

Financial Management of the City

OVERVIEW

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

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

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

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

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

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

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

STRATEGIC FINANCIAL MANAGEMENT

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

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

Balanced Responsible Budgets

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

Healthy Credit Profile

In February 2013, Moody's Investors Service, Inc., and Standard & Poor's reaffirmed Boston's credit ratings of Aaa, and AA+, respectively. These continue to be the highest ratings in Boston's history, a clear recognition by the credit markets of the City's solid financial policies and practices. Moody's noted the City's "adherence to comprehensive financial policies and long-range planning strategies," in its most recent credit report.

This high credit quality allows the City to borrow new money and refinance existing debt at attractive interest rates. The City has saved over \$61.0 million on a net present value basis by refinancing \$957.1 million of debt since 2001. In February 2013, the City sold \$144.9 million of new-money general obligation bonds, resulting in proceeds of 169.2 million.

Maximizing Return on Investment

The City has articulated a vision to make finance a high performing organization in supporting and serving the departments and citizens of Boston. By making daily operations more efficient, using leading business practices, spending more time on value-added activities, improving customer

support while maintaining appropriate controls, and engaging the next generation of finance leaders this City has been at the forefront of municipal finance.

Following this blueprint, the City also went live with a financial management system upgrade (PeopleSoft Financials Version 9.1). This large-scale initiative promoted business process changes throughout the organization. Updated functionality makes the City's business practices faster, easier, greener, and more efficient for everyone.

Protecting and Growing the Revenue Base

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

The net property tax levy as a percentage of total recurring revenues has increased from 52% in FY02 to 67% in the FY14 budget, a \$793 million increase over the period. Property tax revenues now account for a larger share of recurring revenues than prior to the passage of Proposition 2 ½ in the early 1980's. This growth, especially during challenging economic times, has again spurred discussion about the level of property taxes in municipalities across the state.

During the same period, state aid revenue to the City has fallen \$120 million, or from 30% to 16% of recurring revenue. State aid has been reduced by a total of \$218.0 million, or over 50%, between FY02 and the FY14 budget when including the increase in state assessments to the City. This staggering decline in the City's second largest single source of revenue leaves the City more reliant on local sources of revenue.

Recognizing the threat to fiscal stability represented by these trends in property tax and state aid, the Mayor has repeatedly filed legislation to modernize the City's revenue structure. The City was successful in this long legislative process when subsequent to the

passage of the City's FY10 budget the State approved, and the City adopted, a new local option tax of .75% on restaurant meals and a 2% tax increase for hotel occupancy (bringing the City's share of the total hotel tax to 6.0%).

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

As a matter of course, the City also regularly reviews its fee and fine structures for any necessary adjustments to meet the cost of providing services or deterring undesired behavior.

FINANCIAL POLICIES, PROCEDURES & CONTROLS

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

Expenditure Controls

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

Position Review Committee (PRC)

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

Debt Management

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

Capital Planning

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

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

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

Investment Policy

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

Contracting Procedures

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

Tax Collections

The City's aggressive property tax collection effort reduces the number of accounts that are delinquent and discourages new delinquencies. The City's program includes a strong working relationship with banks and mortgage companies as well as a variety of collection remedies authorized by state statute. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds. The City achieved a property tax collection rate of 98.9% of the FY12 gross levy as of June 30, 2012. A Taxpayer Referral and Assistance Center provides "one-stop" service on tax-related matters and an on-line payment option is offered for taxpayer convenience. Parcel-

specific information as well as payment history is also available on-line.

Pension Management

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

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

In FY11, the City made an additional one-time payment totaling \$82.0 million to the Pension Trust Fund, one of two pension decisions made with FY12 and beyond in mind. The additional payment, along with extending the actuarial schedule two years, helped mitigate the effect of asset value loss experienced in 2008, now fully recognized in the updated pension schedule.

The adoption of a new funding schedule as of January 1, 2012, updated mortality rates, decreased investment return assumption from 8% to 7.75%, and reflected the increase to the retiree cost of living adjustment ("COLA"). However the City remains on track toward reducing the unfunded liability of the SBRS to zero by 2025,

fifteen years prior to the legally required funding date of 2040.

