Revenue Estimates and Analysis

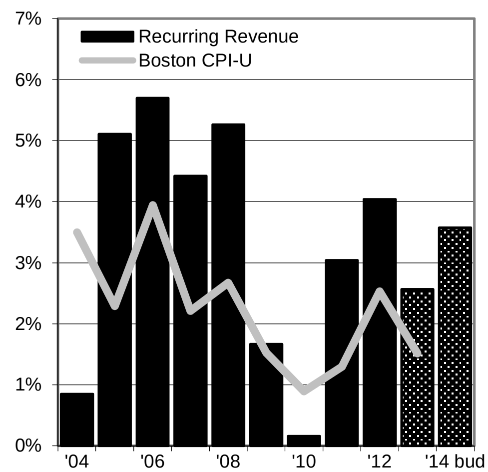
OVERVIEW

The FY14 Adopted Budget is supported by $2.56 billion in recurring revenue, an increase of $88.5 million, or 3.6%, from budgeted FY13 recurring revenue. The FY14 Adopted Budget also includes $40.0 million in non-recurring revenue.

This level of revenue growth sustains the increases experienced since the FY09 and FY10 period (Figure 1), and is due to growth in local receipts as opposed to aid from the Commonwealth. Property tax and excise taxes, along with other local receipts, are increasing as the economy continues to recover from a deep and long recession.

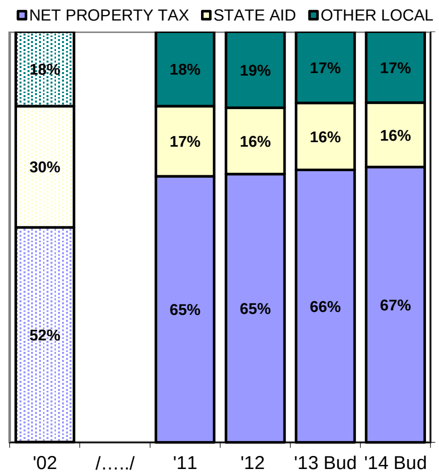
Even with recent economic improvement, state aid to municipalities from the Commonwealth has not been restored to pre-recession levels. The City has experienced a loss of $154.4 million, or 42%, of its net state aid (state aid revenue less state assessments) between FY08 and the FY14 Adopted Budget. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources.

The City has benefitted in recent years from expanded local option taxing authority as well as savings opportunities granted by the state, but their combined value does not offset the losses in net state aid.



Annual Change in City Revenues and Boston CPI-U
FY04-FY14 Recurring Revenue

Figure 1



Categories of Recurring Revenue
FY02 & FY11-FY14
Percentages may not add due to rounding

Figure 2

Net property tax and state aid together make up over 80% of recurring City revenues. As Figure 2 illustrates, the share of net property tax has increased dramatically since FY02 as the share of state aid has steadily decreased. In fact, the property tax now accounts for a larger a share of recurring revenues than it did prior to the imposition of property tax limitations under "Proposition 2 ½" in the early 1980's.

This chapter begins with a review of national, state, and local economic trends that impact the Boston area economy. It is followed by a discussion of recent state budget trends and development of the FY14 state budget. Following these sections is a discussion of the City's FY14 revenue estimates by major category including: the property tax levy -- the City's largest single revenue source, state aid -- the City's second largest single revenue source, as well as a discussion of local receipts.

