

Executive Summary

INTRODUCTION

The Fiscal Year 2007 (FY07) Budget totals \$2.14 billion. For the third consecutive year, the City anticipates an increase in recurring revenue mainly attributable to 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 FY07. Nearly two thirds of the spending growth is due to health benefits, energy and personnel costs, which have risen significantly due to collective bargaining increases occurring at different points during FY06 that now must be annualized as well as increases scheduled for FY07.

Despite the fiscal challenges that we face, this budget reflects the City's continued commitment to deliver high quality services to Boston's residents, businesses and visitors. It provides resources for vital programs in the areas of education and affordable housing as well as an increase in public safety staffing.

The Five Year Capital Plan FY07-11 totals \$1.32 billion and includes \$114.2 million in new FY07 authorizations. Boston's Five Year Capital Plan continues to be an investment program for the City's future and a plan that is designed to enhance its livability. 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

The FY07 Budget reflects a revenue increase of \$80.0 million or 3.9 percent over FY06 revenues. The majority of the increase is due to continued growth in the City's largest revenue source, property tax, which reflects a 4.4 percent net increase for FY07. Net state aid, defined as state aid combined with the charter school tuition assessment and other assessments, is expected to

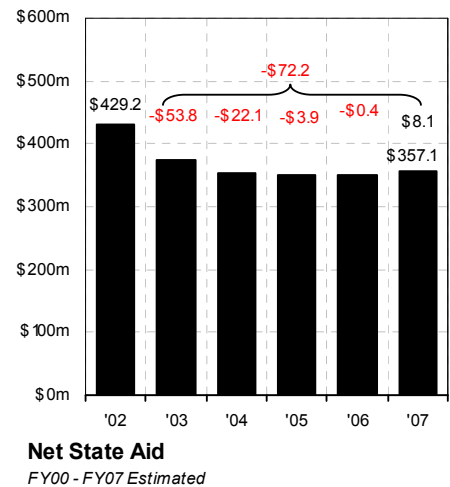


Figure 1

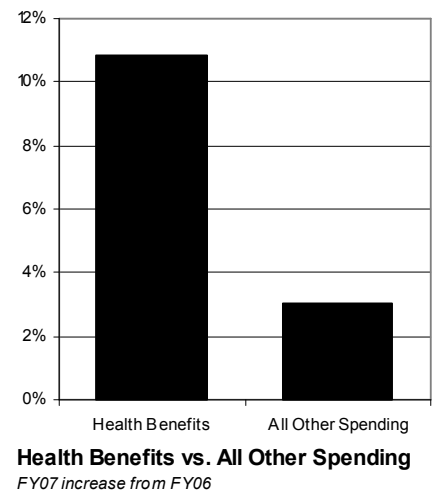


Figure 2

increase only marginally for FY07 despite increased revenue resulting from added Education Aid and removal of the cap on Lottery Aid. The slow growth in net state aid perpetuates the real loss incurred over the last five years (Figure 1). State aid is the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

Other economically sensitive revenue streams, such as excise taxes and interest on investments,

which showed recovery in actual FY05 receipts and the FY06 Budget, are again projected to continue their steady growth in the FY07 Budget.

Available revenues provide the basis for planning the FY07 appropriations and fixed costs.

It is expected that an appropriation of \$8 million from Budgetary Fund Balance will be necessary in FY07 to fund ongoing expenses. Also referred to as “free cash,” this item is most simply described as the expendable portion of Undesignated Fund Balance which must be state certified. While using reserves is a necessity during these challenging fiscal times, reserves are finite and are not a long term solution to our structural problem. As the City uses these funds, we must recognize that it will require years of significant revenue growth in tandem with reasonable expenditure growth before reserves are replenished.

On the expenditure side, the FY07 Budget reflects a 4.0 percent or \$66.0 million increase for appropriations and a 3.3 percent or \$14.0 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure increase of \$80.0 million.

The growth in health benefits and energy costs along with contractual salary increases drive the overall increases shown in appropriations. The annual percentage increase in health benefit costs for FY07 is three times that of the increase in all other spending (Figure 2). 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.

The City has taken many steps over the last four fiscal years to adjust to fiscal change. Through controlled hiring and attrition the City continues to keep employee levels down overall. The City’s workforce was down 1,176, or approximately 6.7%, full-time equivalents between January 2002 and January 2006. With personnel costs and health benefits representing over 70 percent of the City’s operating budget appropriations, it is important to manage the level of the City’s workforce.

