

Revenue Estimates and Analysis

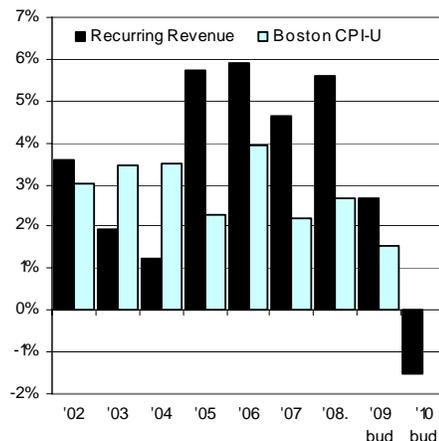
OVERVIEW

The FY10 Budget is supported with \$2.343 billion in recurring revenue, a decrease of \$36.3 million, or 1.5%, from the FY09 Budget. The budget also includes \$5.98 million in non-recurring revenue and \$45.00 million from budgetary fund balance, yielding total revenue of \$2.394 billion, a decrease of \$26.3 million, or 1.1% from FY09.

This level of growth reflects rapid deceleration from the over 5.5% average annual growth seen between FY05 to FY08 (Figure 1) to the first period of negative revenue growth in many years. This is due to a global economic recession that may be only nearing bottom as this budget is delivered.

The only substantial source of FY10 recurring revenue growth is attributable to the property tax. State aid revenue is expected to fall sharply as the state deals with its own budget crisis and nearly all other local revenues are in decline due to their sensitivity to economic conditions.

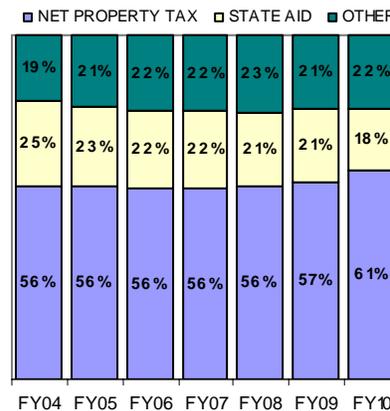
Net property tax and state aid together make up 79.0% of recurring City revenues. As Figure 2 shows, the shares of property tax and other local



Annual Change in City Revenues and Boston CPI-U

FY02- FY10 Recurring Revenue

Figure 1



Net Property Tax Levy, State Aid, & Other

Percent of Recurring Revenue

Figure 2

revenues have been increasing steadily as the share of state aid has been steadily decreasing. In fact, the total dollar amount of non-property tax local revenue now exceeds the total dollar amount the City receives in state aid, where as recently as FY01 these local revenues amounted to less than three-quarters of the state aid total.

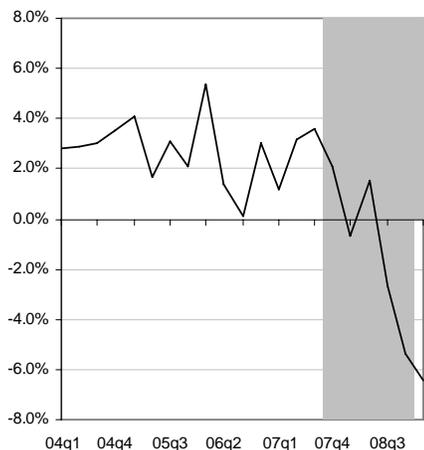
In economic times like these, the stable property tax is a safe haven for local government due to its lagging nature. Even with a local limit on property taxes the City, due to its position with respect to that limit, can count on growth from the levy for several years before reaching that limit. Contrast the property tax with the instability of state aid as state tax revenues, which are closely tied to income and sales activity, have declined sharply from the level in the Governor's proposed budget in January to the final Senate Budget proposed in June.

This chapter begins with a review of national and state economic trends that have impacted and will continue to impact the Boston area economy in FY10 and beyond. It is followed by a detailed discussion of the property tax levy, the City's largest revenue source, a discussion of recent

state budget trends and state aid, the City's second largest revenue source and finally, a discussion of other local revenues.

THE NATIONAL ECONOMY

The nation's economy, along with most other industrialized nation's economies, is in the midst of a deep recession. A meltdown in the financial services sector driven by the implosion of sub-prime mortgage-backed debt instruments has wreaked havoc on employment and credit markets the world over.



Real Gross Domestic Product Growth
2003Q1-2009Q1 and NBER Dated Recessions

Figure 3

The Federal Reserve and the Federal Government have both moved to stabilize the economy with trillions of dollars in stimulus funds and promises of new regulation. The Federal Reserve acted by reducing interest rates, securing loans, and injecting cash into the banking system. The Federal Government provided bailouts to businesses and tax cuts to households. It remains to be seen as to whether these will be enough to draw the nation out of this largest recession since the Great Depression.

