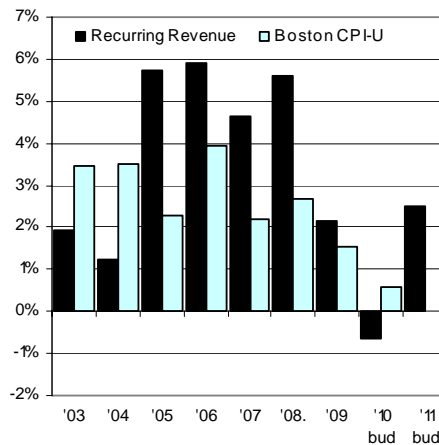


Revenue Estimates and Analysis

OVERVIEW

The FY11 Budget is supported with \$2.28 billion in recurring revenue, an increase of \$49.4 million, or 2.2%, from the FY10 Budget. The budget also includes \$6.0 million in non-recurring revenue and \$45.0 million from budgetary fund balance, yielding total revenue of \$2.33 billion, an increase of \$49.4 million, or 2.2% from FY10.

While this level of growth is an improvement over the decline in recurring revenue growth of the FY10 budget, it is not near the rapid increases of 5.5% average annual growth experienced between FY05 and FY08 (Figure 1). This is due to the effects of the global economic recession that is only recently beginning to ease in the U.S.

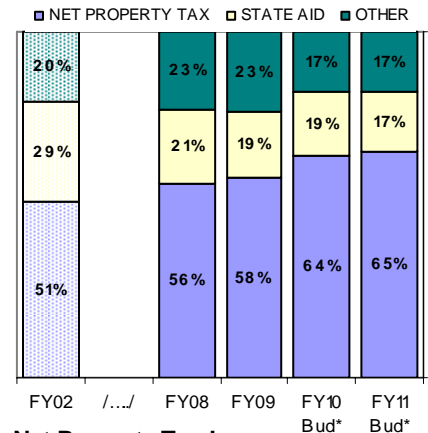


Annual Change in City Revenues and Boston CPI-U

FY03- FY11 Recurring Revenue

Figure 1

There are only two substantial sources of FY11 recurring revenue growth; the property tax and excise taxes, with the latter due solely to new taxes approved by the state Legislature and adopted by the City Council. State aid revenue is expected to fall again as the state continues to deal with its own budget crisis and other local revenues are in a period of flux due to their leading or lagging sensitivity to economic conditions.



Net Property Tax Levy, State Aid, & Other

Percent of Recurring Revenue

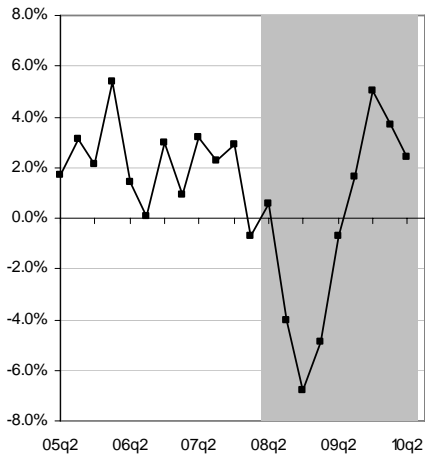
*Incl. Change to Teacher's Pension

Figure 2

Please note that a change occurring in late FY10 to the mechanism of funding teacher's pension liability has permanently reduced the City's total budget. This change affects the remaining components of the budget when presented as a percentage of the whole and annual changes in the total budget when viewing it over time. Adjustments are noted where applicable.

Net property tax and state aid together make up 82.8% 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.

As other local revenues have maintained a steady percentage of total recurring revenues, both the current and 2001 recessions have taken a toll on state aid to municipalities in the Commonwealth. The City alone has lost approximately \$180 million in net state aid since FY02 or approximately 42% of aid has been cut from the City budget. This loss of



Real Gross Domestic Product Growth
2005Q2-2010Q2 and NBER Dated Recessions

Figure 3

resources has put extraordinary pressure on the property tax.

