

# Revenue Estimates and Analysis

## OVERVIEW

The FY13 Adopted Budget is supported with \$2.47 billion in recurring revenue, an increase of \$101.8 million, or 4.3%, from the FY12 Budget. The FY13 Adopted Budget does not include any non-recurring revenue.

This level of revenue growth continues recent improvement over the modest recurring revenue growth of the FY09 to FY11 period (Figure 1), and is due to growth in local receipts as well as state aid. Property tax and excise taxes, along with other local receipts, are increasing as the economy continues to recover from a deep and long recession. State aid reflects a restoration of general government aid to its FY10 level as well as a small increase in education aid

The recent recession has taken a toll on state aid to municipalities in the Commonwealth. The City has lost approximately \$138.1 million or 38% of its net state aid (state aid revenue less assessments) between FY08 and the FY13 Adopted Budget. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources.

Net property tax and state aid together make up over 80% of recurring City revenues. As Figure 2 illustrates, the

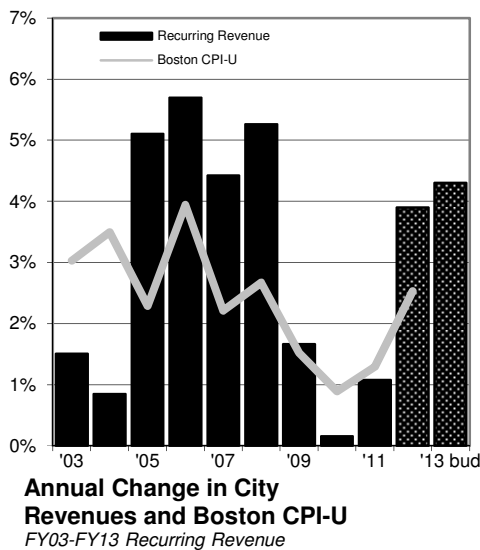
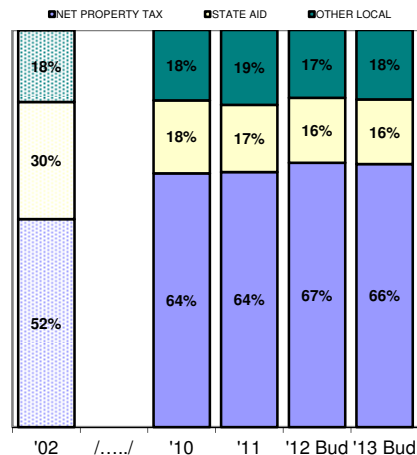


Figure 1



Categories of Recurring Revenue

FY02 & FY10-FY13

Percentages may not add due to rounding

Figure 2

share of net property tax has been increasing dramatically since FY02 as the share of state aid has been steadily decreasing. In fact, the property tax now accounts for a larger share of recurring revenues than it did prior to the imposition of property tax limitations under "Proposition 2 1/2" in the early 1980's.

This chapter begins with a review of national, state, and local economic trends that have and will continue to impact the Boston area economy in FY13 and beyond. It is followed by a discussion of recent state budget trends and development of the FY13 state budget. Following these sections is a discussion of the City's FY13 revenue estimates by major category including: the property tax levy, the City's largest single revenue source, state aid, the City's second largest single revenue source, as well as a discussion of local receipts.

(Note: To ease comparison with other years, all figures, text, and calculations referring to or including FY11 departmental revenues will be stated without the \$82 million pension payment made in that year. In addition, all years prior to FY10 will be stated net of Teacher's Pension Reimbursement. See the *Financial Management* section for details of these issues).

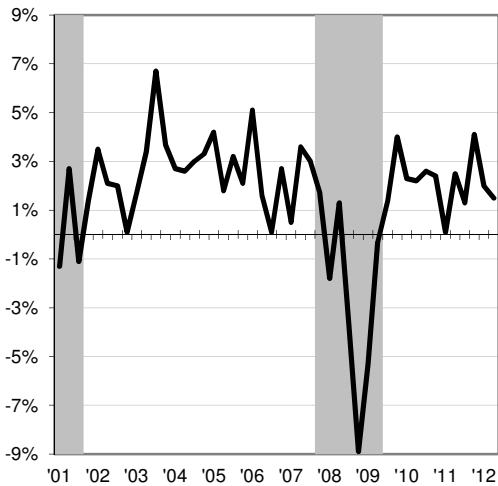
**THE NATIONAL ECONOMY**

A City can control only so much of its economic condition in the near term. As such the national economy is of great importance to the City’s well-being. The nation’s economy is slowly recovering from a deep recession that, according to the National Bureau of Economic Research (NBER), began in the U.S. in December 2007 and officially ended three years ago in June 2009.

This recession marked the longest in the U.S. since World War II. A meltdown in the U.S. financial services sector, driven by the implosion of sub-prime mortgage-backed debt instruments, rippled through nearly all industries nationally and credit markets the world over.

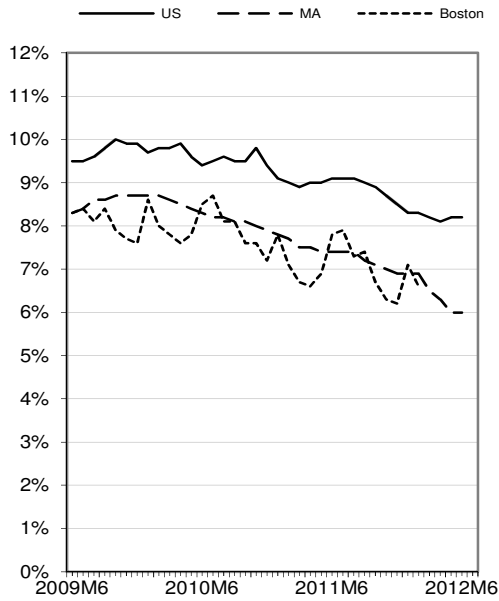
In the United States, the Federal Reserve and the Federal Government both moved to stabilize the economy with trillions of dollars in stimulus funds to banks and large financial firms as well as direct intervention in some financial markets and some firms considered “too big to fail.” The Federal Government provided bailouts to businesses, tax cuts to households and stimulus money to state and local governments. The Federal Reserve acted by reducing interest rates, securing loans, buying troubled assets, and injecting cash into the banking system.