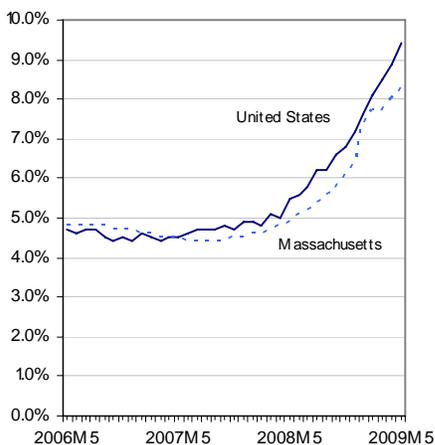
Overall economic growth as measured by real Gross Domestic Product (GDP) has declined sharply. In the third and fourth quarters of 2008, real GDP declined by 2.7% and 5.4% from the preceding periods, respectively (Figure 3.). First quarter 2009 GDP declined by 6.4% and additional negative GDP growth is expected in at least in the second quarter of 2009 if not beyond.

On an annual basis, real GDP grew at 0.4% in 2008, down from the 2.1% GDP growth in 2007. Real annual GDP growth is expected to continue to slow over the course of 2009 followed by increases in 2010, with the Federal Reserve estimating growth of between -1.3% and -0.5% in 2009 and between 2.5% and 3.3% in 2010.

The U.S. consumer price index for all urban consumers (CPI-U) declined 1.0% in the year ending May 2009, down sharply from 4.0% for the year ending May 2008, while the "core" rate of inflation, all items less food and energy, increased by 1.8% between May 2008 and 2009. Fuel prices, a driver of recent inflation, have decreased dramatically, falling 26.3% in the year ending May 2009 as opposed to a 16.5% increase one year earlier.

The seasonally adjusted unemployment rate in the U.S. increased sharply from 5.5% in May 2008 to 9.4% in May of 2009 (Figure 4). According to Federal Reserve estimates, the unemployment rate is expected to remain in this range through the end of 2009, falling only slightly in 2010.

Monthly average rates on the 30 year fixed mortgage have declined substantially with help from a Federal Reserve effort to reach a target rate of 4.5%. From their peak in June 2006 at 6.65%, rates have fallen to 4.6% in May 2009. 60% of this reduction has occurred in the last twelve months alone.



Unemployment Rates
May '06 - May '08
Seasonally Adjusted

Figure 4

The housing market is ground-zero for this recession. Production and sales of new housing have fallen dramatically. Sale inventories are extremely low, sale time on the market is at record levels, and prices are declining in nearly every market. The decline in housing values is expected to stabilize by the end of 2009 with the myriad of federal stimulus and other support becoming available.

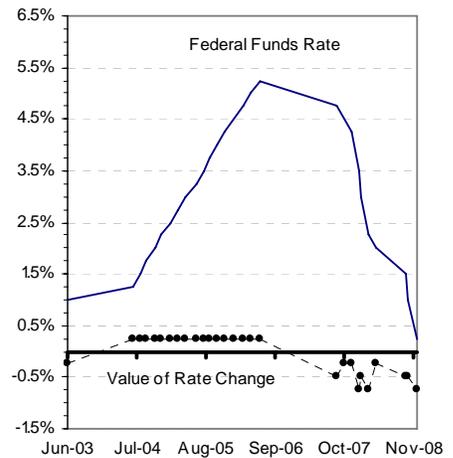
The Federal Reserve has reduced interest rates, after tightening monetary policy by increasing its target federal funds rate from the June 2003, forty-one year low of 1.00% to 5.25% in September 2007. From September 2007 through May 2009, the Federal Reserve reduced its target rate 10 times and by 500 basis points to .25%. The bank has also injected billions of dollars in liquidity into the monetary system to ease lending along with other support to help the banking industry deal with devalued mortgage-backed securities.

Congress and President Obama worked closely this winter to enact a stimulus bill that will provide aid to private businesses and individuals as well as state and local governments. This stimulus bill, an amount of nearly \$800 billion, is just a small part of what Bloomberg.com suggests is approximately \$9.7 trillion of stimulus from all sources including lending programs and other guarantees. It is not clear at this point how much of these trillions of dollars will actually be spent, how much will be repaid as loans, and how much will just be spent to stimulate consumer spending.

With a stalled national economy and massive stimulus spending combined with entitlement cost pressures and the cost of prolonged military action abroad, federal budget deficits are expected to grow exceptionally large and to remain high for many years.

THE MASSACHUSETTS ECONOMY

Until more recently, the state's economy showed less dramatic signs of weakening than 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 economy. One area of particular concern for state revenues is capital gains taxes which have declined greatly due to recent stock market volatility and uncertainty.