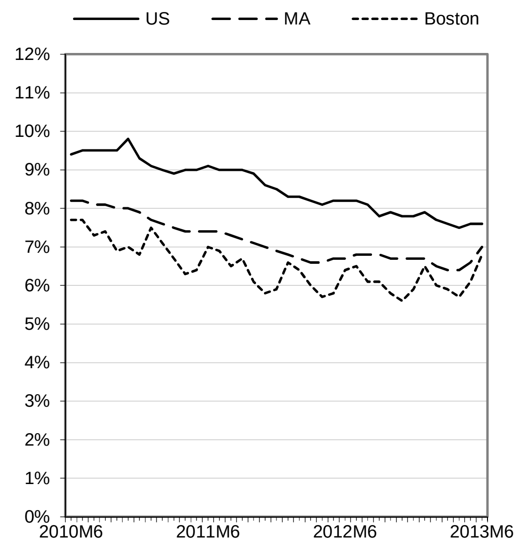
(Note: To ease comparison across years, all figures, text, and calculations referring to or including FY11 departmental revenues will be stated without the one-time $82 million pension payment made in that year. In addition, all years prior to FY10 will be stated net of Teacher's Pension Reimbursement. See the *Financial Management* section for details of these issues).

THE NATIONAL ECONOMY

A City can control only so much of its economic condition in the near term. As such, the state and national economies are of great importance to the City's well-being. The nation's economy is still recovering from a deep recession that, according to the National Bureau of Economic Research (NBER), began in the U.S. in December 2007, and officially ended almost four years ago in June 2009.

This recession marked the longest in the U.S. since World War II. A meltdown in the U.S. financial services sector, driven by the implosion of sub-prime mortgage-backed debt instruments, rippled through nearly all industries nationally and credit markets the world over.

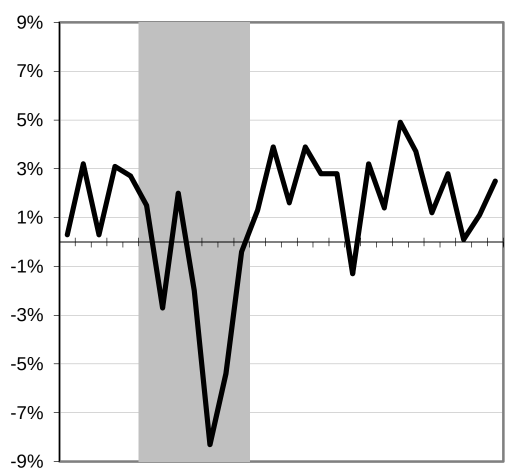
Since the recession, the U.S. economy has grown in fits and starts. Accommodative monetary policy and extended unemployment insurance have back-stopped the slide back into recession, but big sectors of the economy, like housing, have yet to gain enough steam to propel the national economy into a full-on expansion.



Unemployment Rates
June 2010 - June 2013
Seasonally Adjusted (ex. Boston)

Figure 4

Overall economic value as measured by real Gross Domestic Product (GDP) has been positive, but has been averaging slow growth. For the sixteen consecutive quarters after the recession's official end in the second quarter of 2009 through the second quarter of 2013, real GDP has been positive (except for first quarter 2011) -- growing at annualized rates between 0.1% and 4.9% -- but only averaging 2.2%. This recent growth is weak but better than the depths of the recession from the third quarter of 2008 through the second quarter of 2009 where real GDP declined in each quarter from the preceding quarter by annualized rates that varied between -0.3% and -8.9% (Figure 3). The Federal Reserve estimates that real GDP growth will continue to slowly improve at rates between 2.3% and 2.6% for the calendar year 2013 and 3.0% to 3.5% for 2014.

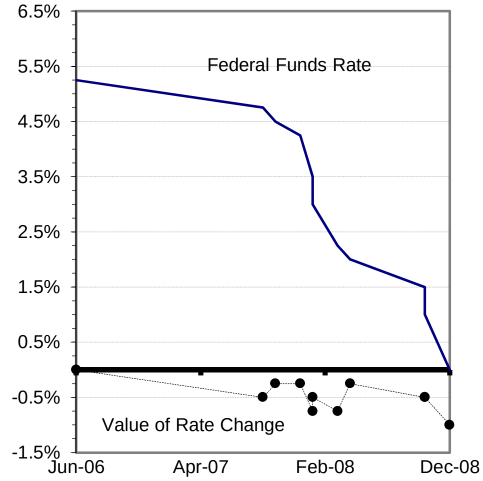


Real Gross Domestic Product Growth (Chained 2005 dollars)
2006Q2-2013Q2 & NBER dated recession

Figure 3

The seasonally adjusted unemployment rate in the U.S. fell from 8.2% in June 2012 to 7.3% in June 2013 (Figure 4). Both figures are significantly lower than the peak of 10.0% logged in October 2009 – the highest rate since November 1982 – but the rate of decrease reflects slow recovery in the labor market. According to Federal Reserve estimates, the unemployment rate is expected to continue improving, falling to a range of 7.2% to 7.3% in calendar year 2013, and further to a range of 6.5% to 6.8% in 2014.

