

Revenue Estimates and Analysis

OVERVIEW

The FY15 Adopted Budget is supported by \$2.73 billion in recurring revenue, an increase of \$121.4 million, or 4.7%, from budgeted FY14 recurring revenue. The Adopted Budget also includes \$40.0 million in non-recurring revenue.

Recurring revenue growth is expected across all major categories in FY15. Property tax, excise taxes, and license and permit revenue lead local revenue growth and are driven by an expanding economy.

State aid from the Commonwealth for the upcoming fiscal year has been determined by a local aid resolution supported by the House and Senate leadership. This resolution provides Boston with its third consecutive year of growth in its second largest single revenue source. However, even with recent increases, state aid has not been restored to pre-recession levels. Additionally, the City has experienced a loss of \$162.9 million, or 45%, of its *net* state aid (state aid revenue less state assessments) between FY08 and the FY15 Adopted Budget.

Net property tax and state aid together make up over 80% of recurring City revenues. As Figure 2 illustrates, the share of net property tax has increased dramatically since

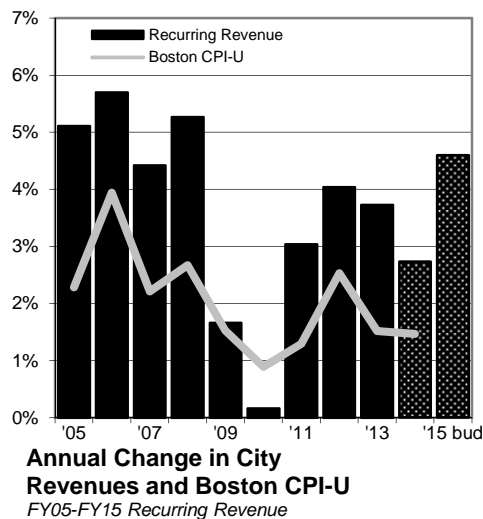
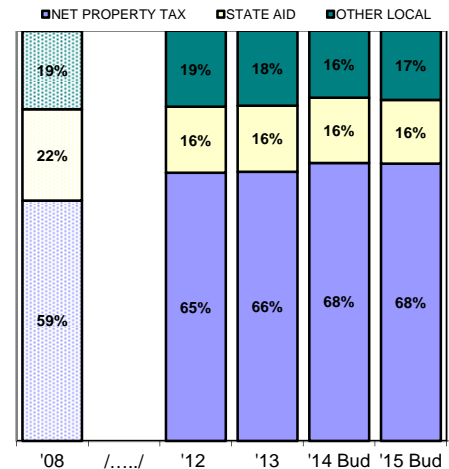


Figure 1



Categories of Recurring Revenue

FY08 & FY12-FY15
Percentages may not add due to rounding

Figure 2

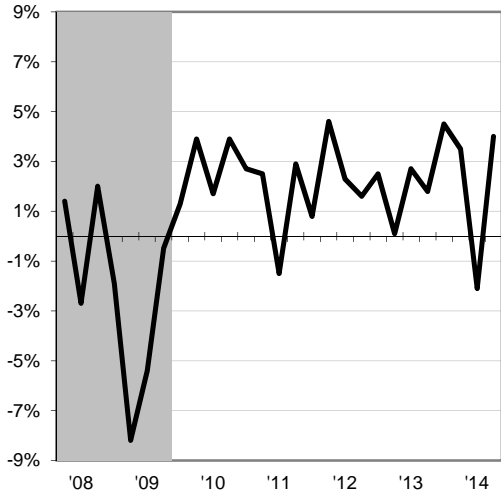
FY08 as the share of state aid has steadily decreased. In fact, the property tax now accounts for a larger share of recurring revenues than it did prior to the imposition of property tax limitations under “Proposition 2 ½” in the early 1980’s.

This chapter begins with a review of national, state, and local economic trends that impact the Boston area economy and the City’s revenue. That is followed by a discussion of recent state budget trends and development of the FY15 state budget. Following these sections is a discussion of the City’s FY15 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, and a discussion of local receipts.

(Note: To ease comparison across years, all figures, text, and calculations referring to or including FY11 departmental revenues will be stated without the one-time \$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. And, a city's economic condition can positively or negatively affect its ability to raise revenue. As such, the state and national economies are of great importance to the City's well-being. The nation's economic recovery is gaining momentum from a deep recession that officially ended five years ago in June 2009.



Real Gross Domestic Product Growth (Chained 2009 dollars)
2007Q4-2014Q2 & NBER dated recession

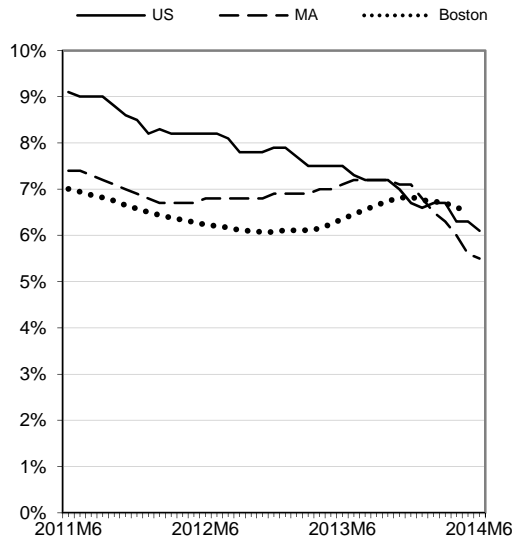
Figure 3

The U.S. economy has grown in fits and starts since June 2009 as evidenced by GDP growth (Figure 3). Accommodative monetary policy and extended unemployment insurance have stopped any slide back into recession. But recently, the housing sector has gained steam and other economic variables seem to be growing.