Federal Funds Rate and Changes

June 2003 - December 2008

Figure 5

During the eleven years of 1997 to 2007, the state's annual average growth of 2.7% in real Gross State Product (GSP) ranked 18th out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state's real GDP has grown an average of 1.8% annually since the 2001 recession produced negative growth of 0.6%. This rate of growth ranks Massachusetts 36th of the 50 states and DC since 2002.

But in 2008 alone, Massachusetts ranked a much improved 14th among all 50 states and DC with real GDP growth of 1.9%. The state does remain one of the richest in terms of its GDP per capita of \$48,088 in 2008 -- fourth in the nation and 127% of the national average.

Massachusetts did lose the highest percentage of jobs in the nation during the last recession, at peak losing more than 200,000 jobs or 6.0%. Employment had been increasing through early 2008. While Massachusetts was still down 83,900 jobs from May 2001 in May 2008, the state has since lost another 110,400 jobs between May 2008 and 2009. This loss puts the state back to being 194,300 jobs below the February 2001 previous peak.

With the number of jobs falling, the state's unemployment rate is increasing. Over the past year the rate has increased from 4.9% to 8.3%, somewhat lower than the national rate of 9.4% in May 2009. The employment outlook is mixed for the coming fiscal year as well with the Massachusetts Department of Revenue estimating negative job growth of between -1.0% and -2.2% percent for FY10 in a December 2008 forecast.

Massachusetts' seasonally adjusted total personal income grew by 1.1% between the quarters ending March 2008 and March 2009, but shrank in the first quarter 2009 by 0.6% from the previous quarter. Wage and salary income decreased by 1.1% over the year and was flat in the first quarter 2009. Earnings growth by industry over this period was strongest in Military, Utilities and Health Care. Earnings in Forestry and Fishing, Construction, and Manufacturing showed the weakest growth during the same period.

(See *Boston's People & Economy* section of Volume I for detail on Boston's economy.)

THE COMMONWEALTH BUDGET

The state's budget is in turmoil. Revenues are heavily dependent on capital gains taxes which expose the state to volatility in the stock market. The drop in capital gains tax revenue will likely exceed that of the bursting internet bubble in the early 2000's.

The FY09 budget, already having been reduced by \$2.5 billion, will require still more reductions or the use of more one-time revenues. According to the Massachusetts Taxpayers Foundation (MTF), another \$950 million must be trimmed from the budget to balance by year-end. MTF also projects that the consensus revenue estimate set in December 2008, on which the Governor and House built their budgets for FY10, was overstated by nearly \$1 billion as well. The Senate used an updated revenue estimate for its budget.

The state will have nearly exhausted its reserves by the close of FY09. At the close of FY08, the state had a stabilization fund balance of approximately \$2.1 billion. Current MTF projections estimate that the fund will fall to \$200 million by the end of FY09 after being used to fill revenue shortfalls.

Federal stimulus dollars are also being used to fill the budget gap with approximately \$1.3 billion in "Recovery Aid" being applied to the FY09 budget. In total, MTF estimates that \$3.7 billion in Recovery Aid will be available through FY11.

The heavy use of state reserves, one-time revenues and federal stimulus money is creating an estimated \$5.1 billion structural deficit in the FY10 budget that will take the state years to repair

unless expenditures are permanently reduced and/or recurring revenues increased.

The most recent version of the state budget available at the time of the submission of the City's FY10 budget to the City Council in June was the Senate budget which was completed in early June. The Senate FY10 budget, totals \$26.7 billion, a \$1.4 billion or a 5.0% decrease over projected FY09 spending.

The State has since approved additional revenues for the state and municipalities. Specifically, those are an increase to the state sales tax and local option taxes. Of special interest for municipalities, are a local option meals tax and additional hotel excise taxes. The City Council and the Mayor did approve their implementation subsequent to the adoption of the FY10 budget.

City Legislative Proposals on Revenue

Most municipalities, including Boston, have yet to fully recover from sudden and drastic aid reductions of the 2001-2002 recession before being faced with a new round of cuts in the current recession. The consequence has been increased property taxes, additional user fees, and reduced public services throughout the state. The fiscal health of many municipalities is certainly in question.

The Mayor, independent of the Patrick administration or legislative proposals, had filed legislation to close the same property tax loophole, add a 2% local option tax on restaurant meals, and levy a small tax on parking in commercial parking lots, as well as other policy changes that could produce some revenue for the City.

This added revenue could be used to offset the lack of state support the City has experienced over the last decade.

