

Executive Summary

INTRODUCTION

This year's \$3.99 billion Fiscal Year 2023 (FY23) Operating Budget and \$3.6 billion FY23-FY27 Capital Plan sets a foundation for our future, connects our communities, and delivers on the details of city services across our neighborhoods. Through sound fiscal management, this budget is a roadmap for investing critical resources to build a more connected city for everyone.

As Boston continues to navigate its way through the economic and social impact of the COVID-19 pandemic, the equitable distribution of resources has been set as the new standard. We now know the pandemic revealed the stark inequalities that have existed in our City for too long. This budget is one important part of the shared goals and priorities of making Boston a more equitable city for all.

With support provided through the American Rescue Plan Act (ARPA), Boston will not only grow its operating budget to provide the core city services our residents need and deserve, it will have an additional one-time funding infusion of federal resources to make transformational change over the upcoming years. Boston entered this pandemic as one of the best prepared local governments in the country. Unlike many cities that are using the vast majority of their federal ARPA resources to replace lost revenue to maintain basic services, Boston can afford to make targeted investments to proactively address the impacts of the pandemic. Boston's economic strength manifests itself in the reaffirmed triple-A credit rating now maintained for 8 years straight.

Thanks to continued strength in local revenue and a significant infusion of federal funding from the American Rescue Plan Act, the FY23 Operating Budget includes \$3.99 billion in spending, a year-over-year increase of \$222.5 million or 5.9% over FY22. Even with lingering weakness in certain sectors of the economy, property tax revenue has proven resilient over the past year. This year's budget has been crafted within the context of uncertainty related to the long-term impact of the pandemic on new development in the City. Other local revenue sources like excise taxes and department revenue will grow modestly as the economy continues to rebound more fully, but will continue to be below pre-pandemic levels.

The most significant new dynamic to Boston's budget is the American Rescue Plan Act (ARPA) signed by President Biden in March 2021 that provides hundreds of millions in federal funding to the City, the Boston Public Schools, and other local organizations over the next four fiscal years. The City's ARPA allocation totals almost \$560 million, of which \$95 million is earmarked for revenue replacement over FY22 and FY23 to help support the City's annual operating budget.

The guiding principles for the use of Boston's ARPA funds include:

- Once-in-a-generation opportunities for transformative investments.
- Jumpstarting solutions to long-term challenges and making some big bets on Boston, while recognizing that we have to tackle the ongoing COVID-19 pandemic at the same time.

- Focusing on cross-departmental ideas that address equity, climate justice, jobs, and health.
- Leveraging additional public and private resources and prioritize financial sustainability beyond ARPA.
- Incorporating public feedback from the Budget Listening Tour in winter 2022 and the Let's Go Better Campaign in Fall 2021.

To date \$551.7 million has been appropriated to continue the response to the COVID-19 pandemic and to help drive an equitable recovery for all Boston residents. \$7 million has been set aside in reserve for future use.

- \$362.2 million appropriated for Transformative Investments (July 2022)
- \$81.5 million appropriated for Emergency Relief Package (July 2021)
- \$55 million appropriated for FY22 Revenue Replacement (July 2021)
- \$40 million Revenue Replacement appropriated for FY23 (June 2022)
- \$8 million Fare Free Bus Expansion appropriated (Nov. 2021)
- \$5 million appropriated for Small Business Fund 2.0 Expansion (Jan. 2022)

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 FY23 operating budget also surpasses the last year of the City's three-year \$100 million commitment to the Boston Public Schools (BPS). An increase of \$40 million will go into schools and

classrooms to bridge gaps in opportunity and achievement, and make significant strides in supporting the social-emotional wellbeing of our students.

The robust \$3.6 billion FY23-27 Capital Plan proposes to invest heavily in revitalizing the shared neighborhood spaces, which Boston's residents grew to love even more during the pandemic. 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 FY23-FY27 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 civic places like City Hall Plaza and new community centers; and dedicating over 10% of new City funding toward climate resilient projects.