The U.S. consumer price index for all urban consumers (CPI-U) increased 1.8% from June 2012 to June 2013. The "core" rate of inflation, all items less food and energy, increased by 1.6% over the same period. The Federal Reserve projects that inflation will remain subdued over the course of 2013 and 2014, reaching annual maximum increases of 1.2% and 2.0%, respectively.

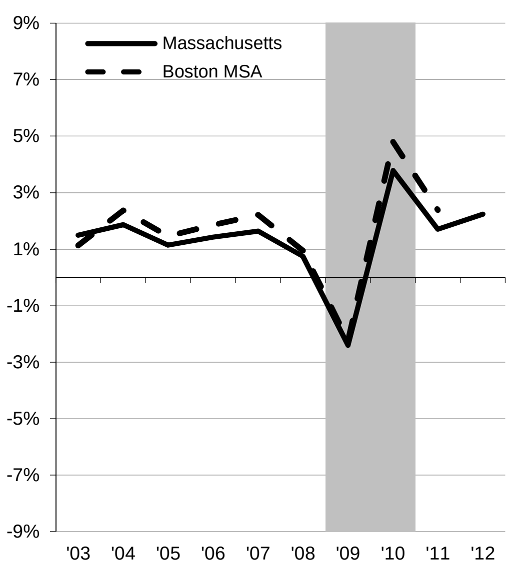


Federal Funds Rate Changes
June 2006 - June 2013 (no change since Dec. '08)

Figure 5

Given the high rates of unemployment, low inflation expectations, and the removal of stimulus support to the economy, the Federal Reserve has stated that it will maintain an aggressive growth posture of low interest rates through at least 2014. The Federal Funds target rate has been set between 0% and .25% since December 16, 2008, following 10 reductions totaling 500 basis points beginning in June 2007 (Figure 5).

A recovering national economy is allowing for increased tax revenues nationally, as has begun locally, but looming federal program cuts from the so-called "sequestration," will bring a mixed bag of state and national economic performance over the next few years.



Real Gross Product Growth
Annual, 2003-2012 (Boston to 2011) & NBER dated recessions

Figure 6

THE STATE AND CITY ECONOMIES

During the recession, the state's economy showed less dramatic signs of weakening than other states or the national economy and has since shown stronger growth as well. This is likely due to three reasons: the state's relatively anemic recovery from the 2001 recession; lessons learned from over-building in the housing market in the late 1980's paying dividends in a housing-led recession; and the overall strength in diversification of the state's economic base (Figure 6).

During the period of 2003 to 2012, Massachusetts' annualized growth rate of 1.3% in real Gross Domestic Product (GDP) by state, ranked 27rd out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state's ranking has since risen to 19th in 2012, with 2.2% annualized growth over 2011. Despite its average growth rate in terms of overall GDP since 2003, the state does remain one of the richest in terms of its GDP per capita -- $53,221 in 2012 – seventh in the nation and 124% of the national average.

During the 2001 recession, Massachusetts lost 200,000 jobs or 6.0% its' total, the highest percentage of jobs lost in the nation. The state had regained 120,500 jobs as of April 2008, but then lost 143,000 jobs through October 2009. Since then, Massachusetts has regained 153,700 net new jobs – a strong improvement but still 70,000 jobs below the 2001 peak.