Overall economic value as measured by real Gross Domestic Product (GDP) has been positive, but has been averaging slow growth. For all but two of the twenty quarters after the recession's official end in the second

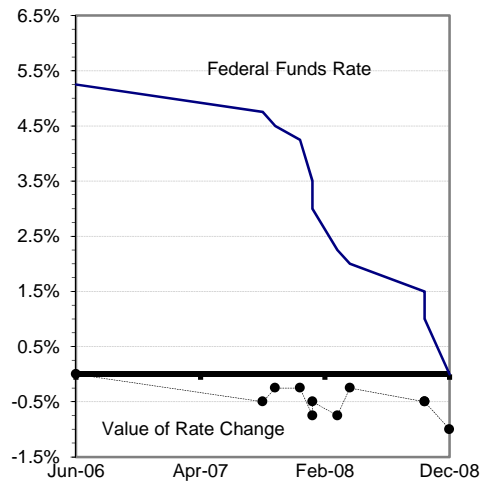
quarter of 2009 through the second quarter of 2014, real GDP has been positive -- growing at annualized rates between 1.3% and 4.6% -- but only averaging 2.2%. This growth is weak but better than the depths of the recession from the third quarter of 2008 through the second quarter of 2009 where real GDP declined in each quarter from the preceding quarter by annualized rates that varied between -0.4% and -8.3% (Figure 3). The Federal Reserve recently lowered the downside estimates of real GDP growth in its 2014 and 2015 forecast to between 2.1% to 3.0% for the calendar year 2014 and 2.2% to 3.5% for 2015.

The seasonally adjusted unemployment rate in the U.S. fell from 7.5% in June 2013 to 6.1% in June 2014 (Figure 4). Both figures are significantly 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 6.0% to 6.5% in calendar year 2014, and further to a range of 5.4% to 5.9% in 2015. The U.S. consumer price index for all urban consumers (CPI-U) increased 2.1% from June 2013 to June 2014. The "core" rate of inflation, all items less food and energy, increased by 1.9% over the same period. The Federal Reserve projects that inflation will remain subdued over the course of 2014 and 2015, reaching annual maximum increases of 1.8% and 2.4%, respectively.



Unemployment Rates
June 2011 - June 2014
US/MA Seasonally Adjusted, Boston 12 month moving average

Figure 4



Federal Funds Rate Changes
 June 2006 - June 2013 (no change since Dec. '08)

Figure 5

Given the elevated rate of unemployment and low inflation expectations, the Federal Reserve has stated that it will maintain an aggressive growth posture of low interest rates and asset purchases into 2015. 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 STATE AND CITY ECONOMIES

The State's economy has shown resiliency during this long economic recovery. This is likely due to two overriding reasons: the state's relatively anemic recovery from the 2001 recession and the overall strength in diversification of the state's economic base (Figure 6).

During the period of 2002 to 2012, Massachusetts' annualized growth rate of 1.4% (Figure 6) in real Gross Domestic Product (GDP) by state, ranked 32nd out of all 50 states and DC and below the nation as a whole, according to the Bureau of Economic Analysis (BEA). The state's ranking has since risen to 28th in 2013, with 1.6% annualized growth over 2012. Despite its below average growth rate in terms of overall GDP since 2002, the state does remain one of the richest in terms of its GDP per capita -- \$62,866 in 2013 -- sixth in the nation and 127% of the national average.

During the 2001 recession, Massachusetts lost 200,800 jobs or 5.9% of its total, the highest percentage of jobs lost in the nation. The state had regained 134,600 jobs as of April 2008, but then lost 140,800 jobs through October 2009. Since then, Massachusetts has regained 224,100 net new

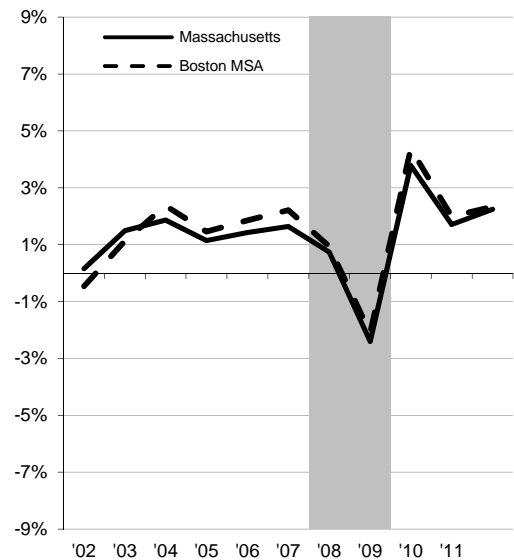
jobs -- a strong improvement and 17,000 jobs above the 2001 peak.

