

Executive Summary

INTRODUCTION

The FY14 Adopted Budget invests in our people and our neighborhoods in ways both old and new. It provides the financial support to maintain, but also to improve the delivery of high quality services that citizens expect and deserve. The FY14 Adopted Budget allows the City to enhance our public spaces and preserve our capital assets across every neighborhood. The budget fulfills Mayor Menino's long-standing commitment to keep Boston on sound financial footing by putting forth a plan that is sustainable into the future.

The FY14 Adopted Budget totals \$2.6 billion and represents growth of \$128.5 million or 5.2 percent over the FY13 budget.

The recurring revenue growth of \$88.5 million arises mainly from property taxes and excise tax revenues in response to an improving economy. A decrease of \$1.5 million is projected in State Aid, the City's second largest source of revenue. When combined with state assessments the net State Aid decrease is even larger as state assessments are projected to increase considerably in FY14. The FY14 budget also includes \$40 million in resources from Fund Balance to support the appropriation for Other Post-Employment Benefits (OPEB), bringing the total increase in projected revenues to \$128.5 million. (In FY13, the OPEB appropriation was supported by recurring revenues.)

On the expenditure side, the City is projecting a decrease in health care costs for the second consecutive year. This decrease is the result of efforts by the City, its employees and retirees, the state, and external factors. As part of a four year agreement between the City and the Public Employee Committee which represents the City's bargaining units, employees and retirees have assumed a larger share of health care costs. In addition, new state municipal health care

legislation mandates that all Medicare-eligible municipal retirees enroll in Medicare Part B along with a supplemental Medicare health plan, resulting in Medicare beginning to pay its full share of the City's health claims. Lastly, the City is seeing lower health insurance premiums due to more aggressive rate negotiations and a lower claims trend.

In FY13, the City again took advantage of the opportunity to refund certain general obligation bonds which, when combined with the favorable interest rates and high premium received on the total bond issue, will keep debt service costs lower than originally projected for FY14.

Although Health Insurance and Debt Service are lower than originally projected, the provision for Pensions is higher due to the adoption of a new funding schedule that updates mortality tables, decreases the investment return assumption and includes an increase to the cost of living base. The new schedule continues to assume full funding by 2025.

The need for careful decision-making and multi-year planning still exists even during a steadily improving economic climate. The full impact of the Federal government's current budget situation on the State and the City has yet to be felt. The City's health care costs are expected to rise at a much higher pace than revenues in FY15 and beyond, based on medical inflation which is nationally projected at 8% per year. Although the City's largest civilian unions and a number of the smaller ones have agreed to two new consecutive three year agreements, some major collective bargaining contracts are still in various stages of mediation and arbitration, making personnel costs difficult to project. Overall budget growth must always be carefully thought out and managed but these uncertainties make it all the more important. Initiatives undertaken in the proposed FY14 budget are sustainable and employee growth is limited primarily to priority areas – specifically

education and public safety. As stated previously, the FY14 budget was formulated using \$40 million in reserves, however those funds will not be used to support recurring operating expenses.

This FY14 budget also supports and improves our neighborhood assets. The Five-Year Capital Plan FY14-18 totals \$1.8 billion and includes \$195.9 million in new FY14 project authorizations. Highlights include major renovations at existing schools as well as the creation of a new downtown school in the North End, renovations both large and small at libraries, parks and community centers, and the continuation of significant investments in technology initiatives and infrastructure. The capital plan's theme, Cities are Neighborhoods (CAN), recognizes that the City draws its core strength from its neighborhoods. The results of the "Together We CAN" capital investment campaign are visible in every neighborhood. The City remains committed to providing core city services in a safe environment for all of our residents and businesses as well as those who come to visit our city. This budget provides the resources necessary to fulfill that commitment.