The Boston-Cambridge-Quincy, MA NECTA Division lost 178,500 jobs at its nadir in January 2004 from its' 2001 peak. The region regained 111,400 of those jobs through March 2008 only to lose another 85,800 through February 2010. Since, the region has gained 126,900 jobs but remains 26,000 jobs below the 2001 peak.

The unemployment rate had been decreasing for both the state and City. From a 2008 low of 4.5%, the state's seasonally adjusted unemployment rate increased to a peak of 8.7% in October 2009 -- the highest it has been since 1992. The rate in Massachusetts had fallen to 6.4% as of April 2013, but has since risen to 7.0% as of June 2013 (Figure 4). The employment outlook is slowly improving for the coming fiscal year with the Massachusetts Department of Revenue (DOR) projecting a state unemployment rate ranging from 5.8% to 6.3% in FY14 in a December 2012 forecast.

The City of Boston's unemployment rate had steadily fallen to 5.7% as of April 2013 (not seasonally adjusted) but has recently increased to 6.8% as of June 2013. The City's unemployment rate peaked at 8.5% in July 2010.

Prior to this recession, the City had not experienced an unemployment rate over 8.5% since 1992. For the City, even the recent rate of 6.2% remains a large increase over its last low point of 3.9% in April 2008.

Massachusetts wage and salary income in the first quarter of 2013 rose 2.0% over the same quarter 2012, continuing a trend of 13 positive year-over-year quarterly growth rates since first quarter 2010. Earnings growth by industry grouping over the period of the first quarter in 2012 to 2013 was strongest in "Utilities", "Real Estate and Rental and Leasing", and "Management of Companies and Enterprises", while "Arts, Entertainment, and Recreation" and "Military" showed the weakest growth during the same period.

Massachusetts' seasonally adjusted total personal income rose by 2.0% from the first quarter of 2012 compared to the same quarter 2013, 40st out of the 50 states and DC in terms of growth and below the national average of 2.8%.

(See *Boston's People & Economy* section of Volume I for more detail on Boston's population and labor force trends).

THE COMMONWEALTH BUDGET

State aid to the City represents its second largest single source of general fund revenue. The state also provides many grants that support city programs and expenditures. Often, changes to law that affect City expenditures and revenue generating capacity occur within or alongside budget language. As a result, the state budget is of great interest to the City.

Recent State Budget History

The state has faced several very difficult years of structural budget imbalance recently and is facing more difficult years ahead despite projected revenue increases in FY13 and FY14.

The FY11 state budget used the last of federal stimulus dollars to the state that, according to Massachusetts Taxpayers Foundation (MTF) estimates, totaled $4.75 billion between FY09 and FY11. The FY12 budget was the first budget since FY08 without stimulus dollars. This change led to an almost $2 billion structural deficit that was overcome mostly by expenditure reductions - including reductions in aid to municipalities. Between FY09 and FY11, Net State Aid to municipalities (excluding regional school districts) declined by over $670 million or 15%. Net state aid has since increased by more than $230 million or 6%.

Over the last few years, the state has made use of its stabilization or "rainy day" fund in addition to reductions in expenditures and increases in revenue to deal with its structural imbalance. At the close of FY08, the stabilization fund balance was approximately $2.1 billion. The state had drawn down the balance considerably by the close of FY10 to a low of about $670 million before revenues began to increase again in FY11. The fund has since increased and stood at about $1.6 billion at the close of FY12. Year-to-date, FY13 revenue performance has been lackluster, prompting another withdrawl from the fund. The remaining balance at the end of FY13 is expected to be $1.3 billion.

The FY14 State Budget

As of this writing the State is in the ending stages of development of its FY14 budget with only the Governor's vetoes of the Legislature's Conference Committee budget and veto overrides by the Legislature remaining.

The overriding issue in this year's state budget has been transportation funding. The Governor's FY14 Budget proposal included tax increases to support transportation amounting to approximately $780 million in FY14 and $1.9 billion when fully phased in for FY15. The revenue proposed is derived from the income and sales taxes. Under the Governor's plan, the income tax would become more progressive through eliminations of special exemptions and deductions paired against an increase in the standard exemptions. The proposed sales tax would apply to a wider base of purchases than currently, but the overall rate would be lowered.

