

# Financial Management of the City

## OVERVIEW

Managing the City's finances involves both a strategic and an operational component. Strategically, the financial operations must be managed to accommodate fluctuations in the economy and the resulting changes in costs and revenues. Operationally, the City must put in place clear financial goals, policies, and tools to implement its strategic plan.

The Mayor ultimately directs all of the City's financial operations. The Mayor is the chief executive officer of the City and has general supervision of and control over the City's boards, commissions, officers, and departments.

Mayor Menino has established a cabinet form of government to recognize the major functional responsibilities of city government. This structure helps to facilitate the execution of mayoral priorities and the day-to-day executive and administrative business of the City.

The following departments are included in the Administration and Finance Cabinet (A&F) and have major roles in the financial management of the City:

- The Treasury Department collects all revenues due to the City and pays all amounts due for payrolls and outside vendors. The Treasury Department also manages the investment of City funds and all City borrowings.
- The Auditing Department prepares the City's annual financial statements, implements fiscal controls over departmental spending, provides technical assistance to departments, and reviews and processes all financial transactions for accuracy, completeness, and compliance.
- The Assessing Department is responsible for the valuation and

assessment of all real and personal property in the City for the purpose of taxation.

- The Office of Budget Management coordinates the analysis and presentation of the Mayor's operating budget and capital plan, assembles, analyzes, and presents data with respect to revenue and debt management, and facilitates the establishment and use of data to analyze performance.
- The Purchasing Department procures all supplies, materials, and equipment, selects vendors through public bidding and processes purchase orders and contracts.
- The Human Resources Department and the Office of Labor Relations are also included in the A&F Cabinet. With employee compensation and health benefits comprising approximately three quarters of the City's budget, the coordination involving collective bargaining matters and health benefit information is critical.
- The Retirement Board administers the State-Boston Retirement System, which provides pension benefits to retired City employees under a state contributory retirement statute.

## STRATEGIC FINANCIAL MANAGEMENT

Maintaining a healthy financial base that fully supports City services according to mayoral priorities requires constant scrutiny. This work is reflected in restructuring City services in order to streamline operations, gaining improved operational efficiency and effectiveness from financial management systems, securing sound recurring revenues, and making responsible

spending adjustments in light of revenue growth limitations in order to achieve a balanced budget. Strong financial management provides a framework within which the City is able to safeguard as well as position itself for the future.

### **Balanced Budget**

In accordance with state law, the City develops a balanced budget every year. The State Department of Revenue (DOR) approves property tax rates during the tax certification process governed under Massachusetts General Laws Chapter 59, Section 23. This approval ensures that all cities and towns in Massachusetts have balanced budgets and that tax levies are within the limits set by Proposition 2 ½ (see *Revenue Estimates and Analysis* section of Volume I for detail on Prop. 2 ½). Appropriations, fixed costs, and any prior year deficits, along with the approved property tax levy, estimated local revenues, and available prior year surpluses must be in balance in order to obtain DOR authorization to issue property tax bills.

### **Healthy Credit Profile**

In March 2012, Moody's Investors Service, Inc., and Standard & Poor's reaffirmed Boston's credit ratings of Aaa, and AA+, respectively. These are the highest ratings in Boston's history, a clear recognition by the credit markets of the City's solid financial policies and practices. Moody's noted the City's "adherence to comprehensive financial policies and long-range planning strategies," in its most recent credit report.

This high credit quality allows the City to borrow new money and refinance existing debt at attractive interest rates. The City has saved over \$59 million on a net present value basis by refinancing \$932.7 million of debt since 2001. In March 2012, the City sold \$122 million of new-money general obligation bonds.

### **Maximizing Return on Investment**

The City has articulated a vision to make finance a higher performing organization in supporting and serving the departments and citizens of Boston by making daily operations easier, using leading business practices, spending more time on value-added activities, improving customer support while maintaining appropriate controls and

financial management, and engaging the next generation of finance leaders.

Following this blueprint, the City will soon go live with its financial management system upgrade (PeopleSoft Financials Version 9.1). This large-scale initiative has promoted business process changes throughout the organization. Updated functionality will better support the City's leading business practices, making them faster, easier, greener, and more efficient for everyone.