During the same period, the Boston-Cambridge-Quincy, MA NECTA Division lost 172,900 jobs at its nadir in January 2004. The region then regained 113,300 of those jobs through March 2008 only to lose another 104,900 through July 2009. Since, the region has gained 182,500 jobs and is now 18,000 jobs above the December 2000 peak.

The unemployment rate had been decreasing for both the State and City. From a 2008 low of 4.5%, the state's seasonally adjusted unemployment rate increased to a peak of 8.7% in October 2009 -- the highest it has been since 1992. The rate in Massachusetts has since fallen to 5.5% as of June 2014 (Figure 4), but the rate has periodically increased to over 7.0% as the labor force grows -- declining as more job seekers are employed. The employment outlook is slowly improving for the coming fiscal year with the Massachusetts Department of Revenue (DOR) projecting a state unemployment rate ranging from 5.9% to 6.7% in FY15 in a December 2013 forecast.

The City of Boston's unemployment rate had steadily fallen to 5.6% as of November 2012 (not seasonally adjusted) but has recently increased to 5.9% as of June 2014. The City's unemployment rate peaked at 8.6% in January 2010. Prior to this recession, the City had not experienced an unemployment rate over 8.5% since 1992.

Massachusetts wage and salary income in the first quarter of 2014 rose 4.3% over the same quarter 2013, continuing a



Real Gross Product Growth
 (Chained 2005 dollars)
 Annual, 2002-2012 & NBER dated recessions

Figure 6

trend of 14 positive year-over-year quarterly growth rates since first quarter 2010. Earnings growth by industry grouping over the period of the first quarter in 2013 to 2014 was strongest in “Finance and insurance” and “Arts, Entertainment, and Recreation”, while “Government and government enterprises” and “Management of companies and enterprises” showed the weakest growth during the same period.

Massachusetts’ seasonally adjusted total personal income rose by 0.9% from the first quarter of 2014 compared to the same quarter 2013, 19th out of the 50 states and DC in terms of growth and just above the national average of 0.8%.

(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 a result, the state budget is of great interest to the City.

Recent State Budget History

The State has faced several very difficult years of structural budget imbalance and is facing more difficult years ahead despite revenue increases in FY13 and FY14.

The FY11 state 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 budget since FY08 without stimulus dollars. This change led to an almost \$2 billion structural deficit that was overcome mostly by expenditure reductions, including reductions in aid to municipalities. Between FY09 and FY11, Net State Aid to municipalities (excluding regional school districts) declined by over \$670 million or 15%.

The State has made use of its stabilization or “rainy day” fund in addition to reductions in expenditures and increases in revenue to deal with its structural imbalance. 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 a low of about \$670 million before revenues began to increase again in FY11. The fund has since increased and stood at about

\$1.56 billion at the close of FY13. The remaining balance at the end of FY14 is expected to be \$1.35 billion.

The FY15 State Budget

As of this writing the State is in the final stage of development of its FY15 budget with budgets from the Governor, House, Senate and House and Senate Conference Committee having been submitted. The state budget has now been submitted to the Governor for any vetoes before being returned to the Legislature for veto overrides and final ratification. Prior to a budget submission by either branch, a local aid resolution was passed by the Legislature giving municipalities certainty in the amounts of the two largest state aid categories for the upcoming year.

Local aid in the Governor’s budget increased slightly. Unrestricted General Government Aid was level-funded and while education aid was increased, Boston would receive very little additional funds due to the way the funds are applied through the aid formula.

There seems to be no overriding issue at the forefront of state budgeting this year. The Massachusetts Taxpayers Foundation describes the Governor’s budget submission as a “steady as you go, straight-forward, no-frills” budget with no major initiatives. Rather, the Governor seemed more interested in last ditch efforts of smaller tax changes and dealing with recent issues with the State’s Department of Children and Families. Other issues are being debated are expansion of Charter Schools and increasing the minimum wage in Massachusetts.

(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, 182 municipalities out of 352 in total have adopted the meals tax. This tax was adopted by the Boston City Council effective October 1, 2009, and produced its first full year of revenue in FY11. The State also granted an option for a 2 percentage point increase to the existing 4% local option room occupancy tax which was approved and implemented in Boston along with the meals tax. To date, 109 municipalities have increased their tax to more than 4.0%.

The economy and years of State Aid reductions have taken their toll on many municipalities. The consequences have been increased reliance on the property tax, new user fees, and reduced public services throughout the state.

Recognizing the threat to fiscal stability represented by these trends, the City has repeatedly filed legislation over recent years to diversify and modernize its revenue structure and to secure and grow its tax base.

Specifically, the City 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.

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 FY15 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 by removing antiquated fees that no longer apply to the current services or adding new fees for new services that will be reviewed in the upcoming months.

