

Revenue Estimates and Analysis

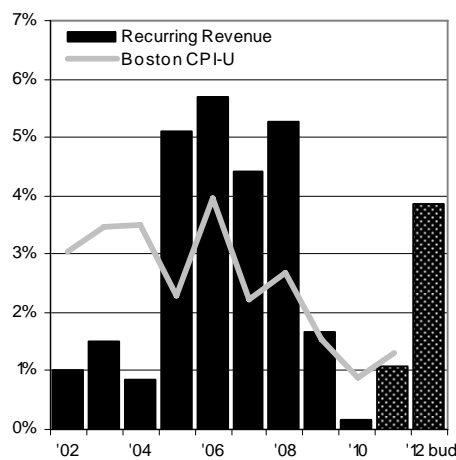
OVERVIEW

The FY12 Adopted Budget is supported with \$2.36 billion in recurring revenue, an increase of \$6.0 million, or 0.3%, from the FY11 Budget. Adjusting for an \$82 million one-time revenue source directed toward the City's pension liability mid-year in FY11, FY12 recurring revenue represents an increase of \$88.0 million or 3.9% over FY11.

The budget also includes \$30.0 million from budgetary fund balance, yielding total revenue of \$2.39 billion, a decrease of \$15.0 million, or 0.6% from FY11. With the revenue adjustment noted above, FY12 total revenue increases by \$67.0 million or 2.9%.

(Note: To ease comparison with other years, all figures, text, and calculations referring to or including FY11 budgeted departmental revenues will be stated without the \$82 million extraordinary pension payment made in that year. See the *Summary Budget* section for details of that payment).

This level of growth is an improvement over the modest recurring revenue growth of the FY09 to FY11 period (Figure 1), and is due solely to growth

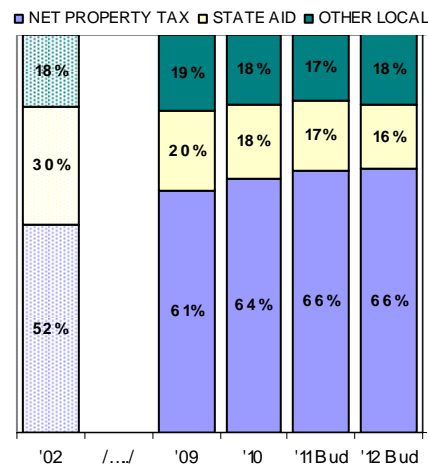


Annual Change in City Revenues and Boston CPI-U

FY02- FY12 Recurring Revenue

*All years net of Teacher's Pension

Figure 1



Categories of Recurring Revenue

*All years net of Teacher's Pension

Figure 2

in non-state aid local receipts. Property tax and excise taxes, along with other local receipts, are increasing as the economy begins to recover from a deep and long recession. However, state aid revenue is again expected to decline.

Both the recent and 2001 recessions have taken a toll on state aid to municipalities in the Commonwealth. The City has lost approximately \$205.7 million, or 48%, of its' net state aid between FY02 and the FY12 budget. This loss of resources has put extraordinary pressure on the property tax.

Net property tax and state aid together make up over 80% of recurring City revenues. As Figure 2 illustrates, the share of net property tax has been increasing dramatically since FY02 as the share of state aid has been steadily decreasing. In fact, the property tax now accounts for as large a share of recurring revenues as it did prior to the imposition of property tax limitations under "Proposition 2 1/2" in the early 1980's.

This chapter begins with a review of national, state, and local economic trends that have and will

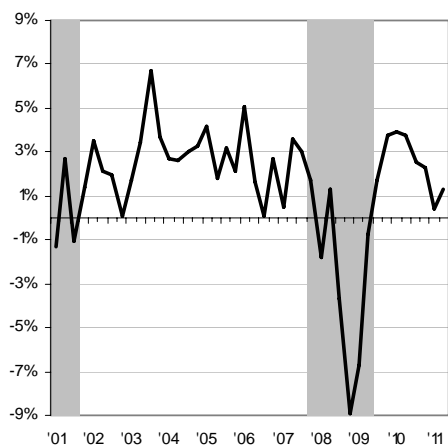
continue to impact the Boston area economy in FY12 and beyond. It is followed by a discussion of recent state budget trends and development of the FY12 state budget. Following these sections is discussion of the City's FY12 revenue estimates by major category including: the property tax levy, the City's largest revenue source, state aid, the City's second largest single revenue source, as well as a discussion of other local revenues.

THE NATIONAL ECONOMY

The nation's economy is slowly recovering from a deep, world-wide recession that began in the U.S. in December 2007 and officially ended in June 2009. A meltdown in the financial services sector driven by the implosion of sub-prime mortgage-backed debt instruments rippled through nearly all industries nationally and credit markets the world over.

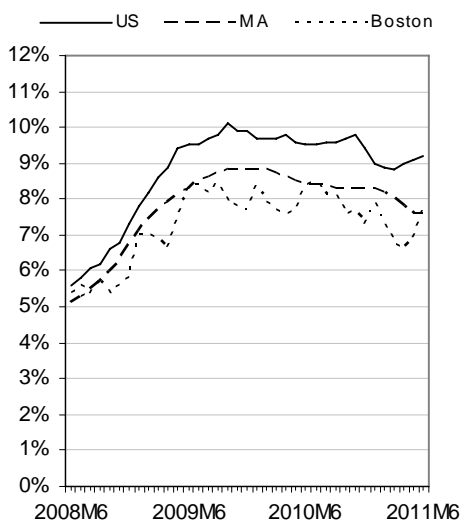
In the United States, the Federal Reserve and the Federal Government both moved to stabilize the economy with trillions of dollars in stimulus funds to banks and large financial firms as well as direct intervention in some financial markets and some firms considered "too big to fail." The Federal Government provided bailouts and tax cuts to businesses and households. The Federal Reserve acted by reducing interest rates, securing loans, and injecting cash into the banking system.