Change in Resources and Expenditures

Available revenues provide the basis for planning the FY14 appropriations and fixed costs. The FY14 budget reflects a revenue increase of \$128.5 million or 5.2 percent from the FY13 budget. Looking at recurring revenue only, the increase is \$88.5 million or 3.6 percent. The two largest sources of FY14 recurring revenue growth are the property tax and excise taxes. Property tax, the City's largest revenue source, reflects a 4.7 percent net increase. Gross State Aid revenue is projected to decrease by \$1.5 million, but, net state aid, defined as state aid reduced by the charter school tuition assessment and other assessments, is currently projected to decrease by approximately \$18.8 million (See Figure 1). Although its share of total general fund revenue continues to decline, state aid is still the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

Excise taxes are projected to increase by 2.4 percent in the FY14 budget. The local option meals tax, first implemented in October 2009,

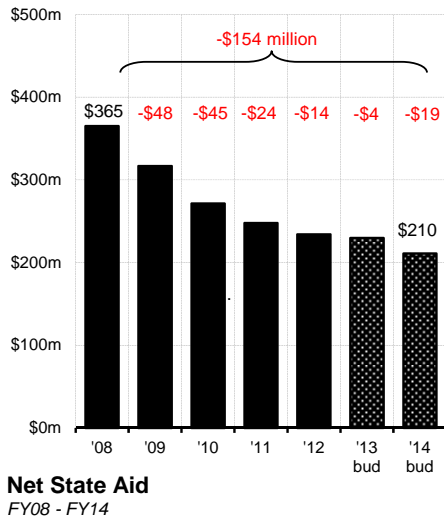


Figure 1

continues to perform well. FY13 receipts are expected to exceed the budgeted amount, as are hotel excise receipts. Both taxes are projected to result in increased revenue in FY14 as well.

Unlike the FY13 budget, the FY14 budget includes a \$40 million allocation of budgetary fund balance (reserves) to support the appropriation for Other Post-Employment Benefits (OPEB).

On the expenditure side, the FY14 budget reflects a 5.2 percent or \$88.1 million increase in departmental appropriations (excluding Health Insurance and OPEB) and a 9.3 percent or \$42.2 million increase in fixed costs (pensions, debt

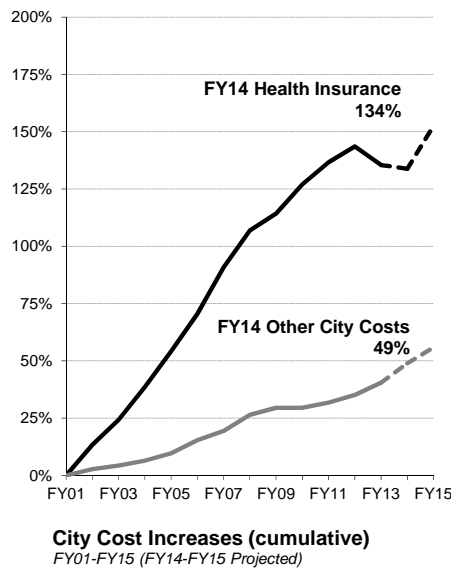


Figure 2

service, state assessments and Suffolk County).

In FY14 the City has budgeted \$287 million for health insurance premiums for city employees and retirees – 11 percent of the total City budget. Similar to other Massachusetts communities, Boston's health insurance costs have dramatically increased over the last decade, compared to other City costs over the same period. The Summary Budget chapter of this volume describes some of the successes the City and the state have had in the area of municipal health insurance that have resulted in savings in FY12 and beyond.

With salaries and health benefits representing over 72 percent of the City's operating budget appropriations, it is important to manage the level of the City's workforce. Through controlled hiring and attrition, the City continues to keep employee levels down overall. The City's workforce was down by 745 full-time equivalents, or 4.3 percent between January 2009 and January 2013. In FY14, general fund FTEs are projected to increase by 258 between January 1, 2013 and January 1, 2014. (Figure 3). Nearly 80 percent of the increase is in the priority areas of Public Safety (111) and Education (88). In the Public Safety area the timing of new recruit classes to cover attrition is the major reason for the increase; the January 2013 number is artificially low due to the fact that a new recruit class came on later in the month of January instead of in December, 2012 as planned. In Education, an increase will be seen in the area of special education as the Boston Public School (BPS) system is anticipating particular growth among students with high severity disabilities. Despite the increase projected for FY14, it should be noted that total FTEs in Education will still be down by 103 when compared to FY09.