As of January 1, 2012, the SBRS-All Other pension liability was 70.7% funded. The SBRS hires an investment manager who oversees the various fund managers of the SBRS-All-Other pension assets.

Other Post Employment Benefits (OPEB)

While the City is required by law to make an annual contribution toward reducing its unfunded pension liability, there is no such requirement for retiree health and life insurance benefits. Similar to pensions, employees earn these other post-employment benefits (OPEB) over their years of service, but do not actually receive them until retirement. The most recent independent actuarial valuation, as of June 30, 2011, valued the City of Boston’s unfunded liability for these benefits at \$3.1 billion. This unfunded liability is twice as large as the City’s unfunded pension liability.

In FY08, the City was required to follow new Governmental Accounting Standards Board (GASB) requirements to identify and disclose this estimated liability. At the same time, the City also voluntarily began to annually allocate funds to

City Annual Appropriations to OPEB Trust	
Dollars in Millions	
FY08	\$20
FY09	\$25
FY10	\$20
FY11	\$35
FY12	\$35
FY13	\$40
FY14	\$40
Total Assets	\$215

Table 1

Contribution (ARC) for the City to significantly reduce the OPEB liability over a 30 year period is projected at \$208 Million in FY14, as shown in Table 2 below. The City will fund \$176 of the ARC in FY14, through a combination of pay-as-you-go benefit payments for current retirees as discussed in the previous section, and a \$40 million FY14 allocation to the Trust to continue to build Trust

reduce the OPEB liability. Annual allocations are retained in an irrevocable Trust Fund, authorized through the City’s acceptance of M.G.L. Chapter 32B section 20, and summarized in Table 1.

The Annual Required

assets. This level of annual contribution balances the City’s acknowledgement of the future cost of OPEB benefits, with the City’s current duty to deliver valuable public services today.

FY14 Annual Required Contribution (ARC) to Reduce OPEB Liability Over 30 Years	
Dollars in Millions	
Total ARC	\$208
Projected Benefit Payments	\$136
FY 14 Annual Allocation	\$40
Total FY14 Payments	\$176
Difference	\$32

Table 2

The future annual ARC for the City will vary based on the total estimated OPEB liability, largely influenced by changes to retiree health benefits, the annual additional contribution, and the discount rate used. For example, total estimated liability was significantly reduced in the June 2011 valuation, due to health benefit changes negotiated between the City and the Public Employee Committee (PEC), statewide municipal health care reform mandating that Medicare eligible retirees enroll in a Medicare health plan, and the city’s increased annual OPEB allocation. Additional future decreases in liability are likely under changes to earned municipal retiree benefits, proposed by the Massachusetts OPEB Commission, and included in legislation filed by the Governor for FY14

Risk Management

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

The City’s risk financing strategy is a planned self-insurance program which protects both individual departments’ budgets and the citywide budget

through central accounts, reserves, and catastrophic commercial insurance.

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

For other unexpected large losses, the City continues to build a catastrophic risk reserve, the available balance of which will be \$15.5 million at the end of fiscal 2013. Commercial insurance is purchased strategically for specific exposures: catastrophic property insurance for all City buildings provides \$90 million all-risk protection after a \$10 million deductible; fine arts insurance coverage is provided for the central Boston Public Library, for \$100 million above a \$1,000 deductible; boiler and machinery losses are insured up to \$25 million. Approximately 14% of the City's healthcare costs will be insured in FY14.

Financial Reserve

As required by law since 1986, the City has maintained a reserve fund equal to 2 1/2% of the preceding year's appropriations for all City departments except the School Department. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year with the approval of the Mayor and the City Council. To date, this budgetary reserve has not been utilized. As of June 30, 2012, the reserve fund had a balance of \$28.3 million.

Annual Audit/Management Letters

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

The City's independent auditors deliver a yearly management letter containing comments and recommendations on internal financial controls. The current management letter did not identify

any deficiencies in internal control considered to be material weaknesses.

Financial Accounting Systems

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

FINANCIAL MANAGEMENT PROGRAMS

Performance Management and Program Evaluation

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

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

The Office of Administration & Finance and the Office of Budget Management play central roles in the collection and analysis of performance data, by ensuring proper documentation of results, and assisting departments in pursuing opportunities for improvements. Performance data also informs funding and policy decisions during the annual budget development process. For more

information regarding the BAR program, please see "Boston About Results" section of Volume 1 for more detail about the City's efforts in this area.

