

# Summary Budget

## OVERVIEW

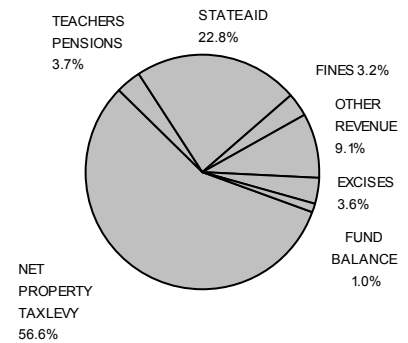
The FY06 Budget of \$2.019 billion in recurring revenue represents a \$107.1 million increase from the FY05 Budget supported by recurring revenues. Included in the total FY06 Budget is \$9.2 million in non-recurring revenue and \$20.0 million in revenue from budgetary fund balance. In total, FY06 Budgeted revenues amount to \$2.049 billion, an increase of \$119.5 million or 6.2% from FY05.

This Summary Budget section lays out the FY06 Budget and discusses trends in each category of the summary budget table. A detailed look at personnel trends as well as a review of major externally funded services is also presented.

The increase in FY06 Budget recurring revenues is primarily the result of a \$53.9 million projected increase in the net property tax. The FY06 Budget estimate of state aid is \$466.7 million. This figure amounts to only 1.0 percent growth in aid for the City. This is the second year of less than inflationary growth in state aid for the City after two years of reductions.

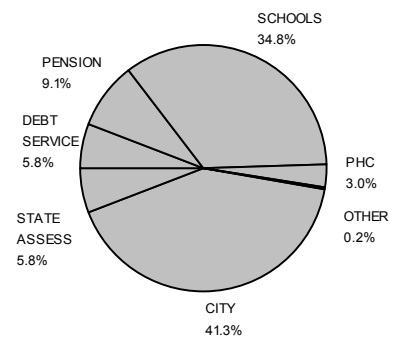
While the state is projecting moderate revenue growth for the upcoming fiscal year, it is faced with several competing goals. Many different groups are calling on the state to restore the reductions in programs and aid made in the past few years, while the state is trying to replenish reserves without raising taxes and amid calls for tax cuts.

To counteract the lack of growth in its state aid, protect against further reductions and provide for future revenue growth and diversification of the revenue base, the City has again proposed options to increase revenue in several key areas. See the *Financial Management* chapter of this volume for more detail.



**FY06 Estimated Revenue**

Figure 1



**FY06 Estimated Expenditures**

Figure 2

# CITY OF BOSTON BUDGET SUMMARY

(Dollars in Millions)

	FY03 Actual	FY04 Actual	FY05 Budget	FY06 Budget
<b>REVENUES</b>				
Property Tax Levy	1,035.87	1,094.15	1,148.74	1,199.46
Overlay Reserve	(39.84)	(42.08)	(43.71)	(40.56)
Excises	83.12	59.57	65.95	74.55
Fines	58.99	66.66	62.02	65.59
Interest on Investments	8.55	7.79	7.30	16.00
Payments In Lieu of Taxes	22.08	22.27	22.76	23.28
Urban Redevelopment Chapter 121A	54.11	54.81	50.24	53.53
Misc. Department Revenue	45.56	40.81	30.31	36.19
Licenses and Permits	30.15	34.82	25.35	27.78
Penalties & Interest	9.17	9.83	8.00	8.29
Available Funds	11.85	2.93	12.03	12.11
State Aid	476.60	459.84	461.95	466.68
Teachers Pension Reimbursement	53.73	61.39	61.39	76.52
<b>Total Recurring Revenue</b>	<b>1,849.92</b>	<b>1,872.79</b>	<b>1,912.32</b>	<b>2,019.43</b>
Budgetary Fund Balance	0.00	20.00	15.00	20.00
Non-Recurring Revenue	13.00	0.00	1.88	9.23
<b>Total Revenues</b>	<b>1,862.92</b>	<b>1,892.79</b>	<b>1,929.20</b>	<b>2,048.65</b>
<b>EXPENDITURES</b>				
City Departments	776.48	779.43	800.43	845.70
Public Health Commission	63.90	58.76	60.57	61.30
School Department	650.60	656.54	680.21	712.41
Reserve for Collective Bargaining	8.38	21.30	0.00	0.00
<b>Total Appropriations</b>	<b>1,499.37</b>	<b>1,516.03</b>	<b>1,541.21</b>	<b>1,619.41</b>
Pensions	134.43	136.97	146.56	186.28
Debt Service	121.33	123.92	120.35	119.75
State Assessments	101.12	106.51	116.88	118.90
Suffolk County Sheriff	4.74	4.55	4.20	4.31
Reserve	0.15	0.42	0.00	0.00
<b>Total Fixed Costs</b>	<b>361.76</b>	<b>372.37</b>	<b>387.99</b>	<b>429.24</b>
<b>Total Expenditures</b>	<b>1,861.12</b>	<b>1,888.40</b>	<b>1,929.20</b>	<b>2,048.65</b>
<b>Surplus (Deficit)</b>	<b>1.80</b>	<b>4.38</b>	<b>0.00</b>	<b>0.00</b>

Numbers may not add due to rounding

\*Note: Starting in FY04 the City is required to account for Charter School Tuition as a State Assessment instead of an offset to State Aid. Prior years have been adjusted to ease comparison.

This revenue situation provides the basis for planning FY06 appropriations and fixed costs to maintain a balanced budget. Selected FY06 budgeted revenues compare with FY05 budgeted revenues as follows: the net property tax levy increases \$53.9 million or 4.9%; excises increase \$8.6 million or 13.0%; fines increase \$3.6 million or 5.8%; interest on investments increases by \$8.7 million or 119%; payments-in-lieu-of-taxes increase \$0.5 million or 2.3%; Chapter 121A revenues increase \$3.3 million or 6.6%, miscellaneous department revenues increase by \$5.9 million or 19.4%; licenses and permits increase by \$2.4 million or 9.6%; and state aid increases \$4.7 million or 1.0%.

On the expenditure side of the budget, total departmental appropriations increase by \$78.2 million or 5.1% and fixed costs increase by \$41.2 million or 10.6%. Selected FY06 budgeted appropriations compare with FY05 budgeted appropriations as follows: City departments increase \$45.3 million or 5.7%, the Boston Public Health Commission increases by \$0.7 million or 1.2%, and the School Department increases \$32.2 million or 4.7%. FY06 budgeted fixed costs compare with FY05 budgeted fixed costs as follows: pensions increase \$39.7 million or 27.1%, debt service decreases \$0.6 million or 0.5%, state assessments increase \$2.0 million or 1.7% and Suffolk County Sheriff increases \$0.1 million or 2.5%. Please note that the "Other" category on the FY06 Estimated Expenditures pie chart (Figure 2) is the Suffolk County Sheriff FY06 estimated expenditures.

It should be noted also that the appropriation for the Suffolk County Sheriff, which is mandated by the State, is included in the Fixed Costs section of the Budget Summary. Prior to FY04, funding for the Sheriff was shown in the Appropriations section as part of a County appropriation. Because funding for the Suffolk County Sheriff is a mandated cost it is more appropriate to categorize it as a fixed cost. The appropriation for the City's County Pensions and Annuities expenses is included in the City Departments appropriation.

## REVENUE

Consistent revenue growth has allowed the City to record 19 consecutive operating budget surpluses through FY04 (Figure 3). FY05 is expected to close without any substantial surplus. The FY06

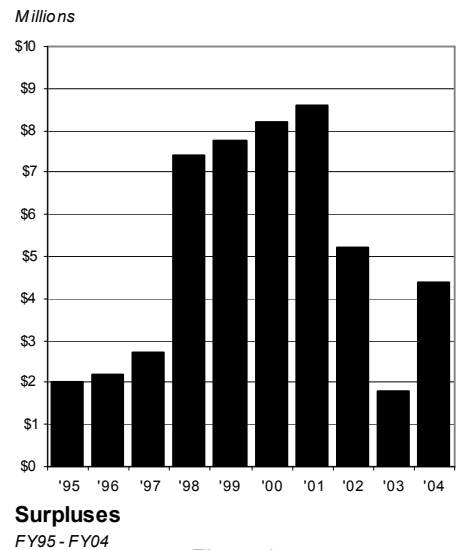


Figure 3

Budget is balanced on the following revenue projections.

## Property Tax Levy

A detailed discussion of the property tax levy is provided in the *Revenue Estimates and Analysis* chapter of this volume. Below is a brief summary.

The property tax levy has been the City's most dependable source of revenue growth during the past twenty years. The increases have been steady and consistent from FY85 to FY05, ranging from a low of \$28 million to a high of \$63 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the \$54.6 million increase in FY05 represented only 5.0% growth. Property tax levy growth is fundamental to the financial health of the City since it provides over half of all City revenue.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since its adoption 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 taxable new value. 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 not voted to either override the levy limitations or to exclude any debt from the limit.

In each year since FY85, the City has increased its levy by the allowable 2.5%. During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$22.0 million in FY06.

Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in 15 of the last 22 years (Figure 4). For the four years inclusive between FY00 and FY03, taxable new value revenue growth achieved a new record each year. FY03 taxable new value increased in large part due to the efforts of the Assessing Department to update personal property data. This increase cannot be duplicated in future years.

The combined effect of the allowable 2.5% increase and the taxable new value is an average annual gross levy increase from FY98 through FY05 of \$50.0 million or 5.5%, and a projected increase in FY06 of \$50.7 million or 4.4%. The gross property tax levy crested \$1 billion in FY03 to \$1,035.9 million and totaled \$1,094.1 million in FY04. It is expected to reach \$1,148.7 million in FY05 and estimated at \$1,199.5 million in FY06.

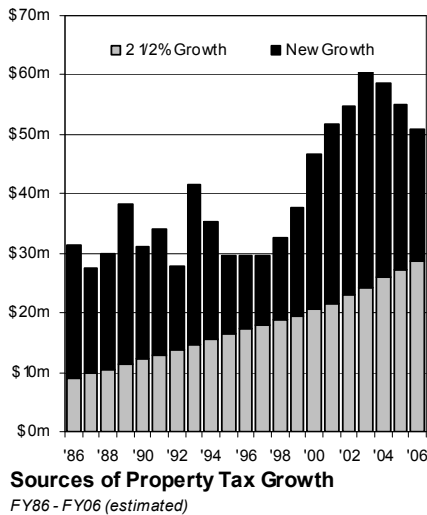


Figure 4

Property values in Boston have been rising steadily. During FY04, the City conducted the eighth parcel-specific revaluation that established values as of January 1, 2003 at \$66.1 billion, an increase of 15% over the prior year's market

indexed valuation of \$57.5 billion. The FY05 valuation as January 1, 2004 was another market-index valuation year. Values increased in FY05 to \$69.3 billion, a 4.7% increase (Figure 5)

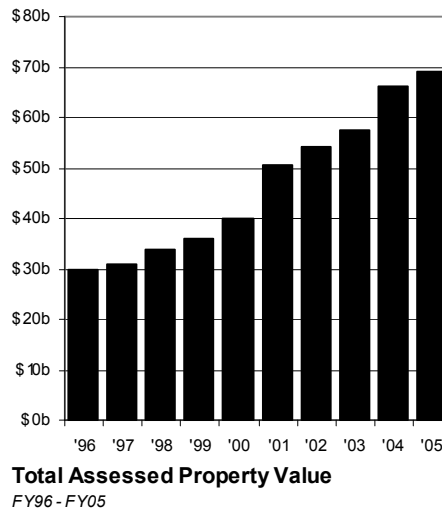


Figure 5

**Excises**

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 statutory depreciation schedule based on the manufacturer's list price and the year of manufacture.

As employment, wages and consumer confidence increased and financing costs decreased in 1999 and 2000, more people returned to the market for new cars producing back-to-back years of record auto sales. Strong sales continued during the recession due to manufacturers incentives and cash-out refinancing of home mortgages giving lump sums of cash to homeowners or low mortgage rates substantially reducing monthly debt burdens. Having reached the peak of automobile sales in 2000, the City expected the market to soften or plateau, eroding revenues through the depreciation schedule mentioned above. Motor vehicle excise revenue totaled \$45.6 million in FY03 and \$33.1 million in FY04. The City expects motor vehicle excise revenue to exceed the

midyear budget estimate of \$32.0 million in FY05 and then increase to \$37.5 million in FY06.

The local room occupancy excise amounts to 4.0% of the total amount of rent for each hotel or motel room occupied (in addition to the state excise and fee). Boston's occupancy and average daily room rates are usually among the highest in the nation, but this market was strongly affected by the events of September 11, 2001 and the national recession. Recently, receipts have stabilized and are starting to grow as occupancy and room rates have increased.