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

CITY REVENUES

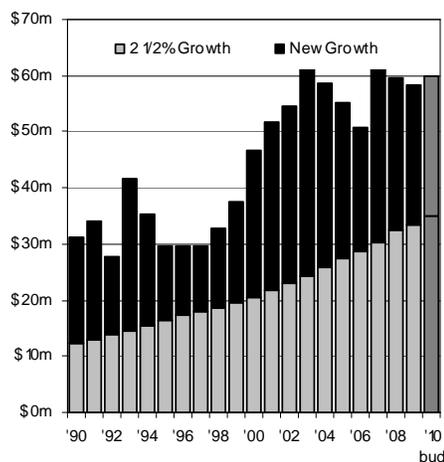
The Property Tax

The property tax levy has been the City's largest and most dependable source of revenue growth. In FY09, the net property tax levy is \$1.365 billion, providing 57.4% of recurring revenue, with an

increase to \$1.425 billion expected in FY10. According to current estimates, the net property tax levy will account for 59.9% of recurring revenue in FY10.

The increases in the gross property tax levy have been steady and consistent from FY85 to FY09, ranging from \$28 million to \$65 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the budgeted \$60.6 million rise in FY10 represents 4.3% growth. It is important for the financial health of the City that the property tax levy continues to grow, but efforts are also underway to reduce reliance on the property tax through other local revenue sources.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since



Sources of Property Tax Growth
FY90 - FY10 Budget

Figure 6

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.

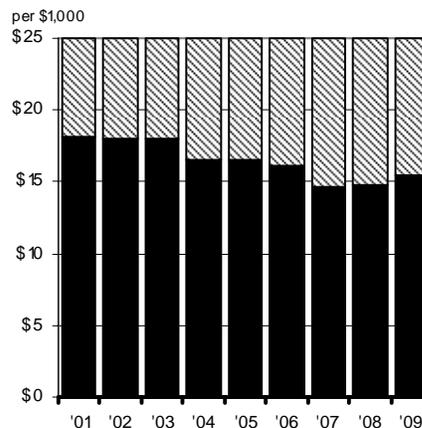
In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have

grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching an estimated \$35.6 million in FY10.

During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$25.0 million in FY10. Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in 16 of the last 25 years. For the four years inclusive between FY00 and FY03, taxable new value revenue growth achieved a new record each year.

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 taxable value increases, the City now has some space between its FY09 net effective tax rate of 1.55% and the tax rate ceiling (Figure 7). If the real estate market continues to depreciate, the City's



Overall Property Tax Rate & Space Below Levy Ceiling
FY01-FY09

Figure 7

lack of proximity to the 2.5% property tax rate threshold should 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.

State Local Aid

Local aid refers primarily to distributions from the Commonwealth to municipal general revenue for Chapter 70 education aid, additional assistance and lottery aid, along with other relatively smaller Commonwealth programs such as library aid, school construction, transportation and other reimbursements, and highway funds.

In past years a local aid resolution developed by the House and Senate that sets the minimum a community will receive in education, lottery, and additional assistance aid was available prior to the House budget release. No such resolution has been made for FY10.

The City's FY10 local aid estimate is based on the Senate budget which contains substantial reductions from the City's earlier assumed 10% reduction from FY09. The City received local aid totaling \$483.0 million in FY07 and \$493.3 million in FY08. The City expects to receive \$481.6 million in local aid in FY09 (\$504.6 million budgeted minus a mid-year cut of \$23.0 million. This figure also includes \$23.3 million in Chapter 70 aid that was cut but replaced with federal aid of the same amount) and has budgeted \$410.3 million in FY10.

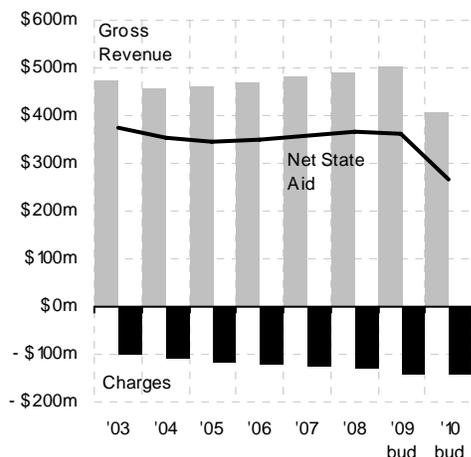
"Municipal Charges" or "Assessments" are charged by the Commonwealth to municipalities for items such as MBTA service and Charter School tuition among other items. Local aid distributions are reduced by the amount of assessments charged to a municipality.

The City paid \$119.9 million in assessments in FY07 and \$128.3 million in FY08. The City expects to pay \$143.1 million in assessments in FY09 and is budgeting \$143.6 million in FY10. The largest assessments are those of the MBTA and Charter Schools. A temporary limit on MBTA assessment increases enacted in FY00 along with forward funding of the system has expired leaving urban core cities with higher assessments than in the past.

Net state aid, which is gross state aid revenue minus assessments, has been largely flat since FY03. The rapid annual increases in the Charter School Tuition and MBTA assessments combined with low growth in education and lottery aid have served to keep the City's net state aid at a virtual standstill (Figure 8).