This chapter begins with a review of national and state and local economic trends that have impacted and will continue to impact the Boston area economy in FY11 and beyond. It is followed by a detailed discussion of recent state budget trends and development of the FY11 state budget. Following these sections is discussion of the City's FY11 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 and finally, a discussion of other local revenues. 7

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. A meltdown in the financial services sector driven by the implosion of sub-prime mortgage-backed debt instruments wreaked havoc on employment and credit markets the world over.

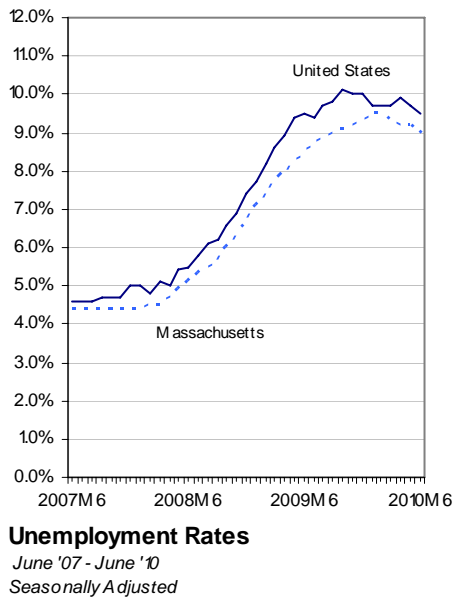
The Federal Reserve and the Federal Government both moved to stabilize the economy with trillions of dollars in stimulus funds to banks and large financial firms as well as direct intervention in some financial markets. The Federal Reserve acted by reducing interest rates, securing loans, and injecting cash into the banking system. The Federal Government provided bailouts to

businesses and tax cuts to households. Much of this stimulus money is still being spent.

Overall economic growth as measured by real Gross Domestic Product (GDP) has only slowly begun to grow. From the third quarter of 2008 through the second quarter of 2009, real GDP declined by between 1.0% and 6.4% in each quarter from the preceding period (Figure 3). First and second quarter 2010 GDP increased by 3.7% and 2.4%, respectively. Whether GDP can continue to grow as federal support is removed from the economy over the course of 2010 and 2011 is the question remaining.

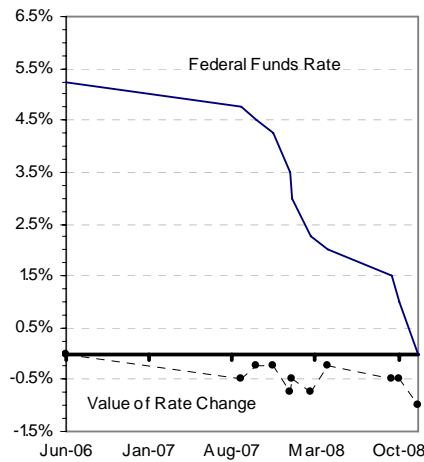
On an annual basis, real GDP grew at 2.1% in 2007, and 0.4% in 2008, but declined by 2.4% in 2009. Real annual GDP growth has lost some momentum over the course of 2010 versus the recent strong quarterly growth at the close of 2009, with the Federal Reserve estimating growth of between 2.8% and 3.5% in 2010 and between 3.4% and 4.5% in 2011.

The seasonally adjusted unemployment rate in the U.S. remained unchanged at 9.5% between June 2009 and June 2010 (Figure 4). This rate is lower than the recent peak of 10.1% logged in October 2009. That rate was the highest rate since November 1982. According to Federal Reserve estimates, the unemployment rate is expected to remain in the 9.5% to 9.7% range through the end



Unemployment Rates
June '07 - June '10
Seasonally Adjusted

Figure 4



Federal Funds Rate Changes
June 2006 - March 2010 (no change since Oct. '08)
Figure 5

of 2010, falling to a range of 8.2% to 8.5% in 2011.

The U.S. consumer price index for all urban consumers (CPI-U) increased 1.1% in the year ending June 2010, up sharply from -1.3% for the year ending June 2009, while the “core” rate of inflation, all items less food and energy, increased by 1% between June 2009 and 2010. The Federal Reserve projects that inflation will remain subdued for the remainder of 2010 and for 2011, reaching a maximum of 2.0% annually toward the end of that period.