A more detailed discussion of the City's revenues and expenditures as well as personnel levels can be found in the Summary Budget and Revenue Estimates and Analysis chapters of this volume.

Boston's Economic Climate

While Boston fared better than many major cities in the most recent recession, the current economic climate in Boston is much like that in the rest of the country. Recovery from recession has been slow and inconsistent. At times recovery even seemed to be slipping away. But as time progresses the City looks more and more like it is on the precipice of a solid economic recovery.

Unemployment in both the City and the state has been improving since late 2009 and early 2010, respectively, and while jobless rates still remain elevated, they are nowhere near the levels seen a few years ago. Foreclosures in the City housing market have eased considerably since their peak in fiscal 2008. Many early indicators are showing signs of stronger growth ahead. Increased building activity, rising home prices, falling vacancy rates and increasing rents – both commercial and residential – along with strong hotel occupancies and rates, tell the story of an economy that is picking up steam.

Indeed, much of what is holding back the local economy may have less to do with economic fundamentals in Boston or Massachusetts than with the amount of uncertainty arising at the federal level and internationally. Between sequestration in the United States and austerity in Europe, there may not be much to do but wait to see the effects of these situations before the economy can resume growth. In the United States currently, monetary policy is very favorable and corporate balance sheets are awash in cash. Under normal circumstances, these two factors would be strong signals that the economic pump is primed. But, as with the rest of the country - and perhaps the world - it seems Boston will have to wait until uncertainty abates for economic growth to begin in earnest.

As Boston generates nearly one-quarter of Massachusetts' economic output, the City will play a critical role in the economic recovery of the state.

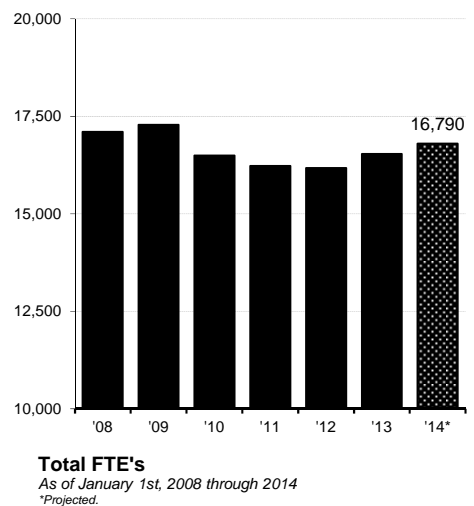


Figure 3

Long-Term Financial Outlook

The City of Boston has a long history of achieving balanced budgets through all economic cycles. The City's consistently strong and proactive approach to management has been recognized by the credit markets over the past several years. In February 2013, Standard and Poor's and Moody's Investors Service reaffirmed Boston's AA+ and Aaa ratings. A bond rating is a statement of credit quality and is analyzed when determining the interest rate that should be paid for a municipality's bonds. A higher bond rating translates into lower interest rates and real dollar savings for the City.

City management places a high priority on adhering to comprehensive financial policies and long-range planning strategies as well as continuing to exercise strong fiscal discipline. This practice ensures the City's ability to preserve budgetary balance, maintain essential services and address future budget challenges.

FY2014 BUDGET PRIORITIES: A CITY THAT PROGRESSES AND REINVENTS

For the past twenty years, Mayor Thomas M. Menino has prioritized the people of Boston in every budget, both in times of great economic growth and during difficult periods. FY13 was a year of recovery and this upcoming year propels us beyond that. The FY14 budget includes initiatives that keep Boston at the forefront of reinvention: changes at Boston Public Schools (BPS) to increase access to quality schools for students, new housing to fit the needs of young professionals and middle class families, and online learning for Boston's neighborhoods. At the core of the budget and the initiatives it supports is a desire to continue to build neighborhoods, provide residents with an unparalleled quality of life, and support neighbors as they help one another.

Building Quality Homes and Schools

Classrooms Closer to Home

The Boston School Committee approved a home-based student assignment plan that was recommended by the External Advisory Committee on School Choice. The new model prioritizes the availability of quality schools closer to home and offers parents a list of at least six schools based on home address and schools' quality, location, and capacity. The home-based plan cuts the average distance a child travels to school by 40 percent, increases the predictability that a family will get one of their top three school choices to 80 percent, and increases the chances a student will be in the same class as another child from his or her neighborhood by 30 percent. BPS investments will help ensure that more quality seats are available to students when the plan goes into effect for the 2014-2015 school year.

