and eases the City into recovery, highlighting the importance of sound fiscal management. The FY23 proposed budget uses external (\$678.9M) and capital funds (\$558.5M) in conjunction with the operating budget to push forward the Wu administration's priorities. Mayor Wu cites ten key areas for FY23 where the City will continue to focus a coordinated all-funds budget:

- Housing & Supportive Services
- Climate Resilience & Open Space
- Public Safety & Emergency Response
- Behavioral & Mental Health
- Economic Opportunity & Inclusion
- Amplifying All Voices
- Improving Mobility for All Bostonians
- Strengthening Arts & Culture
- Focusing on the Future
- Getting the Small Things Right

This *Special Report* focuses on the FY23 General Fund Operating and External Funds Budget. An analysis of the Capital Budget will be forthcoming. In developing the FY23 budget, Mayor Wu and the City Council sought feedback from residents on how Boston's annual budget resources should be allocated through a series of neighborhood listening sessions and an online survey.

The FY23 proposed operating budget totals \$3.99B, a growth of \$215.7M or 5.7% over FY22. In March 2022, the City of Boston received AAA credit ratings for the eighth year in a row despite continuous pandemic-related challenges. The City anticipates increased economic activity but is proceeding with caution, illustrating the need of continuing to budget conservatively. The budget is largely supported by property taxes, which makes up 73.8% of all revenue, followed by state aid (12.4%) and excise taxes (3.9%). External funds for FY23 total \$678.9M, a decrease of \$156.7M over FY22. The 5-year Capital Budget totals \$3.6B.

The City is spending more on departments and is also in the process of negotiating union contracts, which is illustrated by the fact that total appropriations are expected to increase by \$146.2M. Fixed and mandatory costs are also expected to increase by \$69.5M as pensions, debt service, and state assessments continue to grow.

### Boston's New Budget Process

*\*Specific dates reflect FY23 deadlines*

- **April 13, 2022** – 2<sup>nd</sup> Wednesday in April, the Mayor submits the budget to the City Council.
- **June 8, 2022** – 2<sup>nd</sup> Wednesday in June, the City Council must take definite action on the budget: adopt, amend or reject entirely.

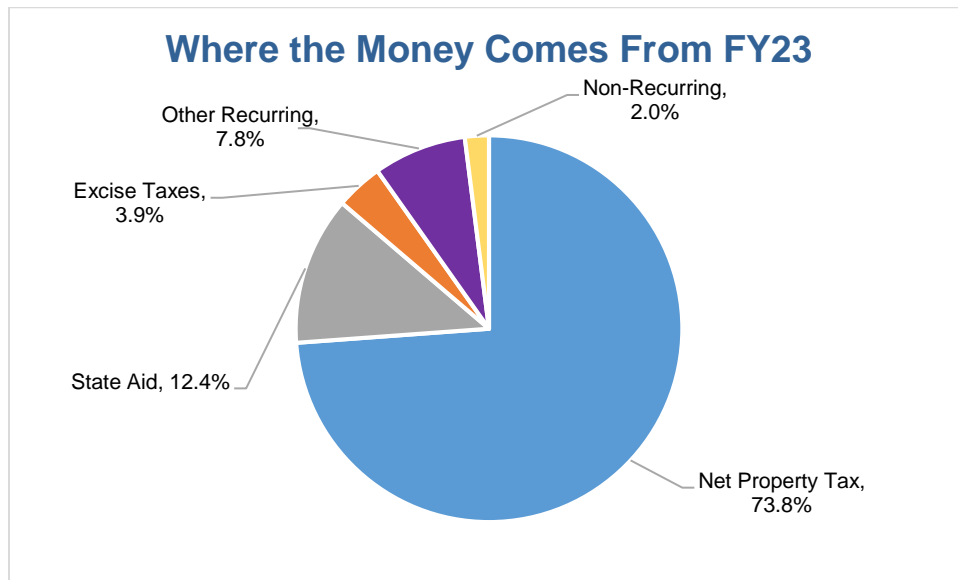
*\* Amended version of the budget cannot be higher than the total appropriation amount submitted by the Mayor. In FY23, that total = \$1.71B*

- **June 15, 2022** - Mayor has 7 days from time of City Council budgetary vote to approve or return the budget, either via amendments or rejecting the City Council budget entirely.