The House Speaker and Senate President signaled early on that increased revenues in support of transportation infrastructure are likely, but that the Governor's plan raises too much money in new taxes to be supported by the Legislature. Instead the Legislature has proposed about half the amount of increased revenue as in the Governor's plan and raises it through the gas tax and a new sales tax on software services.

Local aid in the Governor's budget was increased slightly. The Governor added a new type of general government local aid that is based on a distribution formula derived from comparative local property and income wealth. Boston would receive very little of this new type of aid. The Governor's budget also increased education aid by a substantial amount, but again, Boston would receive very little of this increase as well.

The Legislature has rejected the Governor's changes to the local aid structure and proposed modest increases to existing aid levels. As with the Governor's budget proposal, aid to the City does not increase substantially for FY14.

(See *State Local Aid* in this chapter).

Changes to City Revenue Structure

In FY10, after many years of legislative attempts, municipalities were granted their first new local option revenue stream since the hotel and jet fuel taxes of more than twenty years ago. The state offered for local adoption a meals tax at the rate of .75% in addition to the state tax. Adopting municipalities receive revenue collected by the state from the tax receipts generated in their own communities. As of this writing, 163 municipalities (of 351 in total) have adopted the meals tax. This tax was adopted by the Boston City Council in August 2009, implemented October 1, 2009, and produced its first full year of revenue in FY11. The state also granted an option for a 2% increase to the existing 4% local option room occupancy tax which was approved and implemented in Boston along with the meals tax. To date, 101 municipalities have increased their tax to more than 4.0%. The new meals tax alone resulted in over $82 million in new revenue for municipalities in FY12.

Most municipalities, including Boston, had yet to fully recover from sudden and drastic state aid reductions of the 2001-2002 recession before being faced with a new round of cuts in the recent recession. The consequences have been increased property taxes through overrides of the levy limit, additional user fees, and reduced public services throughout the state. The fiscal health of many municipalities is certainly in question. For example, the City of Lawrence had to receive a loan from the state just to continue basic operations.

Recognizing the threat to fiscal stability represented by these trends, the Mayor has repeatedly filed legislation over recent years to diversify and modernize the City's revenue structure and to secure and grow its tax base.

Specifically, the Mayor has proposed establishing a local option tax on parking in commercial lots and closing a tax loophole on room occupancy that allows internet resellers to avoid tax on the increment between what they paid for a room night and what they sell it for. The latter of these is a change to the base of the state and local tax and would benefit the state and all municipalities that have adopted the local option room occupancy tax. It has also become a national issue since a room occupancy tax is common across states and localities.

As a matter of course, the City updates its fee and fine structure as needed for any increases necessary to cover the cost of providing services or deterring undesired behavior. No increases for FY14 have been submitted or approved by the City Council prior to the submission of this budget. But several departments have expressed interest in reviewing existing fee structures or adding new fees for new services that will be reviewed in the upcoming months.

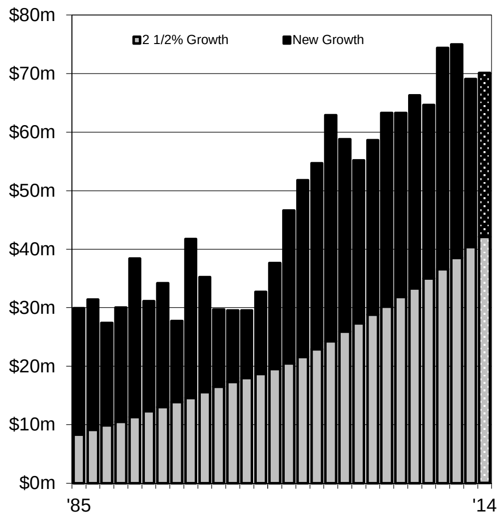
The following discussion details the three major local revenue streams to the City: Property Tax, State Aid, and Local Receipts. This is followed by a brief discussion of Non-recurring Revenue.