Improving School Quality

A new \$30 million Quality Improvement Fund will help the Boston Public Schools invest in upgraded school facilities, technology, and teacher quality as the district puts its new home-based school choice plan into place. This year, BPS will welcome more

families into its classrooms than it has since 2005 and as they do so, will invest millions more in lower-performing schools to extend school days and build partnerships that help close achievement gaps. BPS is also expanding inclusive opportunities for students with disabilities and is preparing to open new Dual-Language, Innovation and In-District Charter Schools, as well as a new K-8 school to serve downtown families. The 3-year Quality Improvement Funds will support these investments.

A New Bus Contract and Responsive Service

Through a competitive bid process, Boston Public Schools has secured a contract with a new vendor that will result in lower costs and improved service for students starting in FY2014. The new bus contract will require greater than 95 percent on-time performance, double the safety training for bus drivers, decrease overall fleet emissions through environmental technology and an anti-idling plan, and require regular feedback through customer surveys and meetings that engage schools and parents.

The *Right* Kind of Housing for Residents

Mayor Menino's Housing Boston 2020 initiative will be launched, creating 20,000-30,000 units of housing by the year 2020 to accommodate the city's growing population and its changing needs. The initiative will convene an advisory panel made up of representatives from both the private and non-profit development communities, financial institutions and universities, as well as thought leaders on housing and advocates for affordable housing. As the population of Boston grows and changes, Housing Boston 2020 will accommodate the needs of a large 20-34 year old demographic; support the growing number of families in the city; rebuild the middle class which was hard-hit by the economic downturn; and protect Boston's vulnerable and under-housed populations.

Million for the Middle

Up to one million square feet of City-owned real estate will be made available to small builders at below-market prices in 2013 and 2014. This will

increase homeownership among middle class families to offset some of the foreclosure losses, help stabilize and support property values in higher-foreclosure neighborhoods, and create demand for small and local construction-sector employment.

Supporting Residents

A Helping Hand for New Parents

Through the Public Health Commission, Boston parents will be supported from day one. BPHC will offer 800 families with newborns a free welcome visit where trained health workers can help parents baby-proof their homes and connect them to housing, food, and healthcare resources. Visits can be requested during a prenatal visit or at the hospital once a baby is born. After the initial visit, home visitors will follow up to make sure that any additional needs and requests for services are fulfilled.

Cultivating Leadership in Young Women

Boston Centers for Youth & Families will help young girls develop into empowered and confident women. BCYF will designate "Girls Only" time at sites citywide and engage teenage girls in programming that promotes leadership, civic engagement, and skill building. Gender-specific time will provide young women with a safe environment where they can take healthy risks and branch out. They will be able to swim, try new sports, or have exclusive access to tech labs.

Equitable Earnings for Women

Negotiation workshops will teach young women valuable skills in negotiating fair pay. The workshops will focus on salary negotiations in a variety of sectors and give participants the tools, strategies, and confidence needed to advocate for themselves in the workplace. The program will be a partnership between the City of Boston and the WAGE Project.

Encouraging Women Business Owners

The Mayor and Boston's Department of Neighborhood Development are creating Women on Main, a new networking initiative for women business owners in the Main Streets districts. Women on Main will enable the City to learn more about the unique challenges of women business owners, and better connect them to the services and resources they need to succeed.

Women Leading the Way in Boston

The newly appointed Women's Workforce Council will tackle challenges facing Boston's working women. The Council will identify and promote mechanisms for closing the wage gap between working women and men, as we seek to become the first major city to achieve pay equity. Council members include executives, entrepreneurs, academics, and industry and workforce leaders who, together with the Mayor, will engage Boston's employers to promote policies that can close the wage gap.

Engaging Children and Youth

Experimenting with Education in City Parks

More of the city's parks will become classrooms for young and eager minds this year. ParkSCIENCE will continue to teach children that science is fun and can be experienced anywhere through its educational workshops. The program makes science exciting and accessible by challenging children's cognitive skills through interactive experiments and demonstrations that introduce them to the fundamentals of science in an unconventional setting.