The American Recovery and Reinvestment Act of 2009 (ARRA) -- government spending on bailouts, construction projects and other activities in



Real Gross Domestic Product Growth
2001Q1-2011Q2 & NBER dated recessions

Figure 3



Unemployment Rates

June '08 - June '11
Seasonally Adjusted (ex. Boston)

Figure 4

support of the economy, was initially billed at \$787 billion in cash. A calculation by the Congressional Budget Office (CBO) projected ARRA spending at a somewhat higher \$862 billion. Through August 2010, the actual cost was \$814 billion according to the CBO, which estimated that not all approved dollars were actually spent.

Overall economic value as measured by real Gross Domestic Product (GDP) has finally begun to grow from the depths of the recent recession. For the seven consecutive quarters from the third quarter of 2009 through the second quarter of 2011, real GDP has been positive and growing at annualized rates between 0.4% and 3.9%. Contrast this recent growth to the period from the third quarter of 2008 through the second quarter of 2009 where real GDP declined in each quarter from the preceding quarter by annualized rates that varied between 0.7% and 8.9% (Figure 3.). The Federal Reserve estimates that real GDP growth will be between 2.7% and 2.9% for the calendar year of 2011 and 3.3% to 3.7% in 2012.

The seasonally adjusted unemployment rate in the U.S. fell from 9.5% in June 2010 to 9.2% in June 2011 (Figure 4). Both rates are lower than the peak of 10.1% logged in October 2009 -- the highest rate since November 1982. According to Federal Reserve estimates, the unemployment rate is

expected to fall to a range of 8.6% to 8.9% in 2011, and a range of 7.8% to 8.2% in 2012.

The U.S. consumer price index for all urban consumers (CPI-U) increased 3.4% from June 2010 to June 2011, while the “core” rate of inflation, all items less food and energy, increased by only 1.6% over the same period. The Federal Reserve projects that inflation will remain subdued for the remainder of 2011, reaching a maximum of 2.5% annually and then declining further in 2012.

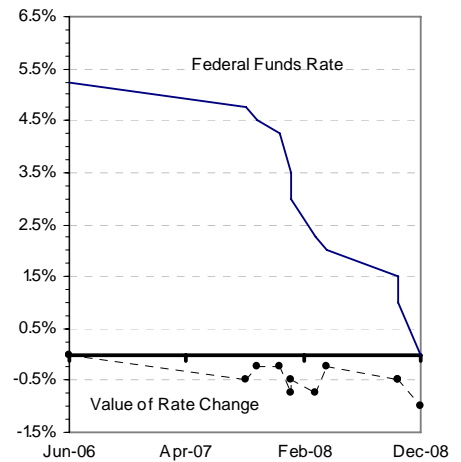
Given the high rates of unemployment, low inflation expectations and removal of stimulus support to the economy, the Federal Reserve has maintained an aggressive growth posture of low interest rates. The Federal Funds target rate has been set between 0% and .25% since December 16, 2008, following 10 reductions totaling 500 basis points beginning from the June 2007 rate of 5.25% (Figure 5). The bank is also undergoing a plan to keep interest rates low by buying up to \$600 billion in Treasury bonds by the second quarter of 2011. This will be the last instance of this form of support by the Fed.

A recovering national economy will likely allow for increased tax revenues nationally as has begun locally, but massive stimulus spending, entitlement cost pressures, and the cost of prolonged military action abroad mean the federal budget will likely continue to suffer exceptionally large deficits for several years to come.

THE STATE AND LOCAL ECONOMY

The State’s economy showed less dramatic signs of weakening than that of other states or the national economy. This was likely due to the state’s relatively anemic recovery from the last recession and the strength in diversification of its economic base (Figure 6).

During the period of 1997 to 2009, Massachusetts’ average growth of 2.0% in real Gross State Product (GSP) ranked 23rd out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state’s ranking declined to 28th in 2009, but has since risen to 4th in 2010 with 4.2% growth. Despite its average growth rate in terms of overall GDP, the state does remain one of the richest in terms of its GDP per capita -- \$52,251 in 2010 – seventh in the nation and 123% of the national average.



Federal Funds Rate Changes
June 2006 - March 2011 (no change since Dec. '08)
Figure 5

Massachusetts lost the highest percentage of jobs in the nation during the 2001 recession, at peak losing more than 200,000 jobs or 6.0%. The state is currently 149,300 jobs below the peak in February 2001. Employment has been slowly growing for the last two years. In 2010, Massachusetts gained 28,200 net new jobs. While the state is gaining jobs, the estimated number of jobs in the City of Boston dropped 6,566 to 652,180 in 2010.

Among this muddled employment picture, the unemployment rate has begun to decrease for both the state and city. From a February 2008 low of 4.5%, the state’s unemployment rate increased to a peak of 8.8% in January 2010 -- the highest it had been since August 1976. The rate in Massachusetts has since fallen back down to 7.6% as of June 2011 (Figure 4). The employment outlook is mixed for the coming fiscal year with the Massachusetts Department of Revenue projecting state unemployment ranging from 8.0% to 9.0% in FY12 in a December 2010 forecast.

The City of Boston’s unemployment rate has steadily fallen to 7.7% in June 2010 (not seasonally adjusted) after peaking at 9.3% in July 2010. The City had not experienced an unemployment rate that high since September 1991. For the City, even the recent rate of 7.7% remains a large increase over its last low point of 4.0% in December 2007.

Massachusetts wage and salary income in the first quarter of 2011 rose 4.7% over first quarter 2010, continuing a trend of five consecutive positive quarter over quarter growth rates. Earnings growth by industry grouping over the period of the first quarter in 2010 to 2011 was strongest in

Durable Goods Manufacturing and Management of Companies and Enterprises while Arts, Entertainment and Recreation and Construction showed the weakest growth during the same period.

Massachusetts' seasonally adjusted total personal income rose by 4.8% from the first quarter of 2010 to first quarter 2011, ranking it 26th out of the 50 states and DC in terms of growth and just slightly above the national average.

(See *Boston's People & Economy* section of Volume I for more detail on Boston's population and labor force trends).

THE COMMONWEALTH BUDGET

Since state aid to the City represents its second largest single source of general fund revenue, the state provides many grants that support city programs and expenditures, and often changes to law that affect City expenditures and revenue generating capacity occur within or along with budget language, the state budget is of great interest to the City.

The state budget has faced several very difficult years recently and is facing more difficult years ahead despite projected revenue increases in FY11 and FY12.