With a large decrease in net state aid for FY10, Boston remains \$161.6 million below its FY02 peak level of net state aid of \$428.3 million.

Net state aid amounted to \$363.2 million in FY07 and \$365.0 million in FY08. FY09 budgeted net state aid totals \$361.5 million (\$338.5 million after the mid-year reduction and education funding switch) and the FY10 Budget assumes a reduction to \$266.7 million.



Net State Aid (net of Teacher Pension)
FY03 - FY10

Figure 8

Education Aid

Beginning in 1993 with the passage of 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 \$210.5 million in FY07 and \$215.8 million

in FY08, and expects to receive \$221.4 million from state and federal sources in FY09 and \$217.0 million in FY10.

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.

There are two kinds of charter schools, the Commonwealth charter school and the Horace Mann charter school. 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.

There are currently both Commonwealth charter schools and Horace Mann charter schools available to Boston resident students. There are approximately 5,025 Boston resident students attending Commonwealth charter schools in FY09. The state Department of Education projects that this number will increase to 5,264 in FY10.

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 to the City as reimbursement for Chapter 70 aid reductions. The reimbursement 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 net cost to the City of charter schools in FY07 was \$38.8 million and in FY08, \$41.6 million. In FY09 the city has budgeted a \$47.1 million net impact and in FY10, a \$51.7 million net impact (Figure 9).

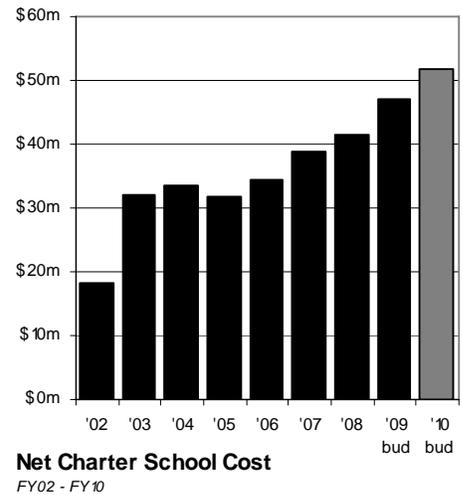


Figure 9

Unrestricted General Government Aid

For the FY10 budget, and presumably going forward, the Governor and the Legislature has combined general government aid from Lottery and Additional Assistance into one account. The combined accounts were reduced by \$51.1 million for FY10 on top of a reduction in the current fiscal year of \$22.9 million for a total reduction in both accounts of \$74.0 million or 31.4% of the total. The City expects to receive \$161.8 million in FY10 from this account based on the Senate budget.

Below are explanations of the 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 lottery 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 continually over projected lottery sales, and therefore lottery aid in recent years, leaving it at a point of funding a shortfall to cities and towns.

As mentioned above, the FY10 Senate budget combined Lottery Aid with Additional Assistance

into a new account entitled Unrestricted General Government Aid. The City received lottery aid of \$70.6 million in FY07 and \$71.6 million in FY08 and expects to receive \$64.6 million in FY09 (after the mid-year reduction).

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, as mentioned above, had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead.

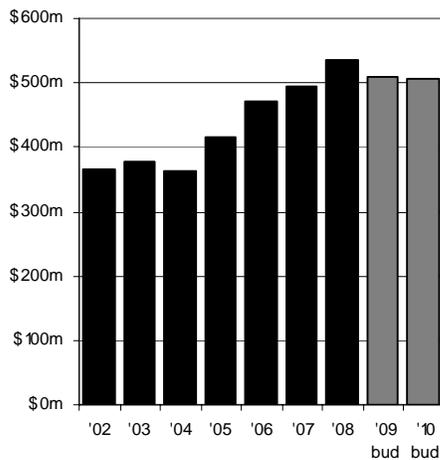
Its original purpose and current usefulness came into question during the FY03 state budget process when Governor Swift vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, Governor Romney, using his temporary local aid reduction powers, reduced additional assistance yet again in January 2002 by \$73 million. As Boston receives over 40% of the statewide distribution of Additional Assistance, these reductions fell disproportionately on the City.

As mentioned above, the FY10 Senate budget combined Additional Assistance with Lottery Aid into a new account entitled Unrestricted General Government Aid. The City received \$206.6 million in additional assistance in FY02 and adjusted additional assistance of \$175.1 million in FY03. The City received \$164.2 million from FY04 through FY08 and budgeted the same for FY09 but will actually receive a reduction to \$148.2 million after a mid-year cut.

Local Revenues

The City regularly collects over \$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, investments available funds and Teacher’s Pension reimbursement are part of this local revenue group.

In sum, the City collected \$487.5 million in FY07 and \$528.7 million in FY08 from these sources. The City expects to exceed the mid-year budget estimate of \$509.9 million in FY09 and estimates a decrease from the FY09 budget to \$507.5 million in FY10 (Figure 10).



