

Executive Summary

INTRODUCTION

The Fiscal Year 2011 budget (FY11), while challenging to develop, presented an opportunity to take a hard look at all of the City's operations and make tough decisions that will position us for success not only in the coming fiscal year but for the future as well.

In January, 2010, the City projected an FY11 general fund budget gap of \$42 million even though revenue was projected to grow by 2.4 percent. When projected losses in specific state grants critical to City operations were added, the problem grew to over \$50 million. Having just gone through one of the most challenging budget development processes in decades for FY10, all departments were hard-pressed to cut further. Closing the gap meant that some very tough decisions had to be made as to how the City could not only change, but improve the way it delivered services in a sustainable manner. Some of the larger decisions that were made involved how we use our physical assets and are reflected in the Boston Public Library and Boston Centers for Youth & Families departments. These efforts are shown in more detail further on.

Although closing the gap required some large, attention-getting decisions, it City could not have been accomplished without managers in all departments identifying areas where they could streamline operations, work more efficiently or discontinue providing certain services. Some of these efforts are also described later in this summary.

The FY11 budget totals \$2.335 billion, an increase of \$49.4 million or 2.2 percent from the FY10 budget. The continuing growth in property taxes, the City's largest source of revenue, as well as the availability of new meals tax revenue and the increase in hotel excise tax revenue are the main contributors to the overall growth. The City's second largest source of revenue, state aid from the Commonwealth of Massachusetts, when combined with state assessments, is expected to

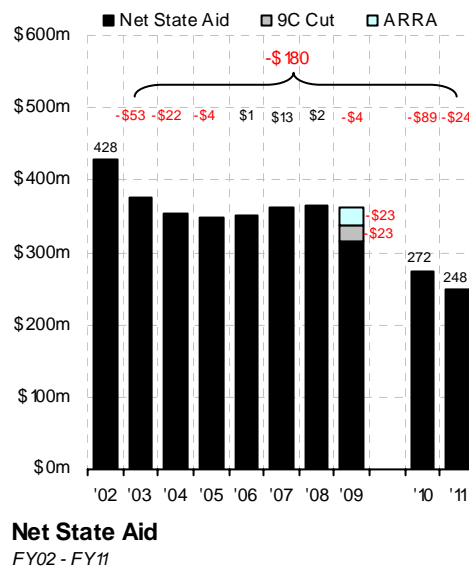


Figure 1

decline by more than \$24.0 million from FY10 budgeted levels.

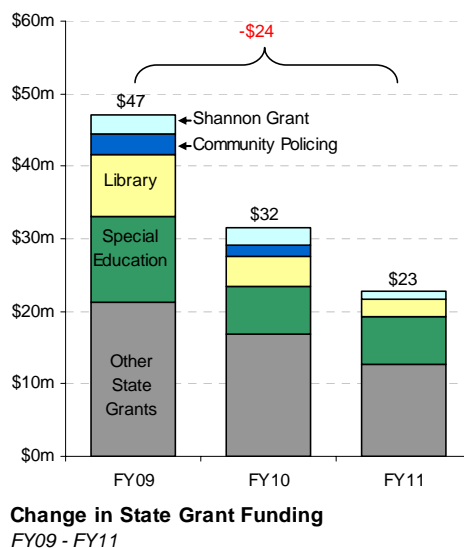


Figure 2

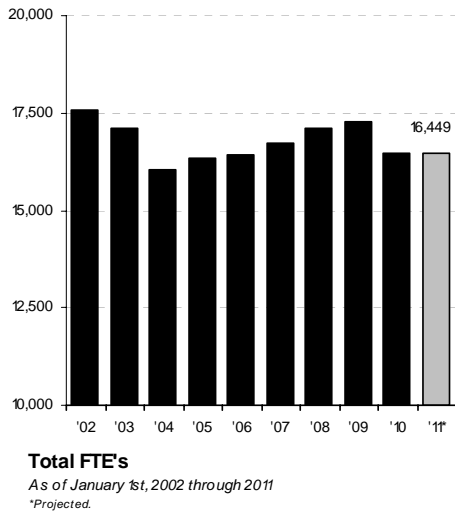


Figure 3

Despite the fiscal challenges that we face, this budget reflects the City's commitment to effectively provide core city services in a safe environment for all of our residents, businesses and visitors.