### **Protecting and Growing the Revenue Base**

Over 80% of recurring general fund revenue comes from just two sources, the property tax and state aid from the Commonwealth. The City continues to support the dual goals of protecting and growing its revenue base through expansion of current revenue streams and the addition of diversified revenue streams that more closely match its economic strengths. Recent trends in property tax and state aid highlight the risk of relying too heavily on any one source of revenue.

The net property tax levy as a percentage of total recurring revenues has increased from 52% in FY02 to 66% in the FY13 budget, a \$702 million increase over the period. Property tax revenues now account for a larger share of recurring revenues than prior to the passage of Proposition 2 ½ in the early 1980's. This growth, especially during challenging economic times, has again spurred discussion about the level of property taxes in municipalities across the state.

During the same period, state aid revenue to the City has fallen \$134 million, or from 30% to 16% of recurring revenue. State aid has been reduced by a total of \$201.4 million, or 47%, between FY02 and the FY13 budget when including the increase in state assessments to the City. This staggering decline in the City's second largest single source of revenue leaves the City more reliant on local sources of revenue.

Recognizing the threat to fiscal stability represented by these trends in property tax and state aid, the Mayor has repeatedly filed legislation to expand and diversify the City's local revenue structure to protect and grow the tax base, including the tax on restaurant meals. The City was successful in this long legislative process when subsequent to the passage of the City's FY10

budget the State approved, and the City adopted a new local option tax of .75% on restaurant meals and a 2% tax increase for hotel occupancy (bringing the City's share of the total hotel tax to 6.0%).

In the current legislative session, the Mayor has proposed continuing to expand the local tax base by establishing a local option tax on parking and closing a tax loop-hole benefitting internet resellers of hotel room nights. These small but broad-based taxes would match the City's economic activity and related costs, while exporting some of the tax burden to non-residents who use City services.

As a matter of course, the City also regularly reviews its fee and fine structures for any necessary increases to cover the cost of providing services or deterring undesired behavior. No increases have been proposed prior to the submission of this budget.

## **FINANCIAL POLICIES, PROCEDURES & CONTROLS**

Pursuant to state law mandates and policy initiatives, the City has well-established policies and internal controls to govern its financial operations effectively. These policies and controls are designed to maximize revenue collections, safeguard assets, monitor operating and capital spending, evaluate infrastructure needs, and enhance the City's internal control of its business procedures. The major components of the City's system of financial management controls and relevant financial policies are discussed below.

### **Expenditure Controls**

The City operates under several statutory financial control systems which are summarized in the *Statutes and Ordinances* section in Volume I. These controls, along with conservative estimates of annual revenue, allow the City to maintain its strong financial position. The City monitors spending on an ongoing basis, as all transactions go through a "budget-check" process prior to procurement. Maintaining tight central expenditure controls allows critical review of all non-personnel spending. Additionally, the Office of Budget Management prepares monthly variance reports forecasting a department's expected year-end position. Continuous dialogue with

departments throughout the year informs management of the need to adjust to any fiscal change or recent trend.

### **Position Review Committee (PRC)**

The PRC, comprised of the Chief of Personnel & Labor Relations, the Human Resource Director, and the City's Budget Director, serves to strictly control and monitor all hiring. In place for close to a decade, this committee has been instrumental in making sure the City gradually adjusts to fiscal change.

### **Debt Management**

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit, and statutory debt capacity. The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City's cash flows to help obviate the need for short-term borrowings for operating purposes. The City's cash flow is anchored by the quarterly billing of the property tax and quarterly receipt of state aid distributions. The Treasury Department ensures that the City adheres to its conservative debt policies including the rapid repayment of debt where at least 40% of overall debt is repaid within 5 years and 70% in 10 years, as well as a 7% ceiling on debt service as a percentage of general fund expenditures. The City imposes a 20% ceiling on variable debt and has no variable debt outstanding at this time. The City also utilizes lease-purchase financing of equipment with a three-to-seven year useful life to replace front-line equipment such as vehicles and upgrade technology and telecommunications equipment.

### **Capital Planning**

The Office of Budget Management (OBM) is responsible for managing the City's capital plan and budget. OBM coordinates the evaluation of capital requests, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends the allocation of current and future resources by monitoring capital expenditures.

