

# Executive Summary

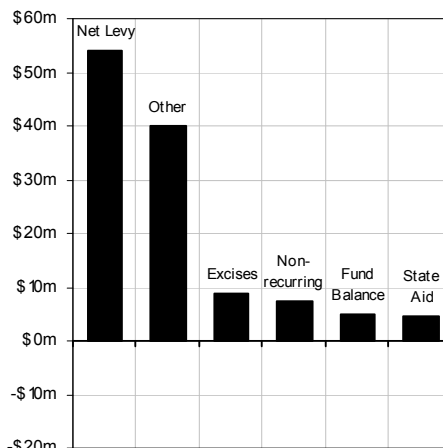
## INTRODUCTION

The Fiscal Year 2006 (FY06) Budget totals \$2.049 billion. Although this budget includes a greater percentage of revenue growth when compared to last year, FY06 will not be without its fiscal challenges. Despite our ongoing efforts to reduce expenditures and achieve operational efficiencies, rising costs continue to outpace revenue growth. Non-discretionary spending for health insurance and pension costs will require more than half of the revenue growth. Personnel costs have also risen significantly due to collective bargaining increases scheduled for FY06. Despite the fiscal challenges that we face, this budget reflects the City's continued commitment to provide essential municipal services while maintaining its sound financial footing. Additionally, it allows for the expansion of vital programs in the areas of education and affordable housing.

The Five Year Capital Plan FY06-10 totals \$1.25 billion and includes \$115.4 million in new FY06 authorizations. Boston's Five Year Capital Plan continues to be an investment program for the City's future. The FY06 capital plan will be the second year using the umbrella title Cities are Neighborhoods (CAN). The "Together, We CAN" campaign reinforces the idea that cities are neighborhoods, and the results of the City's capital investment are visible in every neighborhood. The plan is designed to enhance the livability of a city that at its core draws strength from its neighborhoods.

## Change in Resources and Expenditures

The FY06 Budget reflects a revenue increase of \$119.5 million or 6.2 percent over FY05 revenues. The majority of the increase is due to continued growth in the City's largest revenue source, property tax, which reflects a 4.9 percent net increase for FY06. State aid, when combined with the increase in charter school tuition, which is accounted for as a state assessment (expenditure), is expected to be stagnant for

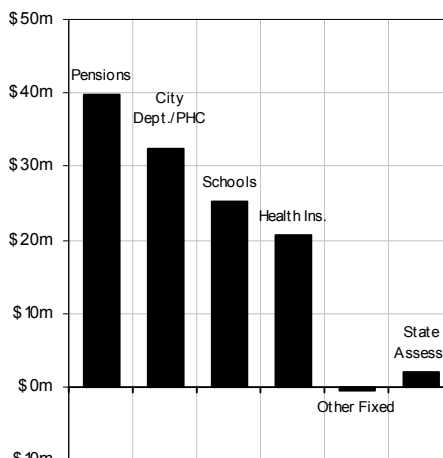


**FY06 Sources of Revenue Change**

Figure 1

FY06, perpetuating the loss incurred over the last three years. State aid is the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

Other economically sensitive revenue streams, such as excise taxes and interest on investments, show recovery from the FY05 Budget. Available revenues provide the basis for planning the FY06 appropriations and fixed costs.



**FY06 Sources of Expenditure Change**

Figure 2

The City budget, for a third year in a row, assumes an appropriation of Budgetary Fund Balance. Also referred to as “free cash,” this item is most simply described as the expendable portion of Undesignated Fund Balance which must be state certified. While using reserves may be a necessity during these challenging fiscal times, the City needs to be ever vigilant to avoid committing this one-time source of revenue to address ongoing operating expenses. As the City uses these funds prudently over a period of several financially difficult years, we must recognize that it will require years, even decades, of significant revenue growth in tandem with reasonable expenditure growth before reserves are replenished. It is expected that \$20 million from budgetary fund balance will be necessary in FY06. Figure 1 illustrates the changes in revenue for the FY06 Budget.

On the expenditure side, the FY06 Budget reflects a 5.1 percent or \$78.2 million increase for appropriations and a 10.6 percent or \$41.2 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure increase of \$119.5 million. Figure 2 illustrates the changes in expenditures for the FY06 budget. The City has taken many steps over the last four fiscal years to adjust to fiscal change. Through controlled hiring and attrition the City continues to keep employee levels down overall. The City’s workforce was down 1,242, or approximately 7%, full-time equivalents between January 2002 and January 2005. With personnel costs and health benefits representing over 75 percent of the City’s operating budget appropriations, it is important to manage the level of the City’s workforce. Health insurance costs with double-digit growth in HMO rates and collective bargaining increases drive the increases shown in City Department, Public Health Commission and School Department appropriations. The extraordinary increase in total fixed costs reflects the City’s requirement to update its pension funding schedule every three years. The new schedule includes the impact of the early retirement incentive of October 2002, as well as an adjustment that reflects corrections to past asset performance assumptions. A detailed discussion of the City’s revenues and expenditures

can be found in the Summary Budget chapter of this volume.

### **Boston’s Economy**

The Massachusetts economy was hard hit during the last recession losing the highest percentage of jobs of any state in the country. The road back to recovery has been slow and the state has still not recovered jobs equal to pre-recession levels. As the City usually generates nearly one-quarter of Massachusetts’ annual economic output, the City has led the state both into and out of past recessions. With the United States now generating significant jobs and producing reasonable gains in gross domestic product, it is expected that the City will soon produce the economic growth that will once again stimulate the larger economies that surround it into a solid economic expansion.