For more information on the City's FY23 Operating Budget and FY23-27 Capital Plan, please visit:

<https://www.boston.gov/finance/fiscal-year-2023>.

For more information on the City's ARPA spending, visit:

<https://www.boston.gov/departments/mayors-office/equitable-recovery-people-boston>

PUBLIC ENGAGEMENT

As we closed out FY21 and entered FY22, the Office of Budget Management in partnership with the Mayor's Office of New Urban Mechanics, launched the *Moving Through the Budget (MTTB)* engagement effort. During the MTTB program, the City and local movement therapists taught a pilot group of East Boston residents how to engage with the City, and then process their feelings about city government and city budgets. While it was held virtually due to the COVID-19 pandemic, group participants appreciated gaining the tools to learn how to engage with the city over budget matters. To learn more, visit: <https://www.boston.gov/departments/new-urban-mechanics/moving-through-budget>

As the City embarked on the FY23 budget development process, the order of public engagement on the upcoming budget was flipped. Before budget recommendations were finalized, a series of public listening sessions were held in collaboration with City Councilors who served as co-hosts for the listening sessions. These sessions were held virtually due to a reemergence of COVID-19 and interpreters were present to ensure non-English speakers could engage. In addition, the City launched their first budget survey, translated into multiple languages, to directly hear from constituents about what they want to see in their budget, and how they want to learn about the budget. The survey garnered 992 responses and over 500 people attended the listening sessions. The survey, listening sessions, and other ad hoc communication and feedback loops greatly influenced the budget as recommended to the Boston City Council.

As a result of Ballot Question 1 passing in the fall of 2021, the City will create a new Office of Participatory Budgeting. This new office is funded in the Administration and Finance cabinet and is charged with creating an equitable decision-making

process in which all Bostonians may participate in the budget process by Fiscal Year 2024. For additional information on this Office, see the Appropriations section in Chapter 2 Operating Budget.

Moving into FY23, OBM and MONUM will do a second round of Moving Through the Budget, and will work to find new ways of engaging the public and incorporating their direct feedback.

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 FY23 Adopted Budget is the first budget approved following the change to the City Charter. Changes from Recommended to Adopted include:

- Targeted appropriations from the City Council (e.g., \$3.5M for Youth Jobs, \$2.5M in Housing investments, \$800k for Office of Returning Citizens); and,
- Settled collective bargaining agreements that occurred between the submission of Recommended and the end of June; and,
- An increase in state revenue to offset some of the increased investments, based on updated state data.

Through City Council budget amendments, advocacy and an override vote on a small set of items, the City Council influenced changes to the budget that totaled \$9.9

million. However, with a reduction to state assessments the overall FY23 budget increased \$6.8 million from the April 2022 submission to the final adoption in June 2022.

THE GENERAL FUND

The City’s entire \$3.99 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 signs of recovery in FY22, though this improvement comes after dramatic declines due to COVID-19 disruption. The City also expects to receive an increase in State Aid based on the FY23 State budget as submitted by Governor Baker in January 2022 and subsequently modified by the Legislature over the spring.

The FY23 Operating Budget relies on \$3.99 billion in revenue, a \$222.5 million increase over FY22 (5.9%). \$153.8 million is projected to come from property tax growth, state revenue is budgeted to increase by \$23.2 million, and local receipts (including Excises and Departmental revenue) are projected to increase by \$60.6 million. Non-Recurring revenue is decreasing by \$15.0 million, as rebounding local receipts enable the City to reduce the amount of American Rescue Plan Act funding used to replace lost revenue.