The capital planning process is synchronized with the annual operating budget cycle, allowing for the regular reassessment of capital needs and refinement of projections, as well as the update of a rolling five-year capital plan.

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City's bond issues is consistent with the City's financial management policies regarding its level of debt and debt service.

### **Investment Policy**

Investment policies are defined in Chapter 643 of the Acts of 1983 ("The City of Boston Bond and Minibond Procedure Act"); Chapter 107 of the Acts of 1991, and Chapter 44 of the Massachusetts General Laws. The City's policy for the investment of operating funds prioritizes security, liquidity, and yield. Certain limitations placed on the City's investment activities or operational protocols are self-imposed so as to make sound, timely, and safe investment decisions. As an example, the City tends as a matter of practice to limit its investments to repurchase agreements, money markets and certificates of deposit, all of which are collateralized by U.S. Government obligations and are held with a third party.

### **Contracting Procedures**

The Uniform Procurement Act (the UPA), Massachusetts General Laws Chapter 30B, enacted by the Commonwealth in 1990, creates uniform procedures for the contracting of services and supplies by all municipalities in the Commonwealth. The City has implemented internal processes to conform its contracting procedures to the requirements of the UPA. The aforementioned PeopleSoft eProcurement implementation will further support these compliance efforts.

### **Tax Collections**

The City's aggressive property tax collection effort reduces the number of accounts that are delinquent and discourages new delinquencies. The City's program includes a strong working relationship with banks and mortgage companies as well as a variety of collection remedies authorized by state statute. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County

Registry of Deeds. The City achieved a property tax collection rate of 98.9% of the FY11 gross levy as of June 30, 2011. A Taxpayer Referral and Assistance Center provides "one-stop" service on tax-related matters and an on-line payment option is offered for taxpayer convenience. Parcel-specific information as well as payment history is also available on-line.

### **Pension Management**

The City's employees are not participants in the federal social security system. The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System (SBRS), of which the City is the largest member. The SBRS provides pension benefits to retired City employees under a state contributory retirement statute and is administered by a Retirement Board comprised of five members: the City Auditor, who serves ex-officio; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor, if a selection is not agreed upon within 30 days of a vacancy.

Over the years, the City has worked with the SBRS to maintain a conservative and responsible pension-funding schedule. This has included maintaining a reasonable investment rate of return assumption that has withstood the test of three major recessions since 1985.

The SBRS performs a full valuation every two years to determine the total system liability and assets and the annual funding requirement for future years. A legislative change affecting FY10 forward occurred with regard to funding teachers' pensions, eliminating what was a special circumstance for Boston. The City no longer pays nor is it reimbursed for the cost of teacher's pensions - the funding of this liability has moved to the Commonwealth where it resides for all other teachers in Massachusetts (See the *Statutes and Ordinances* section of Volume I for detail of this legislation). The actuarial valuation has now been separated into SBRS-Teachers and SBRS-All Other.

In FY11, the City made an additional one-time payment totaling \$82.0 million to the Pension Trust Fund, one of two pension decisions made with FY12 and beyond in mind. The additional

payment, along with extending the actuarial schedule two years, helped mitigate the effect of the loss in asset value experienced in 2008, now fully recognized in the updated pension schedule, and also lowered the amounts required to fund the pension liability in FY12 and the years to follow. The City is on track toward reducing the unfunded liability of the SBRs to zero by 2025, fifteen years prior to the legally required funding date of 2040.

As of January 1, 2010, the SBRs-All Other pension liability was 69.9% funded. An interim actuarial valuation performed as of January 1, 2011 for SBRs-All Other shows a funded ratio of 72.0%. The SBRs hires an investment manager who oversees the various fund managers of the SBRs-All Other pension assets.

### **Other Post Employment Benefits (OPEB)**

In addition to the pension benefits described above, the City provides postemployment health care and life insurance benefits on a pay-as-you-go basis to participating retirees and their beneficiaries. The City currently pays 72.5% of Blue Cross /Blue Shield of Massachusetts premiums and 82.5% of HMO premiums for most retirees and their beneficiaries.