Framework for Fourth Term Results

In the fall of 2005, Mayor Menino called upon his Cabinet to join him in creating a new and powerful agenda for his fourth-term administration. While the City of Boston is committed to delivering high-quality services every day to its residents, businesses and visitors, government also has an obligation to tackle the hardest long-term challenges facing its constituents. Under the Mayor’s leadership, the Cabinet converged on eight critical areas where a citywide approach to problem-solving and program development is required to make an impact.

Eight overarching goals outlined in the following tables encompass objectives addressing both short- and long-term concerns for the city, its people and its economy. The goals are presented in three groups:

- First, those that focus on fundamentals public safety, effective delivery of public services, and the long-term fiscal capacity of the city to generate the funds needed to provide essential services to its constituents;
- Second, those that address fairness, equity and upward mobility for every Bostonian; and
- Third, those that ensure that Boston will have a well-rounded economy, recognized internationally for its leading industries and its quality of life at every income level.

Participants from every department in city government are working together in inter-agency teams with advice from leading experts in the public and private sectors to craft a shared plan for the future that will position the City of Boston for success in generations to come. A brief, representative selection of the objectives under each overarching goal is included in the three tables.

Accomplishing these goals calls for accelerating the implementation and use of technology throughout city government. The City will strive to better capture and organize information from within departments in order to use that data to inform decision-making and resource allocation to improve service delivery and promote efficiencies.

Key technology improvements in FY07 will include customer service enhancements in on-line permitting, an expansion of the use of GPS technology to track and target snow plowing and street cleaning, and the launch of an upgrade to the City's overall performance management tracking system, Boston About Results.

These goals will guide citywide service delivery, resource allocation, new revenue generation and public/private partnership development. Achieving these goals requires that city agencies work with each other and with the community in new and unconventional ways, acknowledging shared responsibilities while driving clear accountability for delivering results throughout the workforce.

Additional information can be found in the Summary Budget and Boston About Results chapters in Volume I.

Boston's Economy

The Massachusetts economy was weakened significantly during the last recession, losing the highest percentage of jobs of any state in the nation. The road back to recovery has been slow as the state has yet to see employment reach pre-recession levels even as Gross State Product has been increasing since 2004.

As the City usually generates nearly one-quarter of Massachusetts' annual economic output, the City has led the state both into and out of past recessions. With the United States now generating significant job growth and gains in gross domestic product, it is expected that the City will soon produce the economic growth that will once again stimulate the larger economies that surround it into a solid economic expansion.

The effect of this economic growth on the City's budget will be positive, but only on the margins as Boston's comparatively restrictive revenue structure leaves it primarily dependent on property tax growth, constrained under Proposition 2 ½, and state aid.

In FY07, the state has largely recovered from a structural budget deficit, but since it has yet to increase real aid to municipalities in proportion to what it reduced during the recent recession, and since most state aid formulas are not favorable to Boston to begin with, the City will not receive a

benefit commensurate with the economic growth it so strongly affects.

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 February 2005, Moody's Investors Service upgraded Boston's bond rating from Aa2 to Aa1, the highest rating ever achieved in the City's history. At the same time, Fitch Ratings upgraded the City to AA and Standard and Poor's affirmed their AA rating. These high ratings were all affirmed in January, 2006. The City's strong proactive management has clearly been recognized by the credit markets. 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.

The high priority 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.

OVERARCHING GOALS AND SELECTED FY07 OBJECTIVES

Fundamentals

Reduce Violent Crime

Deploy a comprehensive anti-crime strategy by organizing internal and external partners (the Strategic Crime Council) around creative and effective approaches to address crime, including innovative uses of technology to access and disseminate real-time data on criminal activity

Take guns off the street by bringing together resources from the Boston Police Department and the federal Bureau of Alcohol, Tobacco and Firearms, and Explosives (ATF) to more effectively disrupt the illegal supply of guns

Launch a campaign to address violence as a public health issue incorporating emergency room support, counseling and referral services, trauma training and expanded violence prevention curricula in Boston Public Schools

Keep teens engaged in productive activities during the summer by expanding the summer jobs program to reach more at-risk teenagers and support their employment to help them develop transferable job skills

Improve Service at Same or Lower Cost

Implement an enterprise-wide on-line permitting system to significantly improve coordination across City departments and provide better information and progress tracking for applicants

Upgrade the City's website to provide more functionality to constituents, including on-line tax bill payment and search capabilities based on user profiles

