

Executive Summary

INTRODUCTION

Built on a stable financial position, Boston's \$4.64 billion FY25 Operating Budget and \$4.7 billion FY25-FY29 Capital Plan invests in the City's youth, protects basic city services, preserves city assets, provides for public safety and security and responds to concerns about climate and the City's affordability. The proposed annual operating budget is a responsible approach to enacting continuous service enhancements and process improvements to deliver City services more effectively. The five year capital plan creates and maintains our roads, sidewalks, schools, libraries, community centers, parks, public health and public safety infrastructure, to deliver the essential services on which our residents depend.

Thanks to continued strength in local property tax revenue and continued growth of local receipts particularly with excises for hotel occupancy and meals, the FY25 Operating Budget includes \$4.64 billion in spending, a year-over-year increase of \$344 million or 8% over FY24.

This fiscally responsible budget will also fully fund long-term liabilities, like pensions and debt service, enabling investment in our City's largest Capital Plan in history. The plan touches all neighborhoods and supports capital projects, including schools and libraries, and programs, such as Vision Zero transportation efforts and street tree plantings.

The proposed FY25 operating budget for Boston Public Schools (BPS) is an increase of \$81 million will go into schools and classrooms to bridge gaps in opportunity

and achievement and build a foundation for the district's future.

The robust \$4.7 billion FY25-29 Capital Plan proposes to invest heavily in revitalizing the shared neighborhood spaces. This year's capital plan increases in overall size and will serve as a catalyst for the local economy. The capital plan serves the dual purposes of creating and preserving vital City assets but also stimulating the local economy.

This year's capital plan continues to pay particular attention to equity and focus on investments in the City's inventory of roads, bridges, schools and parks in the neediest parts of the City. The Capital Plan invests in projects in every neighborhood consistent with the strategic master plans that have been developed with the community. This ensures that the municipal, civic and open space assets, which residents cherish in their neighborhoods, remain active and vibrant parts of the community.

The FY25-FY29 Capital Plan also includes funding for new schools and upgrading existing schools; transformative mobility projects like new bridges, roads, bus and bike lanes; major park upgrades in neighborhoods throughout the city; new community centers; and dedicating significant new City funding toward climate resilient projects.

For more information on the City's FY25 Operating Budget and FY25-29 Capital Plan, please visit:

<https://www.boston.gov/finance/fiscal-year-2025>.

PUBLIC ENGAGEMENT

In past years, the Office of Budget Management (OBM) coordinated a cross-departmental effort to engage Boston residents in the development of the city's budget. The office hosted public meetings and created educational videos and slide decks that live on boston.gov. To view these materials explaining how the budget is created and how residents can get involved, visit:

<https://www.boston.gov/departments/budget/how-budget-works>

As a result of Ballot Question 1 passing in the fall of 2021, the City created a new Office of Participatory Budgeting (OPB). The office is funded in the Finance cabinet and charged with setting up an equitable and binding decision-making process in which all Bostonians may participate by Fiscal Year 2024; proposals will be solicited and selected for funding through this public process. The ordinance officially creating OPB was adopted in February 2023 and an executive director was hired in June 2023. During the FY25 budget development cycle OPB became fully staffed and established its oversight board. Besides managing the process described above, OPB will engage and educate residents regarding the City budget during the FY26 budget development cycle and beyond. For additional information on OPB, see the Appropriations section in the Operating Budget chapter.

NEW CITY COUNCIL BUDGET APPROVAL POWERS

In November 2021 Boston voters approved Ballot Question 1, a City Charter change, which amended the City of Boston's existing budgetary process from the City Council having power to adopt or reject a budget or reduce a specific item in a budget to the Mayor and the City Council holding budgetary powers together, with the City Council now able to modify and amend

appropriation orders as long as the changes do not exceed the total amount of the Mayor's proposal.

The FY25 operating budget is the third budget submitted following the change to the City Charter. The City Council will undertake a robust hearing process in the weeks following the April 10, 2024 FY25 annual operating budget submittal and the approval process continued as follows;

- **June 5 or 12, 2024** - the City Council must take action on the FY25 annual operating budget by either accepting, amending or rejecting
- **June 12 or 19, 2024** - the Mayor has seven days after the City Council takes action to approve or return the FY25 annual operating budget to City Council with further amendments.
- **June 26, 2024** - this is the last City Council meeting of FY24 and the City Council has the option to pursue override votes on the Mayor's amendments with a two-thirds majority vote.
- **July 1, 2024** - the FY25 annual operating budget is expected to be in place for the beginning of the fiscal year.

THE GENERAL FUND

The City's entire \$4.64 billion budget is funded through the general fund. All revenues discussed below are deposited into the City's general fund and are reflected on a fiscal year basis July 1 through June 30.