The American Recovery and Reinvestment Act of 2009 (ARRA) – federal government spending on bailouts, construction projects and other activities in support of the economy – was initially billed at \$787 billion in spending increases and tax reductions. A calculation by the Congressional Budget Office (CBO) projected ARRA’s addition to the budget deficit through 2019 at a somewhat



**Real Gross Domestic Product Growth** (Chained 2005 dollars)  
2001Q1-2012Q2 & NBER dated recessions

Figure 3



**Unemployment Rates**  
June '09 - June '12  
Seasonally Adjusted (ex. Boston)

Figure 4

higher \$840 billion. Through February 2012, actual ARRA spending was \$747 billion according to Recovery.gov, or 95% of the original value of the bill.

Overall economic value as measured by real Gross Domestic Product (GDP) has finally begun to grow from the depths of the recent recession. For the twelve consecutive quarters from the third quarter of 2009 through the second quarter of 2012, real GDP has been positive and growing at annualized rates between 0.1% and 4.1%. Contrast this recent growth to the period from the third quarter of 2008 through the second quarter of 2009 where real GDP declined in each quarter from the preceding quarter by annualized rates that varied between -0.3% and -8.9% (Figure 3.). The Federal Reserve estimates that real GDP growth will continue to slowly improve at rates between 2.2% and 2.7% for the calendar year of 2012 and 2.8% to 3.2% for 2013.

The seasonally adjusted unemployment rate in the U.S. fell from 9.1% in June 2011 to 8.2% in June 2012 (Figure 4). Both rates are lower than the peak of 10.0% logged in October 2009 – the highest rate since November 1982 – but the rate of decrease reflects slow recovery in the labor market. According to Federal Reserve estimates, the unemployment rate is expected to continue improving, falling to a range of 7.4% to 8.1% in calendar 2012, and further to a range of 6.7% to 7.6% in 2013.

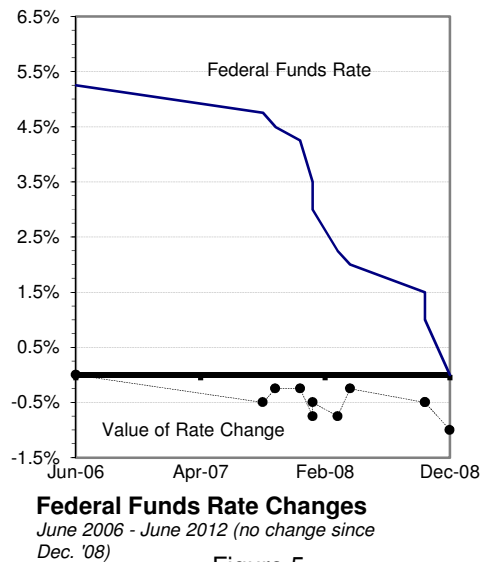


Figure 5

The U.S. consumer price index for all urban consumers (CPI-U) increased 1.7% from June 2011 to June 2012, while the “core” rate of inflation, all items less food and energy, increased by 2.2% over the same period. The Federal Reserve projects that inflation will remain subdued over the course of 2012 and 2013, reaching a maximum of 2.0% annually.

Given the high rates of unemployment, low inflation expectations, and the removal of stimulus support to the economy, the Federal Reserve has stated that it will maintain an aggressive growth posture of low interest rates through 2014. The Federal Funds target rate has been set between 0% and .25% since December 16, 2008, following 10 reductions totaling 500 basis points beginning in June 2007 (Figure 5).

The U.S. economy remains further burdened by the continuing sovereign debt issues in the European Union. Many analysts believe that a European recession would be a considerable drag on the U.S. recovery and to Massachusetts directly as a large exporter to Europe. Barring a European recession, a recovering national economy will likely allow for increased tax revenues nationally, as has begun locally, but entitlement cost pressures and the looming federal program cuts that result from the failed super-committee on deficit reduction, will bring a mixed bag of national economic performance over the next few years.

## THE STATE AND CITY ECONOMIES

The State’s economy showed less dramatic signs of weakening than that of other states or the national

economy during the recession. This was likely due to three reasons: state’s relatively anemic recovery from the last recession; the lessons learned from over-building in the housing market in the late 1980’s paying dividends in a housing-led recession; and the overall strength in diversification of the state’s economic base (Figure 6).

During the period of 2001 to 2011, Massachusetts’ annualized growth rate of 1.2% in real Gross State Product (GSP) ranked 33<sup>th</sup> out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state’s ranking has since risen to an impressive 9<sup>th</sup> in 2011 with 3.2% annualized growth over 2009. Despite its below-average growth rate in terms of overall GDP over the last decade, the state does remain one of the richest in terms of its GDP per capita -- \$52,915 in 2011 – sixth in the nation and 126% of the national average.

Massachusetts lost the highest percentage of jobs in the nation during the 2001 recession, at peak losing more than 200,000 jobs or 6.0%. As of June 2012, the state is 140,500 jobs below the seasonally adjusted peak in February 2001. Employment has been slowly growing for the last two years. Since the employment nadir in November 2009, Massachusetts has gained 83,100 net new jobs.

The Boston-Cambridge-Quincy, MA NECTA Division remains 90,200 jobs below its peak in February 2001, after losing 138,800 jobs at its nadir in December 2003, but has regained over half since that point (88,000) as of June 2012.

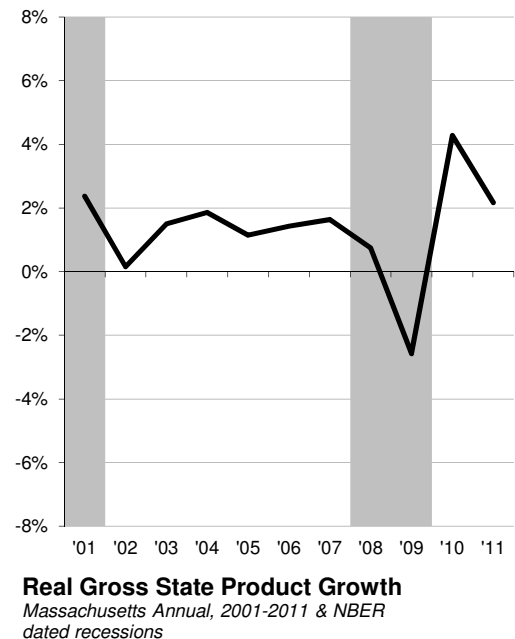


Figure 6

Despite this weak employment picture, the unemployment rate has begun to decrease for both the state and city. From a February 2008 low of 4.5%, the state's seasonally adjusted unemployment rate increased to a peak of 8.7% in January 2010 -- the highest it has been since 1992. The rate in Massachusetts has since fallen to 6.0% as of June 2012 (Figure 4). The employment outlook is mixed for the coming fiscal year with the Massachusetts Department of Revenue (DOR) projecting state a unemployment rate ranging from 7.3% to 8.0% in FY13 in a December 2011 forecast.