The state will have drawn down its reserves considerably by the close of FY11. At the close of FY08, the state had a stabilization fund balance of approximately \$2.1 billion. The Governor's Office projects that the fund stands at about \$770 million in FY11 with a recent \$100 million deposit from a supplemental spending bill.

FY11 state tax revenues continue to exceed benchmark estimates as the economy slowly improves and there are supplemental spending bills awaiting approval that use up the projected revenue surplus. The FY11 budget will use the last of Federal stimulus dollars that according to Massachusetts Taxpayers Foundation (MTF) estimates totaled \$4.75 billion between FY09 and FY11. The increasing tax revenue offset by the heavy use of state reserves and loss of federal stimulus money is creating an estimated \$2.0 billion structural deficit for the FY12 budget.



Real Gross State Product Growth
Massachusetts Annual, 2001-2010 & NBER dated recessions

Figure 6

The FY12 State Budget

As of this writing the State is in the last stages of development of its FY12 budget with the Governor having released his budget in late January and the House and Senate releasing theirs in April and May, respectively. The Conference Committee made up of members of both houses released the final Legislative budget in mid-June. The Governor will now has 10 days to veto line-items then hand the budget back to the Legislature for veto overrides and passage of the final budget by June 30th.

The Conference Committee budget reduces local aid to the City less than assumed in the City's Recommended Budget. Therefore, the Adopted Budget reflects more state aid than the Recommended Budget, relieving some of the pressure on the City, but continuing the state aid reductions the City has endured over the past four years.

Of special concern, the City received another reduction in unrestricted general government aid and elimination of the reimbursement for the police career incentive. However, education aid was increased slightly, and while the City was granted no increases in revenue-raising capacity, significant changes to the ability to control employee health insurance costs were made. (For more on Employee Health Insurance and the legislative changes made, see the *Summary Budget* section of this volume.)

Changes to City Revenue Structure

The last few years have left noticeable changes on the City's revenue structure from both internal and external forces.

In FY10, municipalities were granted their first new major revenue stream since the local option hotel and jet fuel taxes of more than twenty years ago. The state offered for local adoption a meals tax at the rate of .75% in addition to the state tax. Adopting municipalities receive revenue collected by the state from the tax receipts generated in their own communities. This tax was adopted by the Boston City Council in August 2009, implemented October 1, 2009, and will produce its first full year of revenue in FY11. The state also granted an option for a 2% increase to the existing 4% local option room occupancy tax which was approved and implemented along with the meals tax.

Legislation approved by the state, changed the funding mechanism of pensions for Boston's retired teachers. Teacher's pensions are the responsibility of the state. Formerly, the state reimbursed the City for the payroll costs of the pensions in recognition of City funding of the Teacher's pension liability. Under the change reimbursement to Boston has been eliminated and the state directly funds the Boston teacher's pension liability as it does for the rest of teachers in local school systems throughout the state. The effect on City revenues is the loss of the reimbursement that totaled over \$126 million in FY10, but the cost of pensions to the City declined by a corresponding amount, making the change budget-neutral. (See *Statutes and Ordinances* section of Volume I for more detail on Boston Teacher Pensions and the State Boston Retirement Board.)

State aid accounts since FY09 have been combined and restated under different names. Lottery and Additional Assistance accounts have been combined and termed Unrestricted General Government Aid and several property tax exemption reimbursements have been combined as well.

Legislative Changes

Most municipalities, including Boston, have yet to fully recover from sudden and drastic state aid reductions of the 2001-2002 recession before being faced with a new round of cuts in the recent

recession. The consequences have been increased property taxes through overrides of the levy limit, additional user fees, and reduced public services throughout the state. The fiscal health of many municipalities is certainly in question. For example, the City of Lawrence has received a loan from the state to continue basic operations.

Recognizing the threat to fiscal stability represented by these trends, the Mayor has repeatedly filed legislation to diversify the City's revenue structure and to secure and grow its tax base.

Specifically, the Mayor has proposed establishing a local option tax on parking in commercial lots and closing a tax loophole on room occupancy that allows internet resellers to avoid tax on the increment between what they paid for a room night and what they sell it for. The latter of these is a change to the base of the state and local tax and would benefit the state and all municipalities that have adopted the local option room occupancy tax.

As a matter of course, the City updates its fee and fine structure as needed for any increases necessary to cover the cost of providing services or deterring undesired behavior. Several increases have been submitted or approved by the City Council prior to the submission of this budget. These include increases to fees in the Fire, Inspectional Services, and Public Works departments. In addition, efforts continue to maximize current revenue sources and to develop new sources of recurring revenue at the local level.

The following discussion details the three major local revenue streams to the City: Property Tax, State Aid, and Local Receipts.

REVENUE ESTIMATES

The Property Tax

The property tax levy has been the City's largest and most dependable source of revenue growth. In FY11, the net property tax levy is \$1.502 billion, providing 66.0% of recurring revenue (after adjusting for the \$82 million one-time pension payment in FY11), with an increase to \$1.569 billion expected in FY12. According to current estimates, the net property tax levy will account for 66.4% of recurring revenue in FY12.

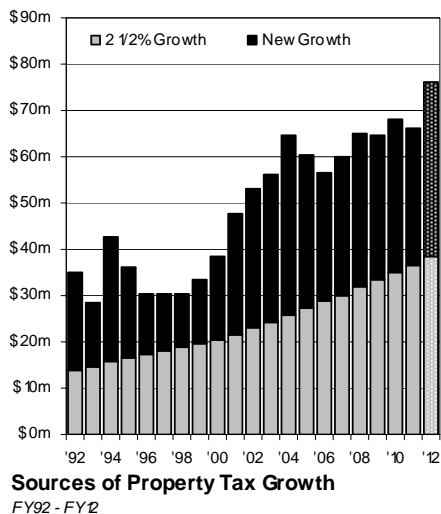


Figure 7

The increases in the gross property tax levy have been steady and consistent from FY85 to FY11, ranging from a low of \$28 million to a high of \$66 million over the period. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the budgeted \$68.5 million rise in FY12 represents 4.5% growth. It is important for the financial health of the City that the property tax levy continues to grow, but efforts continue to reduce reliance on the property tax through increasing existing or establishing new local revenue sources.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new construction. Finally, Proposition 2 1/2 provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has never voted to either override the levy limitations or exclude any debt from the limit. In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching an estimated \$38.5 million in FY12.