Base room occupancy excise revenue (a portion of this revenue is sometimes retained in the convention center fund) totaled \$19.7 million in FY03 (\$18.0 million transferred to the general fund) and \$19.8 million in FY04 (\$17.0 million transferred to the general fund). The City's base room occupancy excise tax receipts are expected to exceed the midyear budget estimate of \$20.5 million in FY05, and are projected to increase to \$22.6 million in FY06.

Room occupancy excise revenue from the significant number of new hotel rooms planned, already in construction, or recently constructed is earmarked to the Convention Center Fund to pay a significant portion of the City's debt for the new Boston Convention and Exhibition Center. Therefore, future growth in room occupancy excise in the general fund depends strictly 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. One reason that jet fuel excise revenue has tended to increase slowly is that with jet fuel selling consistently below \$1.00 per gallon, the five cents per gallon minimum tax has generally been the operative rate. Jet fuel excise tax collections were also severely impacted by the events of September 11 and the national recession, as travel and cargo shipping slowed sharply. The City expected jet fuel excise collections to reach bottom in FY04 and recover as the economy strengthened and travel returns in FY05. Jet-fuel excise revenue in FY03 totaled \$18.8 million (which included the first FY04 payment of \$3.2 million) and \$8.5 million in FY04. The City expects this revenue source to exceed the midyear projection of \$13.0 million in

FY05 and projects an increase to \$14.0 million in FY06 (Figure 6).

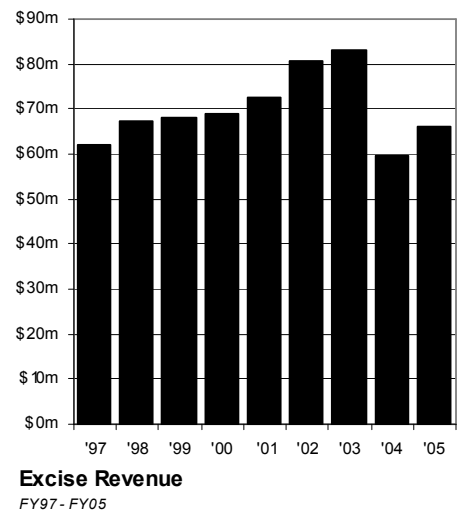


Figure 6

### Fines

Over the last three years, the City has issued an average of approximately 1.67 million parking tickets per year and has maintained a high rate of collection on its tickets for several years, collecting approximately 83.3% of tickets in the first six-months after issuance and over 90% 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 \$55.3 million in FY03 and \$63.1 million in FY04, largely due to fine level increases. Parking fine revenue is expected to exceed the mid-year budget estimate of \$58.5 million in FY05. The FY06 projection of \$62.0 million is based upon full staffing of Parking Enforcement Officer positions that were vacant until late FY05.

### 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. Investment income peaked at \$26.1 million in FY01 driven by rising cash balances and high interest rates. Interest rates have now started to rise from their

recent 41-year lows (see chart of Federal Funds rate decreases in the *Revenue Estimates & Analysis* chapter of this volume), and as cash balances have improved, earnings have increased. Investment income totaled \$7.8 million in FY04, and is expected to easily exceed the midyear budget estimate of \$7.3 million in FY05. As the Federal Reserve has been increasing interest rates since the end of 2004 while balancing economic recovery and inflation, the City expects better cash balances in tandem and projects interest income will rise to \$16.0 million in FY06 as a result – still just under two-thirds of its FY01 peak.

### **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, as a voluntary contribution for the municipal services that the City provides to them such as police and fire protection and snow removal. The Massachusetts Port Authority provides almost half of the PILOT revenue the City receives annually. Growth in PILOTs comes from new PILOT agreements, contract escalations that adjust the payments for inflation, or re-negotiation of a current contract. Payments in lieu of taxes totaled \$22.1 million in FY03 and \$22.3 million in FY04. The City expects this revenue source to reach the midyear budget estimate of \$22.8 million for FY05 and has projected \$23.3 million for FY06 inclusive of any new agreements expected to result from negotiations underway except that of MassPort, whose agreement with the City will expire June 30, 2005. In this case only an inflationary escalator was added.

### **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 a municipal excise in-lieu-of-income tax for which the Commonwealth acts as the collector and

distributor. In most cases, the formula for the 121A, Section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current fair cash value plus 5% of current gross income. In FY03 and FY04, the City received Chapter 121A, Section 10 distributions of \$35.3 million and \$34.7 million, respectively. In FY05 and FY06, Chapter 121A Section 10 revenues are budgeted at \$33.0 million and \$33.5 million, respectively.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual Section 6A 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 \$17.3 million in FY03 and \$18.7 million in FY04. The City expects FY05 Section 6A collections to exceed the midyear budget estimate of \$15.7 million and has a budget of \$18.5 million for FY06.

### **Miscellaneous Department Revenue**

This category contains several large accounts and many more small accounts. The largest revenue source in this revenue category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$17.6 million in FY03 and \$11.6 million in FY04. Municipal medicaid reimbursement is expected to reach the midyear budget estimate of \$11.0 million in FY05, and is budgeted at \$11.5 million in FY06. There are two other accounts in this revenue category that are projected to exceed \$2.5 million in FY06. Other Miscellaneous Department Revenue, which consists of miscellaneous fees for services, rents, and reimbursements, is projected at \$6.0 million and Fire service fees are projected at \$2.7 million.

### **Licenses and Permits**

The level of economic activity largely determines the amount of licensing and permitting done by City agencies. This category is dominated by building permit revenue, from which the City received \$20.1 million and \$22.7 million in FY03 and FY04 respectively. Building permit revenue should exceed the midyear budget estimate of

\$15.0 million in FY05 due to strong residential construction and continuing commercial projects. The City expects to receive \$17.0 million in building permit revenue in FY06.

The next highest license and permit revenue is the cable television license fee from which the City received \$2.6 million in FY03 and \$4.2 million in FY04. The City has a budget of \$2.9 million for FY05 and \$3.3 million for FY06.

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 \$2.2 million in both FY05 and FY06.

### **Penalties and Interest**

Taxpayers are assessed both a penalty and interest for late payments of property tax bills and motor vehicle excise bills. The recent trend has been down for these revenues as the City excels in collection of receivables, but when the economy suffers and unemployment increases, more taxpayers are late in making payments, temporarily increasing revenues. The City collected \$9.2 million and \$9.8 million in such penalties and interest in FY03 and FY04 respectively. Actual penalty and interest collections for FY05 will reach the current midyear budget estimate of \$8.0 million. The City expects to collect \$8.3 million in penalty and interest revenue in FY06.

### **Available Funds**

Available funds are linked to a separate category of expenditure appropriation, that is, appropriations that are supported by immediately available fund transfers. Most of the City's general fund budget is raised and appropriated from the tax levy, which means it 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 \$11.8 million and \$2.9 million from these two sources combined in

FY03 and FY04 respectively. The City expects to transfer \$10.0 million from the Parking Meter Fund to the General Fund in both FY05 and FY06. The City also plans to transfer \$2.0 million from the Cemetery Trust Fund to the General Fund in FY05 and \$2.1 million in FY06. These monies were available at the beginning of FY05 and will also be available at the beginning of FY06.

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 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).

### **State Aid**

A detailed discussion of state aid is provided in the Revenue Estimates and Analysis chapter of this volume. Below is a brief summary.

In FY03, the Commonwealth's annual expenditure for direct local aid statewide was substantially reduced twice. The first statewide reduction of a net \$32 million dollars occurred in late July 2002, one full month into the fiscal year, and mostly as a result of vetoes by the Governor. The second reduction of \$114 million statewide occurred in January 2003, as a result of the Legislature granting the new governor temporary power to make unilateral reductions to local aid accounts.

In the decade prior to FY03, the Commonwealth had been successful in balancing its budget. This had given the Commonwealth the capacity to support an adequate and diversified local revenue base for municipalities. Recently, due to the national economic recession, the corresponding drop in state tax revenues left the state in need of making program reductions, drawing on reserves, increasing taxes, and reducing local aid. Municipalities are now primarily reliant on the property tax not only for revenue growth, but also to offset state aid reductions that have not been reinstated.

The primary forms of local aid distributions from the state to municipal general revenues are Chapter 70 education aid, additional assistance and lottery. The amount of these funds to be distributed each year to an individual community

is described on the “cherry sheet”, a listing of a city or town’s local aid that used to be printed on cherry-colored paper. Also listed on the cherry sheet are other relatively smaller Commonwealth programs such as library aid, school construction, and school transportation and other reimbursements, and highway funds.

The current state budget for FY06 increases Boston’s education aid over FY05 by \$3.1 million. The City received Chapter 70 education aid totaling \$205.6 million in FY03 and \$200.5 million in FY04 and FY05. The City expects to receive \$203.6 million in FY06.

FY00 was the last year of the statutorily established funding schedule for education reform. The current education aid is delivered in tandem with state-mandated costs for charter schools. Charter schools are publicly funded schools administered independently from local school committee and teacher union rules and regulations. Their charters are granted by the State Board of Education.

There are currently twenty-one Commonwealth charter schools and two Horace Mann charter schools available to Boston resident students. There were approximately 4,434 Boston resident students attending Commonwealth charter schools in FY05 and the City expects that number to be between 4,434 to 4,954 in FY06 depending on the outcome of appeals to the closing of two charter schools.

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, will pay to the City, as reimbursement for Chapter 70 aid reductions, 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.

In FY03, the Commonwealth failed to appropriate funding for the charter school reimbursement, therefore the City paid the full tuition cost of \$32.1 million in that year. The net cost to the City for Charter Schools in FY04 was \$33.6 million. In FY05, the City budgeted a \$14.8 million reimbursement (that now includes a

reimbursement for capital facilities as well as tuition) on a \$46.7 million tuition assessment for a net impact of \$31.9 million. In FY06 the city has budgeted a \$10.3 million reimbursement against a \$49.0 million tuition cost, yielding a net impact of \$38.7 million.

Lottery aid for municipalities had grown steadily over the last few years as a result of the phase-out of a cap in place since FY95. The City’s lottery aid was \$71.0 million in FY01 and \$63.5 million in FY02 without the cap. Lottery aid was then level funded in the state’s FY03 budget and later reduced mid-year as part of the new governor’s budget reductions. The City received FY03 lottery aid of \$57.6 million after the mid-year reduction, and another cap on lottery aid was imposed. The City received \$53.9 million in FY04 and FY05 as the state continues to divert growth in lottery receipts away from cities and towns. In his FY06 budget, the Governor proposed phasing out the current cap on lottery in FY06 instead of FY07. This will increase the City’s lottery aid to \$60.5 million, but the statewide cap will remain in effect until 2010, coming off at a rate of 20% per year.

Additional Assistance had been level funded since FY94, with most local aid increases coming through Chapter 70 education aid instead. Its purpose and usefulness came into question during the FY03 state budget process when the governor vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, the new governor, 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, as a proportion of all local aid reductions, fell disproportionately on the City.

The City received \$175.1 million in additional assistance in FY03 after the reductions in that year and \$164.2 million in FY04 after a further reduction. The City received additional assistance in FY05 level with FY04 and expects FY06 to be level-funded again. The Additional Assistance account was part of a “needs-based” aid package in the 1980’s. Dollars of aid by community were determined through a formula that compared costs and revenues to statewide averages. Additional assistance has been important to



Boston in supporting schools, public safety, and other basic city services.

The state's continued reductions in aid, could seriously risk the City's ability to provide services to residents and visitors alike.

### **Teachers' Pension Reimbursement**

Boston's cherry sheet includes an item unique to the City, the teachers' pension reimbursement for pension charges to the City. 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.

In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost as part of its annual pension funding. The City is then reimbursed by the Commonwealth through the cherry sheet. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teachers' pensions in Massachusetts, is the financial responsibility of the Commonwealth. The teachers' pension reimbursement totaled \$53.7 million in FY03, \$61.4 million in FY04, and is budgeted to be \$61.4 million in FY05. The teacher's pension reimbursement is estimated at \$76.5 million in FY06.

### **Non-recurring Revenue**

Included in the FY06 Budget is \$9.2 million in non-recurring revenue to be transferred from the surplus property disposition fund. In maintaining its policy of not supporting recurring operating costs with non-recurring revenue, the City limits this transfer to an amount not greater than \$1.0 million for the Risk Retention Reserve plus \$726,000 for costs associated with an after school program initiative, and \$7.5 million for the Mayor's "Leading the Way" housing initiative.

### **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 law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. On December 9, 2003, the Director of Accounts certified that the amount of funds available for appropriation ("free cash"), as of July 1, 2003, was \$61,121,000. The FY04 Budget employed the use of a \$20.0 million appropriation from that amount. For FY05 a \$15.0 million appropriation has been assumed and for FY06 \$20.0 million will be used. (See *Financial Management* section of Volume I for more detail on this revenue source.)