With support from the Boston Foundation and the Trust for Public Land, the Parks Department will create outdoor fitness equipment zones when existing parks and play areas are refurbished. The new zones will promote healthy behaviors among parents who frequent parks with their children.

Inclusive Out-of-School-Time Programming

Children with special needs will have increased access to afterschool activities. The Boston Public Health Commission will offer 25 high school students the training necessary to support children with special needs through structured play activities. They will then participate in a four-week summer training program and will be assigned to paid work in summer and afterschool programs across the city. This initiative will foster inclusion in programming for special needs children and provide meaningful leadership and job opportunities for Boston's youth.

A Unique Park for Special Children

Work will begin this year on a new park for children with physical disabilities in the Charlestown Navy Yard. The park, which will be the first of its kind in Boston, will be next to the new home of the Spaulding Rehabilitation Hospital, providing a wonderful new resource for children undergoing treatment.

Places for Active People

The Parks department will begin work this year on an overhaul of the playing fields at the West Roxbury education complex. The project will provide new synthetic turf football, baseball and softball fields as well as tennis courts and an athletic track. Lighting, fencing, stands and parking will also be upgraded. The project will result in a significant enhancement to recreational facilities at Millennium Park.

Universal Membership to Community Centers

To ensure that all youth have access to the full array of services offered at all of the 33 community centers throughout Boston – and encourage teen participation – Boston Centers for Youth & Families will eliminate site-specific fees for youth and create a Universal Teen Membership that grants access to locations citywide. Through a single membership, teenagers can swim at the Flaherty Pool, use the computer lab at Curtis Hall, and visit the recreational center at Madison Park, removing any barriers that may have prevented

the full use of the city's vast community center network.

Participatory Budgeting

Young people throughout the City will be led through a year-long process of learning about city government and budgeting. The youth will identify projects in their communities, vet those projects and consider trade-offs in making funding decisions.

Breaking an Addictive Cycle

To help youth struggling with prescription substance abuse, the Boston Public Health Commission (BPHC) has secured funding from the Massachusetts Department of Public Health. BPHC will engage a broad array of stakeholders to conduct an in-depth community-based assessment to better understand the nature of the problem. Utilizing the information gathered, the Commission will then develop a comprehensive strategic plan that uses best practices to support Boston's youth, with a particular focus on those transitioning from 8th grade to high school.

Modernizing the Resident Experience

City Hall Goes to Neighborhoods

In an effort to make city services even more accessible, the Mayor has launched a City Hall To Go truck to serve residents where they live and work. In FY14, the truck will transition from a pilot to an initiative with a set schedule that allows it to visit every neighborhood in the City at least once every month. The truck will be available after work and on weekends to meet the needs of residents. It offers an array of city services that include paying parking tickets and tax bills, applying for library cards or dog licenses, and registering to vote. As the resident needs change, seasonally or over time, City Hall To Go will respond accordingly.

Bringing Online Learning to the City

BostonX – a collaboration between the City, edX, Harvard, and MIT – will be an experiment in blended learning. BostonX will bring edX's online course content to Boston's community centers. At launch, BostonX will offer 2-3 courses that include support from edX affiliated personnel. Boston Centers for Youth & Families (BCYF) will offer its computer centers, computer training, and support to ensure that residents get the most out of online classes. Learners will be able to work on their own or utilize the centers as innovative gathering spaces for study groups and lectures.

Real Learning in a Virtual Classroom

Boston Public Schools will make key investments in technology to best serve its students, ranging from upgraded Internet capacity in all schools to increased offerings in robotics and computer science courses. BPS will launch a new push in digital and electronic learning and bring 10,000 more mobile computing devices to its schools within the next two years. Additionally, the 2013-2014 school year will mark the opening of a virtual school that will serve 200-250 students. Boston's students will be well prepared for the increased demand of technology use in education and the workforce.