Energy Management

The Mayor's Energy Management Board is charged with making decisions regarding the City's procurement, use, and conservation of energy as well as the minimization of the impact of fossil fuel consumption on public health. The Energy Management Unit housed in the Environment and Energy Cabinet works with City departments and the Office of Budget Management to identify energy efficiency opportunities in ongoing projects and develop sustainable design standards for future municipal projects.

AUDITING & BUDGETING PRACTICES

The City prepares its comprehensive financial reports in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue, the so-called "budgetary basis" method of accounting, are used in the annual general fund budget and property tax certification process. Budgetary basis departs from GAAP in the following ways:

- (a) Real and personal property taxes are recorded as revenue when levied (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budgetary), as opposed to a reservation of fund balance (GAAP).

(c) Certain activities and transactions are presented as components of the general fund (budgetary), rather than as separate funds (GAAP).

(d) Prior years' deficits and utilized available funds from prior years' surpluses are recorded as expenditure and revenue items (budgetary), but have no effect on GAAP expenditures and revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers. The reconciliation in Table 3 summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2012. Table 4 shows a Statement of Revenues and Expenses and Changes in Fund Balance for FY11 – FY14. The FY13 and FY14 columns are budgetary numbers while FY11 and FY12 are audited GAAP results.

Financial statements for the fiscal year ended June 30, 2013 are expected to be available in late fall.

General Fund Equity

The City's management of its finances has resulted in growth in general fund equity.

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

Adjustments Between Budgetary Basis and GAAP Basis of Accounting for FY12

(in thousands)

	Revenue	Expenditures	Other Financing Sources, Net	Excess (Deficiency) of Revenue and Other Financing Sources
As reported on a budgetary basis	2,414,407	2,402,440	-	11,967
<u>Adjustments:</u>				
Revenues to modified accrual basis	812	-	-	812
Expenditures, encumbrances and accruals, net	-	(23,987)	-	23,987
On-behalf contribution for teachers pension	90,399	90,399	-	-
<u>Reclassifications:</u>				
Hospital fund transfer	13,954	-	(13,954)	-
Other transfers	2,182	-	(2,182)	-
As reported on a GAAP basis	<u>2,521,754</u>	<u>2,468,852</u>	<u>(16,136)</u>	<u>36,766</u>

Table 3

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund
Years ended June 30 2011, 2012, 2013 (Budgeted), and 2014 (Budgeted)
(in Thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Revenues:				
Real and personal property taxes	\$ 1,719,484	\$ 1,642,626	\$ 1,591,998	\$ 1,526,361
Excises	188,175	183,534	187,572	124,214
Payments in lieu of taxes	69,569	66,312	63,066	65,461
Fines	62,520	62,390	64,566	64,751
Investment income	500	900	982	4,733
Licenses and permits	41,450	38,743	48,753	41,676
Departmental and other	62,292	61,773	78,438	65,498
Intergovernmental	403,563	405,058	486,379	395,374
Total revenues	<u>2,547,552</u>	<u>2,461,335</u>	<u>2,521,754</u>	<u>2,288,068</u>
Expenditures:				
Current:				
General government	113,512	90,991	68,828	65,459
Human services	32,008	31,257	28,604	29,233
Public safety	520,710	516,427	524,476	516,725
Public works	107,173	103,743	84,727	105,318
Property and development	30,614	29,212	30,089	35,138
Parks and recreation	19,194	18,983	16,653	16,634
Library	32,062	31,177	30,069	30,532
Schools	937,414	881,228	830,839	812,949
Public health programs	66,357	66,788	73,455	70,092
Judgements and claims	3,500	3,500	3,871	811
Retirement costs	157,115	141,177	220,340	195,976
Other employee benefits	244,677	248,296	251,194	294,200
State and district assessments	195,822	178,505	160,547	152,042
Total Current Expenditures	<u>2,460,158</u>	<u>2,341,283</u>	<u>2,323,692</u>	<u>2,325,109</u>
Capital outlays	-	-	6,950	2,588
Debt Service	144,701	135,052	138,210	132,156
Total expenditures	<u>2,604,860</u>	<u>2,476,335</u>	<u>2,468,852</u>	<u>2,459,853</u>
Excess(deficiency) of revenues over expenditures	(57,307)	(15,000)	52,902	(171,785)
Other financing sources (uses):				
Transfers in	57,307	15,000	-	118,250
Transfers out	-	-	(16,136)	(727)
Total other financing sources	<u>57,307</u>	<u>15,000</u>	<u>(16,136)</u>	<u>117,523</u>
Net change in fund balance	-	-	36,766	(54,262)
Fund balance - beginning	689,697	689,697	652,931	707,193
Fund balance - ending	<u>\$ 689,697</u>	<u>\$ 689,697</u>	<u>\$ 689,697</u>	<u>\$ 652,931</u>