### **EXPENDITURES**

Expenditures are broken down into two primary groups: appropriations directly related to departmental services and fixed and mandated costs. FY06 appropriations are subdivided further as follows:

City Departments, which includes all operating department appropriations, a risk retention reserve and a set-aside for tax title and annual audit expenses;

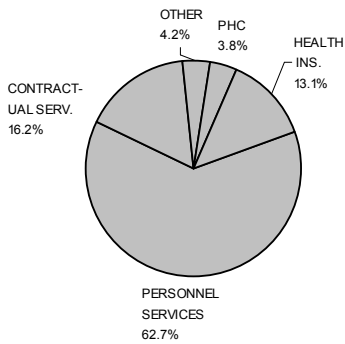
Boston Public Health Commission, the City appropriation for the quasi-independent authority and successor to the Department of Health and Hospitals;

School Department, the City appropriation for the Boston Public Schools (BPS);

Appropriations are also presented by expenditure category across the three subgroups. (Figure 7)

Personnel Services include salaries, overtime, medicare, unemployment compensation and workers' compensation for employees in City departments and BPS. Health Insurance provides coverage for City and BPS employees and retirees. The Contractual Services category includes expenditures for communications, repairs and service of buildings, equipment and vehicles, transportation, trash collection and disposal, as well as outside legal, advertising and printing expenses. PHC is the City's appropriation to the Public Health Commission as noted above.

Included in the Other category are supplies & materials such as gasoline, uniform allowances,



**FY06 Expenditures by Category**

Figure 7

office supplies, workers' compensation medical expenses, medical indemnification in the Fire and Police Departments, legal liabilities and aid to veterans. Also included in Other are appropriations for equipment, vehicles, tax title and the City's outside audit.

**City Departments**

The combined appropriations for City Departments as shown in the FY06 Summary Budget have increased by 5.7% from the FY05 appropriations. Approximately 73% of this category covers four appropriations: Police, Fire, Public Works and Health Benefits.

These appropriations also can be divided by cabinet, to better reflect the overall policy priorities and trends by service area. (Figure 8)

Some of the highlights of FY05/FY06 changes by cabinet are as follows:

**Mayor's Office**

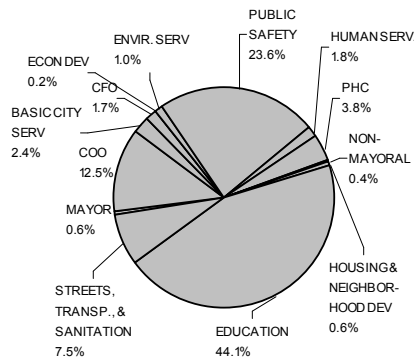
The cabinet will see an increase of 3.4%. The majority of the increases in each of the mayoral departments is related to annual salary increases.

The operating budget appropriation shown for the Office of New Bostonians (ONB) covers the majority of the salary of the director. The Baxter Trust covers the major expenses of the office. In FY06, ONB will continue with its multi year public/private community project aimed at increasing English for Speakers of Other Languages (ESOL) programs in the City.

Also included in the Mayor's Cabinet is the Office of Emergency Preparedness – formerly the Office

of Homeland Security. The mission of the Office has been expanded to include not only the coordination and direction of Boston's inter-departmental and multi-jurisdictional homeland security activities but also the response to and recovery from incidents of terrorism, natural disasters and other emergency situations. During FY06 the Office will conduct "Operation Atlas" a series of homeland security drills that will bring together local, state, federal and private sector entities to test the efficiency of information sharing, communications and public information – all critical elements in terrorism prevention. The FY06 budget will include \$192 thousand in operating funds in addition to the federal grants to address this expanded mission.

The Mayor's Office of Neighborhood Services will coordinate a cross-departmental public/private strategy that will focus on keeping the City clean. As part of that strategy, "Boston Shines" kicks off its third year with a massive two-day spring cleanup and will continue working to educate Bostonians about keeping their city clean all year long. Another component of the clean city strategy, the Adopt-a-Block Program offers companies and neighborhood organizations the opportunity to commit to sponsor or "adopt" a specific area and keep it clean.



**FY06 Expenditures by Cabinet**

Figure 8

**Chief Operating Officer**

Excluding the City's appropriation for health insurance, this cabinet will see a net increase of 2.4% in its FY06 appropriation. Individual departmental increases within the COO cabinet reflect salary increases related to collective

bargaining for the most part. The Library department will see a 3.7% increase to cover inflationary increases related to fixed costs including utilities, as well as an increase in book purchases. The funding level for the Library also assumes that the historical appropriation requirements of the state in order to be eligible for state funding will be met with operating and external funding. The Registry Division of Births, Deaths and Marriages will see a 5% increase in its FY06 appropriation to cover personnel costs related to collective bargaining and contractual requirements.

The Health Insurance appropriation will increase by 9.0% over the FY05 appropriation, requiring an additional \$12.5 million. The Health Insurance appropriation includes the cost of dental and vision coverage for employees (not including BPS and PHC) and retirees who are eligible for coverage through collective bargaining agreements or executive order. (A more detailed discussion of health insurance can be found later in this chapter.)

### **Chief Financial Officer**

After excluding tax title funding from the FY05 appropriation, the net percentage increase in this cabinet is 1.1%. Departments within the cabinet will see increases related to salary costs associated with collective bargaining. The Cabinet also includes appropriations for Medicare Payments, Pensions & Annuities and Executions of Courts. A reduction has been taken in the appropriation for Pensions and Annuities for retired County officials and employees as the number of those retirees has declined. (These retirees include veterans of World War II who had 30 years of service and were employed prior to 1939.)

### **Public Safety**

The 4.7% increase in this cabinet is primarily the result of an Arbitrator's decision in the summer of 2004 that established the rate of salary increases contained within collective bargaining agreements for uniformed personnel. In both the Fire Department and the Police Department the focus continues to be on maintaining levels of field service that will continue to protect both residents of Boston and those who come to Boston to work or visit. Each department will be hiring recruit

classes during FY06 to support those levels of field service.

The FY06 budget for the Fire Department will increase by approximately \$7.5 million or 5.4%. As stated above, the Fire Department appropriation provides for the full year cost of a class of firefighters scheduled to start in the spring of FY05 and an additional recruit class scheduled to start in the fall of FY06. Fire Department management will continue to focus on the efficient use of overtime. In particular, overtime related to sick and injured leave is being reviewed. In FY06, a continued emphasis will be put on the case management of injuries. It is important to note that a new case manager was hired during FY05 to address this issue.

The Police Department's appropriation will increase by approximately \$9.6 million or 4.3%. The FY06 Budget reflects the department's continuing efforts to focus its resources on the direct delivery of neighborhood policing services. Improved information management and overtime tracking through enhanced technology and the review of personnel assignments to revise staffing patterns and assign more officers to direct service positions are high priorities. The department will also be making improvements in the area of crime scene analysis, including a restructuring of the finger print lab. The Police Department will play a major role in the new Family Justice Center of Boston - a multi-disciplinary approach that will bring together services for victims of domestic violence, sexual assault and child abuse. As noted above, the appropriation provides for the full-year cost of a class of police officer recruits scheduled to start in the spring of FY05 and a additional classes scheduled to start in the fall of 2005 and the spring of 2006.

### **Economic Development**

The 1.2% increase in this Cabinet reflects the general increase to salaries experienced by departments citywide. The Mayor's Office of Arts and Cultural Development, which will have a new name – the Mayor's Office of Arts, Tourism and Special Events (MOATSE) to better reflect its full mission, will now be overseen by the Chief of Economic Development. (MOATSE was formerly in the Mayor's Office Cabinet.). During FY05 this department combined the resources of two former departments in a way that has resulted in an

effective savings. Rising personnel and non-personnel costs will be absorbed within a level-funded appropriation. The Office will take a leadership role in making the Strand Theatre a successful venue for performing arts, cultural programming and community events.

With the expiration of the City's M/WBE ordinance at the close of calendar year 2002, the Mayor issued an Executive Order on Small and Local Business Enterprise Development to ensure the equitable participation of small and local business in the City's contracting arena. In FY05, the Small and Local Business Enterprise Office (S/LBE) was responsible for the development, coordination and implementation of the executive order.

During FY05, the S/LBE Office, with the help of a Mayorally appointed advisory board and a national non-profit public interest law firm, has drafted an advisory report concerning public policy and administrative practices to enhance the participation of Small, Local and Minority and Women Business Enterprises (SLMWBE).

A draft City Ordinance to effectuate the policy to address market inequities and compliance with Massachusetts competitive bidding and contracting laws is currently under legal review.

The City's commitment to centralizing planning for the City of Boston within the Boston Redevelopment Authority will continue to be fully funded within the existing BRA revenue structure in FY06.

### **Basic Services**

Excluding the new centralized operating costs associated with managing a newly acquired 138,000 square foot building on Rivermoor Street in West Roxbury, the Basic Services Cabinet will see a 2.3% increase. These increased operating costs will be partially offset when the various City departments that will be consolidated at the Rivermoor location no longer incur the operating costs related to their existing facilities.

The Election Department shows a decrease of approximately \$70 thousand or -2.9% providing for two elections in FY06 – a reduction from the four elections held in FY05.

Overall, the Parks Department will see a 1% increase in its FY06 appropriation. Increased

costs related to salaries, utilities and contracted costs for Park Rangers contribute to the FY06 budget increase. The increase of 7.3% in funding for Property & Construction Management is mainly the result of the new annual operating costs related to the operation of the 138,000 square foot Rivermoor Street building in West Roxbury that was acquired in the Fall of FY05. Also, the department will require an increase to cover the costs related to the maintenance responsibility for 26 Boston Centers for Youth & Families (BCYF) buildings. (The Property and Construction Management Department assumed the preventive maintenance and repair of mechanical systems and structures for BCYF in FY05.)

### **Streets, Transportation & Sanitation**

Departments included in this cabinet are Public Works, Central Fleet Maintenance and Transportation, as well as the City's appropriation for Snow Removal. The Snow Removal budget will see a significant increase of 37.6% in FY06. The Snow Removal budget is established using a multi-year annual cost averaging methodology. Excluding the budget for Snow Removal the Cabinet received a modest increase of .4%. This Cabinet has been able to absorb the cost increases in significant areas such as salaries and utilities without a major budget percentage increase by aggressively reducing costs for residential trash removal.

The operations of the Public Works and Transportation Departments continue to be organized in this cabinet structure in FY06 to facilitate the ongoing consolidation of functional overlaps between the two departments. Continued efforts are being made toward this goal.

In FY05 the traffic signal operations and maintenance staff were consolidated with the street lighting operations and maintenance staff in the Public Works department to have a consolidated group responsible for all the city-owned conduit, poles, wires, lights and controllers for all the City's street lights and traffic signals. The annual pavement marking maintenance budget along with the additional pavement markings installed as part of the City's capital roadway paving program are provided for the Public Works Department.

The percentage decrease from FY05 to FY06 in the Public Works Department's appropriation is -.3%, this budget decrease is primarily based on the department's diligent efforts to re-negotiate trash contracts in four sections of the City and re-bid trash contracts for the rest of the City. Public Works closely watches the solid waste industry and seeks opportunities to reduce costs. In an effort to achieve further management efficiencies, the Public Works Department will conduct a pilot Global Positioning System (GPS) program for use in its contracted and city workforce to better inform resource allocation decisions. In FY06 the Transportation Department will see a 2.5% increase, however, part of the FY06 increase represents increased financing costs associated with an energy efficiency project planned to be completed early in FY06. The Transportation Department will manage the retrofit of 6,000 incandescent traffic signal bulbs with energy efficient Light Emitting Diodes (LED) modules. The LED project is scheduled to save \$300 thousand in annual utility costs.

### **Environment and Energy**

The responsibilities of the Environment and Energy Cabinet (formerly known as the Environmental Services Cabinet) have been expanded to include energy policy in response to the City's increasing focus on issues such as renewable energy, green buildings and electricity deregulation. In FY06 the cabinet will work to protect the City and its residents under the Commonwealth's deregulated electric utility industry and will promote utility programs for low-income households. The cabinet will continue the City's strong leadership role on Liquefied Natural Gas (LNG) siting and policy. The total appropriation for the departments in the Environment and Energy Cabinet shows an increase of 3.4%. The Inspectional Services Department (ISD) will see an increase of 3.2%. ISD will work collaboratively with central City departments to facilitate technology improvements for the City's various permitting processes. The Environment Department's increase of 5.9% is mainly related to the recent appointment of a new Cabinet Official for the Environment and Energy Cabinet being funded in the department's budget in FY06. The department will undertake a number of initiatives in FY06 including enhanced efforts to improve air quality

through the Air Pollution Commission and the implementation of the Mayor's Green Building Task Force recommendations. Additional funding to help support the operations of the Groundwater Trust has also contributed to the increase in the Environment Department's appropriation.

