

# Executive Summary

## INTRODUCTION

The Fiscal Year 2008 (FY08) Budget totals \$2.3 billion. The City anticipates recurring revenue to continue to increase mainly as a result of the growth in the Property Tax. However, despite the growth in recurring revenue, it is anticipated that expenditure pressures will require the use of reserves to support ongoing expenses again in FY08. Nearly eighty percent of the spending growth is due to increasing personnel costs. These costs include health benefits, the impact of collective bargaining increases and employee growth in the areas of public safety and education. It should be noted that a collective bargaining reserve has been included for those unions whose contracts have expired and that are currently in negotiations.

Despite the fiscal challenges that we face, this budget reflects the City's commitment to strengthening neighborhoods and providing a safe environment for all of our residents, businesses and visitors. It provides support for vital programs in education and youth services such as new programming for families and children under 5 years old, increased hours of operation in community centers and an expansion of the street worker and summer jobs programs. This budget also brings the level of police officers to its highest point since FY00 and increases the capacity of the Police Department's Forensic Division, an investment that will go a long way toward helping solve crimes (Figure 1).

This FY08 Budget also supports and improves our neighborhood assets. The Five Year Capital Plan FY08-12 totals \$1.5 billion and includes \$137.3 million in new FY08 authorizations. The Capital Plan is designed to enhance the City's livability and includes streetscape improvements such as new trees, lighting, and sidewalks as well as investments in parks, city buildings and equipment. The capital plan's theme, Cities are Neighborhoods (CAN), recognizes that the City draws its core strength from its neighborhoods.

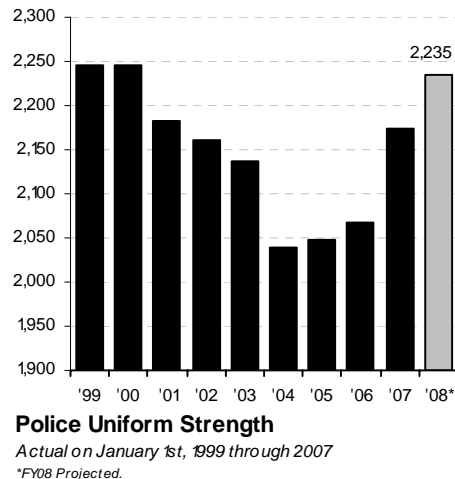


Figure 1

The results of the "Together We CAN" capital investment campaign are visible in every neighborhood.

## Change in Resources and Expenditures

The FY08 Budget reflects a revenue increase of \$135.3 million or 6.3 percent over FY07 revenues. The majority of the recurring revenue increase is due to continued growth in the City's largest revenue source, property tax, which reflects a 5.5%

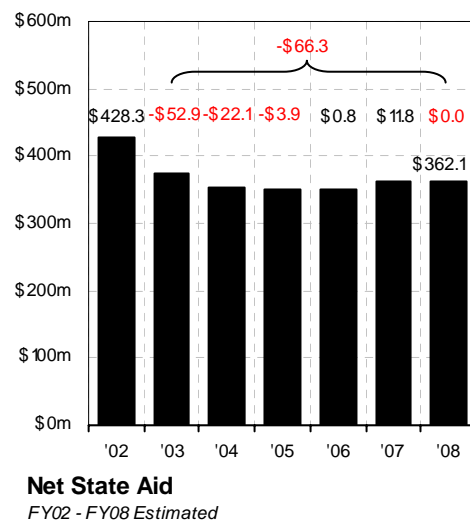


Figure 2

net increase.

Net state aid, defined as state aid combined with the charter school tuition assessment and other assessments, is expected to decrease marginally for FY08. The lack of growth in net state aid perpetuates the loss incurred over the last six years (Figure 2). 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, are projected to continue their steady growth in the FY08 Budget.

Available revenues provide the basis for planning the FY08 appropriations and fixed costs.

It is expected that an appropriation of \$5 million from Budgetary Fund Balance (reserves) will be necessary in FY08 to fund ongoing expenses. In addition, the budget includes a \$20 million appropriation from Budgetary Fund Balance to begin to address the City's liability related to other post employment benefits (OPEB).

On the expenditure side, the FY08 Budget reflects a 6.6 percent or \$114.1 million increase in appropriations and a 4.8 percent or \$21.3 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff) for a total expenditure increase of \$135.3 million.