Given the high unemployment and low inflation expectations, the Federal Reserve has maintained interest rates at between 0% and .25% since December 16, 2008, after reducing its target rate 10 times and by 500 basis points from 5.25% in June 2007 (Figure 5). 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 mortgaged-backed securities. Even with this added liquidity, lending remains constrained by the risk banks have assumed on business and personal loans given the still tenuous economic situation.

A slowly recovering national economy will continue to be a drag on tax revenues. This fact laid against massive stimulus spending, entitlement cost pressures, and the cost of prolonged military action abroad, mean the federal budget has developed an exceptionally large deficit which is expected to remain high for several years to come.

THE STATE AND LOCAL 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 economic base. One area of particular concern for state revenues is capital gains taxes which have declined greatly due to recent stock market volatility and uncertainty.

During the twelve years of 1997 to 2008, the state’s average growth of 2.7% in real Gross State Product (GSP) ranked 17th 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, which had negative growth of 0.6%. This rate of growth ranks Massachusetts 30th 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 lost 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 March 2008. In 2009, Massachusetts lost 92,600 jobs. The state is currently 246,700 jobs below the previous peak of February 2001. Until very recently, jobs in the City of Boston, while also falling, held up well with the City losing only 2.3% or 15,900 jobs between 2008 and 2009. Since, the unemployment rate has increased.

With the number of jobs falling, the state’s unemployment rate has increased to the highest it has been since August of 1976. Over the past two years the rate has increased from 5.1% to 9.0%, somewhat lower than the national rate of 9.5% in June 2010. The employment outlook is mixed for the coming fiscal year with the Massachusetts Department of Revenue projecting unemployment ranging from 9.1% to 10.0% in FY11 in a December 2009 forecast. The City of Boston’s unemployment rate reached 9.0% in June 2010 after peaking at 9.3% in January. Both recent rates are a significant increase over the December 2007 rate of 4.0%.

Massachusetts seasonally adjusted total personal income rose by 3.2% from the first quarter of FY09 to first quarter FY10, ranking it 30th out of the 50 states and DC. However, Massachusetts seasonally adjusted personal income fell by 0.7% between the first quarter of 2010 and the fourth quarter of 2009. Wage and salary income rose only slightly over the year, despite having grown by 0.4% in the fourth quarter alone. Earnings growth by industry over this period was strongest in Finance, and Insurance, and Health Care. Earnings in Forestry and Fishing, and Construction showed the weakest growth during the same period.

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

THE COMMONWEALTH BUDGET

The state budget has faced two very difficult years and is facing several difficult years ahead despite a projection of increasing revenues in FY11 for the first time since FY08.

The FY10 State Budget

The state will have nearly exhausted its reserves by the close of FY10. 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 \$545 million by the end of FY10 after being used to fill revenue shortfalls.

Federal stimulus dollars are also being used to fill the budget gap with approximately \$2.5 billion in aid being applied to the FY10 budget. In total, MTF estimates that \$4.75 billion in Recovery Aid will have been used between FY09 and FY11. The heavy use of state reserves, one-time revenues and federal stimulus money is creating an estimated \$2.8 billion structural deficit in the FY11 budget.

The FY11 State Budget

The State was in the final stages of development of its FY11 budget at the time the Mayor resubmitted the FY11 budget to City Council. The most recent iteration of the state budget available at that time was the Conference Committee budget which was completed in mid-June.

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. Still more changes will or may affect FY11 in the months to come.

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 beginning in FY11. The state also granted an option for a 2% increase to the City's existing 4% 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. Formerly, the state reimbursed the City for the payroll costs of the pensions in recognition of the 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 of City revenues is the loss of the reimbursement that totaled over \$126 million in FY10. (See *Summary Budget or Financial Management* sections 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 current 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 local option taxes on restaurant meals and parking. As previously noted subsequent to the passage of the City's FY10 budget the State approved, and the City adopted effective October 1, 2009, a new local option tax of .75% on meals and a 2% tax increase for hotel occupancy. These small but broad-based taxes match the City's economic activity and related cost increases and export tax burden to non-residents who use City services.