### **Human Services**

Overall, the FY06 appropriation for the Human Services Cabinet shows an increase of 2.1% from the total FY05 appropriation. Boston Centers for Youth & Families (BCYF) budget will increase by 3.1% with FY06 increases associated with collective bargaining for employee salaries along with operational increases for utilities and swimming pool maintenance. BCYF will continue its efforts to provide a more structured delivery of services at the various community centers located in the neighborhoods in FY06. Cross training of sports and recreation staff will be done to ensure consistent service delivery at the community centers. BCYF will continue its efforts partnering with community-based organizations located near BCYF facilities. To further BCYF's efforts to coordinate with the Police Department and other agencies to build relationships with at-risk kids, the streetworker program will be restructured and expanded.

The FY06 Youth Fund appropriation will show a slight increase over the FY05 appropriation. The Youth Fund will continue its successful partnering with community-based organizations to have youth working in the organizations and projects to substantially increase the number of summer jobs provided. The City expects to receive approximately \$1 million from the Commonwealth of Massachusetts for the Youthworks program to target summer jobs for at-risk and low income youth under the age of 18 years.

In FY06, the Elderly Commission will see a 2.3% increase related to collective bargaining salary increases and some increased costs related to transportation. With the Commission's trip scheduling software, senior shuttle trips for medical visits will be prioritized. The Commission will also utilize its existing external funds more efficiently and continue its efforts to increase partnerships with the private sector and to identify new external funding sources.

## **Housing and Neighborhood Development**

This cabinet is showing a major increase from its FY05 appropriation. The Cabinet budget increase represents the Mayor's affordable housing commitment by launching the next phase of the Leading the Way program called Leading the Way II (LWTII) with \$7.5 million being provided in FY06. LWTII continues the successful blueprint used in Leading the Way program to meet and sustain the City's housing needs by creating affordable housing, preserving neighborhood stability and addressing homelessness.

The Main Streets districts celebrate their ten year anniversary of providing a vital role in a community's economic development. The Department of Neighborhood Development (DND) will continue to support the Main Street Districts in their mission to build vibrant neighborhood commercial districts.

Excluding the added costs of the Leading the Way II program, the Housing and Neighborhood Development Cabinet actually shows a reduction of -4.2% in the FY06 appropriation. This budget reduction reflects the budget savings and efficiencies that will be achieved through the consolidation of the Rental Housing Resource Center into the Housing Development program in the Department of Neighborhood Development (DND). This organizational consolidation will achieve efficiencies and bolster the City's efforts in support of affordable rental housing production and assistance to tenants and landlords.

## **Public Health Commission**

The Commission is responsible for providing the public health operations formerly provided by the Department of Health and Hospitals (DHH) and Trustees of Health and Hospitals (THH). It is a principal component of the Boston Public Health Network, which includes the Public Health Commission, Community Health Centers, and Boston Medical Center. Through Boston Emergency Medical Services, the Commission also provides pre-hospital emergency care.

The FY06 appropriation for the Public Health Commission shows an increase of 1.2% from the FY05 appropriation. The Public Health Commission Budget includes a \$10.75 million direct payment to the Boston Medical Center

(BMC) required by the agreement reached when the City consolidated Boston City Hospital and Boston University Medical Center Hospital. The direct payment requirement is level funded with FY05. The appropriation also funds an Emergency Medical Services (EMS) subsidy of \$10.3 million.

During FY06 the Public Health Commission will enhance substance abuse treatment and related reentry services to young adult offenders returning to the community. The Commission will continue the Boston STEPS program, an initiative that focuses on the promotion of healthy lifestyle changes in an effort to reduce the growing obesity epidemic. Along with leaders from the healthcare industry, academic institutions, and the community, the Public Health Commission has also crafted a Disparities Initiative which will prioritize and address the need for closing the racial and ethnic healthcare gap.

## **School Department**

The FY06 School Department Budget is showing a \$32.2 million, or 4.7%, increase from the FY05 appropriation. Much of the increase in this budget will be used to cover rising fixed costs in the areas of health insurance, energy and contractual obligations. However, the budget also allocates resources to areas of high priority that will allow the School Department to make progress on its agenda to close the achievement gap and maximize student achievement for all. The FY06 budget includes funding for the first phase of a multi-year plan to meet the goal of providing full-day kindergarten for all four-year-olds by adding 450 Kindergarten 1 seats. (See the *Education* chapter of this volume for more details.)

### Health Insurance

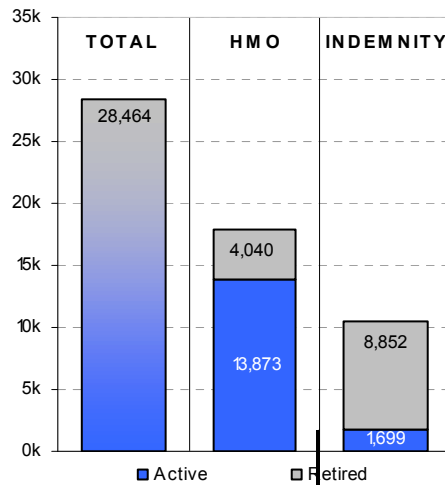
Total health insurance costs for all employees and retirees are projected to increase by approximately \$22.4 million in FY06. The table below shows total actual expenditures for health insurance in FY03 and FY04 and budgeted totals for FY05 and FY06. These totals include estimates for City departments, PHC and grants.

Health Insurance			
Fiscal Year	Total Cost	Dollar Change	Percent Change
FY03	\$ 161.972		
FY04	\$ 178.974	\$ 17.002	10.5%
FY05*	\$ 200.407	\$ 21.432	12.0%
FY06*	\$ 222.775	\$ 22.369	11.2%

Notes: (\$millions) \*budget estimate  
Includes grant-funded positions

In FY04 the City made a decision to drop two of the City's HMO plans. The consolidation of plans enabled the City to keep the percentage increase in HMO premium rates at a more affordable level. Even with the plan consolidation, HMO rates increased by 10.5% in FY05 and will increase by 14.5% on average in FY06. The rates for the City's Master Medical indemnity plan increased by 22.9% in FY05, and will remain somewhat level in FY06.

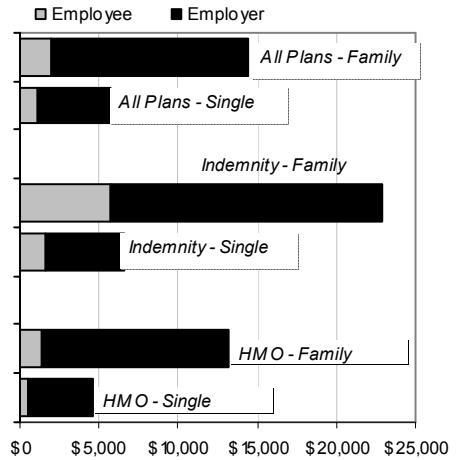
The graph below shows a current breakdown of employee participation in the City's health plans. The first column shows total participants; the



**Health Plan Choice by Group**  
FY05-HMO vs. Indemnity / Active vs. Retired

Figure 9

second and third columns show HMO participation vs. Indemnity participation as well as the



**Share of Average Annual Health Insurance Cost**  
FY06 Projected

Figure 10

breakdown between retirees and active employees (Figure 9).

Figure 10 shows the total FY06 projected average cost per employee for health insurance with the employee and employer shares broken out. In FY06, based on current enrollment data, the total average cost to provide health insurance for an employee in a family plan is expected to be approximately \$14,435. For an employee participating in an individual plan, the total average cost is expected to be \$5,695 in FY06. The City contribution toward these totals is 90% for HMO's, in general, and 75% for the indemnity plan.

### Budgeting for Employee Benefits

The City provides not only health insurance but dental and life insurance as well. Provisions for these benefits are included in three different general fund appropriations. The table below shows the amounts appropriated for City departments, BPS and the Public Health Commission to cover these benefits for general fund employees as well as retirees. It should be noted that of the total amount appropriated for health benefits in FY06, approximately \$79 million is for coverage for retired employees.

Fiscal Year	Health, Dental & Life		
	City	School	PHC

FY05*	\$ 139.105	\$ 53.324	\$ 7.129
FY06*	\$ 151.576	\$ 60.405	\$ 8.203

Notes: (\$millions) \*Appropriations

## Appropriations by Cabinet

Cabinet	Department	FY03 Expenditure	FY04 Expenditure	FY05 Appropriation	FY06 Appropriation	Inc/(Dec) 06 vs 05
Mayor's Office	Office of Emergency Preparedness	0	0	0	191,984	191,984
	Intergovernmental Relations	865,966	978,083	933,650	956,966	23,316
	Law Department	4,910,398	4,344,093	4,597,156	4,625,000	27,844
	Mayor's Office	1,511,181	1,413,610	1,635,325	1,660,757	25,432
	Neighborhood Services	939,333	994,610	1,062,639	1,089,460	26,821
	Office of New Bostonians	77,978	77,978	85,978	83,965	-2,013
	Public Information	818,396	851,444	909,753	928,624	18,871
	<b>Total</b>	<b>9,123,252</b>	<b>8,659,818</b>	<b>9,224,501</b>	<b>9,536,756</b>	<b>312,255</b>
Chief Operating Officer	Chief Operating Officer	851,079	902,371	893,684	910,058	16,374
	Consumer Affairs & Licensing	391,574	360,123	421,029	425,245	4,216
	Graphic Arts Department	1,557,956	1,391,776	1,455,995	1,455,995	0
	Health Insurance	108,927,233	124,956,847	139,105,481	151,576,119	12,470,638
	Human Resources	2,815,166	2,553,459	2,659,643	2,770,083	110,440
	Labor Relations	896,998	918,845	1,279,259	1,279,259	0
	Library Department	27,726,075	24,085,844	25,739,443	26,694,233	954,790
	Management & Information Svcs	13,447,131	12,789,845	13,291,742	13,336,748	45,006
	Registry Division	753,375	713,176	789,739	829,034	39,295
	Unemployment Compensation	475	5,992	50,000	50,000	0
	Workers' Compensation Fund	1,848,608	3,688,947	2,200,000	2,200,000	0
	<b>Total</b>	<b>159,215,670</b>	<b>172,367,225</b>	<b>187,886,015</b>	<b>201,526,774</b>	<b>13,640,759</b>
Chief Financial Officer	Assessing Department	4,860,721	5,138,326	5,455,728	5,654,614	198,886
	Auditing Department	1,784,878	1,888,390	1,919,674	1,986,924	67,250
	Budget Management	2,467,746	2,341,656	2,169,688	2,213,531	43,843
	Execution of Courts	2,165,776	18,842,206	3,500,000	3,500,000	0
	Medicare Payments	3,902,067	4,100,000	4,450,000	4,671,000	221,000
	Pensions & Annuities	4,900,000	4,900,000	4,900,000	4,700,000	-200,000
	Purchasing Division	1,229,368	1,138,234	1,241,870	1,279,870	38,000
	Taxpayer Referral & Assistance	331,696	0	0	0	0
	Treasury Department	3,969,953	4,017,245	4,265,687	3,590,687	-675,000
		<b>Total</b>	<b>25,612,205</b>	<b>42,366,057</b>	<b>27,902,647</b>	<b>27,596,626</b>
Public Safety	Fire Department	142,652,586	137,753,681	139,568,562	147,084,123	7,515,561
	Police Department	217,405,619	211,363,261	224,901,858	234,527,232	9,625,374
	<b>Total</b>	<b>360,058,205</b>	<b>349,116,942</b>	<b>364,470,420</b>	<b>381,611,355</b>	<b>17,140,935</b>
Education	Boston Public Schools	650,600,546	656,538,811	680,206,625	712,413,221	32,206,596
	<b>Total</b>	<b>650,600,546</b>	<b>656,538,811</b>	<b>680,206,625</b>	<b>712,413,221</b>	<b>32,206,596</b>
Economic Development	Arts, Tourism & Special Events	0	0	1,583,604	1,583,604	0
	Boston Residents Job Policy	448,500	426,252	451,317	467,830	16,513
	Small/Local Business	579,946	540,371	565,011	579,098	14,087
	<b>Total</b>	<b>1,028,446</b>	<b>966,623</b>	<b>2,599,932</b>	<b>2,630,532</b>	<b>30,600</b>
Basic Services	Election Department	2,562,585	2,206,761	2,432,610	2,362,000	-70,610
	Parks & Recreation Department	13,629,210	12,474,395	13,840,499	13,969,438	128,939
	Property & Construction Mgmt.	19,061,861	21,243,083	20,427,027	21,924,122	1,497,095
	Special Events & Tourism	982,213	902,904	0	0	0
	<b>Total</b>	<b>36,235,869</b>	<b>36,827,143</b>	<b>36,700,136</b>	<b>38,255,560</b>	<b>1,555,424</b>
Streets, Transp & Sanitation	Central Fleet Maintenance	1,607,885	2,033,598	2,126,480	2,126,480	0
	Public Works Department	75,187,710	75,561,126	81,344,699	81,089,427	-255,272
	Snow Removal	9,803,961	10,044,054	7,700,539	10,595,544	2,895,005
	Transportation Department	27,993,350	27,482,758	26,529,654	27,203,893	674,239
	<b>Total</b>	<b>114,592,906</b>	<b>115,121,536</b>	<b>117,701,372</b>	<b>121,015,344</b>	<b>3,313,972</b>
Environment & Energy	Environment Department	990,458	961,761	1,099,335	1,164,358	65,023
	Inspectional Services Dept	13,590,043	13,032,269	13,834,951	14,281,432	446,481
	<b>Total</b>	<b>14,580,501</b>	<b>13,994,030</b>	<b>14,934,286</b>	<b>15,445,790</b>	<b>511,504</b>
Human Services	Boston Centers for Youth & Families	18,578,788	16,821,909	17,966,011	18,521,612	555,601
	Civil Rights	307,546	270,598	302,170	296,880	-5,290
	Cultural Affairs	720,188	687,696	0	0	0
	Elderly Commission	2,495,236	2,403,928	2,534,774	2,593,113	58,339
	Emergency Shelter Commission	572,183	499,903	533,568	535,448	1,880
	Veterans Services Department	3,257,326	3,168,192	3,390,877	3,390,877	0
	Women's Commission	152,484	139,939	146,846	150,143	3,297
	Youth Fund	6,616,769	3,661,347	3,804,343	3,806,648	2,305
	<b>Total</b>	<b>32,700,520</b>	<b>27,653,512</b>	<b>28,678,589</b>	<b>29,294,721</b>	<b>616,132</b>
Neighborhood Development	Neighborhood Development	2,681,827	2,157,035	2,381,834	2,927,308	545,474
	Leading the Way	13,000,000	3,000,000	0	7,500,000	7,500,000
	Rental Housing Resource Center	664,809	550,825	675,324	0	-675,324
	<b>Total</b>	<b>16,346,636</b>	<b>5,707,860</b>	<b>3,057,158</b>	<b>10,427,308</b>	<b>7,370,150</b>
Public Health	Public Health Commission	63,897,045	58,762,237	60,568,437	61,300,000	731,563
	<b>Total</b>	<b>63,897,045</b>	<b>58,762,237</b>	<b>60,568,437</b>	<b>61,300,000</b>	<b>731,563</b>
Non-Mayoral Departments	City Clerk	863,978	827,569	861,867	871,603	9,736
	City Council	3,768,974	3,681,422	4,019,124	4,139,874	120,750
	Finance Commission	166,213	159,335	168,878	179,098	10,220
	Licensing Board	590,406	532,989	627,416	597,078	-30,338
		<b>Total</b>	<b>5,389,571</b>	<b>5,201,315</b>	<b>5,677,285</b>	<b>5,787,653</b>
	<b>Grand Total</b>	<b>1,489,381,372</b>	<b>1,493,283,109</b>	<b>1,539,607,403</b>	<b>1,616,841,640</b>	<b>77,234,237</b>