The City of Boston's unemployment rate has steadily fallen to 6.5% in June 2012 (not seasonally adjusted) after peaking at 8.5% in July 2010. Prior to this recession, the City had not experienced an unemployment rate over 8.5% since 1992. For the City, even the recent rate of 6.5% remains a large increase over its last low point of 3.9% in April 2008.

Massachusetts wage and salary income in the first quarter of 2012 rose 3.0% over first quarter 2011, continuing a trend of nine consecutive positive year over year quarterly growth rates. Earnings growth by industry grouping over the period of the first quarter in 2011 to 2012 was strongest in *Construction* and *Arts, Entertainment and Recreation* while *State and Local Government* and *Information* showed the weakest growth during the same period.

Massachusetts' seasonally adjusted total personal income rose by 2.8% from the first quarter of 2011 to first quarter 2012, 33rd out of the 50 states and DC in terms of growth and slightly below the national average or 2.9%.

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

## **THE COMMONWEALTH BUDGET**

State aid to the City represents its second largest single source of general fund revenue. The state also provides many grants that support city programs and expenditures. Often, changes to law that affect City expenditures and revenue generating capacity occur within or alongside budget language. As such, the state budget is of great interest to the City.

The state budget has faced several very difficult years of structural imbalance recently and is facing more difficult years ahead despite projected revenue increases in FY12 and FY13.

Given the structural imbalance, the state made use of its stabilization or "rainy day" fund in addition to reductions in expenditures and increases in revenue. At the close of FY08, the stabilization fund balance was approximately \$2.1 billion. The state had drawn down the balance considerably by the close of FY10 to about \$670 million before revenues began to increase again in FY11. The Governor's Office projects that the fund will stand at about \$1.3 billion at the close of FY12 with recent deposits made from FY11 surplus revenue.

The FY11 budget used the last of federal stimulus dollars to the state, that according to Massachusetts Taxpayers Foundation (MTF) estimates, totaled \$4.75 billion between FY09 and FY11.

The FY12 budget was the first since FY08 without stimulus dollars. This change led to an almost \$2 billion structural deficit that was overcome mostly by expenditure reductions. FY12 state tax revenues year-to-date are increasing and will likely meet benchmark estimates as the fiscal year comes to a close.

In December 2011, administration and legislative leaders met to hear testimony from local economists on revenue projections for the FY13 budget. In early January, a consensus revenue estimate was announced that increases state resources \$21.95 billion, or by 4.5% over the most recent formal FY12 revenue projection. Each branch built their budget plan based on the same revenue projection.

### The FY13 State Budget

As of this writing the State is in the final stage of development of its FY13 budget with the House and Senate having released their budget plans in April and May, respectively. A Conference Committee made up of members of both houses recently released the final Legislative budget in mid-June. The Governor now has 10 days to veto line-items then hand the budget back to the Legislature for any veto overrides and passage of the final state budget by June 30th.

Even with solid revenue growth projected, the FY13 budget faces challenges from Medicaid, state health, and pension cost increases. These challenges together generate an estimated \$1.8 billion structural deficit between revenues and expenses for the upcoming year.

The Legislative budget contains no tax or fee increases as opposed to the Governor's Budget released in January that included several smaller tax increases. The Legislative budget therefore includes more program cuts and cost savings initiatives than those offered by the Governor

previously. Both branches do make use of the state stabilization fund.

In prior years, municipalities have asked for and received a joint local aid resolution from the House and Senate by mid-March detailing the level of aid to be received in the upcoming fiscal year. This early notice greatly aids in budget development at the local level. There was no resolution issued by the Legislature this year, either, but each branch included increases to local aid for municipalities. (See *State Local Aid* in this chapter).

### **Changes to City Revenue Structure**

In FY10, after many years of legislative attempts, municipalities were granted their first new local option revenue stream since the hotel and jet fuel taxes of more than twenty years ago. The state offered for local adoption a meals tax at the rate of .75% in addition to the state tax. Adopting municipalities receive revenue collected by the state from the tax receipts generated in their own communities. As of this writing, 162 municipalities (of 351 in total) have adopted the meals tax. This tax was adopted by the Boston City Council in August 2009, implemented October 1, 2009, and produced its first full year of revenue in FY11. The state also granted an option for a 2% increase to the existing 4% local option room occupancy tax which was approved and implemented along with the meals tax. To date, 98 municipalities have increased their tax to 6.0%. The new meals tax alone has resulted in over \$60 million in new revenue for municipalities in FY11 and FY12.

Most municipalities, including Boston, had yet to fully recover from sudden and drastic state aid reductions of the 2001-2002 recession before being faced with a new round of cuts in the recent recession. The consequences have been increased property taxes through overrides of the levy limit, additional user fees, and reduced public services throughout the state. The fiscal health of many municipalities is certainly in question. For example, the City of Lawrence has received a loan from the state just to continue basic operations.

Recognizing the threat to fiscal stability represented by these trends, the Mayor has repeatedly filed legislation to diversify the City's revenue structure and to secure and grow its tax base.

Specifically, the Mayor has proposed establishing a local option tax on parking in commercial lots and closing a tax loophole on room occupancy that allows internet resellers to avoid tax on the increment between what they paid for a room night and what they sell it for. The latter of these is a change to the base of the state and local tax and would benefit the state and all municipalities that have adopted

the local option room occupancy tax. It has also become a national issue since a room occupancy tax is common across states and localities. The Governor included a version of this legislation in his FY13 budget plan.

As a matter of course, the City updates its fee and fine structure as needed for any increases necessary to cover the cost of providing services or deterring undesired behavior. No increases for FY13 have been submitted or approved by the City Council prior to the submission of this budget. But several departments have expressed interest in reviewing existing fee structures or adding new fees for new services that will be reviewed in the upcoming months. In addition, efforts continue to maximize current revenue sources and to develop new sources of recurring revenue at the local level.

The following discussion details the three major local revenue streams to the City: Property Tax, State Aid and Local Receipts. This is followed by a brief discussion of Non-recurring revenue.

## **REVENUE ESTIMATES**

### **The Property Tax**

The property tax levy has always been the City's largest and most dependable source of revenue growth. In FY12, the net property tax levy (levy less a reserve for abatements) is \$1.575 billion, providing 66.6% of recurring revenue, with an increase to \$1.634 billion expected in FY13. According to current estimates, the net property tax levy will continue to account for 66.6% of recurring revenue in FY13.