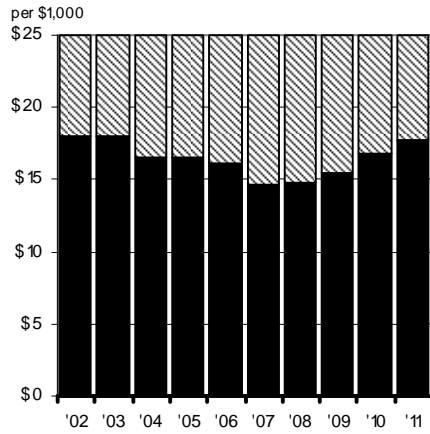
During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$30.0 million in FY12 (it should be noted that \$10 million of this figure is related to the sale of a non-profit and tax exempt network of hospitals to a for-profit company, thus making the property taxable in FY12 and beyond). New growth can arise from both real and personal property. Much of the recent growth has been due to efforts of the Assessing department on personal property audits.

Revenue growth from taxable new value has exceeded revenue growth from the allowable 2.5% increase in eighteen of the last twenty-eight years (Figure 7). Adjusted new growth for FY12 (\$20 million) is the weakest since FY99, but there are signs that the economy is improving and that new growth will return.

Recently, with all of the turmoil in the real estate market, there has been concern around falling values and their effect on the Property Tax. Declining real estate values can present a problem for cities as dependent on the property tax as Boston. As real estate values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2. Between FY90 and FY94, the levy increased each year by an average of 6.4%. The dramatic decrease in values brought the effective tax rate (levy / taxable value) from its healthy low point of 1.4% in FY89 to 2.47% in FY94, dangerously close to the Proposition 2 1/2 tax rate ceiling of 2.5%. Reaching the 2.5% cap would have resulted in a very limited increase in allowable annual levy growth.

However, due to several years of strong new taxable value increases, the City now has some space between its FY11 net effective tax rate of 1.77% and the tax rate ceiling of 2.5% (Figure 8). If the real estate market continues to depreciate, the City's lack of proximity to the 2.5% property tax rate threshold will insulate revenues from an immediate shock. However, if values are depressed long enough, future growth of the property tax could be impaired. This would have serious implications for the City's ability to maintain services.

Indicators of the property tax in the current economy are moving. Office vacancy rates, an



Overall Property Tax Rate & Space Below Levy Ceiling
FY02 -FY11

Figure 8

indicator of commercial real estate value, are continuing their upward trend. Boston's office vacancy rate rose from 6.9% in 2008 to 11.6% in 2010 according to Jones Lang LaSalle. However, the median single-family home sales price, an indicator of residential real estate values, has increased nearly 11% to \$322,100 as of first quarter 2011 in the Boston- Cambridge-Quincy metropolitan area after declining more than 30% between the June 2006 peak and March 2009 trough.

State Local Aid

State aid refers primarily to distributions from the Commonwealth to municipal general revenue for Chapter 70 education aid and Unrestricted General Government Aid, along with other relatively smaller Commonwealth programs such as library aid, racing taxes, and other reimbursements.

The City's FY12 local aid estimate is based on the lowest amounts per line-item in either the House or Senate budgets released in April and May, respectively.

The City received general fund gross local aid totaling \$454.4 million in FY09 (This figure excludes \$23.3 million in Chapter 70 aid that was cut but replaced with federal aid of the same amount and treated as grant revenue by the City) and \$413.2 million in FY10. The City expects to receive \$395.7 million in local aid in FY11 and has budgeted \$385.1 million in FY12.

"Municipal Charges" or "Assessments" are charged by the Commonwealth to municipalities for items

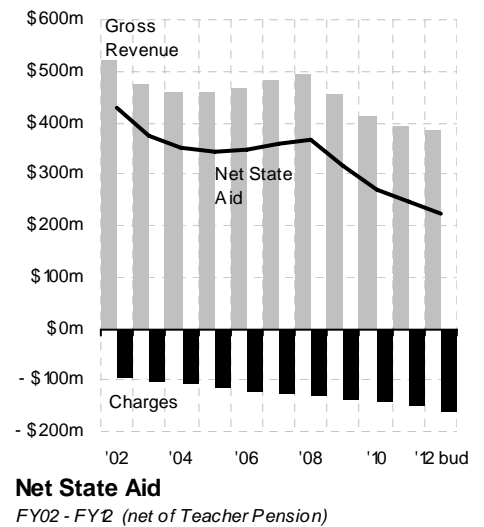
such as MBTA service and Charter School tuition. Local aid distributions are reduced by the amount of assessments charged to a municipality.

The City paid \$137.7 million in assessments in FY09 and \$141.9 million in FY10. The City expects to pay \$148.7 million in assessments in FY11 and is budgeting \$162.5 million in FY12. The largest assessments are those of the MBTA and charter schools. Beginning in FY12, the previous cap on charter school enrollment has been doubled. Several new schools and expansion at existing charter schools is expected for the 2011-2012 school year. This will serve to dramatically increase the assessment levied on the City going forward.

Net state aid, which is gross state aid revenue minus assessments, has been trending down steeply since FY02. The rapid annual increases in the Charter School Tuition and MBTA assessments, combined with reductions in education and general government aid, continue to contribute to this trend (Figure 9).

With a decrease in net state aid for FY12, Boston is \$205.7 million, or 48%, below its FY02 peak level of net state aid of \$428.3 million.

Net state aid amounted to \$316.7 million in FY09 (net of the education funding switch mentioned previously) and \$271.4 million in FY10. FY11 budgeted net state aid totals \$247.0 million and the FY12 Budget assumes a reduction to \$222.7 million.



Net State Aid
FY02 - FY12 (net of Teacher Pension)

Figure 9

Education Aid

Beginning with the FY94 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its local aid distributions. FY00 was the last year of the statutorily established funding schedule for education reform. There has yet to be established a post-FY00 funding schedule. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth.