**Pensions**

The City's pension expense will undergo a significant increase in FY06, after several years of modest increases. The City's annual pension funding requirement was \$134.4 million in FY03 and \$137.0 million in FY04; is \$146.6 million in FY05; and will be \$186.3 million in FY06. These numbers do not include pension costs allocated to the budgets of the Suffolk County Sheriff's Department or the Public Health Commission. Meanwhile, the percentage of the City's overall pension liability that has been funded has improved from 52.0% in January 1, 1995 to 62.4% in January 1, 2004. It should be noted, however, that the 62.4% of pension liability funded recorded for January 1, 2004 is a major step back from the 75.5% recorded for January 1, 2001.

The extraordinary increase in the pension appropriation for FY06 is reflective of the City's requirement to update its pension funding schedule every three years. The new schedule includes the impact of the early retirement incentive of October 2002 as well as an adjustment that reflects corrections to past asset performance assumptions. The SBRS, along with most pension systems nationwide, recorded negative or sub par calendar year returns subsequent to the stock market peak in the spring 2000.

The City's current pension funding schedule fully funds the system by the end of FY2023. State law calls for full valuations at least every three years. The most recent valuation was approved during FY05 and the pension system is therefore required to have a new valuation approved no later than FY08.

**Debt Service**

The City had expenditures for debt service of \$121.3 million in FY03 and \$123.9 million in FY04. The City has a budget of \$10.4 million for debt service in FY05 and expects to spend \$119.8 million on debt service in FY06. The City carries a favorable debt position and debt burden due to well-defined debt policies and a long-term capital strategy that benefits from non-property tax

support. As a result of the City's strong budgetary controls and prudently designed debt policies, in February, 2005, the City achieved a historically high bond rating by Moody's Investor's Service. For further detail see the *Capital Planning* and *Financial Management* chapters of this volume.

**State Assessments**

Accompanying the local aid distributions on the cherry sheet are several charges to the City from the Commonwealth. In FY05, an assessment for the value of Charter School Tuition, previously treated as a direct offset to Chapter 70 education state aid, was added. All but the state assessments for the Massachusetts Bay Transportation Authority (MBTA) and Charter School Tuition are relatively small. In accordance with Proposition 2 1/2, these charges, on a statewide basis, except for Charter School Tuition, cannot increase annually by more than 2.5%. The City's state assessment (inclusive of Charter School Tuition) increased from \$106.5 million in FY04 to \$116.9 million in FY05. The City expects growth in assessments to \$118.9 million in FY06.

**Suffolk County Sheriff**

In FY05, the City was responsible for funding 4% of the Sheriff's Department Budget with the Commonwealth funding the rest. The FY06 budget assumes the same maintenance of effort requirement with a 2.5% increase over FY05.

The appropriation for the Suffolk County Sheriff, which is mandated by the State, is included in the Fixed Costs section of the Budget Summary. Prior to FY04, funding for the Sheriff was shown in the Appropriations section as part of a County appropriation. Because funding for the Suffolk County Sheriff is a mandated cost it is more appropriate to categorize it as a fixed cost.

**Reserve**

The City is required by law to maintain a reserve on its balance sheet of 2.5% of the prior year appropriations, not including the School Department, which has its own separate reserve.

State Assessments	FY03	FY04	FY05	FY06
	Actual	Actual	Budget	Budget
M.B.T.A.	63,915,492	64,591,394	65,075,413	65,185,386
Charter School Tuition	32,107,195	36,661,520	46,673,866	49,048,165
RMV Non-Renewal Surcharge	3,380,440	3,519,140	3,519,140	3,108,660
Other Assessments	1,713,114	1,735,834	1,607,863	1,562,542
	\$ 101,116,241	\$ 106,507,888	\$116,876,282	\$ 118,904,753

The current balance of this reserve is \$21 million. The reserve can be used to provide for extraordinary and unforeseen expenditures and the Mayor may make drafts or transfers against this fund with City Council approval only in the month of June. Since the establishment of this reserve, the City has yet to make any drafts or transfers from the reserve. (see *Financial Management* section of Volume I for detail.)

<b>Tregor Reserve Fund</b>				
<b>Fiscal Year</b>	<b>Beginning Year Balance</b>	<b>Funds In</b>	<b>Funds Out</b>	<b>Ending Year Balance</b>
FY99	18.680	0.000	0.000	18.680
FY00	18.680	0.000	0.000	18.680
FY01	18.680	1.308	0.000	19.988
FY02	19.988	1.000	0.000	20.988
FY03	20.988	0.151	0.000	21.139
FY04	21.139	0.417	0.000	21.556
*FY05	21.556	0.000	0.000	21.556
*FY06	21.556	0.000	0.000	21.556

Notes: (\$millions), \*projected

**PERSONNEL CHANGES**

The following Personnel Summary table shows a four-year comparison of city funded full-time equivalent (FTE) positions. (This includes both permanent and emergency employees.) The projected numbers used for FY06 are estimates based on the level of funding for personnel contained in the FY06 budgets.

# Personnel Summary

		1/1/03	1/1/04	1/1/05	1/1/06	Projected
		FTE	FTE	FTE	Projected	Inc/(Dec)
<b>Office of the Mayor</b>	Intergovernmental Relations	7.8	8.8	6.8	8.8	2.0
	Law Department	46.0	46.0	44.0	46.0	2.0
	Mayor's Office	21.9	20.8	23.4	23.4	-
	Neighborhood Services	20.0	19.0	19.0	19.0	-
	Office of Emergency Preparedness	-	-	-	1.0	1.0
	Office of New Bostonians	1.0	1.0	1.0	1.0	-
	Public Information	14.6	16.5	15.1	16.5	1.4
	<b>Total</b>	<b>111.3</b>	<b>112.1</b>	<b>109.3</b>	<b>115.7</b>	<b>6.4</b>
<b>Chief Operating Officer</b>	Chief Operating Officer	8.0	8.0	7.0	8.0	1.0
	Consumer Affairs & Licensing	8.0	7.4	8.2	7.7	(0.5)
	Graphic Arts	34.0	31.0	29.0	29.0	-
	Human Resources	46.2	43.9	45.9	45.6	(0.3)
	Labor Relations	11.0	11.4	10.4	11.4	1.0
	Library Department	474.7	422.6	426.9	429.5	2.6
	Management Info Svcs	106.0	103.0	100.0	103.0	3.0
	Registry Division	17.0	18.0	18.0	18.0	-
	<b>Total</b>	<b>704.9</b>	<b>645.3</b>	<b>645.4</b>	<b>652.2</b>	<b>6.8</b>
<b>Chief Financial Officer</b>	Assessing Department	75.0	88.0	91.0	91.0	-
	Auditing Department	32.0	34.0	32.0	32.0	-
	Budget Management	25.7	22.7	22.7	22.7	-
	Purchasing Division	19.0	19.0	19.0	20.0	1.0
	Retirement Board	-	-	-	-	-
	Taxpayer Referral & Assistance	6.0	-	-	-	-
	Treasury Department	57.0	58.0	56.0	57.0	1.0
	<b>Total</b>	<b>214.7</b>	<b>221.7</b>	<b>220.7</b>	<b>222.7</b>	<b>2.0</b>
<b>Public Safety</b>	Fire Department	1,713.5	1,610.5	1,608.5	1,639.0	30.5
	Police Department	2,894.9	2,782.4	2,842.8	2,880.0	37.2
	<b>Total</b>	<b>4,608.4</b>	<b>4,392.9</b>	<b>4,451.3</b>	<b>4,519.0</b>	<b>67.7</b>
<b>Education</b>	School Department	8,439.7	7,792.5	8,008.8	8,040.9	32.1
	<b>Total</b>	<b>8,439.7</b>	<b>7,792.5</b>	<b>8,008.8</b>	<b>8,040.9</b>	<b>32.1</b>
<b>Economic Development</b>	Arts, Tourism & Special Events	-	-	16.0	16.0	-
	Small/Local Business	8.0	8.0	8.0	8.0	-
	Office of Boston RJP	9.0	8.0	8.0	8.0	-
	<b>Total</b>	<b>17.0</b>	<b>16.0</b>	<b>32.0</b>	<b>32.0</b>	<b>-</b>
<b>Basic City Services</b>	Election	30.3	19.1	20.4	20.4	-
	Parks and Recreation	205.6	192.6	195.6	196.6	1.0
	Property & Construction Mgmt.	320.4	302.6	294.1	294.1	-
	Special Events & Tourism	9.0	9.0	-	-	-
	<b>Total</b>	<b>565.3</b>	<b>523.3</b>	<b>510.1</b>	<b>511.1</b>	<b>1.0</b>
<b>Streets, Transp &amp; Sanitation</b>	Central Fleet Maintenance	42.0	40.0	41.0	41.0	-
	Public Works Department	383.6	368.6	382.6	389.6	7.0
	Transportation	385.9	384.9	359.9	370.9	11.0
	<b>Total</b>	<b>811.5</b>	<b>793.5</b>	<b>783.5</b>	<b>801.5</b>	<b>18.0</b>
<b>Environment &amp; Energy</b>	Environment	16.0	15.0	16.0	17.0	1.0
	Inspectional Services	239.0	227.0	228.0	228.0	-
	<b>Total</b>	<b>255.0</b>	<b>242.0</b>	<b>244.0</b>	<b>245.0</b>	<b>1.0</b>
<b>Human Services</b>	Boston Center for Youth & Families	375.1	335.4	338.7	355.0	16.3
	Civil Rights	8.0	8.0	9.0	9.0	-
	Cultural Affairs	5.0	9.0	-	-	-
	Elderly Commission	57.3	55.2	57.6	57.6	-
	Emergency Shelter	5.0	6.0	4.0	4.0	-
	Veterans Services	15.8	15.2	14.2	14.2	-
	Women's Commission	2.6	2.0	2.0	2.0	-
	Youth Fund	4.0	3.0	3.0	3.0	-
	<b>Total</b>	<b>472.8</b>	<b>433.8</b>	<b>428.5</b>	<b>444.8</b>	<b>16.3</b>
<b>Neighborhood Development</b>	Neighborhood Development	37.8	38.8	36.2	47.3	11.1
	Rental Housing Resource Center	14.1	11.1	11.1	-	(11.1)
	<b>Total</b>	<b>51.9</b>	<b>49.9</b>	<b>47.3</b>	<b>47.3</b>	<b>-</b>
<b>Public Health</b>	Public Health Commission	745.0	728.0	743.0	743.0	-
	<b>Total</b>	<b>745.0</b>	<b>728.0</b>	<b>743.0</b>	<b>743.0</b>	<b>-</b>
<b>Non-Mayoral</b>	City Clerk	13.4	12.4	12.4	13.4	1.0
	City Council	67.6	71.1	79.4	76.3	(3.1)
	Finance Commission	2.0	3.0	3.0	3.0	-
	Licensing Board	10.6	10.6	10.6	10.6	-
	<b>Total</b>	<b>93.6</b>	<b>97.1</b>	<b>105.4</b>	<b>103.3</b>	<b>(2.1)</b>
<b>Grand Total</b>		<b>17,091.1</b>	<b>16,048.1</b>	<b>16,329.3</b>	<b>16,478.5</b>	<b>149.2</b>