This FY11 budget also supports and improves our neighborhood assets. The Five-Year Capital Plan FY11-15 totals \$1.5 billion and includes \$133.0 million in new FY11 project authorizations. Highlights include renovations at schools, libraries and community centers, improved recreation opportunities and significant investment in technology initiatives and infrastructure. The capital plan's theme, Cities are Neighborhoods (CAN), recognizes that the City draws its core strength from its neighborhoods. The results of the "Together We CAN" capital investment campaign are visible in every neighborhood.

Change in Resources and Expenditures

Available revenues provide the basis for planning the FY11 appropriations and fixed costs. The FY11 budget reflects a revenue increase of \$49.4 million or 2.2 percent from FY10 budgeted revenues. There are only two substantial sources of FY11 recurring revenue growth; the property tax and excise taxes, with the growth in the latter due solely to new meals and increased hotel taxes. Property tax, the City's largest revenue source, reflects a 4.3 percent net increase. The FY11 budget will use \$45 million of budgetary fund balance (reserves).

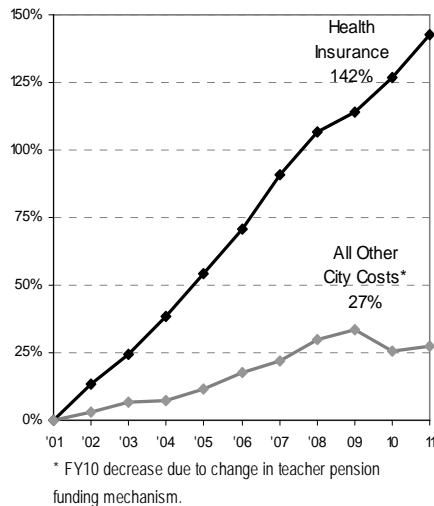
As stated previously, net state aid, defined as state aid combined with the charter school tuition assessment and other assessments, is expected to decrease again in FY11 by over \$24.0 million. The decrease in net state aid perpetuates the loss incurred over the last nine years (Figure 1) now totally nearly \$180 million. State aid is the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

Excise taxes are projected to increase by 22.1 percent in the FY11 budget. The City was granted its first new revenue stream in more than twenty years with state approval of a local option meals tax. This tax, implemented October 1, 2009, will produce its first full year of revenue beginning in FY11. The state also granted an option for a 2 percent increase to the City's existing 4 percent room occupancy tax. This increase was approved by the City Council along with the meals tax in August 2009. Because these revenues were not fully budgeted in FY10, there a large increase is seen when comparing the FY11 budget to the FY10 budget.

Interest on investments is projected to have a significant decrease of 23.1 percent based on the expected level of prevailing short-term interest rates.

On the expenditure side, the FY11 budget reflects a 0.4 percent or \$6.2 million increase in departmental appropriations (excluding Health Insurance and OPEB) and a 2.5 percent or \$9.9 million increase in fixed costs (pensions, debt service, state assessments and Suffolk County sheriff).

In FY11 the City will spend almost \$300 million in health insurance premiums for city employees and retirees – over 12 percent of the total City budget. Similar to other Massachusetts communities, Boston's health insurance costs have more than doubled over the last decade, compared to other City costs, which increased by about 30 percent over the same period (See Figure 4). The FY11 budget also includes an appropriation of \$35 million to the Other Post Employment Benefits Liability Trust Fund. This appropriation is a mere fraction of the \$373 million required annually to fund our total liability for retiree health benefits.



Ten Year Cost Increases
FY01-FY11

Figure 4

Although not general fund revenue, for the second year, federal funding from the American Recovery and Reinvestment Act (ARRA) will be used for personnel retention in the Boston Public Schools and the Police Department in addition to targeted programming. In FY11 ARRA funding is approximately \$37 million.