REVENUE ESTIMATES

The Property Tax

The property tax levy has always been the City's largest and most dependable source of revenue. In FY13, the net property tax levy (levy less a reserve for abatements) totals $1.643 billion, providing 66.3% of recurring revenue In FY14, the net property tax levy is estimated to total $1.719 billion and accounts for 67.0% of budgeted recurring revenues.

The increases in the gross property tax levy have been steady and consistent from FY85, the beginning of "Proposition 2 ½" restrictions on levy growth, to FY13 ranging from a low of $28 million to a high of $74 million over the period. However, because of the increasing property tax levy base, the $29.9 million increase in FY85 represented an 8.9% increase, while the $74.0 million rise in FY12 represents only 4.8% growth. It is important for the financial health of the City that the property tax levy continues to grow, but efforts continue to reduce reliance on the property tax through increasing existing or establishing new local revenue sources as discussed in the previous section.



Sources of Property Tax Growth
FY85 - FY14

Figure 7

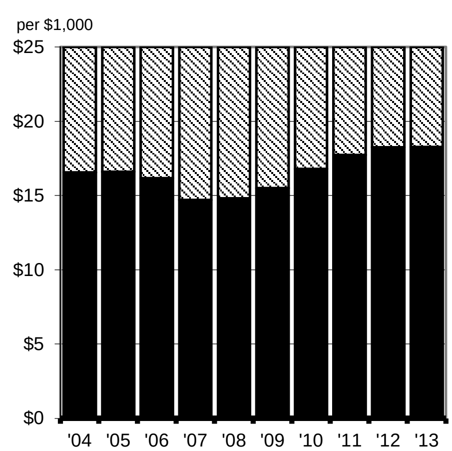
Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new construction. Finally, Proposition 2 ½ provides for local overrides of the levy limit and a local option to exclude certain debt from the limit by referendum. The City of Boston, however, has never sought a vote to either override the levy limitations or exclude any debt from the limit. In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at $8.4 million and reaching an estimated $42.1 million in FY14.

During these same years, the levy has also been positively impacted by taxable new value or "new growth." New growth can arise from both real and personal property. New growth is expected to be approximately $28.0 million in FY14, very near the actual in FY13, but still lower than the two very strong years of more than $35 million each in FY11 and FY12. This milder growth is due to the limited construction activity over the FY09-FY12 period. Revenue growth from new growth has exceeded that from the allowable 2.5% increase in eighteen of the last thirty years (Figure 7). New growth for FY14 is the weakest since FY05, but there are signs that the economy is improving, --for example building permit revenues are increasing--, and that more robust new growth will return.

Indicators of the property tax in the current economy are improving as well. Office vacancy rates, an indicator of commercial real estate value, are declining from their peak. Boston's office vacancy rate fell from 12.6% in 2011 to 9.8% in 2012, according to Jones Lang LaSalle. The median single-family home sales price, an indicator of residential real estate values, is $382,200 as of second quarter 2013 in the Boston-Cambridge-Quincy metropolitan area. This amount is still down by over 11% from the third quarter 2005 peak, but up 32% from the bottom in first quarter 2009.

Recently, with all of the turmoil in the real estate market, there has been concern around falling property values and their effect on property tax. Declining property values can present a problem for cities as dependent on the property tax as Boston. As property values decreased in the early 1990's, and the City continued each year to maximize the allowable levy increase under Proposition 2 ½, the levy rapidly approached the levy ceiling of 2.5% of total assessed value. Reaching the 2.5% ceiling would have resulted in a very limited increase in allowable annual levy growth.

However, due to earlier years of strong new growth increases, the City has some space between its FY13 net effective tax rate of 1.83% and the tax levy ceiling of 2.5% (Figure 8). If the real estate market continues to depreciate, the City's lack of proximity to the 2.5% property tax rate threshold will insulate revenues from an immediate shock. However, if values are depressed long enough, future growth of the property tax could be impaired.