Institute a quality inspection team to focus on results by anonymously evaluating City service delivery and customer relations based on the successful private sector model of "mystery shoppers"

Further align the Public Works and Transportation Departments to create efficiency by consolidating administrative functions and expanding the efforts to reduce functional overlap

Use property management expertise to promote effective facilities management citywide with a commitment to improve asset utilization and provide safe, clean properties that support service delivery

Make City facilities more energy efficient by implementing the Integrated Energy Management Plan recommendations, beginning with City Hall and the Boston Public Library's central branch

Grow Revenue

Partner with tax-exempt institutions in joint strategies for future revenue generation by constructively discussing the interdependency of a successful nonprofit sector with a thriving public sector

Steer municipal revenue development through legislation, continue the momentum for additional local option revenue sources, and provide a level playing field for utilities by removing an outdated property tax exemption

Advance a campaign for home rule reform to build awareness of the imbalance in Boston's revenue sources resulting from state-imposed restrictions and their drag on the City's ability to boost the state's economy by competing nationally and globally

OVERARCHING GOALS AND SELECTED FY07 OBJECTIVES

Fairness, Equity and Upward Mobility

Narrow Health Disparities

Expand efforts to address racial and ethnic health disparities by engaging City departments and outside agencies in innovative and effective programs, including increasing outreach to elders of color; expand educational and training opportunities for residents of color interested in health care professions

Strengthen efforts to reduce asthma by increasing in-home counseling, improving access to high-quality clinical care, and partnering with the Boston Housing Authority to reduce home-based asthma triggers by improving pest management practices

Reduce the incidence of diabetes and other chronic diseases by expanding prevention and control activities, including coordinating with clinical sites, educating and supporting patients in improving their health, promoting exercise, and expanding access to affordable, healthy foods

Close the Achievement Gap

Offer an additional 350 full-day kindergarten seats to four-year-olds, while working toward the goal of guaranteeing seats for all four-year-olds by 2010

Expand successful early childhood and family support programs by increasing the capacity of ReadBoston and Countdown to Kindergarten

Increase support for English Language Learners (ELL) by training teachers and hiring additional English as a Second Language (ESL) teachers

Create seven new pilot schools by September 2009 to test innovative educational ideas to improve achievement

Increase capacity for quality out-of-school programming that supports academic performance, fitness, and arts and cultural enrichment, and that provides safe developmental experiences for Boston's children and youth

Increase Diversity in City Services and Jobs

Develop and enact a citywide policy regarding translation and interpretation services to ensure that every resident, regardless of language, has access to City services in a respectful and culturally welcoming environment

Continue to shape a skilled and culturally competent workforce through job training and staff development

Implement a Mayoral Workforce Diversity Committee to focus on enhanced recruitment, hiring, retention, and promotional practices to ensure diversity, based on a City workforce analysis and targeted recruitment

Create a Mayor's New Urban Mechanics Fellowship Program to recruit and hire four fellows from local graduate schools who will apply their training within departments

OVERARCHING GOALS AND SELECTED FY07 OBJECTIVES

Growing Economy and Good Quality of Life at Every Income Level

Increase Housing Supply to Meet Workforce Demand

Increase the City's housing supply at all levels of affordability by continuing to implement *Leading the Way II*, the successful blueprint created to meet and sustain housing needs now in its 2nd phase

Launch "Undiscovered Boston," a new marketing initiative that will educate employers on the middle-income housing supply appropriate for their workforces and arrange tours of Boston's more affordably-priced neighborhoods

Offer a new mortgage product, the "Reach-Up Mortgage," and provide down-payment assistance to help middle-income buyers reach up high enough in the market to afford housing that is currently available

Build new housing for middle-income homebuyers utilizing City land sold at discounts to contractor builders if they can deliver well-designed homes affordable for a middle-income Boston family

Create New Jobs

Launch a new national and international business marketing effort to support job growth by aggressively targeting, attracting, and retaining large companies in the City's leading industry clusters

Grow, assist, and retain small- and medium-sized businesses with a new inter-agency effort, "Taking Care of Business," that emphasizes customer service and helps businesses with financing, site location, and job training

Expand partnerships between high schools and businesses to create mentoring and employment links with the goals of improving student achievement, preparing all students for post-secondary education and employment, and ensuring a high-quality local workforce to meet employers' needs

Build on Boston's global reputation as a leader in tourism, arts, culture, and the creative economy to grow businesses and activities that attract visitors, businesses, residents, and top creative and innovative talent