Local Receipts (non-property tax/state aid)
 FY02 - FY10 (adj. for Actual base hotel collections)

Figure 10

Excise Taxes

The Commonwealth imposes an excise 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.

The market for new automobiles has declined precipitously in the current fiscal year. The City expects the market for automobiles to decrease further in the coming year. Motor vehicle excise revenue totaled \$34.5 million in FY07 (low due to the timing of bills which subsequently increased FY08) and \$49.6 million in FY08. The City expects motor vehicle excise revenue to exceed the midyear projection of \$39.5 million in FY09 and to fall to \$36.0 million in FY10.

The local room occupancy excise amounts to 4.0% of the total amount of rent for each hotel or motel room occupied. Another 5.7% excise is directed to the state general fund, and another 2.75% to the state’s convention center fund. The City divides its 4.0% 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.

Base room occupancy excise revenue (a portion of this revenue is sometimes retained in the

convention center fund) totaled \$26.6 million in FY07 (\$20.0 million went to the general fund) and \$30.2 million in FY08 (\$23.0 million went to the general fund). The City's base room occupancy excise tax receipts are expected to meet the midyear budget estimate of \$27.0 million in FY09, and are projected to decrease to \$23.0 million in FY10 due to economic conditions.

A significant number of new hotel rooms are planned, already in construction, or were recently constructed. This will benefit the City's convention center fund and pay for a significant portion of the City's debt for the new Boston Convention and Exhibition Center. The debt is scheduled to be fully paid in FY2027. Therefore, for the foreseeable future, growth in room occupancy excise in the general fund depends upon increases in room rates and room occupancy in the 1997 base of hotel rooms.

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 in FY07 totaled \$24.3 million and \$18.8 million in FY08 (only three of four quarterly payments were received in time to be posted to FY08). The City expects this revenue source to exceed the midyear projection of \$24.5 million in FY09 and to fall to \$20.6 million in FY10, due to a softening of elevated fuel prices and decreased demand from international tourism.

Fees and Fines

In fiscal 2008, the City issued over 1.53 million parking tickets and has maintained a high rate of collection on its tickets. Approximately 82% of tickets were collected in the first six-months after issuance and 88% 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 collected parking fine revenue of \$62.8 million in FY07 and \$63.3 million in FY08. Parking fine revenue is expected to fall short the mid-year budget estimate of \$71.0 million in FY09 and increase to \$73.5 million in FY10.

The strong FY09 and FY10 growth is due to increases in several public safety and traffic congestion related fines, as well as an increase in the number of Parking Enforcement Officers to patrol proposed expanded metering of parking spaces and additional posted street cleaning routes starting in FY09.

Interest on Investments

In general, the City's level of investment income is a function of the level of prevailing short-term interest rates and daily cash balances. Interest rates through September 2007 had risen from their recent forty-one year lows as cash balances improved and earnings increased as a result. But as mentioned above, since September 2007 interest rates have been quickly reduced in an effort to stimulate the economy out of economic recession. FY09 and FY10 revenues are likely to be strongly impacted as a result. Investment income totaled \$43.5 million in FY07 and \$39.5 million in FY08. The City projects interest income will reach the \$18.5 million mid-year estimate in FY09 and decline sharply to \$12.8 million in FY10.

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, or re-negotiation or expansion of a current contract. The Massachusetts Port Authority (MassPort) currently provides nearly half of the PILOT revenue the City receives annually.

Payments in lieu of taxes totaled \$32.4 million in FY07 and \$31.4 million in FY08. The City expects this revenue source to exceed the midyear budget estimate of \$32.5 million for FY09 and projects \$34.0 million in FY10.

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 FY07 and FY08, the City received Chapter 121A, Section 10 distributions of \$40.1 million and \$39.3 million, respectively. In FY09, Chapter 121A Section 10 revenues are budgeted at \$40.5 million and in FY10, at \$41.0 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 among the 121As. The City collected Section 6A payments of \$22.8 million in FY07 and \$24.4 million in FY08. The City expects FY09 Section 6A collections to reach the midyear budget estimate of \$22.8 million and increase to \$24.0 million in FY10.

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 \$18.4 million in FY07 and \$15.8 million in FY08. Municipal medicaid reimbursement is expected to exceed the midyear budget estimate of \$13.9 million in FY09 and decline to \$10.0 million in FY10.

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 \$25.3 million and \$25.0 million in FY09 and FY10, respectively. A large increase from FY08 has been due to the addition of Medicare Part D reimbursements of \$4.0 million annually and reimbursements for the retirement costs of grant-funded employees.

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 \$27.9 million and \$31.7 million in FY07 and FY08 respectively. Building permit revenue will reach the midyear budget estimate of \$24.8 million in FY09 and decrease to \$20.0 million in FY10 due to economic conditions in both the housing and commercial real estate markets.