With salaries and health benefits representing approximately 74 percent of the City's operating budget appropriations, it is important to manage the level of the City's workforce. Through controlled hiring and attrition the City continues to keep employee levels down overall. The City's workforce was down 1,084, or approximately 6 percent, full-time equivalents between January 2002 and January 2010. In FY11, general fund FTEs are projected to decline by another 39 (Figure 3).

A more detailed discussion of the City's revenues and expenditures can be found in the Summary Budget chapter of this volume.

Boston's Economic Climate

The first "global" economic recession, where nearly all industrialized economies were in contraction simultaneously, seems to be finally easing. Nationally, job losses have slowed or even reversed in recent months while home foreclosures have begun to taper off and sales rise. The national unemployment rate has likely peaked and the stock market has returned to near pre-recession levels.

The Massachusetts economy fared better during this recession than the nation as a whole. While the state has lost a significant number of jobs, it has maintained a lower unemployment rate than the nation and has experienced less turmoil in the housing market than many other states.

As Boston usually generates nearly one-quarter of Massachusetts' annual economic output, the City has a large effect on the state's economy. Currently, the City's unemployment rate is even with the state at 9.0% and in fact peaked at 9.3% in January 2010. An improving Boston labor market will aid the state considerably in an economic recovery.

The State budget, however, has been somewhat of a different story. State revenues dropped precipitously with the stock market due to an over-reliance on capital gains taxes. Even though current state revenue collections are finally in line with estimates after many cuts, and even expected to grow in FY11, the state has built much of its budget on revenues from both its stabilization fund and federal stimulus money. With pervasive use of one-time funds, the state has left itself with a sizable structural imbalance going forward.

As the state developed its budget for FY11, state aid to Boston was a large concern for the City. Earlier this spring, Legislative leaders informed local officials there would in fact need to be local aid reductions in the upcoming fiscal year. The Chair of Ways and Means committees in both the House and Senate jointly advised municipalities to expect reductions of 4.0 percent to each of the two major local aid accounts: Chapter 70 and Unrestricted General Government Aid. The City has budgeted cautiously using the legislative guidance.

The effect of this economic recession on the City's budget was pronounced and negative in several revenue streams that are very sensitive to economic change. However, Boston's comparatively restrictive property tax revenue structure actually helped mitigate the impact of an immediate economic shock to its largest revenue source. Unfortunately, due to the lagging nature of this source, future growth is likely to be subdued for awhile.

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 2010, Standard and Poor's and Moody's Investors Service reaffirmed Boston's AA+ and Aa1 ratings.

(Subsequently, in April, 2010, Moody's began the recalibration of its long-term U.S. municipal ratings to its global rating scale, in order to be more inline with the ratings it issues for corporate debt.

Accordingly, Moody's has recalibrated the City of Boston's bond rating from Aa1 to Aaa.) 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.

FY 2011 BUDGET PRIORITIES: NECESSITY AS THE MOTHER OF INNOVATION

Building on the City's history of prudent financial planning, the FY11 budget confronts steep fiscal challenges head-on and sets the stage for longer-term shifts in city government. Moving beyond short-term fixes, the budget reflects a comprehensive youth development strategy, enhances government's personal connection to our neighborhoods and fosters job creation for all job types and income levels with approaches that leverage Boston's strength in the innovation economy. Taking careful stock of current programs and initiatives, the FY11 budget also targets efficiencies and service improvements from all corners of city operations in order to close otherwise sharp budget gaps.

Comprehensive Youth Development

Providing a quality education, both in and out of the classroom, for all of our youth is one of the most pressing responsibilities of the City. This

focus on youth development has long been at the core of the Boston Public Schools. The FY11 budget reinforces these efforts and raises the priority at other departments, including Boston Centers for Youth & Families and the Boston Public Health Commission. This comprehensive approach extends the Community Learning strategy and is reflected throughout the entire budget. To nurture our youth so they achieve their full potential, this budget invests in turning around underperforming schools, breaking the cycle of poverty in our most vulnerable communities, and providing enriching out-of-school opportunities for youth. It provides services for the whole child, whole family and whole community.