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

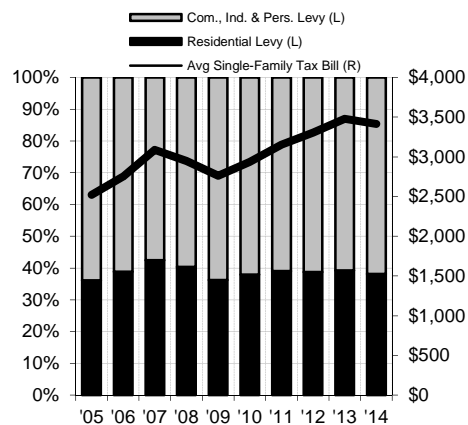
The property tax levy has always been the City's largest and most dependable source of revenue. In FY14, the net property tax levy (levy less a reserve for abatements) totals \$1.744 billion, providing 67.8% of recurring revenue. In FY15, the net property tax levy is estimated to total \$1.822 billion and accounts for 67.7% of budgeted recurring revenues.

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 FY14 ranging from a low of \$28 million to a high of \$94 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 \$94.4 million rise in FY14 represents only 5.3% 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 ½ has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 ½ 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 ½ provides for local overrides of the levy limit and a local option to exclude certain debt from the limit by referendum. The City of Boston, however, has never sought a vote 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 \$44.5 million in FY15.

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 \$35.0 million in FY15 – a solid level of growth and a marked improvement over FY13. FY14 new growth of \$53.1 million includes movement of two large properties from exempt to taxable and is therefore not comparable. Property tax



Boston Property Tax Trends
FY04- FY14

Figure 7

growth from new growth has exceeded that from the allowable 2.5% increase in nineteen of the last thirty one years.

While the total tax levy has continually gone up, property values in Boston declined during the recent tough years in the residential and commercial real estate markets. FY10 and FY11 were only the first and second declines in property values recorded in the City since FY94. In the FY13 triennial revaluation as of January 1, 2012, values increased to \$92.2 billion, a \$3.7 billion or 4.2% increase. Values continued their increase into FY14, solidly increasing by \$7.6 billion or 8.2%.

The percentage of the total tax levy being borne by residential taxpayers increased from 36.2% to 39.2% between FY09 and FY13. This shift is due to the larger decrease in commercial property values in the levy compared to residential property values. At its recent lowest point, the residential levy was nearly 32% of the total levy (Figure 7).

Indicators of the property tax in the current economy are improving as well. Office vacancy rates, an indicator of commercial real estate value, are declining from their peak. According to the firm Colliers Meredith & Grew, the City has a vacancy rate of 11.9% as of fourth quarter 2013. The National Association of Realtors reports that in the third quarter of 2013, the median sale price of an existing home in the Boston MSA was \$393,700, an increase of 7.6% over the same quarter in 2012. This recent value is a 35.4% increase from the nadir in the first quarter of 2009, but still 6.5% below the peak in the second quarter of 2006.

Recently, with all of the turmoil in the real estate market, there has been concern around falling property values and their effect on 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 1990's, and the City continued each year to maximize the allowable levy increase under Proposition 2 ½, 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 years of strong new growth increases, the City has some space between its FY14 net effective tax rate of 1.78% and the tax levy ceiling of 2.5% (Figure 8). If the real estate market were 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 were depressed long enough, future growth of the property tax would be impaired.

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 and various reimbursements. State aid, as it is used here, excludes any grants to or offsets for direct expenditure by City departments. It also includes reimbursements from the Massachusetts School Building Authority (MSBA).

The City's FY15 state aid estimate is based on a combination of the local aid resolution for the two largest aid streams, the Governor's Budget ("House 2") for all others, and a schedule of payments for MSBA. The City received general fund gross state aid totaling \$390.5 million in FY12 and \$403.3 million in FY13. The City

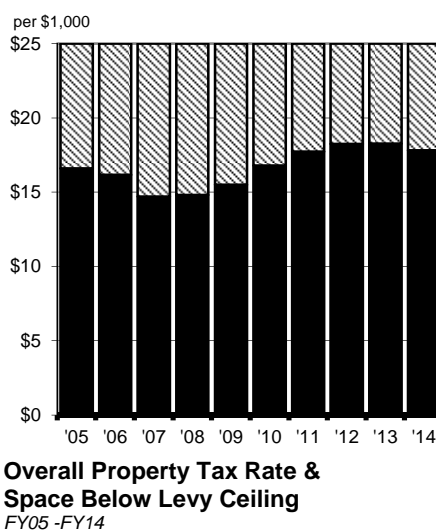


Figure 8

expects to receive \$409.2 million in state aid in FY14 and has budgeted \$417.7 million in gross state aid in FY15.

"Municipal Charges", also known as, "State 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 \$156.6 million in assessments in FY12 and \$172.4 million in FY13. The City expects to pay \$192.4 million in assessments in FY14 and is budgeting \$215.6 million in FY15. 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.