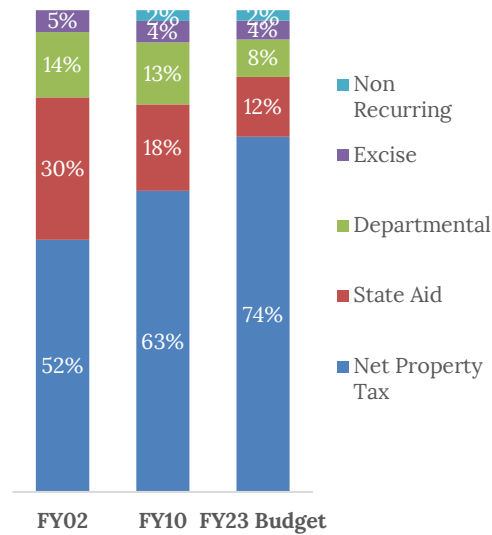


Figure 1 – Share of Revenue By Category FY02, FY10, and FY23

Property Tax

While 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. So while total property value has grown 124% in the past 10 years, property tax revenue has grown by 77%. However, Proposition 2 ½ also allows the addition of new growth (e.g. new construction) to the City’s property tax levy. Due to the City’s commitment to new housing construction and the strength of Boston’s development climate, property tax growth continues to be a point of strength for the City.

In FY23, we expect new growth to be lower than the last six years due to economic uncertainty and the effects of COVID-19 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 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

the BPDA Board approving 14.6 million square feet of development in FY21.

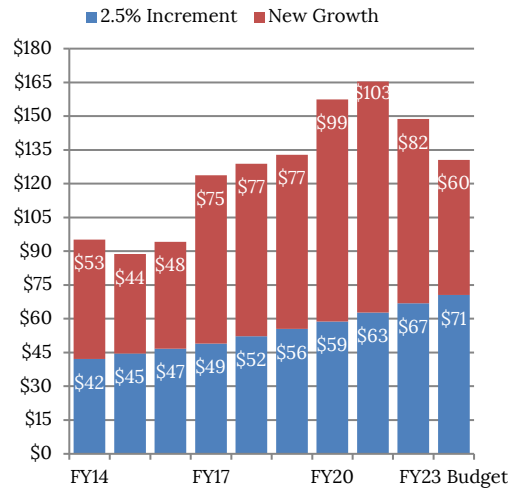


Figure 2 - Property Tax Levy Increase by Type (in millions), FY14 - FY23

Despite the need to maintain and grow property tax revenue, the City is committed to keeping residential property tax bills down to retain more low and middle class homeowners in the City. Policies we have pursued are demonstrating success, as residential taxes are more than 30% below 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. The FY22 residential exemption amount increased by \$152 over the FY21 exemption and has saved residents an average of over \$30 million annually since it was increased to 35%.

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 pulled back from its investment, and FY23 State Aid is projected to be 12.6% of the City’s budget. This divestment by the State has largely been driven by stagnation in K-12

Education (Chapter 70) funding and increases in State assessments.

The Student Opportunity Act, passed in 2019, represents a welcome development and includes a commitment to fully fund the City’s charter school tuition reimbursement. Full funding is being phased in over multiple years; for FY23 the Commonwealth’s benchmark is to fund 90% of charter school tuition reimbursement. As reflected in the FY23 Governor’s budget, Boston will receive an increase of \$14 million in tuition reimbursement relative to its FY22 appropriation.

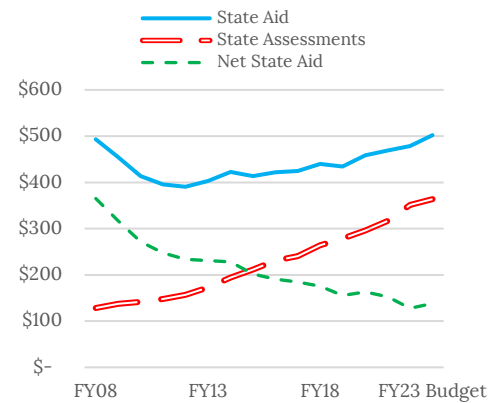


Figure 3 - State Aid, State Assessments and Net State Aid (in millions), FY08-FY23

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY02. Net State aid will increase substantially by \$10.7 million in FY23 over the FY22 appropriation, driven primarily by charter school tuition reimbursement and a proposed 2.7% increase to unrestricted general government aid. Boston’s net state aid remains \$226.7 million, or 62%, below its FY08 level of net state aid. The FY22 projected net state aid totals \$127.7 million, and the FY23 budget assumes a total of \$138.4 million based on state budget negotiations at the time the City budget was finalized. Though better off in FY23, the City’s long run loss of resources has put

extraordinary pressure on the property tax and other local revenue sources, as well as on levels of expenditures.