Certain actions undertaken by the City led to a significant reduction in the City's most recent updated OPEB actuarial valuation. In April 2011, the City and its unions signed a four-year agreement through June 30, 2015, establishing a Public Employee Committee ("PEC") pursuant to MGL Chapter 32b, Section 19, also known as "coalition bargaining." The PEC agreed to a phased-in 2.5% increase in contribution for active employees and non-Medicare retirees, plan design changes, and a 1% increase in retiree contribution to Medicare plans that will be effective at the expiration of the agreement. Additionally, legislation passed in the summer of 2011 (Chapter 69 of the Acts of 2011), requiring all Medicare-eligible retirees currently enrolled in non-Medicare plans to move to Medicare plans effective July 1, 2012 had a notable positive effect on the obligation.

The unfunded actuarial accrued OPEB liability decreased to \$3.1 billion on a partially-funded basis based on current funding policies per the June 30, 2011 valuation. The City has contributed \$135 million since FY08 toward acknowledging this significant, yet unfunded cost of commitments

made to provide retiree health benefits. An OPEB Liability Trust Fund, pursuant to MGL Chapter 32B, Section 20 has been established. The City will continue to fund its OPEB obligation within the means of its current budget and manage its long-term liability responsibly, including continuing to work with the Public Employee Committee on strategies to slow the growth of health insurance.

(See the *Summary Budget FY13-FY14* section of Volume I for further detail on employee pension and health benefits and their current budgetary impact.)

### **Risk Management**

Risk-related costs include legal liability claims, property losses, costs incurred due to workplace injuries, employee healthcare, and unemployment compensation. These costs are managed by central departments, such as Law and Human Resources, in addition to individual operating departments. The Office of Budget Management works to maximize the effectiveness of these intra-departmental efforts by reviewing cost trends, assisting in improvements, and implementing the City's risk financing strategy.

The City's risk financing strategy is a planned self-insurance program which protects both individual departments' budgets and the citywide budget through central accounts, reserves, and catastrophic commercial insurance.

The City budgets for predictable risk-related costs through the general fund, except for self-insured healthcare costs which are managed by third party plan administrators and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws. Actuarially determined reserves are maintained to protect each trust fund from unexpected sudden cost increases.

For other unexpected large losses, the City continues to build a catastrophic risk reserve, the available balance of which will be \$13.6 million at the end of fiscal 2012. Commercial insurance is purchased strategically for specific exposures. A catastrophic property insurance policy provides \$100 million all-risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$10 million. Approximately 12% of the City's healthcare costs will be insured in FY13.

## **Financial Reserve**

As required by law since 1986, the City has maintained a reserve fund equal to 2 1/2% of the preceding year's appropriations for all City departments except the School Department. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year with the approval of the Mayor and the City Council. To date, this budgetary reserve has not been utilized. As of June 30, 2011, the reserve fund had a balance of \$27.7 million.

## **Annual Audit/Management Letters**

The City has consistently received unqualified opinions on the audit of its Basic Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its latest Comprehensive Annual Financial Report.

The City's independent auditors deliver a yearly management letter containing comments and recommendations on internal financial controls. The current management letter did not identify any deficiencies in internal control considered to be material weaknesses.

## **Financial Accounting Systems**

Financial management is supported through the use of the Boston Administrative Information Systems (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department. The utilization of these systems supports the rigorous monitoring and reporting requirements enforced by the City.

## **FINANCIAL MANAGEMENT PROGRAMS**

### **Performance Management and Program Evaluation**

Boston About Results (BAR) is the City's performance management and evaluation program. At its core, BAR provides city leaders and departmental managers tools to track the services they provide and evaluate performance against strategic goals. Analysis of performance data is used to assist in the decision making process, identify areas of improvement, and communicate results to a broad range of stakeholders.

Using performance management as its foundation, BAR encourages operational improvements and innovation to increase the effectiveness and productivity of City departments.

The Office of Budget Management plays a central role in the collection and analysis of performance data, by ensuring proper documentation of results, and assisting departments in pursuing opportunities for improvements. Performance data also informs funding and policy decisions during the annual budget development process. For more information regarding the BAR program, please see "*Budget and Performance Goals*" section of Volume 1 for more detail about the City's efforts in this area.

