

Executive Summary

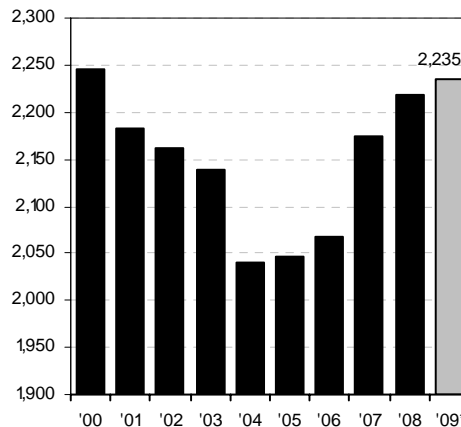
INTRODUCTION

The Fiscal Year 2009 (FY09) Budget totals \$2.4 billion. The City anticipates recurring revenue to continue to increase mainly as a result of the growth in the property tax. However, despite the growth in recurring revenue, it is anticipated that expenditure pressures will require the use of reserves to support ongoing expenses in FY09. Over seventy-five percent of the spending growth is due to increasing personnel costs. These costs include health and pension benefits and the impact of collective bargaining increases.

Approximately 90% of our union employees have ratified collective bargaining contracts. Costs for those contracts have been included in the respective departmental budgets. A collective bargaining reserve has been included in the FY09 budget for those that are outstanding. The majority of the reserve is associated with the outstanding contract for the International Association of Firefighters, Local 718.

The FY09 budget was developed to ensure stability in a time of uncertainty. Boston has succeeded in not having to make the deep cuts in services that municipalities across the state are struggling to avoid. Based on the available resources that we are projecting for FY09 the City will be able to sustain operations.

Despite the fiscal challenges that we face, this budget reflects the City's commitment to effectively provide the basic city services that contribute to the quality of life in all of our neighborhoods as well as a safe environment for all of our residents, businesses and visitors. It provides support for a city-wide approach to community learning that will align programs offered in schools, libraries and community centers. Investments in education include an expansion of K1 classes that will now serve over 2,000 4-year-olds as well as dropout prevention and recovery programs and an increase in advanced placement classes. The FY09 budget preserves the youth development network and the



Police Uniform Strength

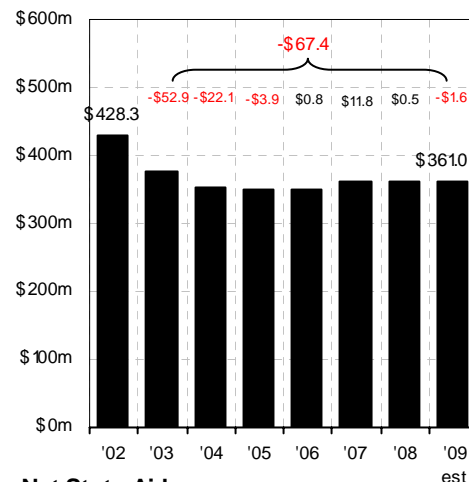
Actual on January 1st, 2000 through 2008

*FY09 Projected.

Figure 1

summer jobs programs that are so important to the City's violence prevention efforts. This budget also sustains the level of police officers funded in FY08 – a level that is at its highest point since FY00 and includes investments in technology that will provide better, more timely information for crime solving and prevention. (Figure 1).

This FY09 Budget also supports and improves our neighborhood assets. The five year capital plan for FY09-13 totals \$1.5 billion and includes \$149.2



Net State Aid

FY02 - FY09

Figure 2

million in new FY09 authorizations. The capital plan is designed to enhance the City's livability and includes streetscape improvements such as new trees, lighting and sidewalks as well as investments in parks, city buildings and equipment. 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.

Change in Resources and Expenditures

Available revenues provide the basis for planning the FY09 appropriations and fixed costs. The FY09 budget reflects a revenue increase of \$110.2 million or 4.8 percent over FY08 budgeted revenues. The majority of the increase is due to continued growth in the City's largest revenue source, the property tax, which reflects a 4.9% net increase.

Net state aid, defined as state aid combined with the charter school tuition assessment and other assessments, is expected to decrease slightly for FY09 based on the recent local aid resolution agreed to by the House and Senate. The decrease in net state aid perpetuates the loss incurred over the last seven years (Figure 2). State aid is the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

Excise taxes are projected to continue their steady growth in the FY09 budget. However, interest on investments is expected to decrease significantly based on actions taken by the Federal Reserve.

The FY09 budget includes revenue expected from a change in the parking fine and fee structure as well as an increase in parking enforcement staffing to allow for expanded street sweeping. The legislation required to make the fine and fee changes was approved along with the FY09 budget.

It is expected that an appropriation of \$10 million from budgetary fund balance (reserves) will be necessary in FY09 to fund ongoing expenses in the School Department. In addition, the budget includes a \$25 million appropriation from budgetary fund balance to continue to address the City's liability related to other post employment benefits (OPEB).