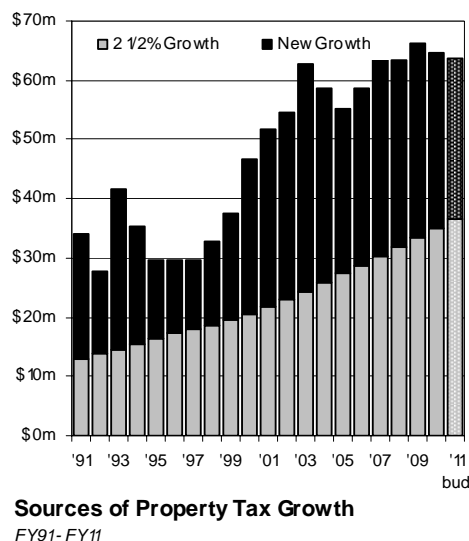


Figure 6

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 approved by the City Council along with the adoption of this budget. 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 FY10, the net property tax levy is \$1.429 billion, providing 64.0% of recurring revenue, with an increase to \$1.491 billion expected in FY11. According to current estimates, the net property tax levy will account for 65.3% of recurring revenue in FY11.

The increases in the gross property tax levy have been steady and consistent from FY85 to FY10, 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 \$63.6 million rise in FY11 represents 4.3% 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 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 \$36.6 million in FY11.

During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$27.0 million in FY11. Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in seventeen of the last twenty-seven years. For the three years inclusive between FY01

and FY03, taxable new value revenue growth achieved a new record each year (Figure 6).

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 ½. 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 ½ tax rate ceiling of 2.5%. Reaching the 2.5% cap would have resulted in a very limited increase in allowable annual levy growth.

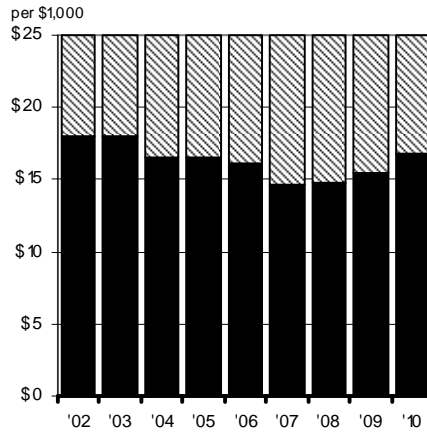
However, due to several years of strong taxable value increases, the City now has some space between its FY10 net effective tax rate of 1.68% and the tax rate ceiling (Figure 7). If the real estate market continues to depreciate, the City's lack of proximity to the 2.5% property tax rate threshold should 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.

Current indicators of both commercial and residential real estate values, office vacancy rates and median single-family home sales prices, respectively, are both negative but showing some recent signs of improvement.

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.

Of special note in FY10 and FY11 is the substantial reduction in state reimbursement of revenues for the Police Career Incentive or "Quinn" bill. This law increases the salary of a police officer by a

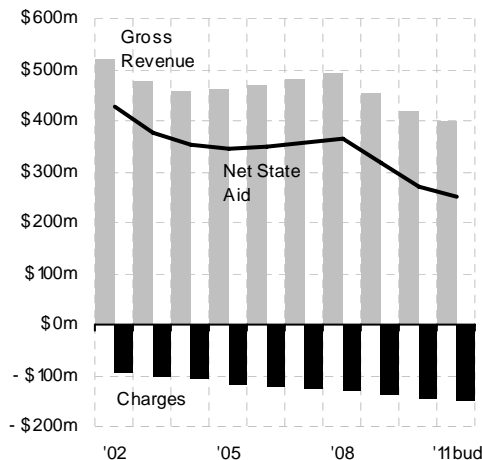


Overall Property Tax Rate & Space Below Levy Ceiling
FY02-FY10

Figure 7

fixed percentage that increases with the level of education attained. Both the Governor and Legislature have reduced the state's share of this reimbursement which pays for 50% of the increase in a police officer's salary described above with the other half paid by the employing municipality. The City is and will continue to pay its 50% share as negotiated in collective bargaining agreements.