*\* 2/3 of the City Council is needed to override any amendment or budget resubmission of the Mayor.*

## Revenues

Proposed operating revenues for FY23 total \$3.99B, an increase of \$215.7M or 5.7%, from budgeted FY22 revenue. This includes \$3.9B in recurring revenue and \$80.0M in non-recurring revenue. Non-recurring revenues includes \$40.0M from ARPA funds that are earmarked as revenue replacement for the general fund. This is a \$15.0M decrease from the FY22 revenue replacement allotment of \$55.0M. Out of the \$560.0M ARPA funds that the City received in total, \$114.7M has been earmarked for revenue replacement for general fund operations from FY22 to FY24.

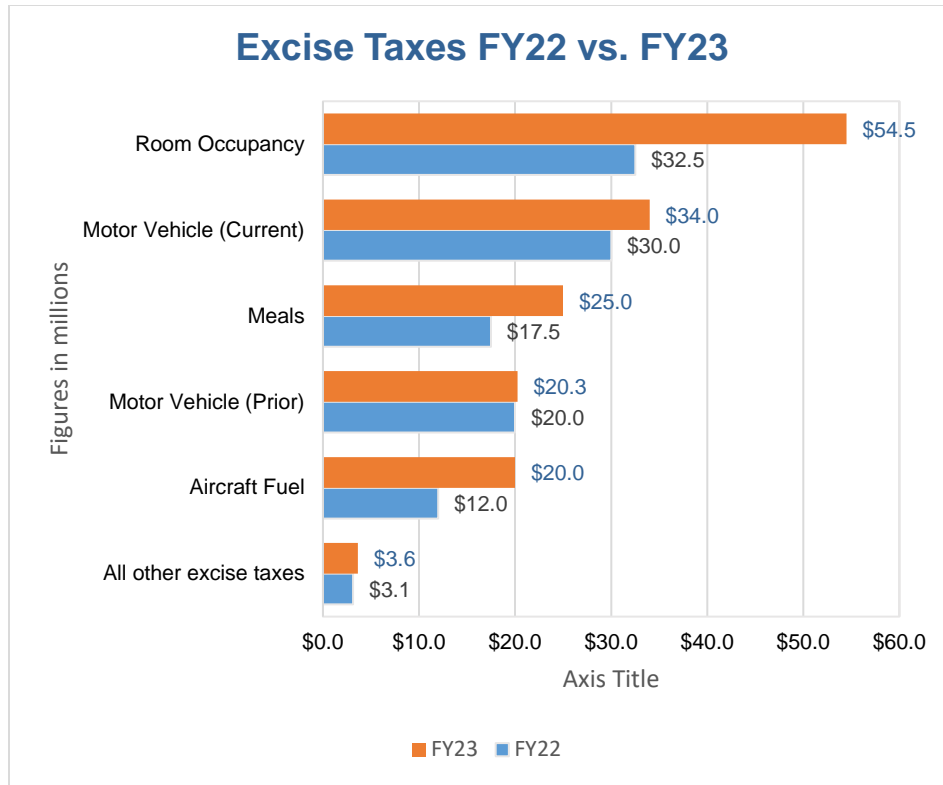


Boston continues to rely on two revenue sources, the property tax and state aid, for 86.2% of its revenues. Property taxes, Boston's largest revenue source, represents 73.8% of FY23's proposed total revenues and will increase by \$153.8M or 5.5% to a total of \$2.9B. This reliance on property taxes aided Boston during the pandemic, as this revenue source remained strong and thus, the City did not experience a drastic drop in revenues like other metropolitan cities. New growth has been the driver of the property tax in every year since FY15, outpacing the 2.5% allowable levy growth. However, in FY23, the Administration expects this trend to turn downward with \$60.0M in new growth (down \$21.8M from FY22), below the \$70.6M in 2.5% levy growth. New growth is expected to be fueled by more housing and lab space development.

State aid, the second largest revenue category, represents \$495.2M or 12.4% of all revenue and is budgeted to increase by \$16.3M or 3.4% from FY22. Out of the total state aid, \$225.5M comes from Chapter 70 Education Aid, \$213.8M from unrestricted general government aid (UGGA), and \$53.0M from charter school tuition reimbursement. The City expects to see an increase in state aid, specifically UGGA, charter school tuition reimbursement, and Chapter 70, as the State finalizes its FY23 budget.

### Local Receipts

Excise taxes are expected to increase as well, though not to pre-pandemic levels. The City anticipates \$157.4M in excise taxes, an increase of \$42.3M or 36.7% from FY22. Room occupancy, aircraft, and meals excise are projected to have the largest growth from the prior year, illustrating further improvement in a return to a normal economy.