The effect of this economic growth on the City’s budget will be positive, but only on the margins as Boston’s comparatively restrictive revenue structure leaves it primarily dependent on property tax growth constrained under Proposition 2 ½ and state aid. In FY06, the state is still facing a structural budget deficit, and since most state aid formulas are not favorable to Boston, the City will not substantially benefit from the economy it so strongly affects.

The City’s history of balanced budgets, prudent fiscal policies, and conservatively structured debt with manageable future borrowing plans continues to serve the City well. In February 2005, Moody’s Investors Service upgraded Boston’s bond rating from Aa2 to Aa1, the highest rating ever achieved in the City’s history. At the same time, Fitch Ratings upgraded the City to AA and Standard and Poor’s affirmed their AA rating. The City’s strong proactive management has clearly been recognized by the credit markets. A bond rating is a statement of credit quality and is analyzed when determining the interest rate that should be paid for a municipality’s bonds. A higher bond rating translates into lower interest rates and real dollar savings for the City.

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

## **Boston About Results - Continuing the Momentum**

The City of Boston continues to focus on the important priorities of providing every child with a quality education, creating and sustaining affordable housing, promoting public safety and public health, and improving the quality of life in Boston's neighborhoods. Boston achieves results in these priority areas by tapping the expertise of existing programs, accomplishing operational efficiencies, adhering to prudent fiscal policies, and targeting additional resources to vital program areas. The table on the following page provides an outline of the FY06 Budget decisions made in each of the Mayor's major goal areas that are key to the City's continued success. At the same time, the FY06 Budget sets in motion innovative strategies that position Boston for the future. Reshaping government is an iterative process that must be continuous in order to achieve results.

Additional information can be found in the Summary Budget and the FY06 Budget and Performance Goals chapters in Volume 1.

## FY06 Decisions

### Education

#### Offer Over 450 New Full-Day Kindergarten Seats for Four-Year-Olds this September

First phase of a multi-year strategy that will guarantee placement for all four-year-olds in the City of Boston

#### Restructure Traditional High Schools

Continue to transform conventional high schools into several smaller, autonomous learning communities

#### Connect Parents to What the Boston Public Schools Can Offer Their Children

Joint effort between BPS & YMCA of Greater Boston to provide parents with a better understanding of school choices

#### Increase Program Capacity for ESOL (English for Speakers of Other Languages)

Continue multi-year public/private community project aimed at increasing availability of ESOL programs

### Affordable Housing

#### Lead the Way with Second Phase of Affordable Housing Strategy

*Leading the Way II* continues the successful blueprint to meet and sustain the City's housing needs

#### Connect Expertise of Rental Housing Resource Center with Other Housing Programs

Enhances coordination of technical resources for affordable housing preservation through a consolidation

### Public Safety & Public Health

#### Build Comprehensive and Strategic Partnership - B-SMART (Boston's Strategic Multi-Agency Response Team)

Channel City efforts and expertise toward the goal of preventing crime in specific areas of critical need

#### Strengthen Streetworker Program

Enlarge the team of individuals who play a critical role in diffusing youth violence through relationship building

#### Collaborate on Multi-Disciplinary Approach to Serving Victims of Domestic Violence, Sexual Assault and Child Abuse

New Family Justice Center of Boston will bring together services for victims to meet safety, justice and healing needs

#### Consolidate Emergency Management into Office of Emergency Preparedness

Advance capabilities of emergency preparedness by connecting efforts of emergency management & homeland security

#### Build Young Offender Re-entry and Recovery Network

Enhance substance abuse treatment and related re-entry services for young adult offenders returning to the community

#### Support Neighborhoods Organizing (NO) Against Drugs

Continue to promote the grass-roots efforts to increase drug prevention and advocacy

### Quality of Life

#### Increase Summer Jobs Available to City's Youth

Provide more opportunities to develop work skills and keep teens engaged in productive activities during the summer

#### Reinvigorate Recreation in Boston Centers for Youth & Families

New director will help spearhead a program of fundraising and outreach to improve access and promote sportsmanship

#### Enhance Our Walkable City - Citywalks

Notable three-year program will triple the amount of annual sidewalk repairs and improvements throughout the City

#### Offer Boston's Newest Beautification Program – Small Changes

Grant program for qualified not-for-profit organizations to fund moderately priced, yet significant beautification projects

#### Expand Neighborhood Response Teams (NRTs)

Build on the coordinated effort to improve basic city services by responding to needs determined by the neighborhood

#### Shape the Future Direction of the Strand Theatre

City has taken leadership role in promoting this venue for performing arts, cultural programming & community events

#### Engage Bostonians as Partners in the Effort to Keep the City Clean – Boston Shines

Continue working to educate Bostonians about keeping their City clean yearlong

## Planning for Boston's Future

### Connect People to the Public Space - Crossroads Initiative

Multi-year public/private project to construct the intersecting roadways to the Rose Kennedy Greenway

### Target the Creative Sector - Create Boston

Offer creative industries single point of contact for City assistance along with tools targeted to industry-specific needs

### Support Boston's Young Adults between the Ages of 20 and 34 - ONEin3 Boston Initiative

Aimed at connecting 33% of City's population with a wide variety of resources in order to attract & retain young adults

### Prioritize the Need for Closing the Racial & Ethnic Healthcare Gap with Disparities Initiative

City's comprehensive strategy crafted with leaders from the healthcare industry, academia and the community

### Expand the Environment Cabinet to Include Energy Policy

Help shape green building and municipal energy policies for the City in the 21<sup>st</sup> century

### Promote New Green Building & Development - Boston Green Building Initiative

Amend zoning code to require that all large projects built in Boston meet national green building standards

### Procure Energy Competitively

Continue to watch the electricity and natural gas markets to identify opportunities for long-term supply contracts

### Pilot Global Positioning System (GPS) in the Public Works Department

Achieve management efficiencies and inform resource allocation decisions