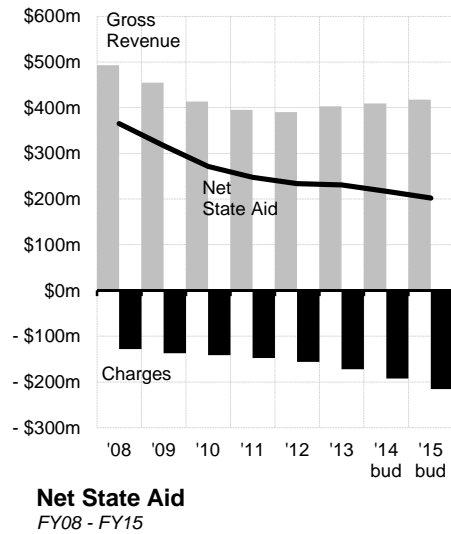


Figure 9

Net state aid, which is gross state aid revenue minus state 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 FY15, Boston is \$162.9 million, or 45%, below its FY08 level of net state aid of \$365.1 million. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources as well as levels of expenditures. To mitigate some of this loss, the state expanded local option taxing authority and created savings opportunities, but their combined value does not offset the aggregate losses in net state aid.

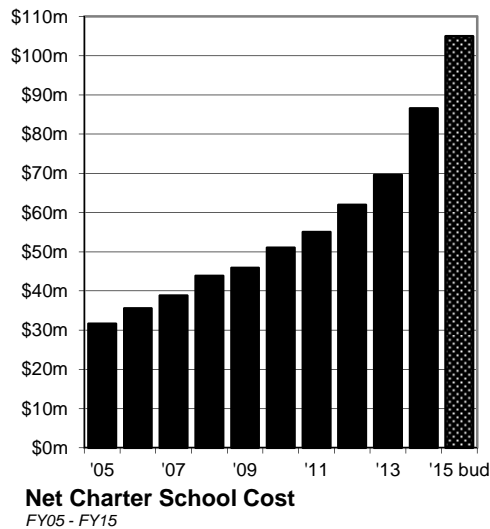


Figure 10

Net state aid amounted to \$233.9 million in FY12 and \$230.9 million in FY13. FY14 budgeted net state aid totals \$216.8 million and the FY15 Budget assumes a reduction to \$202.1 million.

Education Aid

In 1993, the Commonwealth began an effort to increase and equalize funding for local education. The Chapter 70 formula borne from that effort establishes a foundation budget, or a minimum level of education spending in each school district, which the state and district then share the cost of funding. The City received Chapter 70 education aid totaling \$205.4 million in FY12, and \$207.9 million in FY13. The City expects to receive \$209.4 million from the state in FY14 and, based on the FY15 local aid resolution passed by the Legislature, is expecting \$211.0 million in FY15.

Another key component of the Commonwealth's education reform effort is charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committee and teacher union rules and regulations. Charter Schools are financed by the home districts of their students through a per pupil based charge. (See *Innovations in Education* chapter of this volume for more detail on charter schools.)

Beginning in FY12, the previous charter school tuition cap of 9% of a sending district's net school spending (NSS) has been expanded, doubling by 2017. This increase in the amount of funding that may be diverted from a sending school district allows for more charter schools to be available to Boston resident students. The State Board of Education recently approved 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 substantially 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. A new schedule changes the percentages of reimbursement over a six year period. The tuition reimbursement for FY15 will be 100%, 25%, 25%, 25%, 25%. Reimbursement works as follows: 100% of the increase in total tuition in year X. In year X+1, the tuition increase in year X is reimbursed at a 25% rate the second year and each year thereafter up to 6 years in 2016. After the last year, the original year's tuition cost increase is no longer reimbursed.

Approximately 7,523 Boston resident students are attending “Commonwealth” charter schools in FY14. The City projects that this number will increase to 8,491 in FY15. The net cost of charter schools to the City has been increasing rapidly: in FY12 the cost was \$61.9 million and in FY13, \$69.8 million. In FY14 the City has budgeted an \$86.6 million net impact, and in FY15, \$105.0 million (Figure 10).

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

For Boston, the combined accounts totaled \$160.2 million in FY12 and FY13. In FY14, the City will receive \$164.0 million and has budgeted for an increase to \$168.6 million for FY15.

Below are historical explanations of Additional Assistance and Lottery.

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.

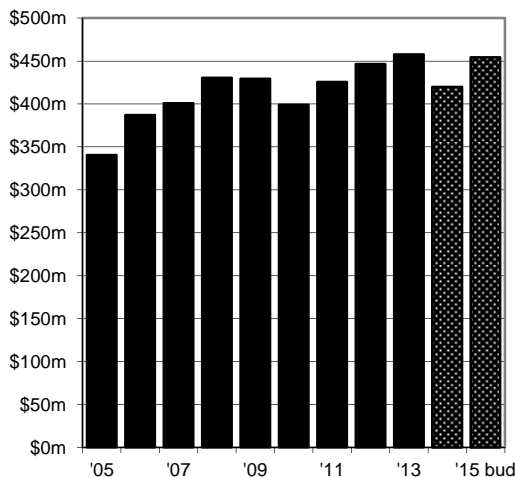
Since that time, the Federal Reserve Bank of Boston has developed a new needs-based formula and has made presentations across the state and the nation explaining the benefits of distributing aid in such a way. In the current Legislative session, a bill has been filed to renew

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.