Revenue from licenses and permits is anticipated to total \$78.6M, growing by \$4.2M or 5.6%. The majority of this growth (\$3.0M) comes from building permits, totaling \$48.0M. This is due to increased construction of commercial, mixed-use, and residential properties in Boston, particularly in Seaport, Dorchester, and Back Bay.

Payments-in-lieu of taxes are forecasted to remain relatively the same at \$51.1M, only increasing by \$1.5M (3.0%) from FY22. The small growth primarily comes from inflation adjustments.

In the last couple years, the City had allowed some deferral of payments owed due to impacts caused by the pandemic. The proposed FY23 budget does not anticipate any major rollover payments from FY22, though there might be some FY22 revenues included due to a lag in reporting.

## Expenditures

The Mayor’s proposed FY23 budget targets 66.4% of spending for salaries and employee benefits. The City’s workforce is projected to increase 430.1 FTEs from January 1, 2022 to January 1, 2023. The FY23 proposed spending for City departments represents 65.9% of expenditures, while 33.7% is earmarked for the fixed, less flexible areas such as mandatory costs and employee benefits. The remaining 0.4% is for non-departmental accounts. Total departmental appropriations stand at \$2.7B, fixed costs at \$1.3B, and \$17.0M for non-departmental costs.

### Departmental Spending

Spending for departments reflects Mayor Wu’s priorities such as education, housing, and public health, as well as easing into a pandemic recovery and totals \$2.7B, an increase of \$146.2M or 5.9%. Almost half



of the departmental spending increase is due to growth in the Reserve for Collective Bargaining. The City is currently negotiating the vast majority of its union agreements and expects to settle most this year. This reserve will be distributed among departments once contracts are funded.

**EDUCATION:** The Boston Public Schools (BPS) budget is expected to increase by \$36.0M, totaling \$1.20B (net of health insurance) for FY23. The BPS absorbs 30.2% of the city’s total planned spending. Funding directed to schools through the Weighted Student Funding formula and soft landings will grow to \$853.0M along with a \$334.0M allocation to central services such as transportation, special education, and facilities. Direct funding toward schools represent 89.0% of the total BPS budget. The increased spending will help schools fund a greater number of both part time and full time positions – including social workers, school psychologists, and guidance counselors – and expand access to libraries across the district. Furthermore, the Schools Department will have access to \$8.0M in Elementary and Secondary School Emergency Relief (ESSER) funds to implement further changes.

**HOUSING:** The FY23 operating budget for Mayor’s Office of Housing, previously known as the Department of Neighborhood Development, is \$41.9M, an increase of \$6.5M from FY22, or 18.3%. As part of this increase, a \$1.2M investment is expected to offer housing and case management for individuals experiencing homelessness and \$644,000 will expand housing stability services such as legal assistance among other initiatives. The Office of Housing is also expected to have \$145.0M in external funds for FY23.

**PUBLIC SAFETY:** Despite increasing the cadet class to 30 cadets to improve diversity, the Police Department’s proposed budget of \$395.9M is a decrease by \$4.3M, or 1.1%, mostly due to a high attrition level. The Police Department pays cadets and newly-sworn officers less than the officers retiring, thus reducing personnel costs. The department is continuing its efforts to reduce spending on overtime by increasing health services for current officers.

The Fire Department budget at \$278.6M has a growth of \$2.9M or 1.0%, primarily due to personnel spending increases and a required lease payment for the Special Operations team which is expected to cost approximately \$600,000. Previous investments in facility improvements, health and wellness programs, and the cadet program will continue.