The City's FY11 local aid estimate is based on the guidance from House and Senate leaders which assumes a maximum cut in education and general government aid of 4% over the current year levels. The City received local aid totaling \$493.3 million in FY08 and \$454.4million in FY09 (This figure also excludes \$23.3 million in Chapter 70 aid that



Net State Aid (net of Teacher Pension)
FY02 - FY11

Figure 8

was cut but replaced with federal aid of the same amount and treated as grant revenue by the City). The City expects to receive \$418.3 million in local aid in FY10 and has budgeted \$396.8 million in FY11.

"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 \$128.3 million in assessments in FY08 and \$137.7 million in FY09. The City expects to pay \$145.8 million in assessments in FY10 and is budgeting \$148.7 million in FY11. 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 expired in FY10 leaving urban core cities with higher assessments than in the past, but in FY11 the inflation portion of the formula determining the total assessment was very low resulting in only a minor increase for the upcoming year.

Net state aid, which is gross state aid revenue minus assessments, has been declining since FY02. The rapid annual increases in the Charter School Tuition and MBTA assessments combined with low growth in education and general government aid continue to contribute to this trend (Figure 8).

With a decrease in net state aid for FY11, Boston is \$180.2 million below its FY02 peak level of net state aid of \$428.3 million.

Net state aid amounted to \$365.0 million in FY08 and \$316.7 million in FY09 (net of the education funding switch mentioned previously). FY10 budgeted net state aid totals \$272.5 million and the FY11 Budget assumes a reduction to \$248.1 million.

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 \$215.8 million in FY08 and \$198.1 million in FY09 (net of the education funding switch mentioned previously), and expects to receive \$217.0 million from state and federal sources in FY10 and \$205.8 million in FY11.

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.

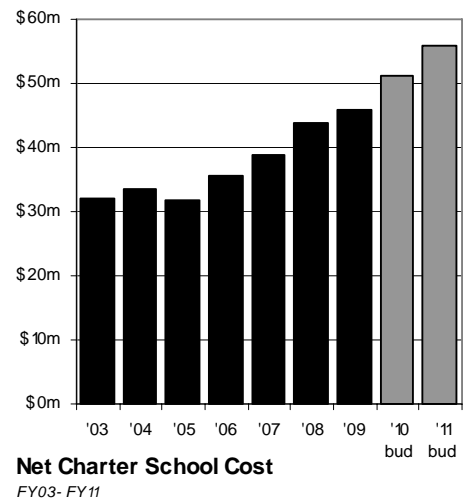


Figure 9

Currently both types of charter schools are available to Boston resident students. Approximately 5,086 Boston resident students attended Commonwealth charter schools in FY10. The state Department of Education projects that this number will increase to 5,417 in FY11.

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 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 FY08 was \$41.6 million and in FY09, \$45.9 million. In FY10 the city has budgeted a \$51.0 million net impact and in FY11, a \$55.8 million net impact (Figure 9).

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 were reduced by \$45.9 million for FY10 on top of a reduction in FY09 of \$22.9 million for a total reduction in both accounts of \$68.9 million or 29.2% of the total over two years. In FY11 the City expects to receive \$160.2 million, a 4% reduction from FY10.

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 receives 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.

Local Revenues

The City collects nearly \$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 and available funds are part of this local revenue group.

In sum, the City collected \$528.7 million in FY08 and \$547.9 million in FY09 from these sources. The City expects to exceed the mid-year budget estimate of \$386.6 million in FY10 (largely due to a new meals tax and an increase in the hotel tax) and estimates an increase from the FY10 budget to \$395.4 million in FY11 (Figure 10). Note that for years prior to FY10, Teacher's Pension Reimbursement was included in Local Revenues.

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.

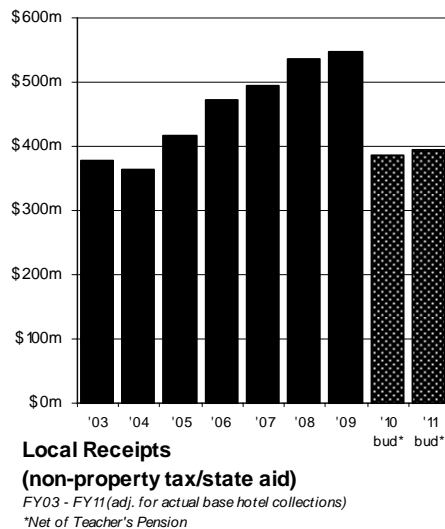


Figure 10

The City expects the market for automobiles to continue its recent decline in the coming fiscal year. Motor vehicle excise revenue totaled \$49.6 million in FY08 and \$44.6 million in FY09. The City expects motor vehicle excise revenue to meet the midyear annual projection of \$36.0 million in FY10 and to fall to \$33.5 million in FY11. 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 by the Commonwealth.