The increases in the gross property tax levy have been steady and consistent from FY85, the beginning of "Proposition 2 ½" restrictions on levy growth, to FY12 ranging from a low of \$28 million to a high of \$74 million over the period. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the \$74.3 million rise in FY12 represents only 4.8% growth. It is important for the financial health of the City that the property tax levy continues to grow, but efforts continue to reduce reliance on the property tax through increasing existing or establishing new local revenue sources as discussed in the previous section.

Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new construction. Finally, Proposition 2 1/2 provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has never voted to either override the levy limitations or exclude any debt from the limit. In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching an estimated \$40.4 million in FY13.

During these same years, the levy has also been positively impacted by taxable new value or "new growth". New growth can arise from both real and personal property. New growth is expected to be approximately \$20.0 million in FY13 after two very strong years of more than \$35 million each. This decline is due to the dearth of building over the FY09-FY11 period. The recent growth has been due to efforts of the Assessing department on personal property audits and previously exempt properties moving to taxable status. Revenue growth from new growth has exceeded that from the allowable 2.5% increase in eighteen of the last twenty-nine years (Figure 7).

New growth for FY13 is the weakest since FY99, but there are early signs that the economy is improving (for example building permit revenues are increasing) and that new growth will return. Indicators of the property tax in the current economy are more foreboding. Office vacancy rates, an indicator of commercial real estate value, are

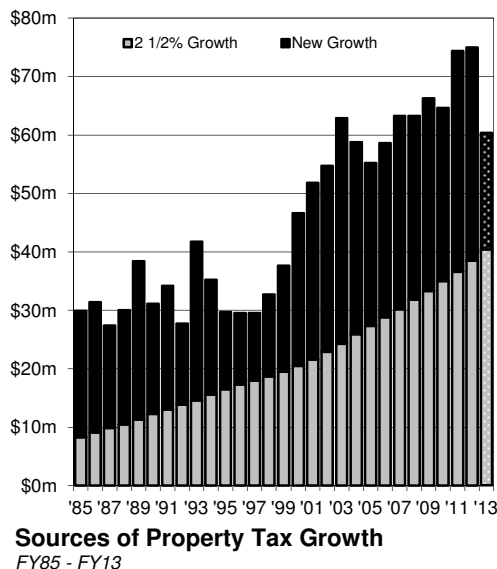
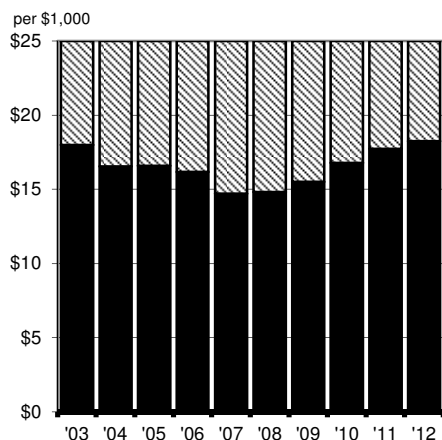


Figure 7

continuing their upward trend. Boston's office vacancy rate rose from 6.9% in 2008 to 12.6% in 2011 according to Jones Lang LaSalle. And, the median single-family home sales price, an indicator of residential real estate values, has increased only 1.8% annually to \$362,100 as of second quarter 2012 in the Boston- Cambridge-Quincy metropolitan area. This amount is still down from the June 2006 peak by over 14%.

Recently, with all of the turmoil in the real estate market, there has been concern around falling property values and their effect on the Property Tax. Declining property values can present a problem for cities as dependent on the property tax as Boston. As property values decreased in the early 1990s and the City continued each year to maximize the allowable levy increase under Proposition 2 1/2, the levy rapidly approached the levy ceiling of 2.5% of total assessed value. Reaching the 2.5% ceiling would have resulted in a very limited increase in allowable annual levy growth.

However, due to earlier years of strong new growth increases, the City has some space between its FY12 net effective tax rate of 1.82% and the tax levy ceiling of 2.5% (Figure 8). If the real estate market continues to depreciate, the City's lack of proximity to the 2.5% property tax rate threshold will insulate revenues from an immediate shock. However, if values are depressed long enough, future growth of the property tax could be impaired.



Overall Property Tax Rate & Space Below Levy Ceiling FY03 - FY12

Figure 8

## State Aid

State aid refers primarily to distributions from the Commonwealth to municipalities for Chapter 70 education aid and Unrestricted General Government Aid, along with other relatively small Commonwealth programs such as library aid, racing taxes, and various reimbursements. State aid, as it is used here, excludes any grants or offsets for direct expenditure by municipalities.

Recently, the state terminated reimbursement for a police educational incentive of which it paid 50% and the City paid the remaining 50%. A lawsuit filed by police unions to force municipalities to pay the state's portion of the benefit failed when the Massachusetts Supreme Judicial Court decided for the City in February 2012.

The City's FY13 state aid estimate is based on the lowest figure of either the House or Senate budget plans. The City received general fund gross state aid totaling \$413.2 million in FY10 and \$395.2 million in FY11. The City expects to receive \$385.9 million in state aid in FY12, excluding a one-time aid supplemental totaling \$11.6 million. This one-time aid is the same amount reduced from the City's Unrestricted General Government Aid between FY11 and FY12. But since the revenue is non-recurring, the City exercised its option not to budget and expend the funds. The City has budgeted \$401.5 million in state aid in FY13.

"Municipal Charges" or "Assessments" are charged by the Commonwealth to municipalities for items such as MBTA service and Charter School tuition. State aid distributions are reduced by the amount of assessments charged to a municipality. The City paid \$141.9 million in assessments in FY10 and \$147.7 million in FY11. The City expects to

pay \$162.6 million in assessments in FY12 and is budgeting \$174.6 million in FY13. The largest assessments are those of the MBTA and charter school tuition. The latter of these will increase significantly in the near future due to recent legislation expanding the number of charter schools.

Net state aid, which is gross state aid revenue minus assessments, has been trending down steeply since FY02. The rapid annual increases in the charter school tuition and MBTA assessments, combined with reductions in education and general government aid, continue to contribute to this trend (Figure 9). With a decrease in net state aid for FY13, Boston is \$138.1 million, or 38%, below its FY08 level of net state aid of \$365.1 million. Net state aid amounted to \$271.3 million in FY10 and \$247.5 million in FY11. FY12 budgeted net state aid totals \$223.3 million (excluding a one-time supplemental of \$11.6 million from FY11 state surplus revenue) and the FY13 Budget assumes a reduction to \$226.9 million.