The City received Chapter 70 education aid totaling \$198.1 million in FY09 (net of the education funding switch mentioned previously) and \$217.0 million in FY10, and expects to receive \$204.3 million from state in FY11 and estimates \$196.1 million in FY12.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committees and teacher union rules and regulations. (See *Innovations In Education* section of Volume I for more detail on Charter Schools)

There are two kinds of charter schools; Commonwealth charter schools and Horace Mann charter schools. The former is a school outside the local public school system and the latter is part or all of a school in the public school system. Unlike a Commonwealth charter school, Horace Mann charter school budgets remain part of the public school budget. In addition to the Board of Education, the local school committee and local bargaining agent must approve Horace Mann charter schools.

Currently both types of charter schools are available to Boston resident students. Approximately 5,273 Boston resident students attend Commonwealth charter schools in FY11. The state Department of Education projects that this number will increase to 5,801 in FY12.

Beginning in FY12, the cap of 9% of a sending district's net school spending (NSS) devoted to Charter Schools has been doubled to 18%. This

Charter School Reimbursement Percentages Amount of annual growth reimbursed						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
FY11	100%	60%	40%	-	-	-
FY12	100%	25%	40%	-	-	-
FY13	100%	25%	25%	-	-	-
FY14	100%	25%	25%	25%	-	-
FY15	100%	25%	25%	25%	25%	-
FY16	100%	25%	25%	25%	25%	25%

Table 1

increase in the amount of funding that may be diverted from a sending school district has allowed for an increase in the number Charter Schools. The state board of education recently approved new Charters for eight new Commonwealth Charter schools which are projected to serve over 4,000 new students when fully operational over the coming years.

Before FY99, all charter school tuition was drawn directly from the City's Chapter 70 aid. This draw on the City's education aid totaled \$10.9 million in FY98. Under amendments to the charter school law, the Commonwealth, subject to appropriation, is required to pay the City a reimbursement for Chapter 70 aid reductions. The current reimbursement, which changes beginning in FY12, works as follows: 100% of tuition for new charter school students the first year, followed by 60% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% thereafter. The new schedule changes the percentages of reimbursement over a six year period. The reimbursement for FY12 will be 100%, 25%, 40% (Table 1).

The net cost to the City of charter schools has

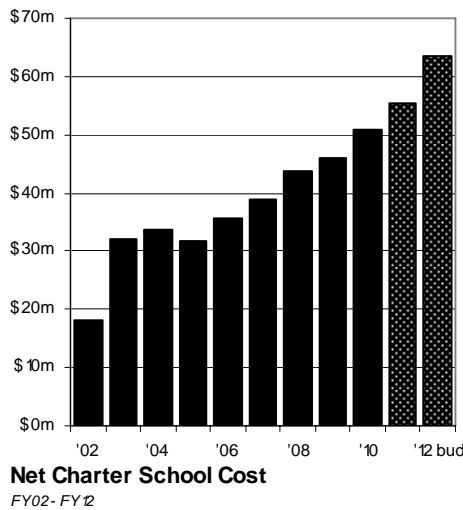


Figure 10

been increasing rapidly; in FY09 the cost was \$45.9 million and in FY10, \$51.0 million. In FY11 the city has budgeted a \$55.3 million net impact and in FY12, \$63.9 million (Figure 10).

Unrestricted General Government Aid

For the FY10 budget, and going forward, the Governor and the Legislature combined general government aid from Lottery and Additional Assistance into one account. The combined accounts totaled \$212.8 million in FY09 and \$166.9 million in FY10. In FY11 the City will receive \$160.2 million and has budgeted \$148.7 million for FY12.

Below are explanations of the historical component revenues.

Lottery Aid

Under normal circumstances, the lottery formula is not favorable to the City because it distributes lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City receives a smaller percentage share of Lottery Aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

The growth in Lottery aid has slowed in large part due to the slowing of sales that occurs with a mature, established lottery system. The now thirty-eight year old lottery reached its peak in sales in FY06 at \$4.52 billion in sales. The state has over-projected lottery sales, and therefore Lottery Aid, in recent years, leaving it to fund the shortfall in Lottery Aid to cities and towns from other sources.

Prior to the FY10 consolidation into Unrestricted General Government Aid, the City received Lottery Aid of \$71.6 million in FY08 and \$64.6 million in FY09.

Additional Assistance

Additional Assistance was originally conceived and designed as a revenue-sharing concept and distributed based on relative need to cities and towns. Additional Assistance had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead.

Its original purpose and current usefulness came into question during the FY03 state budget process when Governor Swift vetoed \$31 million from the statewide appropriation and the legislature failed

to override that veto. Subsequently, Governor Romney, using his temporary local aid reduction powers, reduced Additional Assistance yet again in January 2002 by \$73 million. As Boston received over 40% of the statewide distribution of Additional Assistance, these reductions fell disproportionately on the City.

The City received \$164.2 million each year from FY04 through FY08 and budgeted the same for FY09 but actually received a reduction to \$148.2 million.

In the current Legislative session, a bill has been filed to renew this formula based on new factors of need and ability to pay. Currently, the bill would be applied only to new revenue in the future, thus leaving the current distribution in place. Any changes to this aid account must include a so-called "hold harmless" provision and any changes must be thoroughly vetted with those municipalities currently receiving this aid.

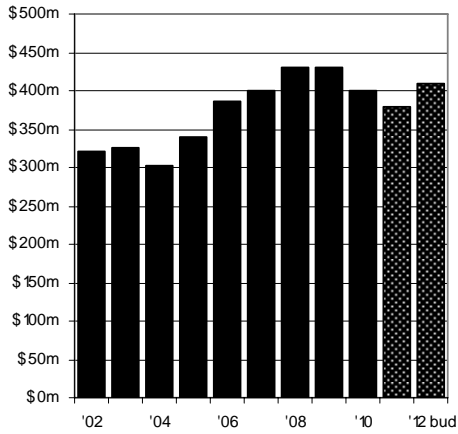
Local Revenues

The City collects approximately \$400 million annually in recurring revenues other than Property Tax or State Aid. Revenue from excise taxes, payments-in-lieu-of-taxes, fees and fines, investment income and available funds are part of this local revenue group.