### **Energy Management**

The Mayor's Energy Management Board is charged with making decisions regarding the City's procurement, use, and conservation of energy as well as the minimization of the impact of fossil fuel consumption on public health. An Integrated Energy Management Plan assures progress toward the fulfillment of this mission, including the creation of an Energy Management Unit that works with City departments to identify energy efficiency opportunities in ongoing projects and develop sustainable design standards for future municipal projects.

### **AUDITING & BUDGETING PRACTICES**

The City prepares its comprehensive financial reports in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the

Commonwealth's Department of Revenue, the so-called "budgetary basis" method of accounting, are used in the annual general fund budget and property tax certification process. Budgetary basis departs from GAAP in the following ways:

- (a) Real and personal property taxes are recorded as revenue when levied (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budgetary), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented as components of the general fund (budgetary), rather than as separate funds (GAAP).
- (d) Prior years' deficits and utilized available funds from prior years' surpluses are recorded as expenditure and revenue items (budgetary), but have no effect on GAAP expenditures and revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers. The reconciliation in Figure 1 summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2011.

Financial statements for the fiscal year ended June 30, 2012 are expected to be available in late fall.

### General Fund Equity

The City's management of its finances has resulted in a continuing upward trend in general fund equity.

General Fund equity from FY02 forward appears artificially high as compared to prior years due to the required implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB No. 34 fundamentally changed the treatment of liabilities and receivables in the General Fund.

The sharp decline in FY10 is due to a change in the mechanism of funding teachers' pensions in Boston. As a result of the change in legislation, the City did not receive reimbursement of \$118.8 million in teachers' pension expense in FY10 that was accrued for at the end of FY09. This change caused a dramatic, one-time impact on the City's financial statements that is evident at the both the government-wide and fund levels. (See *Statutes and Ordinances* section of Volume I for detail of this legislation) It is expected that the actual results at the close of FY12 will not add significantly to the upward trend in general fund equity that the City has experienced since FY96. The City expects to preserve its policy of maintaining a GAAP Undesignated Fund Balance in the General Fund that is 10% or higher than the current fiscal year's GAAP General Fund Operating

Expenditures, while maintaining a Budgetary Undesignated Fund Balance between 5% and 10%

### **Adjustments Between Budgetary Basis and GAAP Basis of Accounting for FY11**

(in thousands)

	Revenue	Expenditures	Other Financing Sources (Uses), Net	Excess (Deficiency) of Revenue and Other Financing Sources
As reported on a budgetary basis	2,429,714	2,423,804	-	5,910
<u>Adjustments:</u>				
Revenues to modified accrual basis	(24,123)	-	-	(24,123)
Expenditures, encumbrances and accruals, net	-	36,049	-	(36,049)
<u>Reclassifications:</u>				
Convention Center Fund Revenue	(39,569)	-	39,569	-
Transfers	(77,954)	-	77,954	-
As reported on a GAAP basis	2,288,068	2,459,853	117,523	(54,262)

Figure 1

of Budgetary Operating Expenses (Figure 2).

### Fund Structure and Use

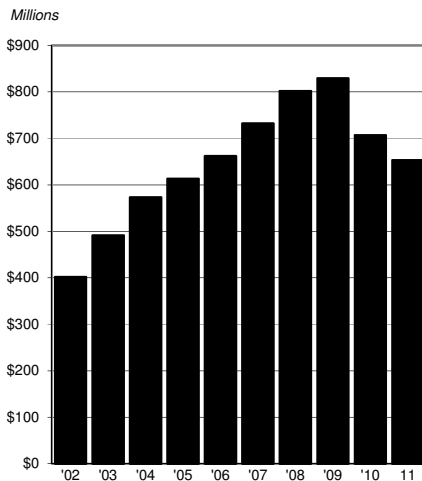
The accounts of the City are organized on a fund basis. Each fund is considered to be a separate accounting entity and complies with finance-related legal requirements. All of the funds of the City can be divided into three categories:

Governmental Funds, Proprietary Funds, and Fiduciary Funds.

The City has four governmental funds. The General Fund, the Special Revenue Fund, the Capital Projects Fund and all non-major governmental funds in an "Other" category. The General Fund is the only fund for which a budget is legally adopted and is used to account for all revenues, expenditures and other financial resources except those required to be accounted for in other funds.