## Education Aid

In the 1990s, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its state aid distributions. FY00 was the last year of the statutorily established funding schedule for this education reform. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth. The City received "Chapter 70" education aid totaling \$217.0 million in FY10 and \$204.3 million in FY11, and expects to receive \$205.4 million from state in FY12 and estimates \$207.9 million in FY13 based on the Governor's budget.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committees and teacher union rules and regulations. (See *Innovations in Education* section of this volume for more detail on charter schools)

Approximately 5,749 Boston resident students are attending "Commonwealth" charter schools in FY12. The state Department of Education projects that this number will increase to 6,647 in FY13.

Beginning in FY12, the previous charter school tuition cap of 9% of a sending district's net school spending (NSS) has been expanded, stepping up over several years. This increase in the amount of funding that may be diverted from a sending school district allows for more charter

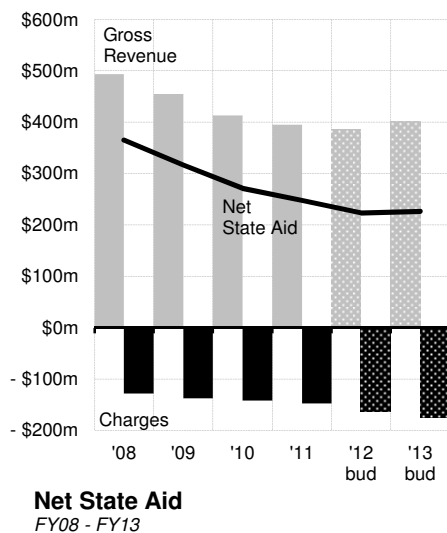


Figure 9

schools available to Boston resident students. The State Board of Education recently approved new charters for eight new Commonwealth charter schools which are projected to serve over 4,000 new students when fully operational over the coming years. This expansion will increase the City's Charter school tuition assessment going forward.

The Commonwealth, subject to appropriation, is required to pay the City a reimbursement for tuition paid to charter schools. The current reimbursement, which changed beginning in FY12, works as follows: 100% of tuition for new charter school students the first year, followed by 25% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% thereafter. The new schedule changes the percentages of reimbursement over a six year period. The reimbursement for FY13 will be 100%, 25%, 25% (Table 1).

The net cost to the City of charter schools has been increasing rapidly; in FY10 the cost was \$51.0 million and in FY11, \$55.1 million. In FY12 the city has budgeted a \$63.2 million net impact and in FY13, \$71.8 million (Figure 10).

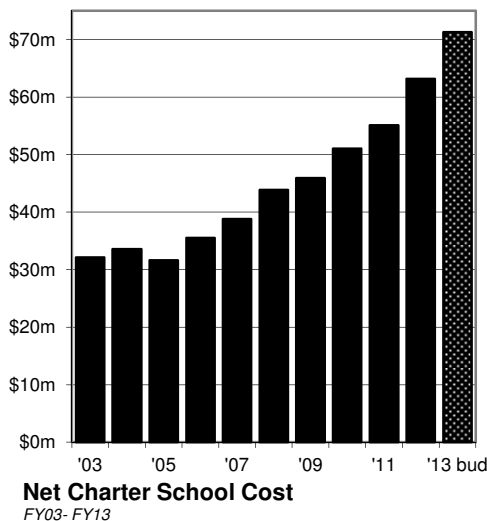


Figure 10

*Additional Assistance*

Additional Assistance was originally conceived and designed as a revenue-sharing concept and distributed based on the relative need of cities and towns. Additional Assistance had been frozen or reduced annually since FY94, with most local aid increases coming through Chapter 70 education aid instead. Less than half the state's municipalities were receiving Additional Assistance as of FY09, with Boston receiving over 40% of the statewide distribution.

The City received \$164.2 million each year from FY04 through FY08 and \$148.2 million in FY09 before the account was merged.

The original purpose and usefulness of Additional Assistance came into question during the budget processes of both Governor Swift and Governor Romney. A taskforce set up by the Metropolitan Mayors Coalition in 2005 researched the history and methods of delivering local aid to municipalities in Massachusetts. The taskforce recommended returning to a similar formula.

Since that time, the Federal Reserve Bank of Boston has developed a new needs-based formula and has made presentations across the state and the nation explaining the benefits of distributing aid in such a way.

In the current Legislative session, a bill has been filed to renew this formula based on the work of the Federal Reserve. Any changes to this aid account must include a so-called "hold harmless" to protect current distributions of UGGA.

**Charter School Reimbursement Percentages**  
*Amount of annual growth reimbursed*

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
FY11	100%	60%	40%	-	-	-
FY12	100%	25%	40%	-	-	-
FY13	100%	25%	25%	-	-	-
FY14	100%	25%	25%	25%	-	-
FY15	100%	25%	25%	25%	25%	-
FY16	100%	25%	25%	25%	25%	25%

Table 1

*Unrestricted General Government Aid (UGGA)*

For the FY10 budget, and going forward, the Governor and the Legislature combined general government aid from Additional Assistance and Lottery into one account. The combined accounts totaled \$166.9 million in FY10 and \$160.2 million in FY11. In FY12, the City will receive \$148.7 million (excluding the one-time supplemental aid mentioned above) and has budgeted \$160.2 million for FY13.

Revenue derived from the State's lottery now accounts for nearly all funds dispersed through UGGA. This distribution of UGGA is a weighted average of both Lottery and Additional Assistance distributions of the past.

Below are historical explanations of Additional Assistance and Lottery.



*Lottery Aid*

The now 39 year old lottery reached its peak in FY06 at \$4.52 billion in sales. The original lottery formula was not favorable to the City because it distributed lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City received a smaller percentage share of Lottery Aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

Prior to the FY10 consolidation into Unrestricted General Government Aid, the City received Lottery Aid of \$71.6 million in FY08 and \$64.6 million in FY09.

**Local Receipts**

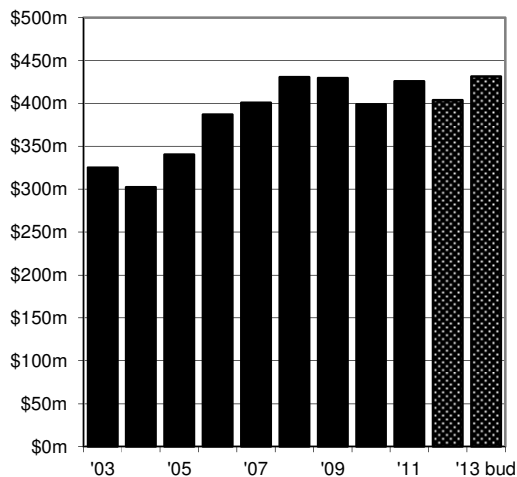
The City collects approximately \$400 million annually in recurring revenues other than Property Tax or State Aid. Revenue from excise taxes, payments-in-lieu-of-taxes (including Chapter 121A), licenses and permits, fees and fines, investment income and available funds are part of this local revenue group. Forecasts of these revenue types are done by trending historical collections or more detailed econometric modeling depending on the specific revenue source and the availability of other data.