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and has received \$9.9 million to date in the current fiscal year. This revenue had not been budgeted for FY10 due to uncertainties about the amount likely to be collected and the possibility of further local aid cuts at the time of adoption, but since that time \$4.4 million has been used in support of a supplemental appropriation. The FY11 budget assumes full-year collections totaling \$16.9 million. This revenue estimate was generated from actual historical sales data from the state Department of Revenue by city and town.

The local room occupancy excise amounts to 6.0% of the total amount of rent for each hotel or motel room occupied after it was increased in the fall of 2009 from 4.0% percentage along with the

enactment of the new meals tax. 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 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.

Base room occupancy excise revenue (a portion of this revenue is sometimes retained in the convention center fund) totaled \$30.2 million in FY08 (\$23.0 million went to the general fund) and \$27.4 million in FY09 (\$27.0 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 \$23.0 million in FY10 due to the increase in the tax rate, and are projected to increase to \$34.5 million in FY11.

The decision to build the BCEC stimulated new hotel development in the City which helped revenues grow considerably. Between July 1997 and December 2009, 33 new hotels and five expansion projects were completed. The Boston hotel market remained resilient in 2009 with an occupancy rate of 70.9% and ADR of \$187.10. These levels were slightly below the levels achieved in 2008. But more recent data points to steeper declines in Boston hotel and occupancy rates which the FY11 budget estimate reflects.

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 FY08 totaled \$18.8 million (only three of four quarterly payments were received in time to be posted to FY08) and \$34.5 million in FY09 (four quarters). The City expects this revenue source to exceed the midyear annual projection of \$22.0 million in FY10 and to fall to \$19.2 million in FY11 due to slack demand for air travel.

Fees and Fines

In fiscal 2009, the City issued over 1.59 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 \$63.3 million in FY08 and \$65.9 million in FY09. Parking fine revenue is expected to fall short of the mid-year budget estimate of \$69.0 million in FY10 to \$69.6 million in FY11. The increase is based on a small change in selected fine rates.

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 prevailing short-term interest rates and daily cash balances. Interest rates through June 2007 had risen from their recent forty-one year lows as cash balances improved and earnings increased. But since June 2007 interest rates have been quickly reduced in an effort to stimulate the economy out of recession. FY10 and FY11 revenues are likely to be strongly impacted as a result. Investment income totaled \$39.5 million in FY08 and \$17.8 million in FY09. The City projects interest income will not reach the \$6.5 million mid-year annual estimate in FY10 and will decline to \$5.0 million in FY11.

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, 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.

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. No new agreements under this framework have been adopted yet.

Payments in lieu of taxes totaled \$31.4 million in FY08 and \$34.0 million in FY09. The City expects this revenue source to exceed the midyear annual budget estimate of \$34.3 million for FY10 and projects \$34.8 million in FY11 based on low inflation rates.

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 FY08 and FY09, the City received Chapter 121A, Section 10 distributions of \$39.3 million and \$42.9 million, respectively. In FY10, Chapter 121A Section 10 revenues are budgeted at \$43.0 million and in FY11, at \$38.0 million due to the expiration of an agreement with One Beacon Street.

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 \$24.4 million in FY08 and \$21.4 million in FY09. The City expects FY10 Section 6A collections to reach the midyear budget estimate

of \$22.0 million and decrease to \$20.5 million in FY10 due to the contract expiration mentioned above.

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 \$15.8 million in FY08 and \$14.7 million in FY09. Municipal Medicaid reimbursement is expected to exceed the midyear annual budget estimate of \$14.0 million in FY10 and decline to \$13.0 million in FY11.