The next largest license and permit revenue is the cable television license fee from which the City received \$4.6 million in FY07 and \$6.1 million in FY08. The City has budgeted \$6.0 million for FY09 and FY10.

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 \$3.3 million in FY09 and FY10.

Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills and motor vehicle excise bills and other payments. The recent trend has been down for these revenues as the City excels in collection of receivables. The City collected \$8.7 million in such penalties and interest in FY07 and \$8.5 million in FY08. Actual penalty and interest collections for FY09 will meet the current midyear budget estimate of \$8.5 million and are projected to be \$8.3 million in FY10.

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 \$3.2 million and

\$12.1 million from these two sources combined in FY07 and FY08 respectively. The City expects to transfer \$12.0 million from the Parking Meter Fund to the General Fund in FY09 and \$15.0 million FY10. The City also plans to transfer \$2.2 million from the Cemetery Trust Fund to the General Fund in FY09 and \$2.1 million in FY10.

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).

Teachers' Pension Reimbursement

Boston's cherry sheet includes 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 manages the investment of the teacher employee and teacher retiree assets. The City funds teacher pension liability on an actuarial cost basis and is 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 \$93.3 million in FY07, \$105.4 million in FY08, and is budgeted to be \$105.4 million in FY09 and \$118.8 million in FY10.

On December 4, 2008, the City, the SBRS, the Commonwealth and the Public Employee Retirement Administration Commission (PERAC) entered into a Memorandum of Agreement which is intended to transfer the responsibility for funding Boston teachers' pension liabilities to the Commonwealth effective with fiscal year 2010 in order to link investment responsibility with responsibility for pension liability. Assets held by the SBRS which are allocable to teachers' pension liabilities will be transferred to the state Pension Reserves Investment Trust (PRIT) Fund and managed by the state PRIM board. The SBRS will continue to administer Boston teachers' pensions and benefits. Full implementation of the Memorandum of Agreement is contingent upon passage of state legislation.

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 restricted to one-time expenditures. Included in the FY10 Budget is \$1.0 million in non-recurring revenue to be transferred from the surplus property disposition fund for the Risk Retention Reserve and \$5 million for the Mayor's Leading the Way housing program.

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 FY09 Budget assumes the use of \$35.0 million, \$25 million of which will be used to fund Other Postemployment Benefits (OPEB), the liability associated with retiree health insurance costs, and \$10 million to support the operations of the school department as it recovers from the loss of grant revenues available in previous years. The FY10 budget assumes the use of \$20 million for OPEB and an additional \$25 million in support of City operations.

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

CITY OF BOSTON REVENUE DETAIL

		FY07 Actual	FY08 Actual	FY09 Budget	FY10 Budget
PROPERTY TAX LEVY		1,270,775,170	1,334,585,812	1,400,014,578	1,460,646,857
OVERLAY RESERVE		(46,603,909)	(39,125,823)	(35,434,230)	(35,625,533)
Subtotal		1,224,171,261	1,295,459,990	1,364,580,348	1,425,021,324
EXCISES					
	Motor Vehicle Excise	34,450,035	49,579,374	39,500,000	36,000,000
40129	Room Occupancy Excise	20,000,000	23,000,000	27,000,000	23,000,000
40130	Jet Fuel Excise	24,338,441	18,787,224	24,500,000	20,600,000
40140	Condominium Conversion Excise	1,326,500	846,500	450,000	250,000
	Boat Excise	50,162	52,201	45,000	25,000
Subtotal		80,165,138	92,265,300	91,495,000	79,875,000
FINES					
	Parking Fines	62,804,096	63,274,229	71,000,000	73,500,000
45104	Code Enforcement - Trash	559,528	500,768	460,000	500,000
	Other Fines	4,000,912	3,949,906	3,940,000	4,000,000
Subtotal		67,364,536	67,724,903	75,400,000	78,000,000
47151	INTEREST ON INVESTMENTS	43,471,114	39,512,354	18,500,000	12,750,000
40169	Massport	15,232,000	15,607,800	16,076,034	16,644,947
	Other Payments In Lieu of Taxes	17,130,883	15,809,724	16,423,966	17,355,053
Subtotal		32,362,883	31,417,524	32,500,000	34,000,000
URBAN REDEVELOPMENT CHAPTER 121					
	Urban Redev. Chap. 121B Sec. 16	982,019	840,356	850,000	840,000
	Urban Redev. Chap. 121A Sec. 6A	22,801,303	24,409,255	22,750,000	24,000,000
41013	Urban Redev. Chap. 121A Sec. 10	40,069,093	39,291,876	40,500,000	41,000,000
Subtotal		63,852,415	64,541,487	64,100,000	65,840,000
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,625,659	1,605,507	1,625,000	1,625,000
43109	Liens	719,650	635,200	700,000	600,000
43120	City Clerk Fees	416,208	459,113	550,000	500,000
43137	Municipal Medicaid Reimbursement	18,423,248	15,834,418	13,950,268	10,000,000
43202	Police Services	949,940	928,082	950,000	1,533,200
43211	Fire Services	3,489,908	3,623,567	3,250,000	3,250,000
43301	Parking Facilities	1,130,477	1,235,166	1,250,000	1,250,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,414,179	3,139,424	2,425,000	3,000,000
43797	PWD - Fiber Optic Rental Fees	167,700	435,585	200,000	300,000
44002	Tuition & Transportation - Schools	540,287	883,037	885,000	885,000
47119	Affirmative Recovery	798,661	345,584	450,000	500,000
47131	Pensions & Annuities	469,627	5,876,627	3,250,000	3,500,000
47132	Fringe Benefit & Indirect	927,559	1,265,413	900,000	1,000,000
47132	Prior Years Reimbursement	191,686	764,418	246,744	300,000
48000	Detail Admin. Fee	2,975,400	3,413,047	3,300,000	3,400,000
	Other Misc. Department Revenue	18,334,593	19,091,695	25,307,501	25,051,400
Subtotal		53,574,783	59,535,882	59,239,513	56,694,600