Closing Access Gaps for All Students

Under the leadership of Superintendent Carol R. Johnson, the Boston Public Schools last year launched the "Acceleration Agenda," a five-year strategy to close the achievement and access gaps and raise academic performance in every classroom of every school. The FY11 budget is a financial blueprint for carrying out year two of this ambitious plan. Continuing our commitment to early childhood education, the City has invested \$21 million in kindergarten programs for three-, four-, and five-year-olds. An \$11.7 million, or 25 percent increase in funding will expand programs and services for English Language Learners, while the Boston Public Schools budget also increases funding for students with disabilities by 5 percent. The latter investment includes funding to adopt a state-of-the-art information management system and an electronic Individual Education Plan system. Making use of the tools created by the Commonwealth's recently passed landmark education reform legislation, Boston Public Schools has begun to usher in turnaround plans for the City's schools designated "underperforming" by the State. The Superintendent has appointed new leaders at five of the twelve turnaround schools. Staff members at six of these "Fresh Start" schools have been asked to reapply for their positions and recommit to their work.

Educating Families

Based on the belief that a child's academic success is closely tied to informed and educated parents

and guardians, this budget includes \$350,000 in funding to continue and strengthen the work of Parent University, an initiative launched in FY10. Hundreds of Boston Public School parents who last year participated in three day-long sessions to increase their capacity to effectively support their children's education, can already speak to the program's importance.

Circle of Promise: Breaking the Cycle of Poverty
Superintendent Johnson and Mayor Menino have launched the Circle of Promise initiative in the heart of Boston, an area that contains some of the City's most challenged schools and disadvantaged communities. The area, which encompasses Roxbury, North Dorchester, and sections of Jamaica Plain and the South End, has been targeted for specific academic interventions, as well as strategies to improve service delivery for children and families in order to remove barriers to academic success. Drawing upon great resources and the work of community-based organizations, this combination of academic support and community building will enrich the lives of children and families to break the cycle of poverty and inequality. Multiple city agencies and personnel have been asked in FY11 to target resources toward youth who live and/or attend school in the Circle of Promise.

Community Centers: Beyond Gym and Swim
After celebrating its 35th anniversary last year, the Boston Centers for Youth & Families (BCYF) will embark on a plan to create model community centers that meet the diverse needs of a new generation. Redeploying staff to improve the child to adult ratios so that they are more in line with industry standards, BCYF will expand opportunities for teens that combine the recreational activities of the past with innovative programs to develop the physical, academic and emotional competencies of youth. New arts and cultural experiences, tech-based educational platforms and hands-on learning for youth are components of the out-of-school development programming. These efforts will be aided by partnerships with non-profits that preserve and expand programming at community centers.

Healthy Communities
The Boston Public Health Commission's newly created Health Education and Health Services

initiatives allow for expanded programming at eight school-based center sites and promote teen physical and emotional well-being. The Public Health Commission is re-focusing existing resources and adding social workers to key programs. With the goal of nurturing healthy children to combat truancy before it becomes a problem, the Commission will be able to identify children through early education programs and follow their progress in school.

Beyond the Walls and into the Neighborhoods

To strengthen the City's personal connection with the people of Boston and produce new efficiencies in basic city service delivery, Mayor Menino has charged departments with transforming the way they do business. Creating a 21st century gateway to information in the Boston Public Library, proactive engagement through the Mayor's 24-hour constituent engagement call center, greater working relationships between police officers and the community members they protect, and grassroots, parent-to-parent outreach through a newly created BPS Ambassador program are just a few examples of this budget's promise to the neighborhoods. To institutionalize innovation in City operations, the Mayor's Office of New Urban Mechanics will experiment with tools that deliver traditional services as efficiently as possible and harness civic interest.