In sum, the City collected \$429.1 million in FY09 and \$398.9 million in FY10 from these sources (net of Teacher's Pension Reimbursement revenue). The City expects to exceed the mid-year budget estimate of \$378.5 million in FY11 (excluding the one-time pension payment of \$82.0 million) and estimates an increase from the adjusted FY11 budget by \$31.9 million, or 8.4%, to \$410.4 million in FY12 (Figure 11).

Excise Taxes

The Commonwealth imposes an excise in-lieu of property tax on the registration of motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally kept. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. Valuations are determined by a statutorily-defined depreciation schedule based on the manufacturer's list price and the year of manufacture.



Local Receipts
(non-property tax/state aid)
 FY02 - FY12 (adj. for actual base hotel collections)
 *All years reflect change in Teacher's Pension

Figure 11

The City expects the market for automobiles to stabilize in the coming fiscal year. Motor vehicle excise revenue totaled \$44.6 million in FY09 and \$40.1 million in FY10. The City expects motor vehicle excise revenue to exceed the midyear annual projection of \$33.5 million in FY11 and to rise to \$40.0 million in FY12. Since the excise tax lags the sale of the vehicle, this revenue estimate is generated based on state projections of current year tax collections on motor vehicle sales in the Commonwealth.

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and received \$10.0 million for a partial year of collections in FY10. The FY11 budget assumes full-year collections totaling \$16.4 million which the City expects to exceed by year end and is budgeted to reach \$18.0 million in FY12. This revenue estimate was generated from actual historical sales data from the state Department of Revenue combined with expected local room occupancy excise revenues and income of area residents.

The local room occupancy excise amounts to 6.0% of the total amount of rent for each hotel or motel room occupied. This rate was increased in the fall of 2009 from 4.0%, along with the enactment of the new meals tax. Another 5.7% excise tax is directed to the state general fund and another 2.75% fee to the state's convention center fund, for a total tax from all sources on hotel rooms in the City, of 14.45%. The City divides its 6.0% excise revenue

into "base rooms", those in hotels built prior to July 1, 1997, targeted to the general fund, and "new rooms," those in hotels built after July 1, 1997, targeted to the City's convention center fund to pay for the debt incurred by the City to help finance construction of the convention center.

Base room occupancy excise revenue (a portion of this revenue is sometimes retained in the convention center fund) totaled \$27.4 million in FY09 at the 4.0% rate (\$27.0 million went to the general fund) and \$30.1 million in FY10 with part of the year at the 4.0% rate and part at the 6.0% rate (\$30.0 million went to the general fund). The City's base room occupancy excise tax receipts are expected to exceed the midyear annual budget estimate of \$34.5 million in FY11 with a full year at the 6.0% rate due a strong recovery in the hotel market, and are projected to increase to \$51.0 million in FY12. The large increase in FY12 reflects the City's ability to move some "new" rooms revenue to the general fund as a result of refinancing convention center debt.

Reflecting Boston's tourism and business travel trends, room occupancy excise receipts are estimated based on air travel statistics from Logan Airport and regional gasoline prices.

The excise on the sale of jet fuel is 5% of the sales price, but not less than five cents per gallon. With recent increases in fuel prices, jet fuel excise revenue has increased dramatically. Jet fuel excise revenue totaled \$34.5 million in FY09 and \$22.9 million in FY10. The City expects this revenue source to exceed the midyear annual projection of \$20.5 million in FY11 and to increase to \$22.5 million in FY12 due to increasing fuel price forecasts from the Energy Information Administration (EIA) and increasing demand for air travel due to an improving economy.

Fees and Fines

In fiscal 2010, the City issued over 1.57 million parking tickets and has maintained a high rate of collection on its tickets. Approximately 84% of tickets were collected in the first six-months after issuance and 89% were collected within a year. The major factors contributing to the City's successful collection rate include non-renewal of violator's registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to recover

fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles. The City also contracts with a third-party vendor to collect delinquent fines from out of state vehicles and other hard to reach offenders.

The City collected parking fine revenue of \$65.9 million in FY09 and \$66.3 million in FY10. Parking fine revenue is expected to fall short of the mid-year budget estimate of \$66.0 million in FY11 and decrease to \$63.5 million in FY12.

Interest on Investments

In general, the City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Since June 2007 interest rates have been quickly reduced in an effort to stimulate the economy out of recession. FY11 and FY12 revenues are likely to be strongly impacted as a result. Investment income totaled \$17.8 million in FY09 and \$3.2 million in FY10 – reflecting the rapid decrease in interest rates. The City projects interest income will not reach the \$2.0 million mid-year annual estimate in FY11 and will increase slightly to \$1.5 million in FY12.

Payments in Lieu of Taxes

Payments in lieu of taxes (PILOTs) are payments made by tax-exempt institutions located in the City, including hospitals, universities and cultural institutions. These are voluntary contributions in lieu of property taxes for municipal services such as police and fire protection, street cleaning, and snow removal.

Growth in PILOT's comes from new agreements, contract escalations that adjust the payments for inflation, and re-negotiation or expansion of current contracts. The Massachusetts Port Authority (MassPort) currently provides nearly half of the PILOT revenue the City receives annually.

Recently, a Mayoral appointed task force released a report suggesting more standardization of PILOT agreements. Specifically, each agreement should represent, in cash or in kind, 25% of the amount of tax that would be due if properties were not exempt. This type of change would generate substantially more revenue than what is currently collected while providing some equality among paying institutions. New agreements under this framework are expected to be adopted in FY12 and

revenue estimates assume the first year of a five-year phase-in period.

Payments in lieu of taxes totaled \$34.0 million in FY09 and \$34.9 million in FY10. The City expects this revenue source to reach the midyear annual budget estimate of \$35.7 million for FY11 and projects \$39.5 million in FY12 based on the updated agreements mentioned above.