On the expenditure side, the FY09 budget reflects a 4.4 percent or \$82.1 million increase in appropriations and a 6.1 percent or \$28.0 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure increase of \$110.2 million.

The growth in contractual salary increases along with increases in health benefits and the cost of energy drive the overall increases shown in appropriations. Decreases in external funding for

Health Insurance as a Percentage of Budget

Fiscal 2002	7.9%
Fiscal 2003	8.3%
Fiscal 2004	9.1%
Fiscal 2005	9.7%
Fiscal 2006	10.0%
Fiscal 2007	10.7%
Fiscal 2008 Budget	11.2%
Fiscal 2009 Budget	11.0%

Table 1

vital programs also contribute to the increase in funding needed for some departments. This is true in particular in the School Department. In FY09 health insurance as a percentage of the total budget is 11.0 percent, up from 7.9 percent in FY02 (Table 1). The total general fund increase needed for health insurance is \$8.4 million. (When grants are included, the total increase needed is slightly less at \$8.3 million.) The increase in total fixed costs is driven by the pension funding schedule and state assessments. A more detailed discussion of the City's revenues and expenditures can be found in the Summary Budget chapter of this volume.

With salaries and health benefits representing approximately 73 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 498, or approximately 3%, full-time equivalents between January 2002 and January 2008.

Boston's Economic Climate

While the Massachusetts economy has still not fully recovered from the 2001-2002 recession, it

may have to brace for yet another. Nationally, inflation, job loss and tight credit markets have been spurred on by record oil prices, a weak housing market and the implosion of sub-prime mortgage-debt instruments.

The Federal Reserve and the federal government are injecting hundreds of billions of dollars into the economy in an effort to stave off a deep and prolonged recession, and to help stabilize the banking industry after its write-off of billions of dollars in bad mortgage debt.

Though the number of jobs in Massachusetts has not yet returned to pre-recession levels, the state's unemployment rate, while increasing, still stands lower than the national rate. And, though Massachusetts' Gross State Product growth ranked 38th since the end of the last recession, in 2006 alone its rank moved up to 27th.

In FY09, the state continues to maintain a structural budget deficit of over \$1 billion, and has yet to increase aid to municipalities in proportion to reductions during the last recession.

Because Boston usually generates nearly one-quarter of Massachusetts' annual economic output, the city has a large effect on the state's economy. With the United States now teetering on the edge of recession, it remains to be seen if the city's diverse economy can help stabilize the state's economy during this national downturn.

Slow economic growth will have an adverse impact on the City's budget, however, the impact will be marginal since Boston's comparatively restrictive revenue structure leaves it primarily dependent on growth in the relatively stable (but constrained under Proposition 2 ½) property tax and state aid.

Residential property taxpayers faced substantial tax increases between FY02 and FY07. Even though residential taxes eased in FY08, the Mayor remains committed to using new revenues from local option taxes proposed in his legislative package or the closing of tax loopholes to lessen the burden on property taxpayers.

A recent ruling by the Appellate Tax Board (ATB) effectively closes part of a loophole the Mayor sought to close legislatively. The ATB has ruled that telephone poles and wires on the public way are not exempt from taxes. As a result, and in keeping with the Mayor's promise, the City intends to lower FY09 property taxes for all other

taxpayers by the amount of the increase from this decision when it sets its tax rate with the state Department of Revenue this fall. This action will mark the first time since the implementation of Proposition 2 ½ that the City has not taken the entire allowable annual increase in the levy.

Long-Term Financial Outlook

The City's history of balanced budgets, prudent fiscal policies, and conservatively structured debt with manageable future borrowing plans continues to serve the City well. In March 2008, Standard and Poor's and Fitch Ratings affirmed Boston's AA+ and AA ratings and Moody's Investor Services affirmed its Aa1 rating for Boston. The City's strong proactive management has been recognized by the credit markets over the past several years. A bond rating is a statement of credit quality that 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.

The high priority that City management places on carefully implementing sound fiscal policies and continuing to exercise strong fiscal discipline ensures the City's ability to preserve budgetary balance and maintain essential services.

Protecting the City's Gains and Continuing the Momentum

Despite the compounding effect of six years of financial constraint, the City continues not only to address Boston's core needs but also to strengthen the quality of services it delivers to residents. Through stronger partnerships, greater efficiencies and increased alignment of resources around priorities, City departments have found innovative ways to build on the significant gains that Boston has made.

Guiding the focus for our departments is the overarching goal of ensuring that the remarkable resources and diverse opportunities of this city grow and are shared by more constituents. Our focus on that goal is embodied in the administration's eight priorities: eliminating health disparities, closing the achievement gap, increasing diversity, building workforce housing, creating jobs, reducing violent crime, providing better service and growing revenue. Through progress in these areas, Boston advances as a City

of Opportunity and Hope, a City of Sustainability and Security, and a City of Innovation and Growth.