The Boston Public Library: In Buildings, Online, and in the Community

While the Boston Public Library (BPL) remains in the neighborhoods with twenty-two branches, this budget lays the foundation for the libraries to deliver truly 21st century services to customers. Every BPL location will offer books, media, programs, and technology that meet public demand. Online services will help bridge the digital divide with an evolving user-friendly website that provides access to a world of information. To redefine the boundaries of library service, staff will deliver their expertise outside of branch locations and directly to the community with programs such as homework help and senior reading sessions. Broader outreach, stronger partnerships, innovative services, and increased visibility will reinvigorate the entire system.

Connecting Communities, Increasing Engagement

The FY11 budget continues funding for a 24-hour constituent engagement call center and emphasizes Mayor Menino's commitment to proactively assisting residents. Data-driven management is improving service delivery, while a restructured call center also provides a consolidated one-stop approach for constituent concerns. In the neighborhoods, the Boston Police Department emphasizes community engagement and improving communication and collaboration between officers and community members. The FY11 budget provides for Safe Street teams and expands the Reporting Area project which engages officers in problem solving services in their geographic areas. Underscoring the notion that neighbors are often the best sources of information, the Boston Public Schools is launching a BPS Ambassadors program that connects parents in a grassroots effort to inform families about quality school offerings.

Preventing Homelessness through Public Health

The Emergency Shelter Commission will transition to the Boston Public Health Commission in order to better align their work with the Commission's robust advocacy and emergency shelter services. This relocation will allow for enhanced coordination among city providers, as well as stronger policy and planning at the City level. Two dozen units of supportive housing created over the next two years at Northampton Square will help transition chronically homeless individuals to more stable housing.

Accessing Services with Ease

To provide more convenient access to services, whether online or in the community, this budget streamlines permitting and notification processes in the Parks and Transportation Departments. The Parks Department will consolidate staff that handles constituent service requests, including permitting for park usage, moving those operations from Franklin Park to 1010 Massachusetts Avenue to provide better coverage for the public at all times. In FY11, the Transportation Department will pilot license plate recognition technology, which can determine a car owner's residency with the eventual goal of

eliminating the need for traditional residential parking stickers.

Cleaner, Greener Neighborhoods

In FY11, the Public Works Department will improve upon its mission of maintaining a safe and attractive city by adopting waste reduction strategies over traditional waste collection, using more energy-efficient LED lighting and managing street and sidewalk repair more systematically. The Sanitation and Recycling divisions will merge under a new commitment to the City's Recycle More initiative. New solar-powered BigBelly trash compactors, complete with recycling caddies and WiFi technology for remote monitoring, will provide residents and visitors with the tools needed to keep neighborhoods clean. A pilot project to convert 1,000 street lights to LED lights will showcase energy efficiency and cost-savings as well as provide valuable data for a potential citywide expansion. Fifteen to twenty miles of new bike lanes will help further the City's sustainable transportation agenda and increase infrastructure for the planned Bike Share program.

Institutionalizing Innovation

The City's technology resources and personnel are repositioned in the FY11 budget to better align with the goal of transforming city services for city residents. Management & Information Services (MIS) has been re-designated as the Department of Innovation & Technology, with a new mission of supporting citywide service improvement efforts. DoIT will work closely with the Mayor's Office of New Urban Mechanics to support municipal innovation made possible by emerging technology and data sharing. Creating a unified vision for technology across departments, the offices will tap into local sources of innovation, including residents, employees, communities, and institutions.

Economic Improvements that are Sustainable and Shared Widely

Boston remains better positioned than most cities to emerge from the current economic recession prepared to capitalize on growth industries and develop the workforce to sustain these industries. A renewed focus on developing the South Boston Waterfront and Marine Industrial Park as platforms for job creation is reflected in the

establishment of the Innovation District. As part of a strategy to streamline resources for entrepreneurs and business owners, the City will create a one-stop shop for guidance, information and technical assistance. The budget provides for programs that encourage job creation at all income levels, in companies large and small, in Boston's downtown and neighborhoods.