In sum, the City collected \$398.9 million in FY10 and \$420.9 million in FY11 (excluding a one-time pension payment of \$82.0 million) from these sources. The City expects to exceed the mid-year budget estimate of \$404.0 million in FY12 and collect \$431.3 million in FY13 (Figure 11).

*Excise Taxes*

The Commonwealth imposes an excise in-lieu of property tax on the registration of motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally kept. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. Valuations are determined by a statutorily-defined depreciation schedule based on the manufacturer's list price and the year of manufacture.

The City expects the market for automobiles to stabilize in the coming fiscal year. Motor vehicle excise revenue totaled \$40.1 million in FY10 and \$46.9 million in FY11. The City expects motor vehicle excise revenue to fall just short of the midyear annual projection of \$40.0 million in FY12 and to rise to \$42.0 million in FY13. Since the excise tax lags the sale of the vehicle, this revenue estimate is generated based on state projections of current year tax collections on motor vehicle sales in the Commonwealth.



**Recurring Local Receipts (non-property tax/state aid/)**

*FY03 - FY13 (adj. for actual base hotel collections)  
FY12 forward includes all hotel tax*

**Figure 11**

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and received \$10.0 million for a partial year of collections in FY10. In FY11, the City collected \$20.2 million. In FY12, the City expects to exceed the budgeted estimate of \$18.0 million and the FY13 budget assumes \$20.3 million. This revenue is estimated using the income of area residents, expected local room occupancy excise revenues - a driver of restaurant meals, and historical trends.

Due to the refunding of special obligation debt related to the City's costs of construction of the Boston Convention and Exhibition Center (BCEC) to general obligation debt, the City's general fund will now receive funds that used to directly offset special obligation debt service. The room occupancy excise and vehicle rental surcharge will be fully recognized general fund revenues in FY12 and forward to support general obligation debt.

The local room occupancy excise amounts to 6.0% of the total amount of rent for each hotel or motel room occupied. This rate was increased in the fall of 2009 from 4.0%, along with the enactment of the new meals tax. Another 5.7% excise tax is directed to the state general fund and another 2.75% fee to the state's convention center fund, for a total tax from all sources on hotel rooms in the City of 14.45%. Room occupancy excise revenue totaled \$43.9 million in FY10, part-year at the 4.0% rate and part at the 6.0% rate (\$13.9 million was used as an offset to special obligation debt service as mentioned above and \$30 million was transferred to the general fund). \$58.5 million was received in FY11 with a full year at the 6.0% rate (\$24.0 million was used as an offset to

debt service as mentioned above and \$34.5 million was transferred to the general fund). In FY12, all revenue collected will remain in the general fund. The City expects to exceed the mid-year budget estimate of \$51.0 million in FY12 due to very strong hotel bookings. The FY13 budget estimates an increase to \$58.0 million.

Room occupancy excise receipts are estimated based on air travel statistics from Logan International Airport and regional gasoline prices.

The vehicle rental surcharge is a revenue-sharing arrangement with the Commonwealth. Under this arrangement, all vehicle rental contracts originating in the City are subject to a \$10 surcharge. The City receives \$1 of this surcharge. This revenue source was not budgeted for FY12 or prior, because it was pledged to BCEC special obligation debt, and is estimated at \$1 million for FY13.

The excise on the sale of jet fuel is 5% of the sales price, but not less than five cents per gallon. With recent increases in fuel prices, jet fuel excise revenue has increased. Jet fuel excise revenue totaled \$22.9 million in FY10 and \$23.3 million in FY11. The City expects this revenue source to exceed the midyear annual projection of \$22.5 million in FY12 and to increase to \$23.5 million in FY13 due to increasing fuel price forecasts from the Energy Information Administration (EIA) and increasing demand for air travel due to an improving economy.

#### *Parking Fines*

In fiscal 2011, the City issued over 1.45 million parking tickets and has maintained a high rate of collection on those tickets. Approximately 84% of tickets were collected in the first six-months after issuance and 90% were collected within a year. The major factors contributing to the City's successful collection rate include non-renewal of violator's registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to recover fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles. The City also contracts with a third-party vendor to collect delinquent fines from out of state vehicles and other hard to reach offenders.

The City collected parking fine revenue of \$66.3 million in FY10 and \$61.1 million in FY11. Parking fine revenue is expected to reach of the mid-year budget estimate of \$60.3 million in FY12 and increase to \$61.0 million in FY13. The lower recent revenue is due to lower numbers of tickets

issued overall. Issuance of parking fines is down in many major cities nationwide, likely due to economic conditions.

#### *Interest on Investments*

In general, the City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Since June 2007 interest rates have been quickly reduced in an effort to stimulate the economy out of recession. Given the very low interest earnings potential, the Treasury department has instead engaged in a compensating balance approach with banks, having fees (credit card, etc.) paid through depositing minimum balances. Investment income totaled \$3.2 million in FY10 and \$1.4 million in FY11. The City projects interest income will not reach the \$1.2 million mid-year annual estimate in FY12 and is expected to decline to \$1.0 million in FY13.

#### *Payments in Lieu of Taxes*

Payments in lieu of taxes (PILOTs) are payments made by property tax-exempt institutions located in the City, including hospitals, universities and cultural institutions. These are voluntary contributions for municipal services such as police and fire protection, street cleaning, and snow removal.

Growth in PILOT's comes from new agreements, escalations that adjust the payments for inflation, and renegotiation or expansion of current agreements. The Massachusetts Port Authority (MassPort) currently provides nearly half of the PILOT revenue the City receives annually.

Recently, a Mayoral appointed task force released a report suggesting more standardization of PILOT agreements. Specifically, each agreement should represent, in cash or in kind, 25% of the amount of tax that would be due if properties were not tax exempt. This type of change would generate more revenue than what is currently collected while providing some equity across paying institutions. New agreements under this framework were adopted in FY12 and that year includes the first installment of a five-year phase-in period to the new amounts. Revenue estimates for FY13 assume the second year of that period.