City of Opportunity and Hope

Opportunity and hope are the fuel for a vibrant, healthy city. They are also the essential ingredients in the successful development of our youth. More than anything else, this budget invests in the development of Boston's children and the programs necessary to support those children and their families in the pursuit of their dreams.

The City aspires to ensure that every child can reach her or his fullest potential here. By funding collaborative efforts with Boston's non-profit community and improving coordination between departments, the City is taking the steps necessary to fulfill that promise.

Marshall the Whole City around the Development of the Whole Child

Launch Community Learning to integrate the curricula and coordinate the resources of Boston Public Schools, Boston Centers for Youth & Families and Boston Public Libraries; hire a community learning coordinator to organize this integration; open the new consolidated Burke High School, Grove Hall Library and Community Center and complete the Mattapan Library to increase educational resources available throughout the City; continue support of the Youth Development Network of streetworkers, youth workers and youth development specialists, increasing training and integration across departments and with external partners; implement Youth and Human Services Technology Initiative to track utilization of programs, improve visibility and access to City services.

Invest In Earliest Years to Prevent the Achievement Gap

Expand developmental opportunities for children between birth and age five and support new parents in the education of their children under the new Thrive in Five strategy and through the Smart from the Start program; increase the number of K-1 slots so that more four-year olds can benefit from a full-day structured learning environment.

Ensure Boundless Horizons for Youth

Add two advanced placement programs for high achieving high school students; implement a high school international baccalaureate program to provide a curriculum that challenges students to attain the highest international standard for education; sustain the summer and year-round job programs to increase employment experiences for Boston's youth; expand BCYF programming and invest \$300,000 in summer grants to non-profits to provide increased structured recreational, educational and cultural opportunities for youth.

City of Sustainability and Security

The strength of Boston can be witnessed in the strength of its neighborhoods. Ensuring their sustained vitality is a top priority for this administration that is reflected throughout the budget. With programs that increase public safety, reduce financial insecurity and promote green living, the City is protecting the investments of residents against risks both immediate and long-term. These programs are based on the principle that the healthiest communities are created through the collaboration of neighbors with each other, with their communities at large, and with government. Key to this strategy is the City's commitment to a high level of capital investment, sustained in FY09 at \$120 million, despite fiscal pressures on the operating cost of debt service.

Strengthen Community Policing and City Responsiveness

Sustain community policing by supporting Safe Streets Teams in eleven neighborhoods; support deeper collaborations in four neighborhoods disproportionately experiencing violent crime through the Violence Intervention & Prevention programs; maintain the City's investment in Fire Department apparatus replacement plan with anticipated delivery of six new pieces of equipment in FY09.

Protect Homeowners and Neighborhoods

Increase efforts of the Foreclosure Intervention Team launched in 2008 to assist homeowners at risk of losing homes due to resetting mortgage rates through financial counseling efforts, expanded partnerships with financial institutions to offer appropriate mortgage products, and homeowner support programs; begin implementing \$15 million five-year plan to improve sidewalk accessibility; invest in neighborhoods by installing artificial turf at American Legion, continuing the City's planned replacement for high-use fields.

Green Boston

Supporting citizens' desire to live in a more environmentally conscious manner by expanding single-stream recycling citywide; designing new buildings and select major renovations to attain U.S. Green Building Council LEED certificates; expanding efforts to make Boston more bike-friendly by adding bicycle racks and constructing additional bike lanes; continuing the City's commitment to plant 100,000 trees by 2020.

City of Innovation and Growth

The City of Boston relies on innovation and creativity to respond to the changing needs of its residents and businesses, and to ensure the growth necessary for a sustainable, vibrant future.

Leverage New Strategies to Fight Crime and Improve Basic Services

Use ShotSpotter acoustic detection technology to improve identification of hotspot areas, recover evidence, and locate individuals in possession of firearms; expand use of information relating to crime using innovative marketing and popular technology through the Text-A-Tip Program; replace outdated parking meter technology to improve operability; expand deployment of solar-powered trash receptacles ("BigBellys") and pursue public/private partnerships to increase program further; expand street cleaning; continue strategic energy procurement efforts.

Catalyze Business District Success through Strategic Investments

Build new municipal assets in Dudley Square at the Ferdinand Building and B-2 Police Station; implement public improvements in the

Newmarket business district; complete redesign for the reconstruction of Dorchester Avenue; begin redesign of pedestrian mall in Downtown Crossing in conjunction with the Downtown Crossing Economic Initiative.

Strengthen the City's workforce

Improve employee communication through web portal, The Hub, and realize full benefits of Career Center, a fully automated web-based employee recruitment, applicant and hiring management solution; launch Boston Urban Mechanics Program employing 40 college interns city-wide in Summer 2008.

Additional Information can be found in the Summary Budget and Boston About Results chapters in Volume 1.