The growth in health benefits along with contractual salary increases and staff level expansion in public safety and education, drive the overall increases shown in appropriations. In FY08 health insurance as a percentage of the total budget is 11.2 percent, up from 7.9 percent in FY02 (Table 1). The total general fund increase needed for health insurance is \$21.8 million (when grants are included, the total increase needed is \$23.6 million.) The increase in total fixed costs is driven by the pension funding schedule and state assessments. A more detailed discussion of the City's revenues and expenditures can be found in the Summary Budget chapter of this volume.

The City has taken many steps over the last five 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 861, or approximately 4.9%, full-time equivalents between January 2002 and

January 2007. With personnel costs and health benefits representing over 70 percent of the City's operating budget appropriations, it is important to manage the level of the City's workforce.

### ***Boston's Economy***

The Massachusetts economy has still not fully recovered from significant losses during the last recession. The state has yet to see employment reach pre-recession levels and its unemployment rate is still nearly a half percentage point greater than the national rate. Gross State Product growth, which during the 1997 to 2004 period ranked 13<sup>th</sup> out of all 50 states, slipped to 44<sup>th</sup> in 2005.

As the City usually generates nearly one-quarter of Massachusetts' annual economic output, the City has led the state both into and out of past recessions. With the United States now generating significant job growth and steady 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.

#### **Health Insurance as a Percentage of Budget**

Fiscal 2002	7.9%
Fiscal 2003	8.3%
Fiscal 2004	9.1%
Fiscal 2005	9.7%
Fiscal 2006	10.0%
Fiscal 2007 Budget	10.9%
Fiscal 2008 Budget	11.2%

**Table 1**

In FY08, the state continues to maintain a structural budget deficit, and has yet to increase aid to municipalities in proportion to what it reduced during the recent recession.

Both the Mayor, in his legislative package, and the Governor, through the Municipal Partnership Act,

have proposed expanding municipal resources through local option taxes and other fiscal reforms to ease the burden on local property taxpayers.

Residential taxpayers have faced substantial increases in taxes since FY02 and the Mayor has committed new revenues, should the legislature approve them, to reducing taxes in FY08.

### ***Long-Term Financial Outlook***

The City's history of balanced budgets, prudent fiscal policies, and conservatively structured debt with manageable future borrowing plans continues to serve the City well. In March 2007, Standard and Poor's upgraded Boston's bond rating to AA+ from AA, the highest rating ever achieved in the City's history. At the same time, Fitch Ratings affirmed their AA rating and Moody's Investor Services affirmed their Aa1 rating. The City's strong proactive management has been recognized by the credit markets over the past several years. 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.

### ***Focus on FY08 Results***

The FY08 budget focuses on strengthening Boston's neighborhoods, the core of our city. The City's programs and operations reflect our belief that a hallmark of a vital, caring community is its ability to take care of its most vulnerable members - from the newborn to those living on a fixed income.

That belief is the foundation for the eight priorities that the Mayor laid out in the FY07 budget. Those priorities include reducing violent crime, providing better service, growing revenue, eliminating health disparities, closing the achievement gap, increasing diversity, building workforce housing, and creating jobs. Our success in those priorities area will further Boston towards being a City of Opportunity & Hope, a City of Sustainability & Security, and a City of Innovation & Growth.

### ***City of Opportunity and Hope***

Boston's vitality flows from the energy of its citizens pursuing their dreams. This budget invests in programs that aid in that pursuit - that improve the quality of opportunity available to individuals and businesses. To meet the diverse needs of Boston residents, the City is funding the development of a broader range of programs, with a particular focus on serving young children and new businesses. To best leverage existing talents and resources throughout Boston, the City is prioritizing programs that forge partnerships to achieve results.

#### ***Strengthen Educational Support for Children In Partnership With Their Families***

Create free learning opportunities over the next two years for 700 children ages birth to five, supporting parents' role as their children's first teacher; increase the capacity for families to connect to their children's schools by nearly doubling the size of the Family & Community Outreach Coordinator program.