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 \$29.5 million and \$26.5 million in FY10 and FY11, 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 \$31.8 million and \$27.0 million in FY08 and FY09 respectively. Building permit revenue will struggle to reach the midyear budget estimate of \$15.0 million in FY10, but is projected to increase to \$17.3 million in FY11 due to a small fee increase and improvement in 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 \$6.1 million in FY08 and \$4.2 million in FY09 (due to timing of payments). The City has budgeted \$6.0 million for FY10 and \$5.3 million in FY11.

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 FY10 and FY11.

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 the timely collection of receivables. The City collected \$8.5 million in such penalties and interest in FY08 and \$7.8 million in FY09. Actual penalty and interest collections for FY10 will fall short of the current midyear budget estimate of \$8.0 million and are projected to be \$7.0 million in FY11.

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 \$12.1 million and \$14.2 million from these two sources combined in FY08 and FY09 respectively. The City expects to transfer \$15.0 million from the Parking Meter Fund to the General Fund in FY10 and FY11. The City also plans to transfer \$2.1 million from the Cemetery Trust Fund to the General Fund in FY10 and FY11.

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

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 \$105.4 million in FY08, \$118.8 million in FY09.

Newly enacted 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 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. (See *Summary Budget and Financial Management sections* of Volume I for detail on the potential changes to the Teacher's Pension Reimbursement.).

The FY10 Budget assumes the use of \$45.0 million, \$20 million of which will be used to fund Other Postemployment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY11 budget assumes the use of \$35 million for OPEB and an additional \$10 million in support of City operations.

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

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. Included in the FY11 Budget is \$1.0 million in non-recurring revenue to be transferred from the surplus property disposition fund for the Risk Retention Reserve and \$5.0 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.

CITY OF BOSTON REVENUE DETAIL

	FY08 Actual	FY09 Actual	FY10 Budget	FY11 Budget
PROPERTY TAX LEVY	1,334,585,812	1,400,706,143	1,465,057,908	1,528,684,355
OVERLAY RESERVE	(39,125,823)	(35,434,230)	(35,733,120)	(37,284,984)
Subtotal	1,295,459,990	1,365,271,913	1,429,324,788	1,491,399,370
EXCISES				
Motor Vehicle Excise	49,579,374	44,606,189	36,000,000	33,500,000
Meals Excise	N/A	N/A	4,379,002	16,875,000
40129 Room Occupancy Excise	23,000,000	27,000,000	23,000,000	34,500,000
40130 Jet Fuel Excise	18,787,224	34,471,624	22,000,000	19,150,000
40140 Condominium Conversion Excise	846,500	704,500	250,000	500,000
Boat Excise	52,201	69,850	25,000	45,000
Subtotal	92,265,300	106,852,163	85,654,002	104,570,000
FINES				
Parking Fines	63,274,229	65,950,380	69,000,000	69,600,000
45104 Code Enforcement - Trash	500,768	632,567	550,000	600,000
Other Fines	3,949,906	3,819,844	3,840,000	3,800,000
Subtotal	67,724,903	70,402,792	73,390,000	74,000,000
INTEREST ON INVESTMENTS				
47151	39,512,354	17,835,384	6,500,000	5,000,000
MASSPORT				
40169 Massport	15,607,800	16,160,284	16,644,947	16,750,000
Other Payments In Lieu of Taxes	15,809,724	17,792,393	17,605,053	18,000,000
Subtotal	31,417,524	33,952,677	34,250,000	34,750,000
URBAN REDEVELOPMENT CHAPTER 121				
Urban Redev. Chap. 121B Sec. 16	840,356	1,099,568	1,100,000	1,000,000
Urban Redev. Chap. 121A Sec. 6A	24,409,255	21,440,924	22,000,000	20,500,000
41013 Urban Redev. Chap. 121A Sec. 10	39,291,876	42,923,377	43,000,000	38,000,000
Subtotal	64,541,487	65,463,869	66,100,000	59,500,000
MISC. DEPARTMENT REVENUE				
43105 Registry - Vital Statistics	1,605,507	1,488,564	1,450,000	1,500,000.00
43109 Liens	635,200	570,021	550,000	575,000.00
43120 City Clerk Fees	459,113	413,955	475,000	475,000.00
43137 Municipal Medicaid Reimbursement	15,834,418	14,690,946	14,000,000	13,000,000.00
43202 Police Services	928,082	726,033	750,000	750,000.00
43211 Fire Services	3,623,567	3,614,264	3,600,000	3,275,000.00
43301 Parking Facilities	1,235,166	1,761,300	1,250,000	1,700,000.00
43311 PWD - Street & Sidewalk Occupancy Fees	3,139,424	2,972,512	2,000,000	2,500,000.00
43797 PWD - Fiber Optic Rental Fees	435,585	492,210	450,000	450,000.00
44002 Tuition & Transportation - Schools	883,037	1,319,913	1,350,000	1,300,000.00
47119 Affirmative Recovery	345,584	5,302,169	750,000	600,000.00
47131 Pensions & Annuities	5,876,627	3,423,718	3,500,000	3,500,000.00
47132 Fringe Benefit & Indirect	1,265,413	951,092	1,000,000	1,000,000.00
47155 Prior Years Reimbursement	764,418	185,986	500,000	300,000.00
48000 Detail Admin. Fee	3,413,047	3,254,804	3,250,000	3,300,000.00
Other Misc. Department Revenue	19,091,695	30,398,746	29,485,105	26,495,348.65
Subtotal	59,535,882	71,566,231	64,360,105	60,720,348.65