Urban Redevelopment Chapter 121A

Chapter 121A legislation allows local governments to suspend the imposition of property taxes at their normal levels in order to encourage redevelopment. In recent years, the City used this mechanism to encourage development of the Seaport Hotel and the World Trade Center office buildings. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise is collected in-lieu-of-corporate income tax for which the Commonwealth acts as the collector and distributes the proceeds to municipalities. In most cases, the formula for the 121A, Section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of current gross income. In FY09 and FY10, the City received Chapter 121A, Section 10 distributions of \$42.9 million and \$40.6 million, respectively. In FY11, Chapter 121A Section 10 revenues are budgeted at \$35.0 million due to the expiration of an agreement with One Beacon Street which then moves the property to taxable status under the regular property tax. In FY12, Chapter 121A Section 10 revenues are budgeted at \$36.0 million.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual agreements with the City that result in additional payments made directly to the City. These "Section 6A" agreements are complex, with actual amounts owed dependent on a formula that varies widely. The City collected Section 6A payments of \$21.4 million in FY09 and \$24.8 million in FY10. The City expects FY11 Section 6A collections to reach the midyear budget estimate of \$20.5 million, a decrease from FY10 due to the contract expiration mentioned above, and increase to \$21.0 million in FY12.

Miscellaneous Department Revenue

This category contains several large accounts and many more small accounts. The largest revenue source in this category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$14.7 million in FY09 and \$18.7 million in FY10 prior to a change in federal policy that reduced reimbursement levels. Municipal Medicaid reimbursement is expected to reach the midyear annual budget estimate of \$8.0 million in FY11 and increase to \$6.7 million in FY12.

Other Miscellaneous Department Revenue, which consists of accounts collecting miscellaneous fees for services, rents, and reimbursements that are not separately stated on the Revenue Detail at the end of this chapter, is projected at \$24.2 million and \$24.8 million in FY11 and FY12, respectively.

Licenses and Permits

The level of economic activity largely determines the amount of licenses and permits issued by City agencies. This category is dominated by building permit revenue, from which the City received \$27.0 million and \$14.8 million in FY09 and FY10 respectively. Building permit revenue will exceed the midyear budget estimate of \$16.8 million in FY11, and is projected to increase to \$18.0 million in FY12 due to increases in the Producer Price Index (PPI) affecting material costs and the increase in commercial paper issued to support commercial construction.

The next largest license and permit revenue is the cable television license fee from which the City received \$4.2 million in FY09 and \$5.4 million in FY10 (due to timing of payments). The City has budgeted \$5.4 million for FY11 and \$5.5 million in FY12.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds \$2 million in annual revenue. Alcoholic beverage licenses are budgeted at \$3.4 million in FY11 and FY12.

Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills, motor vehicle excise bills and other payments. The recent trend has been down for these revenues as the City excels in the timely collection of

receivables. The City collected \$7.8 million in such penalties and interest in FY09 and \$8.0 million in FY10. Actual penalty and interest collections for FY11 will reach the current midyear budget estimate of \$7.7 million and are projected to be \$7.8 million in FY12.

Available Funds

Available funds are linked to a separate category of expenditure appropriation - those supported by immediately available fund transfers. Most of the City's general fund budget is supported by the revenues that are estimated to come in during the course of the fiscal year. This includes the property tax levy, excises, state aid, and the various other categories of revenues described above.

The only two significant available funds that the City budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies which are used to support the City's maintenance of its public cemeteries. The City transferred a total of \$14.2 million and \$17.1 million from these two sources combined in FY09 and FY10 respectively. The City expects to transfer \$15.0 million from the Parking Meter Fund to the General Fund in FY11 and FY12. The City also plans to transfer \$2.1 million from the Cemetery Trust Fund to the General Fund in FY11 and FY12.

Both of these special funds have fees collected during the course of the year. By transferring out less than what is collected over the years, the City has built up the balances of these funds. Trust fund balances, such as the cemetery trust, also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments (see *Financial Management* section of Volume I for detail).

Teacher's Pension Reimbursement

Until FY10, Boston's cherry sheet included an item unique to the City among municipalities. The pensions paid to retired teachers in all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System. However, Boston teachers are members of the State-Boston Retirement System (SBRS) and the SBRS managed the investment of the teacher employee and teacher retiree assets.

The City funded teacher pension liability on an actuarial cost basis and was reimbursed by the state on the basis of the prior year's teacher retiree portion of the SBRS pension payroll. The teachers' pension reimbursement totaled \$118.8 million in FY09.

In FY10, Legislation transferred the responsibility for funding Boston teachers' pension liabilities to the Commonwealth, impacting fiscal year 2010 revenues and expenditures. This was done in order to link investment responsibility with responsibility for pension liability. Assets held by the SBRS which are allocable to teachers' pension liabilities were transferred to the state Pension Reserves Investment Trust (PRIT) Fund and are now managed by the state PRIM board. The SBRS continues to administer Boston teachers' pensions and benefits. (See *Statutes and Ordinances* section of Volume I for detail on the potential changes to the Teacher's Pension Reimbursement.).

Non-recurring Revenue

Surplus Property

The surplus property disposition fund contains the proceeds from the sale of various City land or buildings. The use of these funds is usually restricted to one-time expenditures. No funds are included in the FY12 Budget from this revenue source.

Budgetary Fund Balance

Fund Balance can be appropriated for use during the fiscal year. Fund Balance, or Budgetary Fund Balance, is more commonly referred to as "Free Cash" when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The FY11 Budget assumes the use of \$45.0 million, \$35.0 million of which will be used to fund Other Postemployment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY12 budget assumes the use of \$30.0 million toward OPEB.

(See *Financial Management* section of Volume I for more detail on this revenue source).