## Where the Money Goes FY22-FY23

Figures in millions

Department/Account	FY22 Current Budget	FY23 April Budget	Variance FY22-FY23	% Variance
School [1]	\$1,166.2	\$1,202.2	\$36.0	3.1%
Fire	275.7	278.6	2.9	1.0%
Police	400.1	395.9	-4.3	-1.1%
Public Health Commission	110.7	117.7	7.0	6.3%
Public Works [2]	123.4	128.1	4.7	3.8%
Mayor's Office of Housing	35.4	41.9	6.5	18.3%
Reserve for Collective Bargaining	8.0	79.0	71.0	889.5%
Other Dept'l	360.1	382.5	22.4	6.2%
<b>Subtotal Departmental</b>	<b>\$2,479.5</b>	<b>\$2,625.7</b>	<b>\$146.2</b>	<b>5.9%</b>
<b>Subtotal Non-Departmental</b>	<b>\$17.0</b>	<b>\$17.0</b>	<b>\$0.0</b>	<b>0.0%</b>
<b>Subtotal Other Less Flexible, Mandatory/Benefit Costs</b>	<b>\$1,274.8</b>	<b>\$1,344.3</b>	<b>\$69.5</b>	<b>5.5%</b>
<b>Grand Grand Total</b>	<b>\$3,771.3</b>	<b>\$3,987.0</b>	<b>\$215.7</b>	<b>5.7%</b>

[1] Does not include health benefits.

[2] Includes snow removal.

Source: City of Boston Budgets



**PUBLIC WORKS:** The Public Works Department is budgeted at \$128.1M, a growth of \$4.7M or 3.8%. This includes the budget for snow and winter management. The growth in budgeted spending is driven by increases in waste removal contracts. The department also plans on expanding its Zero Waste Initiative and start a composting pilot program as part of its investments.

**PUBLIC HEALTH:** The Public Health Commission (PHC) budget of \$117.7M is expected to increase by \$7.0M, or 6.3%. Part of this growth is driven by the PHC looking beyond recovering from the Covid-19 pandemic and bolstering its preparedness for potential future public health crises. To do so, the PHC has added twelve positions to its public health preparedness team. Investments in mental health are also increasing considerably with a new Chief of Mental and Behavioral Health position and three additional positions to further study the mental health landscape in the city.

**OTHER DEPARTMENTS:** Spending on all other departments, totaling \$382.5M, is expected to increase by \$22.4M, or 6.2%, from FY22. While some departments encountered minor changes, some are expected to experience large shifts. For example, the Office of Economic Opportunity and Inclusion is anticipated to increase by \$2.4M or 81.0%. Most of this growth will support businesses coming out of the pandemic. It also plans on investing \$1.0M on Main Streets, creating a \$1.0M Legacy Business Fund, and continuing to support small businesses through grant funds. Furthermore, the Mayor's Office is expected to increase by \$570,546, or 10.5%, as the department has hired more senior-level positions to help implement the Mayor's transformative agenda.

### Fixed Costs

Fixed costs, such as debt service, assessments, health insurance, and pensions, represent 33.7% of the recommended budget and are expected to grow to \$1.34B in FY23, a \$69.5M or 5.5% increase from the current FY22 budget. The bulk of the growth comes from an additional \$30.2M in pensions, which is in line with the City's pension schedule as determined by the Boston Retirement Board. Charter school tuition reimbursement is anticipated to increase by \$16.3M to \$267.9M as part of the phased implementation of the 2019 Student Opportunity Act. Debt service is expected to grow by \$15.3M, or 7.5%, to \$219.0M, and is used to finance the City's capital plan.

### Personnel Spending

The City plans to spend 66.4% of its budget on employee salaries and benefits, a total of \$2.65B. This is an increase of \$131.6M, or 5.2% from FY22. Salaries alone are expected to total \$1.84B, a growth of \$89.9M, or 5.1% from the previous fiscal year. Spending for employee benefits continues to drive personnel costs upward, with overall benefits increasing by \$41.7M or 5.4%.