21st Century Library

The Boston Public Library will begin construction this year on the transformation of the Johnson Building at the Central Library. This project is focused on opening up the main floor to Boylston Street; improving and expanding the Children's room; and upgrading the Rabb lecture hall, all to better meet the needs of today and tomorrow's library patrons.

E-Reading Made Easy

Boston will continue to be a leader in digital services. This year, the Boston Public Library (BPL) will launch the use of e-readers by lending 70 iPad minis that will be preloaded with bestselling books and various applications to help connect residents to job searches, social media, and language-learning tools. The first phase of BPL's Digital Commonwealth repository will be

completed, further increasing digital access to previously difficult to find collections across the Commonwealth.

Real-Time Parking and Traffic Updates

The Transportation Department will partner with experts to launch “Time to Destination” variable message boards. The boards will be installed in various neighborhoods and in the Innovation District to provide motorists with real-time information on traffic conditions and alternate routes. Additionally, 400-500 “Smart Parking” sensors will be installed, providing information about parking spot availability and allowing residents to make informed decisions before they get into their cars.

Modern Record-Keeping

Building upon its customer service focus, the City’s Registry Division will continue to work with the Department of Innovation and Technology to develop systems that provide rapid access to data and a even better service for customers. Within the next year, the seven varieties of birth, death, and marriage certificates will all be issued on the same secure watermarked paper. The change will facilitate processing by other cities, states and entities. To ensure accuracy of information and expedite processing, residents will be able to complete an electronic Marriage Intention form in place of the hard copy.

Sustaining Progress and Healthy Growth

Climate Ready Boston

In February 2013, Mayor Menino tasked his administration with a variety of planning and policy initiatives to make Boston’s residents, buildings, infrastructure and government prepared for the impacts of climate change. Among the initiatives, the Environment Department was directed to focus its 2014 Climate Action Plan Update on climate preparedness.

Feeding the City’s Green Appetite

City departments continue their efforts to increase recycling participation. Boston Public Schools will triple their recycling rate to 20% by June 2014. Public Works will add 130 new Big Belly machines throughout the city, and the Parks Department will place 40 new Big Belly trash and recycling receptacles in three locations – Boston Common, the Public Garden, and Christopher Columbus Park.

Clear Roads and Clean Air

The Transportation Department will institute an off-hour delivery program to decrease traffic congestion and increase pedestrian, bicycle, and motor vehicle safety. The program will allow deliveries to be made during overnight hours in designated areas of Boston. This initiative will decrease emissions from idling delivery trucks and provide congestion relief for city roads.

A Leader in Bicycle Safety

To ensure the safety of residents taking advantage of the increased bicycling opportunities, Boston will become the first city in the country with helmet vending machines to support the popular Hubway bike sharing program. The stations will be installed at up to twenty of the most popular Hubway bike share stations. As an added measure of precaution, the Public Works Department (PWD) will install safety rails between the wheels of its large vehicles. Safety rails prevent bicyclists from sliding underneath large trucks in the event of a collision.

An Investment That Pays Off

Public Works will complete 8,000-10,000 more streetlight retrofits, leading to potential savings of over half a million dollars and 3.4 million kWh of electricity. In FY13 to date, the department completed 7,300 LED streetlight retrofits, including the first LED replacement of decorative fixtures – a group of acorn lights in the South End. In addition, the department has undertaken several efficiency measures in its buildings, saving approximately \$33 thousand and 250,000 kWh

from projects at PWD's 400 Frontage Road facility alone.

Reducing Municipal Energy Consumption

The Department of Innovation and Technology is collaborating with the municipal energy unit of the Office of Environmental and Energy Services to procure and deploy a cloud-based enterprise energy management system in 2013. This system will measure total energy consumption in all of the City's 351 municipal buildings, along with non-building facilities (signalized intersections, streetlights, athletic fields, etc.). Among other things, the enterprise energy management system will help City officials identify opportunities to achieve significant energy savings across its entire building portfolio and to plan financing for those energy conservation projects within the City's capital plan.

Transition Fund

In January 2014, Mayor Menino's administration will transition to the next one. The FY2014 budget provides funds for a smooth and stable transition. Resources are provided to be used in the time period before the November election to lay the groundwork for a transition and, after the election, for the Mayor-elect to begin to assemble an administration.