CITY OF BOSTON REVENUE DETAIL

		FY09 Actual	FY10 Actual	FY11 Budget	FY12 Budget
PROPERTY TAX LEVY		1,400,706,143	1,475,926,447	1,539,679,824	1,608,227,714
OVERLAY RESERVE		(35,434,230)	(35,733,120)	(37,354,838)	(39,225,066)
	Subtotal	1,365,271,913	1,440,193,327	1,502,324,986	1,569,002,647
EXCISES					
	Motor Vehicle Excise	44,606,189	40,051,704	33,500,000	40,000,000
	Meals Excise	N/A	9,972,296	16,375,000	18,000,000
40129	Room Occupancy Excise	27,000,000	30,000,000	34,500,000	51,000,000
40130	Jet Fuel Excise	34,471,624	22,897,403	20,500,000	22,500,000
40140	Condominium Conversion Excise	704,500	413,500	400,000	350,000
	Boat Excise	69,850	82,194	70,000	75,000
	Subtotal	106,852,163	103,417,098	105,345,000	131,925,000
FINES					
	Parking Fines	65,950,380	66,327,245	66,000,000	63,500,000
45104	Code Enforcement - Trash	632,567	495,827	650,000	750,000
	Other Fines	3,819,844	3,848,383	3,757,500	3,830,000
	Subtotal	70,402,792	70,671,455	70,407,500	68,080,000
47151	INTEREST ON INVESTMENTS	17,835,384	3,182,220	2,000,000	1,500,000
40169	Massport	16,160,284	16,347,481	16,616,072	16,750,000
	Other Payments In Lieu of Taxes	17,792,393	18,594,901	19,086,681	22,725,000
	Subtotal	33,952,677	34,942,382	35,702,753	39,475,000
URBAN REDEVELOPMENT CHAPTER 121					
	Urban Redev. Chap. 121B Sec. 16	1,099,568	1,150,037	1,100,000	1,100,000
	Urban Redev. Chap. 121A Sec. 6A	21,440,924	24,828,008	20,500,000	21,000,000
41013	Urban Redev. Chap. 121A Sec. 10	42,923,377	40,616,383	35,000,000	36,000,000
	Subtotal	65,463,869	66,594,428	56,600,000	58,100,000
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,488,564	1,437,999	1,425,000	1,450,000
43109	Liens	570,021	552,425	550,000	550,000
43120	City Clerk Fees	413,955	493,958	450,000	450,000
43137	Municipal Medicaid Reimbursement	14,690,946	18,673,679	8,000,000	6,675,000
43202	Police Services	726,033	673,811	675,000	675,000
43211	Fire Services	3,614,264	3,474,413	3,275,000	4,400,000
43301	Parking Facilities	1,761,300	1,192,818	1,200,000	1,250,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,972,512	1,911,698	1,900,000	2,000,000
43797	PWD - Fiber Optic Rental Fees	492,210	352,771	300,000	350,000
44002	Tuition & Transportation - Schools	1,319,913	1,507,692	1,300,000	1,500,000
47119	Affirmative Recovery	5,302,169	804,642	700,000	600,000
47131	Pensions & Annuities	3,423,718	3,090,363	3,100,000	3,100,000
47132	Fringe Benefit & Indirect	951,092	888,917	850,000	850,000
47155	Prior Years Reimbursement	185,986	(1,379,534)	81,987,323	500,000
48000	Detail Admin. Fee	3,254,804	3,168,836	3,200,000	3,250,000
	Other Misc. Department Revenue	30,398,746	27,634,732	24,227,049	24,837,871
	Subtotal	71,566,231	64,479,219	133,139,372	52,437,871

CITY OF BOSTON REVENUE DETAIL

		FY09 Actual	FY10 Actual	FY11 Budget	FY12 Budget
LICENSES & PERMITS					
40211	Building Permits	26,966,242	14,764,792	16,750,000	18,000,000
40213	Weights & Measures	271,710	210,555	330,000	330,000
40215	BTD - Street & Sidewalk Permits	1,837,445	2,406,184	2,200,000	2,400,000
40221	Health Inspections	1,642,004	1,492,454	1,650,000	1,600,000
40222	Alcoholic Beverage Licenses	3,338,416	3,352,347	3,350,000	3,350,000
40224	Entertainment Licenses	1,719,355	1,891,074	1,750,000	1,850,000
40229	Other Business Licenses and Permits	131,340	138,096	130,000	135,000
40235	Cable Television	4,154,779	5,369,215	5,400,000	5,500,000
	Other Licenses and Permits	947,066	932,876	930,000	930,000
	Subtotal	41,008,357	30,557,592	32,490,000	34,095,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	2,271,597	2,428,010	2,300,000	2,300,000
40134	Penalties & Interest - Motor Vehicle Excise	2,966,499	2,962,160	2,900,000	2,950,000
40136	Penalties & Interest - Tax Titles	2,531,329	2,560,580	2,500,000	2,500,000
40139	Penalties & Interest - 121A	-	-	5,000	5,000
	Other Penalties & Interest	5,596	10,538	5,000	5,000
	Subtotal	7,775,021	7,961,288	7,710,000	7,760,000
AVAILABLE FUNDS					
42502	Cemetery Trustee	2,188,825	2,079,153	2,108,718	2,066,543
42503	Parking Meters	12,000,000	15,000,000	15,000,000	15,000,000
	Subtotal	14,188,825	17,079,153	17,108,718	17,066,543
STATE AID					
41015	State Owned Land	272,205	244,297	262,485	261,524
41101	R.E. Abatements - Veterans/S.S./Blind/Elderly	2,031,454	1,230,380	1,247,882	1,211,932
41111	State Lottery Local Aid	64,609,382	-	-	-
41114	Veterans Services	2,839,915	1,713,466	3,359,697	3,377,395
41116	Additional Assistance	148,209,411	-	-	-
41118	Unrestricted General Government Aid	N/A	166,924,272	160,247,301	148,660,757
41119	Racing Taxes	451,186	261,510	426,118	509,390
41301	School Construction	13,198,866	12,956,404	11,157,748	9,847,753
41305	Charter Schools Reimbursement	15,359,109	10,987,738	13,721,730	15,844,450
41306	Chapter 70 Education Aid	198,137,070	216,994,382	204,317,586	205,414,453
41307	Charter Schools Capital Reimbursement	-	-	-	-
41117	Police Career Incentive	9,328,846	1,896,261	959,235	-
	Subtotal	454,437,444	413,208,710	395,699,782	385,127,654
41115	TEACHERS PENSION REIMBURSEMENT	118,840,800	-	-	-
	RECURRING REVENUE TOTAL	2,367,595,476	2,252,286,871	2,358,528,110	2,364,569,715
NON-RECURRING REVENUE					
42504	Budgetary Fund Balance	35,000,000	45,000,000	45,000,000	30,000,000
42501	Surplus Property	-	5,979,000	6,000,000	-
	GRAND TOTAL	2,402,595,476	2,303,265,871	2,409,528,110	2,394,569,715