The Special Revenue Fund accounts for proceeds that are legally restricted for specific purposes. This fund accounts for a number of federal and state grants that provide additional support to departmental programs. It also accounts for money that has been set aside by state statute and can also be used to support the City's general fund operations.

The Capital Projects Fund accounts for financial resources, primarily from the issuance of bonds, used for the acquisition or construction of major capital facilities. Fiduciary Funds are used to



**General Fund Equity (GAAP Basis) FY02- FY11**

Figure 2

Parking Meter Fund				
Fiscal Year	Beginning		Ending	
	Year Balance	Funds Out	Funds In	Year Balance
FY06	42.805	(1.000)	10.390	52.194
FY07	52.194	(1.000)	11.342	62.536
FY08	62.536	(10.000)	8.960	61.496
FY09	61.496	(12.000)	11.204	60.700
FY10	60.700	(15.000)	13.662	59.362
FY11	59.362	(15.000)	14.729	59.091
*FY12	59.091	(15.000)	16.250	60.341
*FY13	60.341	(15.000)	16.250	61.591

Notes: (\$millions), \*projected

Cemetery Trust Fund				
Fiscal Year	Beginning		Ending	
	Year Balance	Funds Out	Funds In**	Year Balance
FY06	10.381	(2.110)	2.478	10.749
FY07	10.749	(2.221)	2.754	11.283
FY08	11.283	(2.141)	1.035	10.177
FY09	10.177	(2.189)	(0.375)	7.613
FY10	7.613	(2.079)	1.934	7.468
FY11	7.468	(2.109)	1.908	7.267
*FY12	7.267	(2.067)	2.000	7.200
*FY13	7.200	-	2.100	9.300

Notes: (\$millions), \*projected, \*\*Includes appreciation

Surplus Property Disposition Fund				
Fiscal Year	Beginning		Ending	
	Year Balance	Funds Out	Funds In	Year Balance
FY06	43.756	0.000	0.000	43.756
FY07	43.756	(8.000)	0.000	35.756
FY08	35.756	(5.669)	0.000	30.087
FY09	30.087	0.000	0.000	30.087
FY10	30.087	(5.979)	0.000	24.108
FY11	24.108	0.000	0.900	25.008
*FY12	25.008	0.000	0.000	25.008
*FY13	25.008	0.000	0.000	25.008

Notes: (\$millions), \*projected

Figure 3

account for resources held for the benefit of parties outside City government and are not available to support the City's own programs.

The City's fiduciary funds are the Pension Trust Fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund, as well as Private Purpose Trust Funds. The City's operating budget is also supported by available governmental funds



**Statement of Revenues, Expenditures, and Changes in Fund Balances -  
General Fund  
Years ended June 30 2011 and 2010  
(in Thousands)**

	<u>2011</u>	<u>2010</u>
Revenues:		
Real and personal property taxes	\$ 1,526,361	\$ 1,467,605
Excises	124,214	121,120
Payments in lieu of taxes	65,461	67,265
Fines	64,751	70,627
Investment income	4,733	3,246
Licenses and permits	41,676	32,907
Departmental and other	65,498	74,861
Intergovernmental	395,374	404,619
Total revenues	<u>2,288,068</u>	<u>2,242,250</u>
Expenditures:		
Current:		
General government	65,459	70,514
Human services	29,233	29,324
Public safety	516,725	511,365
Public works	105,318	96,641
Property and development	35,138	30,247
Parks and recreation	16,634	16,818
Library	30,532	29,853
Schools	812,949	815,694
Public health programs	70,092	70,000
Judgements and claims	811	10,181
Retirement costs	195,976	235,282
Other employee benefits	294,200	224,156
State and district assessments	152,042	146,323
Total Current Expenditures	<u>2,325,109</u>	<u>2,286,398</u>
Capital outlays	2,588	734
Debt Service	132,156	129,670
Total expenditures	<u>2,459,853</u>	<u>2,416,802</u>
Excess(deficiency) of revenues over expenditures	(171,785)	(174,552)
Other financing sources (uses):		
Transfers in	118,250	53,058
Transfers out	(727)	-
Total other financing sources	<u>117,523</u>	<u>53,058</u>
Net change in fund balance	<u>(54,262)</u>	<u>(121,494)</u>
Fund balance - beginning	707,193	828,687
Fund balance - ending	<u>\$ 652,931</u>	<u>\$ 707,193</u>

transferred and appropriated from other available funds. The City may appropriate yearly parking meter revenues (Special Revenue Fund) to support the Transportation Department and cemetery trust monies (Other Governmental Funds) to support the City's maintenance of its public cemeteries. The FY13 budget assumes no use of the cemetery trust.