**FY04- FY05 FTE Changes** - The total net increase in FTEs from January 1, 2004 to January 1, 2005 was 281. For the most part, other than in education and public safety, departments remained at or near the staffing levels they were at in the previous year. Some of the actions taken by the Administration to address reductions in State Aid that occurred in the FY03 and FY04 budgets are still very much a part of the City's overall strategy to control expenditures. The Position Review Committee, which reviews all postings for vacant positions, is still in place. All hiring is scrutinized and approved only if it is critical and can be supported within the confines of a department's budget.

The largest change can be seen in the School Department where FTEs as of January 1, 2005 increased by approximately 216 FTEs – over 75% of the total increase. The second largest increase was in the Police Department where the increase from January 1, 2004 to January 1, 2005 was 60. The School Department and the Police Department were particularly impacted by the Voluntary Retirement Incentive Program offered at the end of FY03. Of the 490 total participants, 326 were BPS employees and Police had 92 participants.

Hiring in FY05 in the School Department addressed several areas of concern. Some of these new hires were positions identified to support low performing schools, cluster paraprofessionals required by the Boston Teachers Union contract, Library paraprofessionals at high schools to ensure accreditation and teacher positions to address class size issues. Hiring in the Police Department was necessary to bring the department back to a staffing level that would support the Commissioner's deployment plan.

The number of positions in the Economic Development Cabinet shows an increase mainly because of the newly created Office of Arts, Tourism and Special Events. These positions were formerly shown in Special Events and Cultural Affairs and were transferred from the Basic Services Cabinet and the Human Services Cabinet to the new department.

The change seen in the Transportation Department – a decrease of 25 - is partially due to a timing issue. A class of Parking Enforcement

Officers (PEOs) was not put on until after January 1, 2005. However it also reflects the movement of employees that took place as the Street Signal unit in Transportation was transferred to the Street Lights and Signals Program of the Public Works Department. The increase in Public Works reflects this transfer of employees from the Transportation Department.

**FY05-FY06 Projected FTE Changes** – The City expects the net increase in FTE levels to be approximately 149 from January 1, 2005 to January 1, 2006.

The increase projected in the Mayor's Office Cabinet is the result of expecting to fill two key vacancies in the Office of Intergovernmental Relations (the Director and the Liaison to the City Council), a position in the Office of Emergency Preparedness to coordinate multi-agency Emergency Management programs as well as filling vacancies in the Law Department and Public Information.

The small increase in the Chief Operating Officer's cabinet relates to filling vacant positions in the Library Department and the Management Information Services (MIS) Department.

The increase of two in the FTE count for the Finance Cabinet is the result of adding a position to the City's mailroom and filling one vacancy in the Treasury Department.

The number of Public Safety employees on the payroll as of January 1 of any year fluctuates with the timing of classes and the timing of retirements. After considering the current number of filled positions, expected retirements, and the hiring of new recruits, the net increase projected for Public Safety FTEs is 67.7. Both Police and Fire will be hiring new recruits in May of 2005 and in the fall of 2005. The Police Department is also scheduled for a recruit class in the spring of 2006. The Department expects to fill civilian vacancies for Criminalists as part of the department's plan to address longstanding issues in the fingerprint lab.

Education is projected to increase by about 32 FTEs from January 2005 to January 2006. Some of the initiatives that will require new hiring are increased support for underperforming schools

and closing the achievement gap. The majority of that number will be teaching positions.

The FTE counts in the Economic Development Cabinet will remain level.

The Basic Services Cabinet is projected to remain fairly level between January 1, 2005 and January 1, 2006 based on current staffing.

The Streets, Transportation & Sanitation Cabinet is projected to have a net increase of approximately 18 FTEs. The increase of 7 projected for the Public Works Department will occur as the department becomes more successful in hiring qualified employees in street lighting. The increase in the Transportation Department is the result of the timing of hiring a PEO replacement class. (The FY05 class was not put on until after January 1, 2005.)

The Environment and Energy Cabinet is projected to have an increase of 1 FTE as a new Cabinet Chief has been hired. Staffing in the Inspectional Services Department is expected to remain level.

The projected increase of 16.3 FTEs in the Human Services Cabinet is all expected to occur in Boston Centers for Youth & Families (BCYF). It is important to note that the department had been projected to be at a higher staffing level than actually occurred as of January 1, 2005. The department has since filled positions and will be adding more streetworkers in FY06.

Staffing at the Public Health Commission as of January 1, 2005 is expected to remain stable.

The FTE count in the Housing & Neighborhood Development cabinet is expected to remain level. However, the Department of Neighborhood Development (DND) will show an increase of 11 due to the consolidation of the Rental Housing Resource Center with DND.

The FTE count for the Non-Mayoral group of departments is projected to decrease slightly based on current staffing in the City Council and the hiring of an Assistant City Clerk.

## **EXTERNAL FUNDS**

Supplementing the services that are provided by the City's \$2.0 billion Operating Budget is approximately \$321.2 million in external funds. These funds consist mostly of federal, state and private funding earmarked for specific purposes.

Education, housing, economic development, public safety and public health are some of the largest areas for which these funds are targeted.

Twenty-two departments and agencies expect to utilize federal, state or other forms of external funding in FY06. Since there are hundreds of grants and many of them are small, the focus here is on the largest grants. Over 90% of the City's external funds are found in six of those twenty-two departments. These six departments are the School Department, Neighborhood Development, Office of Emergency Preparedness, Public Health Commission, Library Department, and Police Department. Other departments that also have significant grant funding are the Elderly Commission, Boston Centers for Youth & Families and the Parks Department. Descriptions and amounts for grants by department can be found in Volumes II and III.

## **Federal and State Grants**

Some of the larger federal grants received by the City have been a vital source of funding. For example, in FY06, the School Department is expected to receive \$45.2 million from Title I, a grant that the City has been receiving for a number of years. This funding has supplemented education programs in schools with significant populations of low-income students. The City has also received for many years Community Development Block Grant (CDBG) funding for a variety of neighborhood development activities. Other sources of federal funding received by the City address diverse needs and/or creative approaches such as homeland security, community policing, housing support for the homeless, and investment in the City's Empowerment Zone.

The state's largest contribution for local services is in the area of K-12 education. However, most of this funding is Chapter 70 educational reform aid in which the major requirement for receipt of the funds relates to a minimum general fund school budget. This funding is not included in the table below as it is direct general fund revenue. Further discussion on education aid can be found in the Revenue chapter. State grant funding is also significant in the area of library services.

A description of the largest federal and state supported programs in the six departments

managing the bulk of the City's external fund resources is given below.

**Neighborhood Development**

The Community Development Block Grant (CDBG) is a sizeable annual entitlement grant from the U.S. Department of Housing and Urban Development (HUD) to the City of Boston designed to fund a variety of neighborhood development activities. The City (the Department of Neighborhood Development and the Fair Housing Commission) expended approximately \$28.5 million in CDBG funding in FY04, and estimates spending \$27.6 million in FY05 and \$30.3 million in FY06. The FY06 amount becomes available in July 2005. At least 70% of CDBG funds must be used to benefit low and moderate-income households. CDBG funds are used to produce and preserve affordable housing, revitalize neighborhood commercial districts, assist the renovation of non-profit facilities, improve vacant lots, promote and monitor fair housing activities, and assist non-profit organizations in the operation of emergency shelters, health care, youth and adult literacy programs. CDBG funds cannot be used for general government services and cannot replace funding cuts from existing public service activities. CDBG funding is also being utilized as a security for Section 108 loans.

Section 108 Loan Project/Economic Development Initiative - Section 108 funds are available to eligible cities from HUD on an application basis. The City, through a pledge of its current and future CDBG grant awards, secures Section 108 funds. These funds can only be used for economic development projects. The Economic Development Initiative Program is a special HUD program that makes available grants to cities to spur economic opportunity. This initiative also promotes community development through a long-term strategy: a) establishing community-based partnerships; b) training residents for new job opportunities; c) developing a plan for responding to community needs by integrating economic, physical, human, and other strategies. The City received two multi year grants of \$22 million each for these two programs for use within the Empowerment Zone. (Another \$3 million was reserved for social service activities in the Empowerment Zone.) The funds are used to assist

new or existing smaller scale neighborhood commercial enterprises and larger scale commercial and/or industrial development projects. These funds must be used to lower the cost or lower the risk to the City on Section 108 loans made to eligible economic development projects. Spend down of these funds has been spread over the past several years.

The City received authority to use \$40 million in new Section 108 Loan Guarantee funds in FY04 for the purpose of establishing a Hotel Development Loan Fund. Of these funds, approximately \$20 million will be expended in FY04 with the remainder being expended in FY05.

Emergency Shelter Grant/HOPWA/Shelter Plus Care/Supportive Housing - HUD administers these four federally funded grants. FY05 expenditures are projected to be \$19.3 million while another \$23.0 million is expected to be utilized in FY06. The Emergency Shelter and HOPWA (Housing Opportunities for Persons With AIDS) grants are entitlement grants that become available in July of each year. The Emergency Shelter grant supports the development and operations of emergency shelters for the homeless. The HOPWA program provides housing, rental assistance and support services for persons with AIDS. The Shelter Plus Care grant program provides rental assistance for homeless people with disabilities, primarily those with serious mental illness or chronic problems with alcohol and/or drugs. Other federal, state or local sources provide the support services that must match the value of the rental assistance. The Supportive Housing Program provides service, operating and/or capital funds for a broad range of housing and social service projects. The program requires that applicants match the amount of supportive housing acquisition and development funds requested with an equal amount of funding from other sources. Shelter Plus Care and Supportive Housing are both competitive grants; the FY06 awards will become available in the fall.

HOME Investment Partnership - The HOME Partnership Program is an entitlement grant from HUD to support the development of affordable housing. FY06 funds will become available in July 2005. The City expended \$7.6 million in this program in FY04 and estimates spending \$8.4

million in FY05. Projected spending for FY06 is \$9.7 million. Eligible activities include new construction or rehabilitation of housing, tenant-based rental assistance for up to two years, and assistance to first-time homebuyers. All HOME funds must be used to benefit low and moderate-income households. Fifteen percent of HOME funds are set aside for projects sponsored by Community Housing Development Organizations and five percent is set aside for operating costs for Community Housing Development Organizations.

The American Dream Downpayment Initiative (ADDI) is a federal grant which was signed into law on December 16, 2003. This is an annual grant awarded to the City of Boston from the U.S. Department of Housing and Urban Development (HUD). It is administered as part of the HOME Investment Partnership Program (HOME). The purpose of this grant is to assist low-income families in becoming first-time homebuyers. ADDI funds may only be used for downpayment assistance toward the purchase of single family housing by low-income families, who are first time homebuyers. Rehabilitation that is completed in conjunction with a home purchase assisted by ADDI is also an eligible activity under the ADDI statute. ADDI funding of \$721,800 is expected to be expended in FY06.

#### **School Department**

The School Department's FY06 General Fund Budget of \$712.4 million is supplemented with approximately \$140.0 million in external funds. There are four main categories of funding: formula grants, competitive grants, reimbursements and other (private resources for the most part). Title I and the School Lunch Reimbursement program are the two largest external funding items and make up the bulk of federal support.