Payments in lieu of taxes totaled \$34.9 million in FY10 and \$35.5 million in FY11. The City expects this revenue source to reach the midyear annual budget estimate of \$40.3 million for FY12 and estimates \$42.8 million in FY13.

#### *Urban Redevelopment Chapter 121A*

Massachusetts General Law (MGL), Chapter 121A allows local governments to suspend the imposition of property taxes at their normal rates in order to encourage redevelopment. In recent years, the City used this mechanism to encourage development of the Seaport Hotel, the World Trade Center office buildings, and many housing developments. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise (Chapter 121, section 10) is collected in-lieu-of-corporate income tax for which the Commonwealth acts as the collector and distributes the proceeds to municipalities. In most cases, the formula for the 121A, section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of gross income. In FY10 and FY11, the City received Chapter 121A, section 10 distributions of \$40.6 million and \$33.8 million, respectively. The decline in FY11 was due to the expiration of an agreement with an office tower which moved the property to taxable status under the regular property tax. In FY12, Chapter 121A section 10 revenues are budgeted at \$32.0 million. In FY13, Chapter 121A Section 10 revenues are budgeted at \$35.0 million.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual agreements with the City that result in additional payments made directly to the City. These "Section 6A" agreements are complex, with actual amounts owed dependent on a formula that varies widely. The City collected Section 6A payments of \$24.8 million in FY10 and \$30.6 million in FY11. The FY11 increase is due to a one-time "gap" payment made by the office tower mentioned above of \$6.5 million. The City expects FY12 Section 6A collections to reach the midyear budget estimate of \$21.0 million and increase to \$24.0 million in FY13.

#### *Miscellaneous Department Revenue*

This category contains several large accounts and many more small accounts. The largest revenue source in this category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$18.7 million in FY10, prior to a change in federal policy that reduced reimbursement levels, and \$7.8 million in FY11. Municipal Medicaid reimbursement is expected to reach the midyear annual budget estimate of \$6.7 million in FY12 and remain at that level in FY13.

Other Miscellaneous Department Revenue, which consists of accounts collecting miscellaneous fees for services, rents, and reimbursements that are not separately stated on the Revenue Detail at the end of this chapter, is

budgeted at \$22.5 million and \$25.8 million in FY12 and FY13, respectively.

This category of revenues is estimated largely by historical trend.

#### *Licenses and Permits*

This category is dominated by building permit revenue, from which the City received \$14.8 million and \$23.5 million in FY10 and FY11 respectively. Building permit revenue will exceed the midyear budget estimate of \$18.0 million in FY12, and is projected to increase to \$23.0 million in FY13. This estimate is forecast based on the Producer Price Index (PPI), the commercial paper issued to support commercial construction, as well as trending of recent collections.

The next largest license and permit revenue is the cable television license fee from which the City received \$5.4 million in FY10 and \$5.9 million in FY11. The City has budgeted \$5.5 million for FY12 and \$6.0 million in FY13.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds \$3 million in annual revenue. Alcoholic beverage licenses are budgeted at \$3.3 million in FY12 and FY13.

#### *Penalties and Interest*

Taxpayers are assessed both a penalty and interest for late payments of property tax bills, motor vehicle excise bills and other payments. The historical trend has been down for these revenues as the City excels in the timely collection of receivables, but recent economic conditions have likely made it more difficult for taxpayers. The City collected \$8.0 million in such penalties and interest in FY10 and \$9.2 million in FY11. Actual penalty and interest collections for FY12 will exceed the current midyear budget estimate of \$7.7 million and are projected to be \$8.8 million in FY13.

#### *Available Funds*

Available funds are linked to a separate category of expenditure appropriation - those supported by immediately available fund transfers. Most of the City's general fund budget is supported by the revenues that are estimated to come in during the course of the fiscal year. This includes the property tax levy, excises, state aid, and the various other categories of revenues described above.

The only two significant available funds that the City generally 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 \$17.1 million from these two sources combined in

both FY10 and FY11 respectively. The City expects to transfer \$15.0 million from the parking meter fund to the general fund in FY12 and \$15.0 million in FY13. The City also plans to transfer \$2.1 million from the cemetery trust fund to the General Fund in FY12 but will make no transfer in FY13.

Both 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 in these funds. Trust fund balances, such as the cemetery trust, also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments (see *Financial Management* section of Volume I for detail).

### **Non-recurring Revenue**

#### *Surplus Property*

The surplus property disposition fund contains the proceeds from the sale of various City land or buildings. The use of these funds is usually restricted to one-time expenditures. No funds are included in the FY13 Budget from this revenue source.

#### *Budgetary Fund Balance*

Budgetary Fund Balance can be appropriated for use during the fiscal year after certification by the DOR. 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 FY12 Budget assumes the use of \$30.0 million, all of which will be used to support the appropriation for Other Post-employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY13 budget absorbs the cost to fund OPEB within recurring revenues.