Table 4

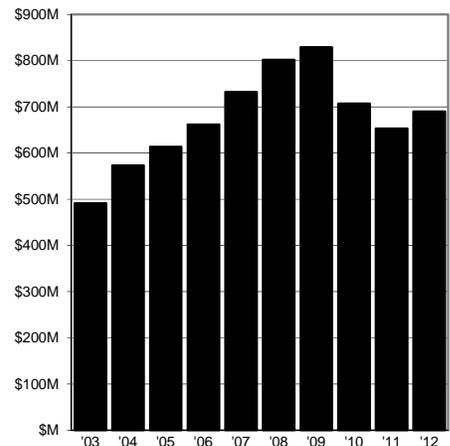
fundamentally changed the treatment of liabilities and receivables in the General Fund. The sharp decline in FY10 was due to a change in the mechanism of funding teachers' pensions in Boston. As a result of the change in legislation, the City did not receive reimbursement of \$118.8 million in teachers' pension expense in FY10 that was accrued for at the end of FY09. This change caused a dramatic, one-time impact on the City's financial statements that is evident at both the government-wide and fund levels. (See the *Statutes and Ordinances* section of Volume I for detail of this legislation.) The decline in FY11 was largely the result of the one-time additional payment to the Pension Trust Fund discussed previously under Pension Management. Although Table 4 shows no change in fund balance based on a balanced budget for FY13, it is expected that the actual results at the close of FY13 will add to general fund equity. The City expects to preserve its policy of maintaining a GAAP Undesignated Fund Balance in the General Fund that is 10% or higher than the current fiscal year's GAAP General Fund Operating Expenditures, while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses (Figure 1).

Fund Structure and Use

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

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

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



General Fund Equity (GAAP Basis) FY03- FY12

Figure 1

can be used to support the City's general fund operations.

The Capital Projects Fund accounts for financial resources, primarily from the issuance of bonds, used for the acquisition or construction of major capital facilities. Fiduciary Funds are used to account for resources held for the benefit of parties outside City government and are not available to support the City's own programs.

The City's fiduciary funds are the Pension Trust Fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund, as well as Private Purpose Trust Funds. The City's operating budget is also supported by available governmental funds transferred and appropriated from other available funds. The City may appropriate yearly parking meter revenues (Special Revenue Fund) to support the Transportation Department and cemetery trust monies (Other Governmental Funds) to support the City's maintenance of its public cemeteries.

Tables 5-7 provide a history as well as projected changes in fund balances for the available funds used to support the City's operating budget.

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

Parking Meter Fund

Fiscal Year	Beginning		Funds In	Ending Year Balance
	Year	Balance		
FY07	52.194	(1.000)	11.342	62.536
FY08	62.536	(10.000)	8.960	61.496
FY09	61.496	(12.000)	11.204	60.700
FY10	60.700	(15.000)	13.662	59.362
FY11	59.362	(15.000)	14.729	59.091
FY12	59.091	-	16.560	75.651
*FY13	75.651	(15.000)	16.500	77.151
*FY14	77.151	(16.500)	16.500	77.151

Notes: (\$millions), *projected

Table 5

Cemetery Trust Fund

Fiscal Year	Beginning		Funds In**	Ending Year Balance
	Year	Balance		
FY07	10.749	(2.278)	2.811	11.283
FY08	11.283	(2.203)	1.096	10.177
FY09	10.177	(1.952)	(0.514)	7.711
FY10	7.711	(2.507)	2.264	7.468
FY11	7.468	(2.651)	2.477	7.293
FY12	7.293	(2.277)	1.125	6.141
*FY13	6.141	-	1.000	7.141
*FY14	7.141	(0.807)	1.000	7.333