Community Partnerships for Children - The Community Partnerships Program funding is the largest competitive grant received by the School Department. This is a State program intended to create an early education system in the City of Boston with Head Start Centers, Private Day Care Centers, and Family Based Day Care. The amount budgeted by the School Department for this program is \$9.8 million in FY05. In FY06, funding is also estimated at \$9.8 million.

Title II Teacher Quality- The School Department expects to receive \$7.0 million in FY06 from this

federal grant program to improve the quality of staff in the classrooms.

Title I - This federal program supplements education in schools with significant populations of low-income students. This key source of funding for the Boston Public Schools makes up a large portion of the federal formula grant funding received. The School Department estimates spending levels for this program in FY05 and FY06 of \$43.4 million and \$45.2 million, respectively.

School Lunch - The School Lunch program, administered by the Department of Agriculture, reimburses local school districts on a per meal basis for the costs of breakfast and lunch for low-income students. The School Department has budgeted this federally funded reimbursement program at \$21 million for both FY05 and FY06.

SPED 94-142 Entitlement - This is a federal formula grant in support of special education programs. The amounts budgeted by the School Department in this program area for FY05 and FY06 are \$18.6 million and \$19.5 million, respectively.

#### **Public Health Commission**

Boston Healthy Start - The purpose of this project is to develop a comprehensive needs assessment and carry out a service plan to address those factors most affecting infant mortality in the City of Boston. Three project areas consist of those census tracts found to have both the highest numbers of infant deaths and the highest infant mortality rates in the City. Overall, the City has experienced significant improvement in this health area. The Public Health Commission projects to receive \$1.74 million for this program in FY06.

Ryan White Care Act - This funding is intended to help communities increase the availability of primary health care and support services, increase access for under-served populations and improve the quality of life of those affected by the HIV/AIDS epidemic. Contracts support approximately 71 community agencies and 146 programs in the 10 county region of Massachusetts and southern New Hampshire. The estimated level of spending for this federally funded program is \$14.3 million for FY05.

Boston STEPS – The STEPS project is a multi-year federally and locally funded initiative to reduce

the growing obesity epidemic – currently exemplified in Boston by the fact that more than 50% of our adult population is overweight. With more than \$2 million in annual funding, its work is focused in the neighborhoods with the most elevated disease levels for illness tied to obesity. Among its many activities are: the funding of almost 60 neighborhood groups to conduct walking-related exercise efforts and the screening of school children and teenagers for weight and height in order to identify those families who might benefit from additional information and support. The grant also supports programs that are directed to specific health problems such as asthma and diabetes – with a focus on both prevention and disease management. A final component of the STEPS work is reducing tobacco use – the primary behavioral cause of death and disability among Bostonians.

**Shelter: Long Island– Federal funding.** This project provides homeless services in the form of shelter, food, clothing, health care, and social services for up to 500 homeless adult men and women. The Shelter also provides a room for families in crisis. Guests arrive at the shelter via shuttle bus from the Boston Medical Center campus. Overall, projected external funding for homeless services in the Public Health Commission Budget for FY06 totals \$8.0 million.

**Public Health Preparedness -The Commission is involved in a number of activities to insure that the residents of the City are protected and well prepared in the event of a major emergency.** Among these activities are those that stem from an \$840,000 federal/state for a Cities Readiness Initiative (CRI). This national effort requires Boston to plan for the provision of medicine to every city resident within a 48 hour period, if needed. Other state and federally funded efforts include training EMT's, hospital clinicians and health center workers in various medical emergency protocols and procedures; developing a corps of volunteers who can be mobilized as needed and writing, translating and printing educational materials and tool kits for all populations within the City. Total external funds spending on public health preparedness is expected to be \$1.9 million in FY06.

### **Office of Emergency Preparedness**

One of the objectives of the Mayor's Office of Emergency Preparedness is to allocate and manage state and federal homeland security funds obtained by the City. The majority of the Office itself is funded with an Urban Area Security Initiative (UASI) grant. This federal grant serves to address the unique equipment, planning, training and operational needs for first responders in the Boston Urban Area. Spending from UASI is expected to be \$24.7 million in FY05 and \$18.5 million in FY06. In FY05 the office was also responsible for coordinating spending of up to \$50 million from a federal grant approved to cover security costs for the 2004 Democratic National Convention. The City spent approximately \$1.9 million in FY04 and expects to spend \$31.8 million in FY05 from this funding source.

### **Police Department**

The Police Department's grant funding on both the federal and state level has focused mostly upon adding police officers and community policing.

**Same Cop, Same Neighborhood -** This neighborhood policing program is based on the belief that police officers and private citizens working together can help address community problems related to crime. The program is supported with a grant awarded by the Massachusetts Executive Office of Public Safety. The total cost of the program supported by this grant was \$3.8 million in FY04; estimated expenditures for FY05 are \$4.0 million. For FY06 the Department expects to have \$4.6 million available for this program.

**BJA Block Grants -** This federal program is awarded by the Bureau of Justice for the purpose of reducing crime and improving public safety through the purchase of police equipment, the use of police overtime, and to support community partnerships for community policing. Spending for this program was \$2.4 million in FY04, and is estimated to be \$1.5 million in FY05. The Bureau of Justice is no longer funding the Local Law Enforcement Block Grants; the remaining balance, estimated to be \$231,000, will be depleted in FY06.



## External Funds

	FY04 Expenditure	FY05 Estimated	FY06 Estimated
Boston Public Schools	124,054,006	142,474,017	139,959,146
Neighborhood Development	82,487,713	71,699,676	78,662,975
Office of Emergency Preparedness	5,377,432	65,645,985	18,944,245
Public Health Commission	46,041,154	39,168,047	42,630,328
Library Department	10,647,922	10,790,729	11,432,182
Police Department	14,362,981	12,959,970	8,736,539
Other	23,231,402	20,356,978	20,792,830
	306,202,610	363,095,402	321,158,245

Judicial Oversight Demonstration Initiative - These funds, made available through the Violence Against Women Act and awarded by the U.S. Department of Justice, are being used to increase offender accountability and improve victim safety through the development and implementation of the Dorchester Domestic Violence Court. Spending from this grant is expected to be approximately \$1.2 million in FY05. In FY06, the Department is expected to spend the remaining funds available for this program estimated at \$420,000.

Interoperable Communications Technology Grant – In FY04 the City received a grant of over \$3 million to aid in the development of a region-wide interoperable communications system for critical incident command and management. This initiative involves police, fire, emergency medical services and mutual aid partner organizations. \$1.7M was spent in FY04. It is estimated that \$1.2 million will be spent in FY05 with the balance of \$240,000 to be spent in FY06.

Total projected spending for all grants in FY06 is estimated at \$8.2 million; not all grants listed have been awarded. The nature of the police grant programs has tended to be short-term funding that runs its course and serves its purpose and is then supplanted by new programs.

### **Library Department**

Total spending from state funding for the Library was reduced slightly from \$7.9 million in FY04 to an estimated \$7.8 million for FY05. In FY06 the Library again expects that approximately \$8 million will be available from the state. There are three programs that relate to libraries; they are described below.

Library of Last Recourse - The Library of Last Recourse provides reference and research services

for individual residents of the Commonwealth at the Boston Public Library through developing, maintaining, and preserving comprehensive collections of a research and archival nature to supplement library resources available throughout Massachusetts. The Library maintains the personal resources, expertise, and bibliographic skills needed to develop and provide access to reference and research collections. Funding for this program is expected to be fairly level between FY05 and FY06 at approximately \$6.5 million.

Boston Regional Library - The Boston Regional Library System Program (BRLS is a cooperative organization of 105 public, academic, school and special (government, medical, non-profit, and corporate) libraries in the cities of Boston, Malden and Chelsea. Headquartered at the Boston Public Library, BRLS supports enhanced reference and information services, interlibrary loan and journal document delivery, continuing education and staff development, consulting on library operations and a variety of cooperative programs. The BRLS operates under a cost reimbursement agreement granted by the Commonwealth of Massachusetts Board of Library Commissioners. Funding for this program is expected to be level between FY05 and FY06 at approximately \$781,600.

State Aid to Libraries - This funding is provided by the Commonwealth of Massachusetts Board of Library Commissioners to the Trustees of the Public Library of the City of Boston annually. The Library is required to meet certain minimum standards of free public library service established by the Board to be eligible to receive the grant. Approximately \$460,000 is budgeted for FY05 and approximately \$627,000 is expected in FY06.

## **FY06 ALL FUNDS BUDGET**

The following table consolidates the projected FY06 expenditures from the General Fund, Special Revenue Funds (external grants for the most part) and the Capital Fund by department. More detail on the expenditures made from each of these funds is shown in Volumes II and III of the City of Boston's FY06 budget document.

### **Budget Document Structure**

The Operating Budget for FY06 and Five Year Capital Plan for FY06-10 is presented in three volumes.

Volume I is an overview of the City's financial position and policy direction.

Volumes II and III, which are organized by cabinet, present the budget detail for each department's operating budget and capital projects. Please refer to the chapter on Budget Organization and Glossary for an illustration of the City's organizational chart.

The City's Budget is built at the program level for each department, which is the basis for budget planning. However, line item budget detail is only provided in this budget document at the department level. Program line item detail is available upon request.

In addition to program budgets, Volumes II and III provide a mission statement, key objectives, as well as past and promised performance levels for each departmental program. For those departments with capital projects, a project profile is provided for every capital project, which includes authorization information as well as planned spending levels.

Definitions of the terms used throughout the budget document are presented in the glossary, which can be found in the chapter titled Budget Organization and Glossary.

### **Technical Note**

The City of Boston's combined FY06 Budget and FY06-FY10 Capital Plan was published using Microsoft Word 2000. Graphics were generated using Microsoft Excel 2000. Hyperion Pillar 5.5, and Microsoft Access 97 were used for data management and analysis.

All production was done within the Office of Budget Management. Document production assistance was provided by the City of Boston Graphic Arts Department and the Boston Redevelopment Authority. Technical development and support was provided by Paul D. Parisi.