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

## CITY OF BOSTON REVENUE DETAIL

		FY10 Actual	FY11 Actual	FY12 Budget	FY13 Budget
<b>PROPERTY TAX LEVY OVERLAY RESERVE</b>		1,475,926,447	1,541,920,523	1,614,028,834	1,675,104,059
		(35,733,120)	(37,354,838)	(38,656,031)	(40,856,197)
<b>Subtotal</b>		<b>1,440,193,327</b>	<b>1,504,565,685</b>	<b>1,575,372,803</b>	<b>1,634,247,862</b>
<b>EXCISES</b>					
Motor Vehicle Excise		40,051,704	46,918,295	40,000,000	42,000,000
40601	Meals Excise	9,972,296	20,245,189	18,000,000	20,300,000
40129	Room Occupancy Excise	30,000,000	34,500,000	51,000,000	58,000,000
40130	Jet Fuel Excise	22,897,403	23,253,088	22,500,000	23,500,000
41113	Vehicle Rental Surcharge	NA	NA	NA	1,000,000
40140	Condominium Conversion Excise	413,500	259,000	350,000	350,000
	Boat Excise	82,194	59,182	75,000	75,000
<b>Subtotal</b>		<b>103,417,098</b>	<b>125,234,753</b>	<b>131,925,000</b>	<b>145,225,000</b>
<b>FINES</b>					
Parking Fines		66,327,245	61,147,745	60,300,000	61,000,000
45104	Code Enforcement - Trash	495,827	728,659	725,000	725,000
	Other Fines	3,848,383	3,461,363	3,415,000	3,415,000
<b>Subtotal</b>		<b>70,671,455</b>	<b>65,337,767</b>	<b>64,440,000</b>	<b>65,140,000</b>
47151	<b>INTEREST ON INVESTMENTS</b>	3,182,220	1,391,924	1,150,000	1,000,000
40167	PILOTs	NA	16,735,965	21,809,187	24,400,000
40168	Other Payments In Lieu of Taxes	18,594,901	1,680,563	1,700,000	1,000,000
40169	Massport	16,347,481	17,085,116	16,750,000	17,437,000
<b>Subtotal</b>		<b>34,942,382</b>	<b>35,501,644</b>	<b>40,259,187</b>	<b>42,837,000</b>
<b>URBAN REDEVELOPMENT CHAPTER 121</b>					
40230	Urban Redev. Chap. 121B Sec. 16	1,150,037	5,879,328	5,361,000	2,200,000
40231	Urban Redev. Chap. 121A Sec. 6A	24,828,008	30,617,835	21,000,000	24,000,000
41013	Urban Redev. Chap. 121A Sec. 10	40,616,383	33,807,502	32,000,000	35,000,000
<b>Subtotal</b>		<b>66,594,428</b>	<b>70,304,665</b>	<b>58,361,000</b>	<b>61,200,000</b>
<b>MISC. DEPARTMENT REVENUE</b>					
43105	Registry - Vital Statistics	1,437,999	1,450,616	1,400,000	1,450,000
43109	Liens	552,425	578,600	550,000	575,000
43120	City Clerk Fees	493,958	553,674	450,000	550,000
43137	Municipal Medicaid Reimbursement	18,673,679	7,798,733	6,675,000	6,675,000
43202	Police Services	673,811	693,302	675,000	700,000
43211	Fire Services	3,474,413	3,697,952	3,700,000	3,700,000
43301	Parking Facilities	1,192,818	1,283,345	1,250,000	1,275,000
43311	PWD - Street & Sidewalk Occupancy Fees	1,911,698	2,251,018	2,000,000	2,200,000
43797	PWD - Fiber Optic Rental Fees	352,771	299,070	200,000	125,000
44002	Tuition & Transportation - Schools	1,507,692	1,587,093	1,500,000	1,550,000
47119	Affirmative Recovery	804,642	531,668	1,083,394	525,000
47131	Pensions & Annuities	3,090,363	3,233,945	3,100,000	3,200,000
47132	Fringe Benefit & Indirect	888,917	736,806	725,000	750,000
47155	Prior Years Reimbursement	(1,379,534)	82,537,327	500,000	500,000
48000	Detail Admin. Fee	3,168,836	2,913,986	3,000,000	3,000,000
	Other Misc. Department Revenue	27,634,732	28,843,191	22,479,722	25,815,440
<b>Subtotal</b>		<b>64,479,219</b>	<b>138,990,324</b>	<b>49,288,116</b>	<b>52,590,440</b>

## CITY OF BOSTON REVENUE DETAIL

		FY10 Actual	FY11 Actual	FY12 Budget	FY13 Budget
<b>LICENSES &amp; PERMITS</b>					
40211	Building Permits	14,764,792	23,461,018	18,000,000	23,000,000
40213	Weights & Measures	210,555	253,665	250,000	250,000
40215	BTD - Street & Sidewalk Permits	2,406,184	2,206,687	2,200,000	2,200,000
40221	Health Inspections	1,492,454	1,591,391	1,600,000	1,600,000
40222	Alcoholic Beverage Licenses	3,352,347	3,388,635	3,350,000	3,350,000
40224	Entertainment Licenses	1,891,074	1,995,807	1,850,000	2,000,000
40229	Other Business Licenses and Permits	138,096	152,701	135,000	150,000
40235	Cable Television	5,369,215	5,922,547	5,500,000	6,000,000
	Other Licenses and Permits	932,876	914,394	865,000	925,000
	<b>Subtotal</b>	<b>30,557,592</b>	<b>39,886,846</b>	<b>33,750,000</b>	<b>39,475,000</b>
<b>PENALTIES &amp; INTEREST</b>					
40133	Penalties & Interest - Property Tax	2,428,010	2,534,256	2,300,000	2,500,000
40134	Penalties & Interest - Motor Vehicle Excise	2,962,160	2,806,660	2,950,000	2,800,000
40136	Penalties & Interest - Tax Titles	2,560,580	3,845,817	2,500,000	3,500,000
	Other Penalties & Interest	10,538	4,832	5,000	5,000
	<b>Subtotal</b>	<b>7,961,288</b>	<b>9,191,565</b>	<b>7,755,000</b>	<b>8,805,000</b>
<b>AVAILABLE FUNDS</b>					
42502	Cemetery Trustee	2,079,153	2,108,718	2,066,543	-
42503	Parking Meters	15,000,000	15,000,000	15,000,000	15,000,000
	<b>Subtotal</b>	<b>17,079,153</b>	<b>17,108,718</b>	<b>17,066,543</b>	<b>15,000,000</b>
<b>STATE AID</b>					
41015	State Owned Land	244,297	262,485	271,873	271,960
41101	R.E. Abatements - Veterans/S.S./Blind/Elderly	1,230,380	1,888,089	1,211,932	1,177,655
41114	Veterans Services	1,713,466	2,831,578	3,377,395	3,418,164
41118	Unrestricted General Government Aid	166,924,272	160,247,301	148,660,757	160,247,301
41119	Racing Taxes	261,510	427,158	509,390	-
41301	School Construction	12,956,404	11,157,748	9,847,753	8,833,043
41305	Charter Schools Reimbursement	10,987,738	13,236,601	16,583,488	19,682,688
41306	Chapter 70 Education Aid	216,994,382	204,317,586	205,414,453	207,858,773
41117	Police Career Incentive	1,896,261	831,900	-	-
	<b>Subtotal</b>	<b>413,208,710</b>	<b>395,200,447</b>	<b>385,877,041</b>	<b>401,489,584</b>
<b>RECURRING REVENUE TOTAL</b>		<b>2,252,286,871</b>	<b>2,402,714,338</b>	<b>2,365,244,690</b>	<b>2,467,009,886</b>
<b>NON-RECURRING REVENUE</b>					
42504	Budgetary Fund Balance	45,000,000	27,000,000	30,000,000	-
42501	Surplus Property	5,979,000	-	-	-
	<b>TOTAL REVENUE</b>	<b>2,303,265,871</b>	<b>2,429,714,338</b>	<b>2,395,244,690</b>	<b>2,467,009,886</b>