CITY OF BOSTON REVENUE DETAIL

	FY08 Actual	FY09 Actual	FY10 Budget	FY11 Budget
LICENSES & PERMITS				
40211	31,753,652	26,966,242	15,000,000	17,250,000
40213	231,195	271,710	215,000	330,000
40215	1,919,656	1,837,445	2,500,000	2,200,000
40221	1,493,143	1,642,004	1,600,000	1,681,000
40222	3,312,819	3,338,416	3,300,000	3,300,000
40224	1,692,582	1,719,355	1,600,000	1,700,000
40229	131,997	131,340	100,000	130,000
40235	6,058,206	4,154,779	6,000,000	5,250,000
	Other Licenses and Permits	983,708	945,000	945,000
Subtotal	47,576,958	41,008,357	31,260,000	32,786,000
PENALTIES & INTEREST				
40133	2,742,157	2,271,597	2,750,000	2,200,000
40134	2,628,352	2,966,499	3,000,000	2,800,000
40136	3,137,861	2,531,329	2,250,000	2,000,000
40139	2,571	0	7,500	0
	Other Penalties & Interest	5,716	7,500	5,000
Subtotal	8,516,658	7,775,021	8,015,000	7,005,000
AVAILABLE FUNDS				
42502	2,140,770	2,188,825	2,079,153	2,108,718
42503	10,000,000	12,000,000	15,000,000	15,000,000
Subtotal	12,140,770	14,188,825	17,079,153	17,108,718
STATE AID				
41015	253,872	272,205	244,297	284,322
41101	1,358,574	2,031,454	1,336,933	1,247,882
41111	71,585,070	64,609,382	0	0
41114	2,521,157	2,839,915	2,567,557	3,359,697
41116	164,211,152	148,209,411	0	0
41118	N/A	N/A	166,924,272	160,247,301
41119	521,017	451,186	412,967	509,833
41301	13,711,961	13,198,866	12,956,404	11,157,748
41305	13,887,683	15,359,109	14,971,491	13,219,233
41306	215,807,608	198,137,070	216,994,382	205,765,736
41117	9,468,185	9,328,846	1,846,087	959,235
Subtotal	493,326,279	454,437,444	418,254,390	396,750,987
41115	TEACHERS PENSION REIMBURSEMENT	105,420,350	118,840,800	0
			0	0
RECURRING REVENUE TOTAL	2,317,438,455	2,367,595,476	2,234,187,438	2,283,590,424
NON-RECURRING REVENUE				
42504	Budgetary Fund Balance	20,000,000	35,000,000	45,000,000
42501	Surplus Property	5,669,000	0	6,000,000
GRAND TOTAL	2,343,107,455	2,402,595,476	2,285,166,438	2,334,590,424