Lottery Aid

The now 40 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.



Recurring Local Receipts (non-property tax/state aid)
 FY05 - FY15 (adj. for actual base hotel collections)
 FY12 forward includes all hotel tax

Figure 11

Local Receipts

The City annually collects a significant amount of recurring revenues other than Property Tax or State Aid. In sum, the City collected \$446.7 million in FY12 and \$457.7 million in FY13 from these sources. The City expects to exceed the mid-year budget estimate of \$419.7 million in FY14 and collect \$454.6 million in FY15 (Figure 11).

Revenue from excise taxes, payments-in-lieu-of-taxes, licenses and permits, fees and fines, investment income, and available funds are part of this local receipts group (Figure 12). Forecasts of these revenue types are done by

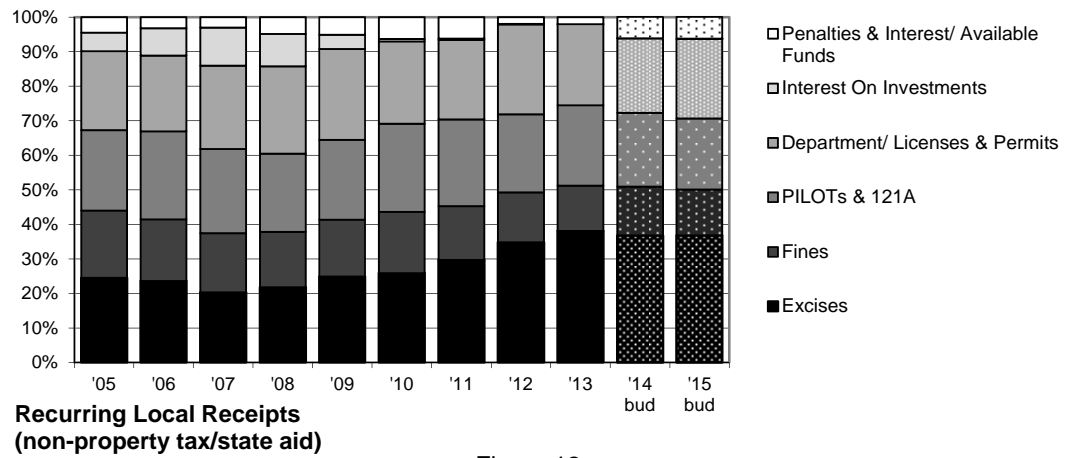


Figure 12

detailed econometric modeling or trending historical collections, depending on the specific revenue source and the availability of other data.

Excise Taxes

The Commonwealth imposes an excise in-lieu of property tax on 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.

Motor vehicle excise revenue totaled \$40.4 million in FY12 and \$47.1 million in FY13. The City expects motor vehicle excise revenue to meet the midyear annual projection of \$40.0 million in FY14 and rise to \$42.0 million in FY15. 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.

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and received \$22.0 million for FY12. In FY13, the City collected \$22.9 million. In FY14, the City expects to exceed the budgeted estimate of \$21.5 million and the FY15 budget assumes an increase to \$23.0 million. This revenue is estimated using the income of area residents, employment numbers for local restaurants, expected local room occupancy excise revenues (a driver of restaurant meals), and historical trends.

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 to the City totaled \$63.4 million in FY12. In FY13, the City collected \$69.4 million. The City expects to exceed the mid-year budget estimate of \$64.0 million in FY14 due to very strong hotel bookings. The FY15 budget estimates an increase to \$68.5 million. FY12 through FY14 collections include an amount that was directed to pay debt service on bonds related to the Boston Convention and Exhibition Center (BCEC). That practice ended in FY15.

Room occupancy excise receipts are estimated based on air travel statistics from Logan International Airport, regional personal income, and the consumer price index for recreation for Boston.

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. Prior to FY13 this revenue source was pledged directly to BCEC special obligation debt and was not budgeted in the general fund. This revenue is now available for general fund use and is estimated at \$1.0 million for FY14 and \$1.3 million for FY15.

The excise on the sale of jet fuel is 5% of the average sales price of the previous quarter, but not less than five cents per gallon. Increases in fuel prices lead to increased jet fuel excise revenue. Recent jet fuel prices have decreased slightly from their peak in FY12, but have remained fairly consistent. Jet fuel excise revenue totaled \$32.6 million in FY12 and \$36.6 million in FY13. The City expects this revenue source to exceed the midyear annual projection of \$30.8 million in FY14 and to increase to \$32.0 million in FY15. Estimates incorporate fuel price forecasts from the

Energy Information Administration (EIA) and air traffic volume from Logan International Airport.