Figure 3 provides a history as well as projected changes in fund balances for the available funds used to support the City's operating budget.

Additional discussion of these revenue sources used to support the operating budget can be found in the *Summary Budget* section.

### Budgetary Support

Budgetary fund balance can be appropriated for use during the fiscal year. 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 law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. This calculation and the amount derived from it must be certified annually for funds to be appropriated. The City considers the appropriation of certified free cash to offset certain fixed costs such as pension contributions and related post-retirement health benefits (OPEB) and to fund extraordinary and non-recurring events as determined and certified by the City Auditor. The appropriation of free cash shall not cause the fiscal year's GAAP Undesignated Fund Balance to go below 10% of the fiscal year's GAAP General Fund Expenditures. Prior year certifications and the amount used or appropriated from each certification are in Figure 4.

In March 2012, the Director of Accounts certified that the amount of funds available for appropriation ("free cash"), as of July 1, 2011, was \$142.8 million. The projected amount for March 2013 is \$154.8. The FY13 Budget assumes no use of Budgetary Fund Balance.

<b>Budgetary Fund Balance</b>		
<b>Date</b>	<b>Annual Amount Certified</b>	<b>Amount Appropriated from Certification</b>
Jan. 2005	56.3	6.7
Mar. 2006	54.4	7.5
Jan. 2007	63.1	20.0
Apr. 2008	110.2	35.0
Mar. 2009	121.2	45.0
Mar. 2010	139.0	45.0
Mar. 2011	117.8	30.0
Mar. 2012	142.8	-
*Mar. 2013	154.8	-

Notes: (\$millions), \*projected

Figure 4

The following table shows the appropriations that make up the City's FY13 budget as adopted.

**CITY OF BOSTON**  
**BUDGET SUMMARY - APPROPRIATED FUNDS**

(Dollars in Millions)

	<b>Direct General Fund</b>	<b>Parking Meter Fund Transfer</b>	<b>Cemetery Trust Fund Transfer</b>	<b>Budgetary Fund Balance</b>	<b>Total FY13 General Fund Budget</b>
<b>REVENUES</b>					
Property Tax Levy	1,675.10				1,675.10
Overlay Reserve	(40.86)				(40.86)
Excises	145.23				145.23
Fines	65.14				65.14
Interest on Investments	1.00				1.00
Payments In Lieu of Taxes	42.84				42.84
Urban Redevelopment Chapter 121A	61.20				61.20
Misc. Department Revenue	52.59				52.59
Licenses and Permits	39.48				39.48
Penalties & Interest	8.81				8.81
Available Funds		15.00	0.00		15.00
State Aid	401.49				401.49
Teachers Pension Reimbursement	0.00				0.00
<b>Total Recurring Revenue</b>	<b>2,452.01</b>	<b>15.00</b>	<b>0.00</b>		<b>2,467.01</b>
Budgetary Fund Balance	0.00				0.00
Non-Recurring Revenue	0.00				0.00
<b>Total Revenues</b>	<b>2,452.01</b>	<b>15.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,467.01</b>
<b>EXPENDITURES</b>					
City Departments	1,004.09	15.00	0.00		1,019.09
Public Health Commission	66.21				66.21
School Department	857.83				857.83
Reserve for Collective Bargaining	30.12				30.12
Other Post Employment Benefits	40.00			0.00	40.00
<b>Total Appropriations</b>	<b>1,998.25</b>	<b>15.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,013.25</b>
Pensions	136.98				136.98
Debt Service	137.55				137.55
State Assessments	174.58				174.58
Suffolk County	3.92				3.92
Reserve	0.73				0.73
<b>Total Fixed Costs</b>	<b>453.76</b>				<b>453.76</b>
<b>Total Expenditures</b>	<b>2,452.01</b>	<b>15.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2,467.01</b>
<b>Surplus (Deficit)</b>					<b>0.00</b>

Numbers may not add due to rounding