#### ***Increase the Quality, Quantity and Variety of Educational and Support Programs***

Expand the breadth of educational programs by moving toward the creation of seven new pilot schools, creating an additional K-8 school, and increasing investment in teacher training; provide more educational opportunities by adding 450 new K1 seats, lengthening the school day at the ten Superintendent's schools, and adding 90 hours per week at targeted Centers for Youth and Families, including new weekend hours at eight sites; create the Office of Violence Prevention within the Boston Public Health Commission to institutionalize and expand our efforts to support those coping with the trauma of violent crime.

#### ***Catalyze Small Business and Main Street Growth***

Develop a \$45 million loan fund to support small businesses seeking to expand operations and jobs in Boston; raise \$2.5 million through the Main Streets Capital Campaign to strengthen and sustain programs that support vibrant neighborhood business districts.

### **City of Sustainability and Security**

A livable city requires strong community policing and investments that strengthen neighborhoods. This budget builds on Boston's success in these areas, deepening our commitment to policing in partnership with residents and furthering our efforts to identify and arrest perpetrators of violent crime. This budget recognizes that security extends beyond public safety; consequently, this budget significantly supports programs and projects that ensure the long-term health of neighborhood infrastructure, whether owned by residents or by the City.

#### *Increase the Capacity of Community Policing*

Enhance community policing by recruiting police candidates who reflect the diversity of Boston, deploying additional officers throughout city neighborhoods, and making officers more accessible to the community through a significant expansion of the Safe Street Teams of walking officers and bicycle patrols; prosecute and incarcerate more violent offenders, by investing in detectives, additional forensics personnel and state of the art equipment; increase the streetworker program by 25% to better connect youth with programs and services.

#### *Coordinate Capital and Operational Funds In Neighborhoods*

Invest in streetscape improvements, such as resurfaced streets, better lighting, and new street trees, in those areas with the most incidents of violent crime; strengthen those neighborhoods through major construction and renovation projects at sites such as the Burke and Dearborn Schools, Mattapan Library, Dudley Neighborhood Police Station, Strand Theater, Ceylon Park, Roberts Field, and Mattahunt and Shelburne Community Centers.

#### *Protect Homeowners*

Expand the City's foreclosure prevention program, enabling the City to increase annual capacity to 1,500 clients; bolster the direct-outreach campaign, implement an emergency loan program, and pursue foreclosure prevention legislation; reduce fire insurance costs for homeowners by improving the City's fire suppression rating to the highest level, a

rating held by only a select few cities nationwide.

### **City of Innovation and Growth**

Under Mayor Menino's leadership, the City of Boston continues to drive growth and sustain the city's vitality through innovation. City leaders are developing creative strategies targeted at achieving high performance in all areas of service delivery, ensuring sustainability, increasing efficiencies, and maintaining the broad mix of services required by the evolving needs of the city's population, including the growing importance of ecologically sustainable building and business practices and the widespread use of technology to deliver services and information around the clock. To fund these strategies, the City will continue to work toward a model of revenue diversification that will better insulate government operations from future economic fluctuations. In the coming year, the City will also increase its investment in building the technology infrastructure to support the efficiency and effectiveness of today's array of city services and those we will offer in the future.

The city's vitality is reflected in and supported by our efforts to ensure that all Bostonians benefit from healthy, growing and livable communities.

#### *Support City's Growth Through Legislative and Home Rule Amendments*

Work to close the telecommunications tax loophole and pass a local option meals tax, which would enable the City to lower property taxes next year and reduce the City's long-term reliance on the property tax; manage the City's escalating health care costs by gradually changing employee health care contributions.

#### *Invest in Innovative Practices & Technology to Enhance City Services*

Pilot a single-stream recycling program in one neighborhood to increase the City's recycling rate, improving the environment and reducing disposal fees; upgrade traffic signal timing in several major corridors to improve system reliability, ease congestion and reduce accidents; invest in upgrades and technology at the Fire Training Academy to enable our fire fighters to be nationally certified; invest \$15 million in modernizing the front line

vehicles and equipment, improving reliability and increasing efficiency; launch major energy efficiency retrofit program for city government, business and residential properties to reduce energy consumption and save money; develop citywide IT strategy to best leverage technology to support major priorities.

*Increase Accessibility, Transparency, & Accountability*

Continue the roll-out of the City's innovative WiFi program to bring low-cost wireless Internet access citywide; launch a Citizen Relationship Management program to improve service to constituents and to achieve higher efficiency in operations; expand the use and management of GPS technology to front line Public Works vehicles; continue to improve the Boston About Results performance management system.

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