REVENUE

The City's growing revenue budget, growth that persisted even during recent pandemic-impacted years, is a testament to the resilience of Boston's economy and tax base. Property tax continues to drive year-over-year revenue growth through a combination of the allowable 2.5% increase and cautious new growth estimates. Local

receipts, such as fines, fees and excise taxes, are expected to build on their strong performance in FY23 that surpassed pre-pandemic levels and through the first three quarters of FY24. Despite the resilience of the local economy, the City anticipates State Aid to decrease based on the FY25 State budget as submitted by Governor Healey in January 2024.

The FY25 Operating Budget relies on \$4.64 billion in revenue, a \$344.0 million increase over the FY24 budget (8.0%). Revenue growth in FY25 is nearly evenly split between property tax, \$158.7 million, and local receipts (including Excises and Departmental revenue), \$186.4 million. State aid is projected to decrease by \$1.1 million.

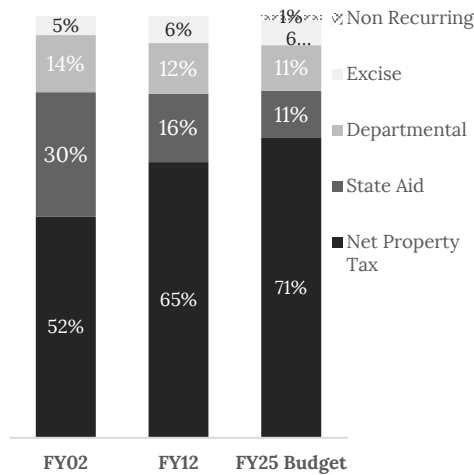


Figure 1 – Share of Revenue by Category FY02, FY12, and FY25

Property Tax

Property tax remains the primary revenue source for all City services and departments, in Massachusetts, Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base to a 2.5% annual increase. Some of this limitation is eased by new growth (eg. new construction) that is added to the property tax levy outside of the 2.5% increase. Despite the addition of new growth, total property value has grown 121% in the past 10 years while property tax revenue has grown by 71%. The growth in

property value is consistent with the City’s commitment to new housing construction and the strength of Boston’s development climate. Consequently, property tax growth continues to be a point of strength for the City.

In FY25, we expect new growth to be lower than in recent years due to economic uncertainty resulting from increasing interest rates and inflationary pressure on construction and the real estate market. During the past half dozen years, the City has seen notable construction projects in Boston enter the City’s property tax base for commercial, mixed-use and residential properties, most notably in the Seaport District, Dorchester, and the Back Bay. More building activity is forthcoming with 16.6 million square feet and over 7,000 residential units of approved for construction in 2023.

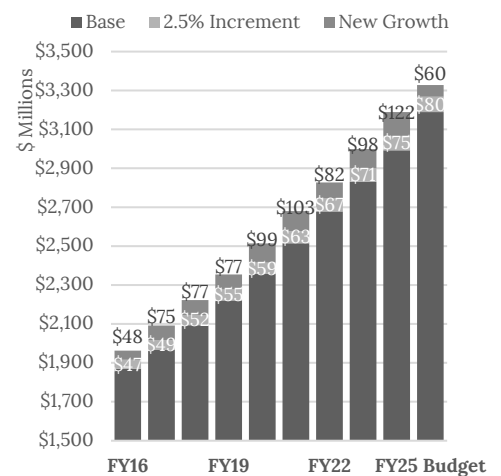


Figure 2 - Property Tax Levy Increase by Type (in millions), FY16 - FY25

Despite the need to maintain and grow property tax revenue, the City is committed to keeping residential property tax bills affordable to retain more low- and middle-income homeowners in the City. Policies we have pursued are demonstrating success, as residential taxes are more than 17% lower than the statewide average.

Thanks to advocacy to increase the residential exemption limit to 35% of the average assessed value of all class one residential properties, the City Council, with the approval of Mayor Wu, once again was able to allow the maximum exemption permitted by law. For FY24 the residential exemption amount increased by \$155 over the FY23 exemption, saving eligible taxpayers up to \$3,611 on their property tax bills.

State Aid

In 2002, State Aid comprised 30% percent of the City’s annual budget and helped the City maintain a sustainable balance between local revenue and other resources. In the following decades the State investment in its municipalities remained mostly flat, and in FY25 State Aid is projected to be 11.2% of the City’s budget. This divestment by the State has largely been driven by stagnation in K-12 Education (Chapter 70) funding and Unrestricted General Government Aid (UGGA).

The Student Opportunity Act, passed in 2019, revamped the funding formula for districts with exceptional need. Despite the new funding formula, Chapter 70 aid for the City is projected to grow by \$1.7 million, or 0.7%. Across all General Fund sources, the City expects to receive \$1.1 million less in State Aid relative to its FY24 appropriation.