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 FY23 local receipts are projected to increase by \$60.6 million, or 14.9%, in FY22, building on improved collections in FY22 and anticipating continued economic recovery.

Even with projected growth, local receipts as budgeted will be \$148.1 million, or 24.0%, below FY19 levels. The need for caution has been reinforced by the uncertainty created by viral variants, geopolitical events, and macroeconomic pressures. Yet improved conditions should produce gains in excise taxes that are closely linked to the economy, such as Room Occupancy, Meals and Aircraft Fuel taxes. The City is also monitoring a series increases to the Federal Reserve Federal Funds target range given the implications for national and local economic activity, as well as income derived from City investments.

Constrained by broader economic forces and limited revenue tools, the City aims to maximize local revenue. In FY23, the Administration & Finance Cabinet will continue to work with departments citywide to review collections, understand revenue drivers, and maximize revenue recovery efforts.

As local receipts are one area where the City can pursue new and expanded revenue streams and target that revenue towards critical initiatives, the City will also continue to study opportunities to raise revenue in a thoughtful, equitable, and sustainable manner.

Non-Recurring Revenue

The FY23 budget includes \$40 million in funding from the American Rescue Plan Act of 2021 (ARPA) to replace revenue lost as a result of the COVID-19 crisis. Boston is fortunate to be in a position to devote a smaller share of its ARPA dollars to backfilling revenue compared to other large cities, and this year’s allotment is \$15 million less than the prior year due to rebounding local receipts. However, this funding remains an important near-term resource to enable Boston to deliver essential services and address the needs of its residents.

EXPENDITURES

Overall FY23 operating budget expenditures are increasing by \$222.5 million or 5.9% over FY22, for a total of \$3.99 billion. The FY23 spending growth falls within the City’s projected revenue growth and coupled with revenue replacement provided by the American Rescue Plan protects core services and allows for strategic recovery-based investments. The combined appropriations for City Departments, the Public Health Commission (PHC) and the School Department (BPS), and non-departmental appropriations as shown in the FY23 Budget Summary have increased by 5.7% from FY22.

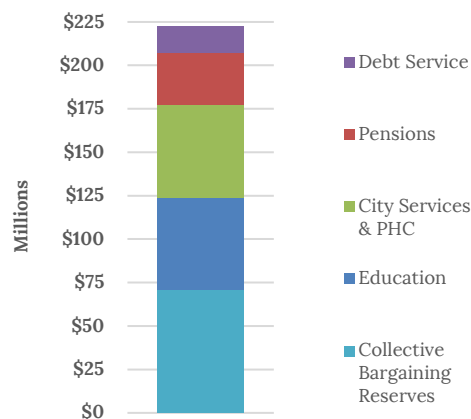


Figure 4 - Budgetary Growth by Category

Education

With a record \$1.33 billion appropriation, the Boston Public Schools (BPS) budget is increasing by \$40.1 million over the FY22 appropriation. Boston's total investment in education, including BPS and the City's charter school tuition assessment, is growing by \$12.9 million, or 5.1%, over FY22.

In FY23, the BPS level services budget is decreasing slightly, driven by central office efficiencies, while \$52 million in funding for new investments will be added to provide for the health and safety of school communities returning to classrooms, address COVID-19 impacts to learning and wellness, and improve student outcomes while advancing equity goals. Federal COVID-19 relief funding will also be aligned with investments in these areas.