Permitting and Zoning for "Greentown"

In FY11 city agencies will pursue new permitting measures to facilitate development of the green economy and the urban food economy. Boston will be one of the first cities in the nation with new solar and agricultural permitting policies that build on its green-building standards. These policies will enhance small business growth in these areas as well as provide cost savings for residents and companies who refurbish, build and grow green.

The Innovation District

With all the right ingredients clustered in one central location, the Innovation District will attract knowledge industry businesses and create jobs in fast growing sectors. In the Innovation District, new models of office space, housing and culture will create value for the employers that locate there and enhance the ability of the employees who live and work nearby to develop groundbreaking research, technologies and services. Boston's Innovation District is a 1,000 acre area along the South Boston Waterfront comprising the Fort Point Channel, Seaport Square and the Boston Marine Industrial Park. In FY11, city agencies will collaborate to facilitate early proof projects in the Innovation District.

Boston Business Hub and Expansion of Access to Capital

With a focus on helping small businesses start and grow in Boston, a key part of the job creation effort will be the roll-out of the Boston Business Hub. This on-line, interactive business wizard will provide entrepreneurs and small business owners with easy access to the City's loan and technical assistance programs as well as helpful guidance and online applications for business licensing and permitting. To help small businesses gain much-needed access to capital, Mayor Menino has launched a partnership with the nonprofit microlender Accion USA to create a

Second Look program. This program will help small businesses by sending more loan applicants declined by banks to Accion for microloans. The partnership will increase lending to small businesses in the City of Boston.

Reinvigorating Boston Main Streets

The FY11 budget anticipates a reinvigorated Main Streets Program as a follow-on to the nation's first urban, multi-district Main Streets program. Cost sharing, performance-based funding and increased coordination of city services will help foster neighborhood innovation hubs, a culture of diverse entrepreneurship and more family- and pedestrian-friendly development in neighborhood business districts.

TOUGH CHOICES TO BRIDGE THE GAP AND PROVIDE A FOUNDATION FOR IMPROVEMENTS

The city pursues these important FY11 priorities amidst substantial budget constraints and ever scarcer resources. In order to minimize service disruptions and to provide a foundation for new and better approaches, this budget provides for savings from reorganizations, efficiencies and some position eliminations. While cost-saving measures in the Boston Public Schools avoided the need for school closures this fiscal year, a comprehensive process for closing and consolidating schools beginning in school year 2011-2012 is underway. The Boston Public Library will close four branches to reach financial stability and strengthen services across the system. In addition, dozens of cuts and consolidations were made to bridge the budget gap. Several are referenced below:

Boston Public Schools

- School-based reductions
- Transportation savings, including equipment replacement deferral and stand-by and route changes
- Facilities maintenance deferral and reduction in custodial services
- Utilities savings by lowering energy consumption
- Efficiencies in food service management
- Reductions in clerical support for Evaluation Team Facilitators

Public Health Commission

- Consolidation of Youth Health Services
- Elimination of Health Connection Program

Administration and Finance

- Elimination of Graphic Arts Department
- Centralizing of select service contracts in Purchasing Department
- Requirement that new retirees enroll in Medicare; also proactive recruitment of existing retirees to enroll in Medicare

Boston Public Library

- Consolidation of Adult Services, Media and Literature
- Consolidation of Circulation and Book delivery
- Creation of a unified Arts Department
- Merger of Social Science and Government Documents

Fire Department

- Establishment of a professional fleet management program under civilian leadership

Parks Department

- Consolidation of constituent services and permitting functions

Police Department and Fire Department

- Continued improvements in management of overtime and deployment of staff
- Commencement of 911 consolidation planning

Property and Construction Management

- Call Center consolidation
- Shift changes and redeployment of security staff to reduce overtime
- Increasing expertise in building energy management to take full advantage of energy savings

Public Works

- Consolidation of trash pickups between departments

Transportation Department

- Relocation of staff and operations to vacate 112 Southampton Street