## All Funds Budgets - FY06

Cabinet	Department	Operating Budget	External Funds Budget	Capital Budget	Total All Funds Budget
Mayor's Office	Office of Emergency Preparedness	191,984	18,944,245	0	19,136,229
	Intergovernmental Relations	956,966	0	0	956,966
	Law Department	4,625,000	0	0	4,625,000
	Mayor's Office	1,660,757	101,070	0	1,761,827
	Neighborhood Services	1,089,460	0	0	1,089,460
	Office of New Bostonians	83,965	238,500	0	322,465
	Public Information	928,624	0	0	928,624
	<b>Total</b>	<b>9,536,756</b>	<b>19,283,815</b>	<b>0</b>	<b>28,820,571</b>
Chief Operating Officer	Chief Operating Officer	910,058	0	0	910,058
	Consumer Affairs & Licensing	425,245	54,000	0	479,245
	Graphic Arts Department	1,455,995	0	50,000	1,505,995
	Health Insurance	151,576,119	0	0	151,576,119
	Human Resources	2,770,083	0	0	2,770,083
	Labor Relations	1,279,259	0	0	1,279,259
	Library Department	26,694,233	11,432,182	4,434,880	42,561,295
	Management & Information Svcs	13,336,748	0	1,289,000	14,625,748
	Registry Division	829,034	0	0	829,034
	Unemployment Compensation	50,000	0	0	50,000
	Workers' Compensation Fund	2,200,000	0	0	2,200,000
	<b>Total</b>	<b>201,526,774</b>	<b>11,486,182</b>	<b>5,773,880</b>	<b>218,786,836</b>
Chief Financial Officer	Assessing Department	5,654,614	0	0	5,654,614
	Auditing Department	1,986,924	0	0	1,986,924
	Budget Management	2,213,531	0	0	2,213,531
	Execution of Courts	3,500,000	0	0	3,500,000
	Medicare Payments	4,671,000	0	0	4,671,000
	Pensions & Annuities	4,700,000	0	0	4,700,000
	Purchasing Division	1,279,870	0	0	1,279,870
	Treasury Department	3,590,687	0	0	3,590,687
	<b>Total</b>	<b>27,596,626</b>	<b>0</b>	<b>0</b>	<b>27,596,626</b>
Public Safety	Fire Department	147,084,123	32,000	7,475,322	154,591,445
	Police Department	234,527,232	8,736,542	2,910,000	246,173,774
	<b>Total</b>	<b>381,611,355</b>	<b>8,768,542</b>	<b>10,385,322</b>	<b>400,765,219</b>
Education	Boston Public Schools	712,413,221	139,959,146	33,981,965	886,354,332
	<b>Total</b>	<b>712,413,221</b>	<b>139,959,146</b>	<b>33,981,965</b>	<b>886,354,332</b>
Economic Development	Arts, Tourism & Special Events	1,583,604	110,330	0	1,693,934
	Boston Redevelopment Authority	0	0	397,264	397,264
	Boston Residents Job Policy	467,830	0	0	467,830
	Small/Local Business	579,098	0	0	579,098
	<b>Total</b>	<b>2,630,532</b>	<b>110,330</b>	<b>397,264</b>	<b>3,138,126</b>
Basic Services	Election Department	2,362,000	0	0	2,362,000
	Parks & Recreation Department	13,969,438	5,430,000	11,389,109	30,788,547
	Property & Construction Mgmt.	21,924,122	152,928	8,644,008	30,721,058
	<b>Total</b>	<b>38,255,560</b>	<b>5,582,928</b>	<b>20,033,117</b>	<b>63,871,605</b>
Streets, Transp & Sanitation	Central Fleet Maintenance	2,126,480	0	0	2,126,480
	Public Works Department	81,089,427	0	33,930,731	115,020,158
	Snow Removal	10,595,544	0	0	10,595,544
	Transportation Department	27,203,893	1,218,143	1,265,000	29,687,036
	<b>Total</b>	<b>121,015,344</b>	<b>1,218,143</b>	<b>35,195,731</b>	<b>157,429,218</b>
Environment & Energy	Environment Department	1,164,358	108,437	675,000	1,947,795
	Inspectional Services Dept	14,281,432	3,500	0	14,284,932
	<b>Total</b>	<b>15,445,790</b>	<b>111,937</b>	<b>675,000</b>	<b>16,232,727</b>
Human Services	Boston Centers for Youth & Families	18,521,612	4,776,312	3,962,600	27,260,524
	Civil Rights	296,880	746,464	0	1,043,344
	Elderly Commission	2,593,113	6,561,385	0	9,154,498
	Emergency Shelter Commission	535,448	10,875	0	546,323
	Veterans Services Department	3,390,877	0	0	3,390,877
	Women's Commission	150,143	0	0	150,143
	Youth Fund	3,806,648	1,200,000	0	5,006,648
	<b>Total</b>	<b>29,294,721</b>	<b>13,295,036</b>	<b>3,962,600</b>	<b>46,552,357</b>
Neighborhood Development	Neighborhood Development	2,927,308	78,662,975	3,002,000	84,592,283
	Leading the Way	7,500,000	0	0	7,500,000
	<b>Total</b>	<b>10,427,308</b>	<b>78,662,975</b>	<b>3,002,000</b>	<b>92,092,283</b>
Public Health	Public Health Commission	61,300,000	42,630,328	2,824,995	106,755,323
	<b>Total</b>	<b>61,300,000</b>	<b>42,630,328</b>	<b>2,824,995</b>	<b>106,755,323</b>
Non-Mayoral Departments	City Clerk	871,603	48,883	0	920,486
	City Council	4,139,874	0	0	4,139,874
	Finance Commission	179,098	0	0	179,098
	Licensing Board	597,078	0	0	597,078
	<b>Total</b>	<b>5,787,653</b>	<b>48,883</b>	<b>0</b>	<b>5,836,536</b>
	<b>Grand Total</b>	<b>1,616,841,640</b>	<b>321,158,245</b>	<b>116,231,874</b>	<b>2,054,231,759</b>

**FY06 - FY07 BUDGET PLAN**

**Introduction**

While statutorily the City must maintain an annual budget process subject to the appropriating authority of the City Council, a second year projection provides a useful context for decision making.

In projecting the City’s operating budget for FY07, the issue of state aid stands out as the most critical. While the state has recently begun its delayed economic recovery and tax revenues are beginning to grow, there is mounting pressure for restoration of state programs of all types – including aid to municipalities. In addition, calls for further income tax cuts are re-emerging even while the state still likely has a structural deficit. These competing factors make an accurate estimation of state aid growth in FY07 difficult.

The budget for FY06 has been based on the most current revenue picture available. The FY07 plan reflects the best estimate of revenues as well as the major components of projected expenditures given current policy and cost trends.

**Revenue Trends**

The following pie chart displays the breakdown of revenue projected for FY07. (Figure 11.)

Major revenue trends for FY07 include:

**Property Tax Levy:** The 2.5% increase and a projected \$22.0 million of new growth will result in \$52.0 million or 4.3% in additional gross tax levy. The net property tax assumes an overlay reserve set at 3.5%.

**Excises:** Hotel and jet fuel excises are expected to increase, reflecting steady business and leisure travel associated with a recovered local economy. Motor vehicle excise is expected to grow modestly with motor vehicle sales.

**Fines:** Fines overall are expected to plateau as recent fine increases, implemented in FY04, fully filter through collections.

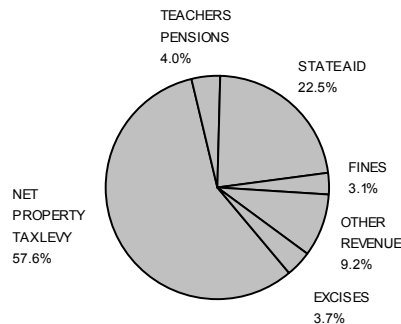
**Interest on Investments:** Interest income is expected to increase as short-term interest rates continue to rise with an accelerating economy yielding better returns for the City’s short-term investments.

**Payments in Lieu of Taxes:** With no major new agreements expected, PILOT revenue should increase 2.4%. This increase essentially captures the inflation in the current agreements.

**Chapter 121A:** Increases in payments are expected to total \$1.3 million or 2.4%.

**Miscellaneous Department Revenue:** Projected from historical trends and economic assumptions, these revenues are expected to increase 8.1%.

**Licenses and Permits:** Building permits will likely gain steadily and, as such, the City expects a 4.8 % increase in Licenses and Permits in FY07.



**FY07 Estimated Recurring Revenue**

Figure 11

**Penalties & Interest:** Projected to remain flat in FY07 as late tax payments, and therefore penalties and interest paid, decline as the economy improves and the strain on household budgets is reduced.

**Available Funds:** No substantial increase from FY06 is expected in FY07.

**State Aid:** Projected to remain essentially flat when compared with the FY06 Budget even though the removal of the cap on Lottery aid began in FY06. State Aid growth will be anemic until a sustained local economic recovery enables a return to growth in local aid distributions.

**Teachers’ Pension Reimbursement:** An increase of \$8.5 million is expected in FY07 from this reasonably predictable reimbursement arrangement with the state.

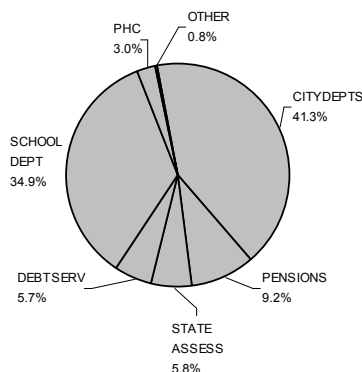
Non-Recurring Revenues: For FY07, \$1.0 million will be applied to the risk retention reserve through a transfer from the surplus property fund.

Budgetary Fund Balance: For FY07, the use of Budgetary Fund Balance has not been factored into the financial projection. The City's planning process for FY07 will need to assess the need for further allocation of remaining City reserves.

Total recurring revenues in FY07 are projected to increase by \$81.4 million, or 4.0% over FY06 Budget projections. This increase is based on conservative revenue estimates and an assumption that the local economy will continue its return to a reasonable level of growth in the 24 months from the beginning of FY06 to the end of FY07.

### Expenditure Trends

The following pie chart displays the allocation of expenditures projected for FY07. (Figure 12.)



**FY07 Estimated Expenditures**

Figure 12

Based on inflationary increases estimated for certain expenditures within departments such as utilities, health insurance and trash collection and disposal, as well as current collective bargaining provisions that impact FY07, the total increase in appropriations is expected to be, \$61.4 million, or 3.8% in FY07.

Collective Bargaining Reserve: Many of the city's collective bargaining agreements will expire at the end of, or during FY06. A collective bargaining reserve for FY07 has not been included here.

Fixed Costs: Given that the pension-funding schedule for the current city payroll, the debt service policies followed in the City's capital plan, and mandated state assessments are known, fixed costs can be predicted fairly accurately. In FY07

fixed costs will increase by \$14.5 million or 3.4%, led by an \$8.4 million or 4.5% increase in pension costs and a \$5.2 million or 4.4% increase in State Assessments. Debt Service will increase slightly by \$.7M or .6%.

The City's pension expenditures increased dramatically in FY06 due to a combination of asset losses and increases in the number of retiring employees from both an early retirement incentive and a bonus-driven incentive for retirement-age employees. The increase for FY07 is much less dramatic. The FY06 budget and the FY07 expenditure projections are based on the most recent actuarial assessment. A new assessment is required at least every three years.

Under these assumptions, the City's Operating Budget would have a projected deficit of approximately \$22.8 million. As the FY07 budget process goes forward and projections are further refined, the City will be looking at ways to operate more efficiently within the confines of projected revenues. During the current year, hiring must continue to be controlled as the bulk of the increase in appropriations is employee related. New collective bargaining agreements will have to be negotiated within revenue restraints. A decision will also need to be made on the level of budgetary fund balance that may be utilized prudently while adhering to the City's fund balance policy of using this source of revenue to offset certain fixed costs such as pension contributions and related post retirement health benefits and/or to fund extraordinary and non recurring events as determined and certified by the City Auditor.

### Planning a Balanced Budget

Preparing a two-year planning horizon is useful because it provides time to make adjustments to relieve the cost pressures on certain services. It also promotes cost-saving or new programming alternatives to improve the financial position projected in the second year, and helps us to monitor changes in assumptions as new needs or innovations present themselves.

Much of the City's budget remains fairly stable during the year, but variances as little as 1% could add up to a \$20 million problem in the bottom line. Common areas of variance are snow removal, with year-to-year swings of millions of dollars; legal settlements, which the City attempts to reserve for but may need to absorb on a pay as-you go basis;

public safety overtime, particularly if a significant event occurs (acts of terrorism or natural disasters, for example), or an outside source of funding is suddenly eliminated for an essential need.

The City's fiscal controls are effective in reducing the chance for an unmanageable deficit. Managing position vacancies through the Office of Budget Management and the COO's Office ensures that justifications to add personnel fit within the City's fiscal parameters. The City's financial and human resources information system (BAIS) allows levels of systematic controls that can be used to project and plan for personnel funding requirements.

### **Conclusion**

This two-year overview is provided as a guide to understand the impacts of the decisions presented in the budget, and to provide a framework for future initiatives and financing proposals. Although it is not statutorily required, it is a useful tool in long-range planning and policy analysis.

From a budget planning and management standpoint, the parameters summarized here are being built upon through an interactive forecast model with key departments. This approach allows for the development of multi-year scenarios for individual departments' operations, set within the financial constraints affecting the City's overall budget.

**CITY OF BOSTON**  
**BUDGET SUMMARY**

(Dollars in Millions)

	<b>FY06</b>	<b>FY07</b>
<b>REVENUES</b>	<b>Budget</b>	<b>Projected</b>
Property Tax Levy	1,199.46	1,251.45
Overlay Reserve	(40.56)	(42.32)
Excises	74.55	76.95
Fines	65.59	65.60
Interest on Investments	16.00	25.00
Payments In Lieu of Taxes	23.31	23.89
Urban Redevelopment Chapter 121	53.50	54.80
Misc. Department Revenue	36.19	39.12
Licenses and Permits	27.78	29.13
Penalties & Interest	8.29	8.29
Available Funds	12.11	12.19
State Aid	466.68	471.76
Teachers Pension Reimbursement	76.52	85.00
<b>Total Recurring Revenue</b>	<b>2,019.43</b>	<b>2,100.84</b>
Non-Recurring Revenue	9.23	1.00
Budgetary Fund Balance	20.00	0.00
<b>Total Revenues</b>	<b>2,048.65</b>	<b>2,101.84</b>
<b>EXPENDITURES</b>		
City Departments	845.70	876.74
Public Health Commission	61.30	63.14
School Department	712.41	740.93
Reserve for Collective Bargaining	0.00	0.00
<b>Total Appropriations</b>	<b>1,619.41</b>	<b>1,680.81</b>
Pensions	186.28	194.64
Debt Service	119.75	120.41
State Assessments	118.90	124.12
Suffolk County Sheriff	4.31	4.61
Reserve	0.00	0.00
<b>Total Fixed Costs</b>	<b>429.24</b>	<b>443.78</b>
<b>Total Expenditures</b>	<b>2,048.65</b>	<b>2,124.59</b>
<b>Surplus (Deficit)</b>	<b>0.00</b>	<b>(22.75)</b>

Numbers may not add due to rounding