CITY OF BOSTON REVENUE DETAIL

		FY07 Actual	FY08 Actual	FY09 Budget	FY10 Budget
LICENSES & PERMITS					
40211	Building Permits	27,861,224	31,753,652	24,870,000	20,000,000
40213	Weights & Measures	223,645	231,195	230,000	215,000
40215	BTD - Street & Sidewalk Permits	1,761,134	1,919,656	2,000,000	2,500,000
40221	Health Inspections	1,137,627	1,493,143	1,500,000	1,500,000
40222	Alcoholic Beverage Licenses	3,189,394	3,312,819	3,300,000	3,300,000
40224	Entertainment Licenses	1,584,993	1,692,582	1,600,000	1,500,000
40229	Other Business Licenses and Permits	105,116	131,997	110,000	100,000
40235	Cable Television	4,581,252	6,058,206	6,000,000	6,000,000
	Other Licenses and Permits	987,515	983,708	975,000	950,000
	Subtotal	41,431,900	47,576,958	40,585,000	36,065,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	2,586,581	2,742,157	2,750,000	2,850,000
40134	Penalties & Interest - Motor Vehicle Excise	3,495,909	2,628,352	3,000,000	2,450,000
40136	Penalties & Interest - Tax Titles	2,616,460	3,137,861	2,750,000	3,000,000
40139	Penalties & Interest - 121A	6,789	2,571	8,000	5,000
	Other Penalties & Interest	6,155	5,716	8,000	5,000
	Subtotal	8,711,894	8,516,658	8,516,000	8,310,000
AVAILABLE FUNDS					
42502	Cemetery Trustee	2,220,500	2,140,770	2,188,825	2,079,153
42503	Parking Meters	1,000,000	10,000,000	12,000,000	15,000,000
	Subtotal	3,220,500	12,140,770	14,188,825	17,079,153
STATE AID					
41015	State Owned Land	226,372	253,872	272,205	243,899
41101	R.E. Abatements - Veterans/S.S./Blind	457,736	719,528	719,528	
41104	Elderly Exemptions	576,798	639,046	639,046	
	R.E. Abatements - Veterans/S.S./Blind/Elderly				1,336,933
41111	State Lottery Local Aid	70,589,023	71,585,070	71,585,070	
41114	Veterans Services	1,569,069	2,521,157	2,920,758	2,567,557
41116	Additional Assistance	164,211,152	164,211,152	164,211,152	
	Unrestricted General Government Aid				161,843,766
41119	Racing Taxes	548,820	521,017	536,667	412,967
41301	School Construction	15,134,146	13,711,961	13,198,866	12,956,404
41305	Charter Schools Reimbursement	9,599,156	13,887,683	19,150,286	12,130,412
41306	Chapter 70 Education Aid	210,540,147	215,807,608	221,422,839	216,994,382
41117	Police Career Incentive	9,589,224	9,468,185	9,941,594	1,846,087
	Subtotal	483,041,643	493,326,279	504,598,011	410,332,407
41115	TEACHERS PENSION REIMBURSEMENT	93,329,794	105,420,350	105,420,350	118,840,800
RECURRING REVENUE TOTAL		2,194,697,861	2,317,438,455	2,379,123,047	2,342,808,284
NON-RECURRING REVENUE					
42500	Budgetary Fund Balance	7,500,000	20,000,000	35,000,000	45,000,000
42501	Surplus Property	0	5,669,000	6,000,000	5,979,000
GRAND TOTAL		2,202,197,861	2,343,107,455	2,420,123,047	2,393,787,284