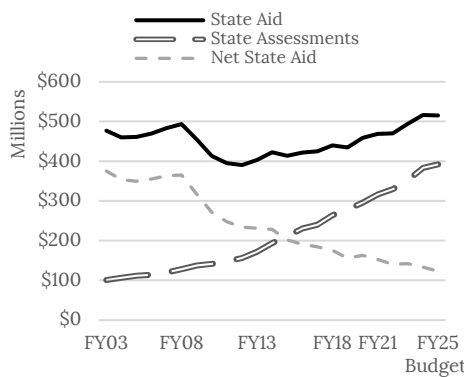


Figure 3 – State Aid, State Assessments and Net State Aid (in millions), FY03–FY25

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY08. Net State aid is anticipated to decline substantially by \$10.0 million in FY25 over the FY24 appropriation. This decrease is driven primarily by a \$8.5 million decrease in the charter school tuition reimbursement. Boston’s net state aid for FY25 will be \$241.9 million, or 76%, below its FY08 level of net state aid. The FY25 projected net state aid totals \$123.1 million based on state budget negotiations at the time the City budget was finalized. Despite the annual increases in UGGA and Chapter 70 aid, assessments have outpaced aid revenues and have placed extraordinary pressure on the City to generate necessary revenue from property tax and local revenue sources to fund services.

Local Receipts

Local receipts or revenue the City is able to generate locally, include items like excise taxes, fees, fines, and permits. This vital revenue source generally follows the City’s overall economic health and was greatly impacted by the coronavirus pandemic and economic fallout, dropping \$190 million, or nearly a third, between FY19 and FY21. In FY25 local receipts are projected to increase by \$186.4 million, or 31%, over the FY23 budget, building on improved collections in FY23 and anticipating continued economic strength.

Eighty percent of the year-on-year increase comes from three sources: Excises, Interest on Investments, and the addition of the Planning Department. Excises are anticipated to increase by \$37.4 million. The local economy has benefitted from a swift recovery from the local tourism and hospitality industry that has supported *Rooms Occupancy*, *Meals*, and *Aircraft Fuel Excise*. Interest on Investments are sensitive to the Federal Funds target rate set by the Federal Reserve. The steep increase in the target rate has increased the yields on City held

funds. In FY25, Interest on Investments are budgeted to grow by \$71.0 million. This revenue will be negatively impacted if the Federal Reserve decides to reduce rates in the future. Finally, the integration of the Boston Planning and Development Agency will also bring associated revenues with its operations. These new revenues are projected to cover expenses of the department and will total \$42.4 million in FY25.

Local receipts can be more susceptible to macroeconomic and policy factors beyond the City borders than Property Tax. Therefore, a diversified revenue base is beneficial to the City's fiscal health. As local receipts are one area where the City can pursue new and expanded revenue streams, the City will also continue to study opportunities to raise revenue in a thoughtful, equitable, and sustainable manner.

Non-Recurring Revenue

In FY25, the City has budgeted the use of \$40 million of Budgetary Fund Balance. Budgetary Fund Balance is more commonly referred to as "Free Cash." These funds support the appropriation for Other Post-Employment Benefits (OPEB), the liability associated with retiree health insurance costs. The same amount was budgeted in FY24 as well. In FY22 and FY23, the City utilized funds granted by the American Rescue Plan Act of 2021 (ARPA) for revenue replacement purposes. No revenue replacement funds from ARPA have been budgeted in FY24 or FY25.

EXPENDITURES

Overall FY25 operating budget expenditures are increasing by \$344 million or 8% over FY24, for a total of \$4.64 billion. The FY24 spending growth falls within the City's projected revenue growth and continues core services and allows for strategic investments. The combined appropriations for City Departments, the

Public Health Commission (PHC), the School Department (BPS), and non-departmental appropriations are increasing by 8.4% from FY24.

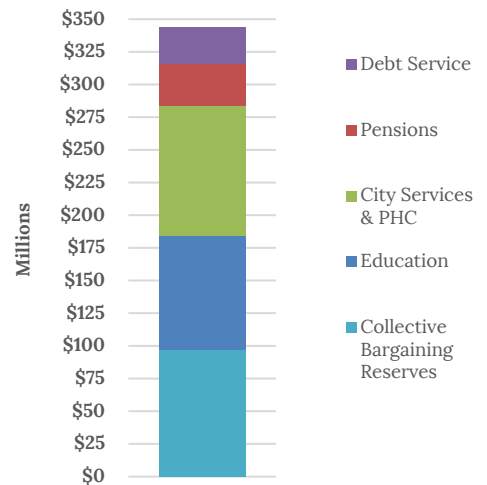


Figure 4 - Budgetary Growth by Category City Appropriations

City Services such as Police, Fire, Public Works, Housing, and other central funds are projected to increase by a total of \$88.4 million or 5.4%.