Parking Fines

In FY13, the City issued over 1.3 million parking tickets and has maintained a high rate of collection on those tickets. Approximately 86% of tickets are collected in the first six-months after issuance and 91% are 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 \$61.0 million in FY12 and \$56.3 million in FY13. Parking fine revenue is expected to reach the mid-year budget estimate of \$56.0 million in FY14 and increase to \$56.5 million in FY15. 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 reduced in an effort to stimulate the economy out of recession. Given the very low interest earnings potential of recent years, the Treasury department had instead engaged in a compensating balance approach with banks, having fees paid through depositing minimum balances. Now that interest rates are increasing as the economy shows signs of recovery, the City is moving away from the compensating balance approach. Investment income totaled \$1.0 million in FY12 and \$180,000 in FY13. The City projects interest income will reach the \$120,000 mid-year annual estimate in FY14 and is projected to increase to \$200,000 in FY15.

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 PILOTs 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.

In April 2010, 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 FY15 assume the fourth year of that period.

Payments in lieu of taxes totaled \$36.0 million in FY12 and \$42.6 million in FY13. The City expects this revenue source to meet the midyear annual budget estimate of \$42.4 million for FY14 and estimates \$45.1 million in FY15.

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 121A, 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 FY12 and FY13, the City received Chapter 121A, section 10 distributions of \$37.6 million and \$35.2 million, respectively. In FY14, Chapter 121A section 10 revenues are budgeted at \$26.5 million and \$26.8 million for FY15. The decrease in this line is a result of the expiration of several large Chapter 121A section 10 agreements and the properties transitioning back to regular property taxes.

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 \$24.6 million in FY12 and \$25.8 million in FY13. The City expects FY14 Section 6A collections to reach the midyear budget estimate of \$21.0 million and decrease to \$19.2 million in FY15.

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 \$8.1 million in FY12 and \$7.4 million in FY13. Municipal Medicaid reimbursement is expected to reach the midyear annual budget estimate of \$6.0 million in FY14 and increase to \$7.0 million in FY15.

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 \$11.2 million and \$15.8 million in FY14 and FY15, 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 \$32.6 million and \$29.3 million in FY12 and FY13 respectively. Building permit revenue is expected to meet the midyear budget estimate of \$34.0 million in FY14, and is projected to decrease to \$28.0 million in FY15. This estimate is forecast based on the Wilshire US Real Estate Investment Trust Total Market Index, 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 \$7.5 million in FY12 which included an increase due to an early FY13 payment and \$4.6 million in FY13. The City has budgeted \$4.6 million in FY14 and \$6.0 million in FY15.

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 \$3.4 million in FY14 and \$3.5 million in FY15.

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 City collected \$8.6 million in such penalties and interest in FY12 and \$9.3 million in FY13. Actual penalty and interest collections for FY14 will meet the current midyear budget estimate of \$8.4 million and are projected to be \$8.7 million in FY15.

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 did not transfer any funds in FY12 or FY13. The City expects to transfer \$16.5 million from the parking meter fund to the general fund in FY14 and \$19.0 million in FY15. The City also plans to transfer roughly \$807,000 from the cemetery trust fund to the General Fund in FY14 and roughly \$772,000 in FY15.

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 FY15 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 FY13 Budget did not use of these funds, instead using recurring revenue to support the appropriation for Other Post-employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY14 and FY15 budget assume the use of \$40.0 million to support OPEB.