City Services

City Services such as Police, Fire, Public Works, Housing, and other central funds are projected to increase by a total of \$48 million (3.3%). The largest area of growth in the operating budget is in the Housing Cabinet, which is growing by \$8.9 million or 25.2%, and will build staffing capacity in the cabinet and increase resources for low income property renters. This new operational staffing capacity will help deliver transformational projects, funded by the American Rescue Plan Act (ARPA), making significant investments in housing and homelessness to prevent displacement and expand housing opportunities for families of every income in neighborhoods across the city.

The Equity and Inclusion cabinet will seek to include every Boston resident as part of a new shared inclusive vision for Boston with the creation of two new City departments whose missions are to provide resources and promote inclusivity for historically marginalized groups. The new departments for Black Male Advancement and LBGTQ+ Advancement are charged with that mission.

The Streets Cabinet will grow by \$5.9 million or 3.5% by increasing staffing levels to build capacity to make significant transformational changes to modes of transportation and mobility, supporting investments made with ARPA funding.

The Economic Opportunity and Inclusion cabinet will invest \$5.6 million to bolster small businesses, particularly legacy small businesses facing displacement and reimagining the roles and strategy approaches to support the City's Main Street districts.

Most City union contracts have expired and are not yet settled. The City continues to negotiate successor agreements for the outstanding contracts. The FY23 budget includes a \$75.4 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. The City feels 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 Public Health Commission (PHC) budget is growing by \$7 million (6.3%) in FY23. This increase includes key investments in public health preparedness and growing the number of EMTs. Unlike other city departments, the PHC budget contains health insurance and pension.

Fixed Costs

City is required 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 it maintains the City's level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 25% 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 FY23 budget is based on an actuarial valuation as of January 1, 2020. Boston’s pension liability was 75.6% funded and is estimated to be fully funded by 2027.

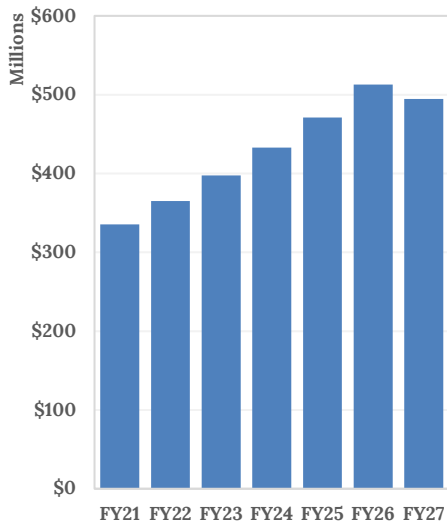


Figure 5 - Pension Funding Schedule

FY23-27 CAPITAL PLAN

The \$3.6 billion FY23-27 Capital Plan will make critical investments in the City’s infrastructure in every Boston neighborhood, guided by Imagine Boston 2030 and the schools, streets, arts, climate and resilience plans under its umbrella. Taken together, these initiatives 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 guiding investment in the public realm.

Planned borrowings are expected to increase 2.8% 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 FY23-27 Capital Plan is aligned with the City’s planning efforts:

- The Capital Plan supports a commitment to invest \$1 billion over ten years to bring Boston’s school buildings into the 21st century, with the construction of new schools, MSBA Accelerated Repair Program partnerships, completion of projects in the pipeline, school kitchen renovations that support the delivery of fresh and nutritious food, and reserves for future projects identified by BuildBPS community engagement.
- Boston, in collaboration with State and Federal sources, will invest \$1.2 billion implementing the core initiatives outlined in Go Boston 2030: streets that are safer for all users of our roads and sidewalks, particularly pedestrians and cyclists; travel that is more reliable and predictable; and quality transportation choices that improve access to interconnect our neighborhoods for all modes of travel.
- Boston will prepare for climate change by investing at least 10% of all new capital funding to open space, infrastructure, and facilities projects that are climate resilient or contribute to making the City more environmentally friendly.
- Setting the stage for planning and early action items 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.
- 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.