While the budgets transferring from the Boston Planning and Development Agency (BPDA) into the Planning and Office of Workforce Development departments (totaling \$39 million) are the largest year over year increase, they will be covered by revenue transfers from the remaining quasi authority. The next largest area of growth in the operating budget for City Appropriations is in the Public Safety Cabinet, which is growing by \$12 million or 1.6% with recent settlement of collective bargaining contracts for police officers and detectives.

The Information and Technology Cabinet is growing by \$8.6 million or 19.2% with a focus on delivery systems and technology that support the delivery of basic city services more effectively and efficiently.

The remaining 16 City Cabinets in the City Appropriations grouping are growing by

\$41.6 million or 3.4% and are described in addition detail in the Appropriations section of the Operating Budget Chapter. The priorities established for every City Cabinet and Department include:

- Delivering Exceptional City Services
- Equity and Economic Opportunity
- Youth and Families
- Climate and Green Space
- Increasing Affordability
- Public Health and Safety

The City believes its employees are its greatest resource for providing excellent city services. Fair wages are an important component to support the City’s greatest resource. The City continues to negotiate successor agreements for the outstanding contracts. The FY25 budget includes a \$118.8 million reserve for collective bargaining. As contracts are settled, the funding, with the approval of the Boston City Council and the Mayor, will be moved from the reserve to the individual departmental budgets where the wages will be paid.

Public Health

The Public Health Commission (PHC) budget is growing by \$8.5 million (6.5%) in FY245. The budget includes a \$1.3 million investment to add staff for EMS to maintain response times. There will also be funding for an infant and maternal health program, to combat health disparities facing Black birthing families. Unlike other city departments, the PHC budget contains health insurance and pension.

Education

With a \$1.53 billion appropriation, the Boston Public Schools (BPS) budget is increasing by \$80.8 million over the FY24 appropriation.

In addition, \$36 million will be dedicated new investments, headlined by \$20 million for inclusion work to ensure that students with the highest need are educated in the

least restrictive environment. Additional school-directed investments seek to improve educational outcomes and the student experience.

Fixed Costs

The City is required by binding agreements to meet its long-term financial commitments, such as pensions and debt service. This budget will continue to support the City’s fixed costs for next year, including pensions, debt service and non-charter school state assessments, and maintain the City’s level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 17% of the City’s revenue growth but this funding commitment is critical to maintaining Boston’s AAA bond rating and securing the long-term fiscal health of the City.

Boston’s pension schedule used for the FY25 budget is based on an actuarial valuation as of January 1, 2022. Boston’s pension liability was 82.4% funded and is estimated to be fully funded by 2027.

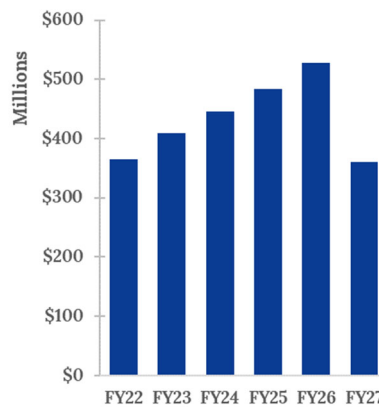


Figure 5 - Pension Funding Schedule

FY25-29 CAPITAL PLAN

The \$4.7 billion FY25-29 Capital Plan makes critical investments in the City’s infrastructure in every Boston neighborhood: new and renovated schools, streets, arts, climate resilience improvements, green infrastructure,

affordable housing, parks, and playgrounds. Taken together, these projects will support Boston's dynamic economy and improve quality of life for residents by encouraging affordability, increasing access to opportunity, promoting a healthy environment and public realm.

Planned bond issuance is expected to increase 3.6% over last year's plan, one-time funding sources are leveraged, and the City continues to collaborate with the Massachusetts School Building Authority on the design and construction of new schools and the repair of existing building systems.

An estimated 90% of the investment in the FY25-29 Capital Plan is aligned with the City's planning efforts:

- Supporting a commitment to invest in Boston Public Schools including the construction of new buildings, partnering with the MSBA, reconfiguring and renovating existing buildings, and establishing budget plan reserves for future projects identified through strategic planning and community engagement.
- Leveraging State and Federal grants, with City capital funds to make streets that are safer and welcoming for all users, travel that is more reliable and predictable, and quality transportation choices that improve access to interconnect our neighborhoods for all modes of travel.
- Preparing for climate change by incorporating green infrastructure into our street, parks, and facility projects, and by continuing to develop and implement plans for coastal and storm water resilience.
- Setting the stage for planning for the comprehensive, long-term recovery campus on Long Island to tackle the opioid crisis and when fully permitted move forward with the construction of a new bridge to Long Island.

- Supporting the Percent for Art Program, demonstrates the City's leadership and commitment to sustainable funding for the arts by setting aside 1% of the City's annual capital borrowing for the commissioning of public art.