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

CITY OF BOSTON REVENUE SUMMARY

		FY12 Actual	FY13 Actual	FY14 Budget	FY15 Budget
PROPERTY TAX LEVY		1,615,908,723	1,684,421,864	1,778,801,240	1,858,425,338
OVERLAY RESERVE		(38,656,031)	(41,055,345)	(34,878,456)	(36,439,713)
Subtotal		1,577,252,692	1,643,366,520	1,743,922,784	1,821,985,625
EXCISES					
	Motor Vehicle Excise	40,436,404	47,104,610	40,000,000	42,000,000
40601	Meals Excise	21,990,978	22,891,632	21,500,000	23,000,000
40129	Room Occupancy Excise	60,138,593	66,068,006	60,706,839	68,500,000
40130	Jet Fuel Excise	32,644,073	36,625,286	30,800,000	32,000,000
41113	Vehicle Rental Surcharge	NA	1,370,376	1,000,000	1,300,000
40140	Condominium Conversion Excise	266,000	256,000	250,000	325,000
	Boat Excise	70,660	64,049	65,000	75,000
Subtotal		155,546,708	174,379,959	154,321,839	167,200,000
FINES					
	Parking Fines	60,991,478	56,350,354	56,000,000	56,500,000
45104	Code Enforcement - Trash	426,104	785,108	600,000	750,000
	Other Fines	3,278,691	2,339,080	2,645,000	3,250,000
Subtotal		64,696,272	59,474,542	59,245,000	60,500,000
47151	INTEREST ON INVESTMENTS	981,948	178,581	175,000	200,000
40167	PILOTs	18,006,472	24,195,785	24,000,000	26,100,000
40168	Other Payments In Lieu of Taxes	572,184	392,350	400,000	600,000
40169	Massport	17,405,856	17,990,365	17,769,000	18,440,124
Subtotal		35,984,511	42,578,500	42,169,000	45,140,124
URBAN REDEVELOPMENT CHAPTER 121					
40230	Urban Redev. Chap. 121B Sec. 16	2,283,202	2,994,095	2,100,000	2,250,000
40231	Urban Redev. Chap. 121A Sec. 6A	24,634,446	25,799,019	19,000,000	19,190,000
41013	Urban Redev. Chap. 121A Sec. 10	37,579,447	35,200,505	26,500,000	26,765,000
Subtotal		64,497,095	63,993,619	47,600,000	48,205,000
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,541,735	1,524,065	1,500,000	1,525,000
43109	Liens	650,900	671,800	585,000	650,000
43120	City Clerk Fees	453,773	481,468	475,000	600,000
43137	Municipal Medicaid Reimbursement	8,075,890	7,382,345	6,000,000	7,000,000
43138	Medicare Part D Reimbursement	4,411,738	2,697,656	2,675,000	3,000,000
43202	Police Services	604,633	526,797	525,000	600,000
43211	Fire Services	4,790,011	4,969,274	4,750,000	5,000,000
43301	Parking Facilities	1,010,229	1,681,357	1,600,000	1,575,000
43311	PWD - Street & Sidewalk Occupancy Fees	3,662,860	4,674,937	4,500,000	4,600,000
43425	Street Furniture - Fixed Fees	1,500,000	1,500,000	1,500,000	1,500,000
43426	Street Furniture - Ad Fees	906,057	1,108,229	1,100,000	1,100,000
44002	Tuition & Transportation - Schools	791,497	1,496,528	1,475,000	1,550,000
47119	Affirmative Recovery	1,633,769	807,124	525,000	525,000
47130	Fringe Retirement	6,496,101	5,553,364	5,200,000	5,500,000
47131	Pensions & Annuities	3,373,132	3,514,591	3,400,000	3,500,000
47132	Fringe Benefit & Indirect	527,526	26,235	25,000	525,000
48000	Detail Admin. Fee	3,149,226	2,983,553	2,975,000	3,100,000
	Other Misc. Department Revenue	20,883,762	20,664,249	11,169,925	15,781,666
Subtotal		64,462,840	62,263,574	49,979,925	57,631,666

CITY OF BOSTON REVENUE SUMMARY

		FY12 Actual	FY13 Actual	FY14 Budget	FY15 Budget
LICENSES & PERMITS					
40211	Building Permits	32,565,249	29,252,852	24,000,000	28,000,000
40213	Weights & Measures	300,686	261,320	250,000	260,000
40215	BTD - Street & Sidewalk Permits	3,144,683	3,110,530	3,000,000	3,100,000
40221	Health Inspections	1,783,619	1,703,746	1,650,000	1,700,000
40222	Alcoholic Beverage Licenses	3,444,963	3,509,896	3,400,000	3,500,000
40224	Entertainment Licenses	2,116,457	2,097,101	2,000,000	2,100,000
40229	Other Business Licenses and Permits	194,145	236,708	235,000	225,000
40235	Cable Television	7,504,563	4,595,191	4,600,000	6,000,000
	Other Licenses and Permits	877,198	806,259	1,325,000	2,350,000
	Subtotal	51,931,563	45,573,603	40,460,000	47,235,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	2,426,691	2,459,763	2,400,000	2,425,000
40134	Penalties & Interest - Motor Vehicle Excise	2,876,671	2,843,268	2,800,000	2,850,000
40136	Penalties & Interest - Tax Titles	3,268,188	3,954,531	3,200,000	3,400,000
	Other Penalties & Interest	6,521	3,821	5,000	6,500
	Subtotal	8,578,071	9,261,383	8,405,000	8,681,500
AVAILABLE FUNDS					
42502	Cemetery Trustee	-	-	807,129	772,880
42503	Parking Meters	-	-	16,500,000	19,000,000
	Subtotal	-	-	17,307,129	19,772,880
STATE AID					
41015	State Owned Land	271,873	271,960	277,338	294,886
41101	R.E. Abatements - Veterans/S.S./Blind/Elderly	501,498	1,152,329	1,152,329	1,107,875
41114	Veterans Services	3,151,268	3,159,913	3,197,376	2,800,730
41118	Unrestricted General Government Aid	160,247,301	160,247,301	164,035,210	168,584,213
41119	Racing Taxes	649,818	309,478	577,406	577,406
41301	School Construction	8,107,767	10,476,568	8,474,584	8,175,513
41305	Charter Schools Reimbursement	12,130,766	19,798,203	22,090,688	25,146,117
41306	Chapter 70 Education Aid	205,414,453	207,858,813	209,406,563	210,991,435
	Subtotal	390,474,744	403,274,565	409,211,494	417,678,175
RECURRING REVENUE TOTAL		2,414,406,444	2,504,344,845	2,572,797,171	2,694,229,970
NON-RECURRING REVENUE					
42501	Surplus Property	-	-	-	-
42504	Budgetary Fund Balance	-	-	40,000,000	40,000,000
TOTAL REVENUE		2,414,406,444	2,504,344,845	2,612,797,171	2,734,229,970