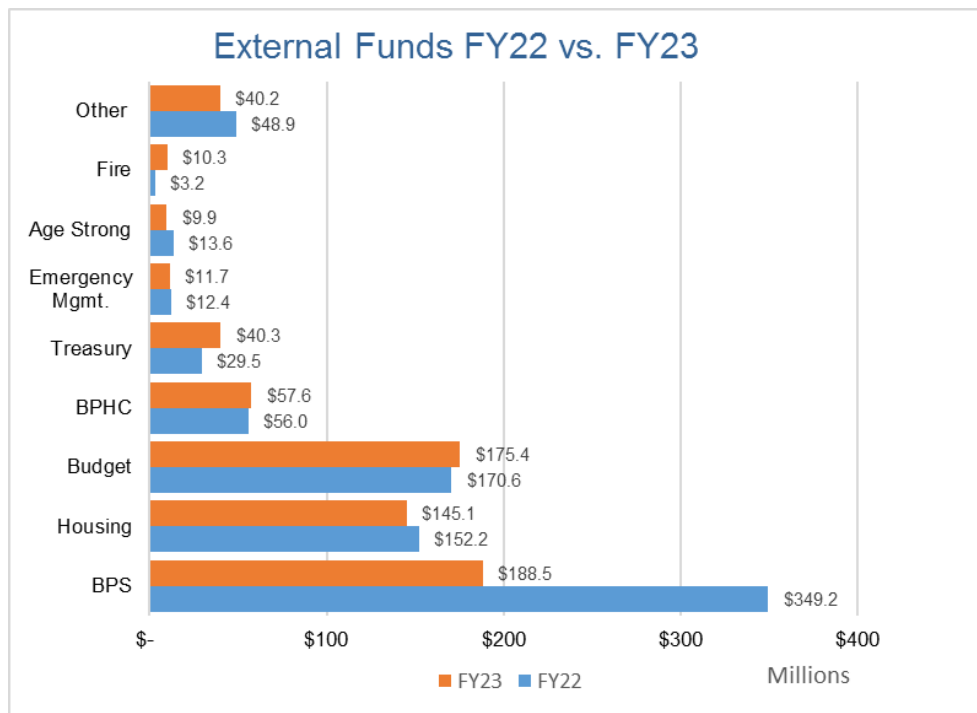
Leading the growth in benefits are costs for pensions of \$353.9M, an increase of \$30.2M, or 9.3% over FY22. Health Insurance costs proposed for FY23 for both the City and BPS are estimated at \$362.4M, an increase of \$9.6M, or 2.7%. FY23 is the second year of a five-year cost reform agreement in place that controls yearly increases and avoids new health care cost increases. Remaining personnel costs, which include OPEB and Medicare among others, are set to increase by \$1.9M, or 2.2%.

The City's workforce is projected to increase by 430.1 FTEs from January 1, 2022 to January 1, 2023. The bulk of this increase is set to come from education, as the school department hopes to hire 82.4 FTEs.

Public Safety is expected to increase by 71.1 FTEs, with the Police adding 60.6 FTEs and Fire adding 10.5 FTEs. The PHC will take on an additional 44.0 FTEs as it seeks to expand programs.

## External Funds

Boston is expected to receive \$678.9M in external funds in FY23, a decrease of \$156.7M or 18.8% from FY22. This decrease is due to the city’s ESSER funds not fully reflected in the FY23 external fund data because they have not yet been allocated. Because of that, external funds for Boston Public Schools alone dropped \$160.8M or 46.0%. Of that decrease, \$122.3M came from personnel and educational services, as well as building repairs and other contractual services. Thirty-three departments and agencies expect to receive some form of external funding. The eight departments on the table below expect to receive over 94.1% of the City’s external funds with 49.1% of all external fund allocated towards education or housing.



For FY23, the City has \$349.5M in ARPA funds to allocate. This money must be appropriated by December 2024 and expended by December 2026. The administration has proposed setting aside \$206.0M (58.9%) of remaining ARPA funds towards housing projects, including stabilizing housing, producing financial assistance programs for homeowners, and creating more affordable housing units in the city. Other significant investments include \$34.0M for increasing economic opportunities and inclusion, as well as \$31.5M for focusing on climate resiliency. However, while the City Council supports these initiatives, many members are proposing their own ideas on how to use the remaining ARPA funds.

## Conclusion

**What's Next** - As of June 2, the City Council has held 34 out of a total 39 planned hearings on the Wu Administration's FY23 budget, with 5 more scheduled. The City Council must take definite action on the budget by June 8, 2022 by adopting, amending or rejecting it entirely.

The Council Ways and Means Committee has begun a process for reviewing Councilors' proposals for the FY23 budget and will craft a package of changes to the Wu Administration's budget proposal. While the Council's new-found budget authority, courtesy of a ballot question passed last November, gives the Council the power to add spending items to the Mayor's budget, that authority comes with the responsibility to identify and remove spending items from the Mayor's budget. The total City Council budget must be no greater than the total general fund appropriation amount submitted by the Mayor, totaling \$1.71B in FY23.

**What to Watch Going Forward** - The Research Bureau will continue to monitor budget changes proposed by City Councilors as they apply the Council's expanded budget powers for the first time, as well as the dynamics between the Wu Administration and Council as the budget process gets down to final negotiations.

As the City continues to program use of federal relief funds, the time is now for Boston to identify funding streams to sustain any new federally funded initiatives the City wishes to continue for the long-term beyond the ARPA funding "use or lose" deadline of FY2026 year-end.