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

Table 6

Surplus Property Disposition Fund

Fiscal Year	Beginning		Funds In	Ending Year Balance
	Year	Balance		
FY07	43.756	(8.000)	0.000	35.756
FY08	35.756	(5.669)	0.000	30.087
FY09	30.087	0.000	0.000	30.087
FY10	30.087	(5.979)	0.000	24.108
FY11	24.108	0.000	0.972	25.080
FY12	25.080	0.000	1.291	26.371
*FY13	26.371	(22.120)	5.034	9.284
*FY14	9.284	0.000	0.000	9.284

Notes: (\$millions), *projected

Table 7

Budgetary Support

Budgetary fund balance can be appropriated for use during the fiscal year. Budgetary fund balance is more commonly referred to as “free cash” when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The law governing the calculation and availability of budgetary fund balance for cities and towns is

Budgetary Fund Balance

Date	Annual	Amount
	Certified	Appropriated from Certification
Jan. 2005	56.3	20.0
Mar. 2006	54.4	11.7
Jan. 2007	63.1	25.0
Apr. 2008	110.2	35.0
Mar. 2009	121.2	45.0
Mar. 2010	139.0	45.0
Mar. 2011	117.8	30.0
Mar. 2012	142.8	-
Mar. 2013	217.3	40.0

Notes: (\$millions),

Table 8

Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. This calculation and the amount derived from it must be certified annually for funds to be appropriated. The City considers the appropriation of certified free cash to offset certain fixed costs such as post-retirement health benefits (OPEB) and to fund extraordinary and non-recurring events as determined by the City Auditor. The appropriation of free cash shall not cause the fiscal year’s GAAP Undesignated Fund Balance to go below 10% of the fiscal year’s GAAP General Fund Expenditures. Prior year certifications and the amount used or appropriated from each certification are in Table 8.

In March 2013, the Director of Accounts certified that the amount of funds available for appropriation (“free cash”), as of July 1, 2012, was \$217.3 million. The FY14 Budget assumes the use of \$40 million in Budgetary Fund Balance from this certification.

Table 9 shows the appropriations that make up the City’s FY14 budget as adopted.

CITY OF BOSTON
BUDGET SUMMARY - APPROPRIATED FUNDS

(Dollars in Millions)

	Direct General Fund	Parking Meter Fund Transfer	Cemetery Trust Fund Transfer	Budgetary Fund Balance	Total FY14 General Fund Budget
REVENUES					
Property Tax Levy	1,753.87				1,753.87
Overlay Reserve	(34.39)				(34.39)
Excises	153.18				153.18
Fines	62.82				62.82
Interest on Investments	0.50				0.50
Payments In Lieu of Taxes	42.97				42.97
Urban Redevelopment Chapter 121A	62.60				62.60
Misc. Department Revenue	53.59				53.59
Licenses and Permits	41.45				41.45
Penalties & Interest	8.41				8.41
Available Funds	0.00	16.50	0.81		17.31
State Aid	402.56				402.56
Total Recurring Revenue	2,547.55	16.50	0.81		2,564.86
Budgetary Fund Balance				40.00	40.00
Non-Recurring Revenue					0.00
Total Revenues	2,547.55	16.50	0.81	40.00	2,604.86
EXPENDITURES					
City Departments	1,015.48	16.50	0.81		1,032.79
Public Health Commission	66.36				66.36
School Department	937.41				937.41
Reserve for Collective Bargaining	34.36				34.36
Other Post Employment Benefits	0.00			40.00	40.00
Total Appropriations	2,053.61	16.50	0.81	40.00	2,110.92
Pensions	152.91				152.91
Debt Service	145.20				145.20
State Assessments	191.90				191.90
Suffolk County	3.92				3.92
Reserve	0.00				0.00
Total Fixed Costs	493.94				493.94
Total Expenditures	2,547.55	16.50	0.81	40.00	2,604.86
Surplus (Deficit)					0.00

Numbers may not add due to rounding

Table 9