Overall Property Tax Rate & Space Below Levy Ceiling
FY04 -FY13

Figure 8

State Aid

State aid refers primarily to distributions from the Commonwealth to municipalities for Chapter 70 Education Aid and Unrestricted General Government Aid, along with other relatively small Commonwealth programs such as library aid and various reimbursements. State aid, as it is used here, excludes any grants to or offsets for direct expenditure by City departments. It also includes reimbursements from the Massachusetts School Building Authority (MSBA).

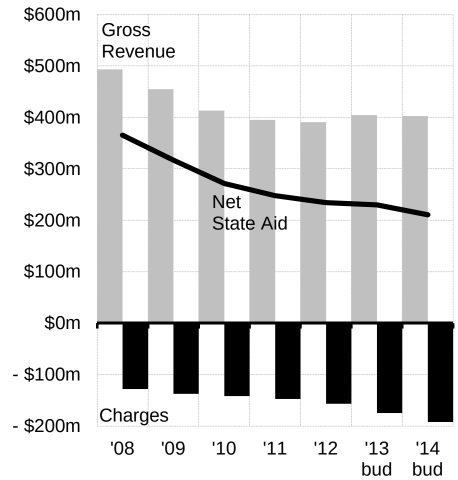
The City's FY14 state aid estimate is based on a combination of level funding of the two largest aid streams, assumptions and formulas on others, and historical trends for the rest. The City received general fund gross state aid totaling $395.2 million in FY11 and $390.5 million in FY12. The City expects to receive $404.1 million in state aid in FY13 and has budgeted $402.6 million in gross state aid in FY14.

"Municipal Charges" or "State Assessments" are charged by the Commonwealth to municipalities for items such as MBTA service and Charter School tuition. State aid distributions are reduced by the amount of assessments charged to a municipality. The City paid $147.7 million in assessments in FY11 and $156.6 million in FY12. The City expects to pay $174.6 million in assessments in FY13 and is budgeting $191.9 million in FY14. The largest assessments are those of the MBTA and charter school tuition. The latter of these will increase significantly in the near future due to recent legislation expanding the number of charter schools.

Net state aid, which is gross state aid revenue minus state assessments, has been trending down steeply since FY02. The rapid annual increases in the charter school tuition and MBTA assessments, combined with reductions in education and general government aid, continue to contribute to this trend (Figure 9). With a decrease in net state aid for FY14, Boston is $151.7 million, or 42%, below its FY08 level of net state aid of $365.1 million. Net state aid amounted to $247.5 million in FY11 and $233.9 million in FY12. FY13 budgeted net state aid totals $229.5 million and the FY14 Budget assumes a reduction to $210.7 million.

Education Aid

In the 1990s, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its state aid distributions. FY00 was the last year of the statutorily established funding schedule for this education reform. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth. The



Net State Aid
FY08 - FY14

Figure 9

City received Chapter 70 education aid totaling $204.3 million in FY11, and $205.4 million in FY12. The City expects to receive $209.4 million from the state in FY13 and estimates level funding for FY14.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committee and teacher union rules and regulations. (See *Innovations in Education* section of this volume for more detail on charter schools.)

Approximately 6,622 Boston resident students are attending "Commonwealth" charter schools in FY13. The City projects that this number will increase to 7,645 in FY14.

Beginning in FY12, the previous charter school tuition cap of 9% of a sending district's net school spending (NSS) has been expanded, stepping up over several years. This increase in the amount of funding that may be diverted from a sending school district allows for more charter schools to be available to Boston resident students. The State Board of Education recently approved charters for eight new Commonwealth charter schools, which are projected to serve over 4,000 new students when fully operational over the coming years. This expansion will substantially increase the City's Charter school tuition assessment going forward.

The Commonwealth, subject to appropriation, is required to pay the City a reimbursement for tuition paid to charter schools. A new schedule changes the percentages of reimbursement over a six year period. The reimbursement for FY14 will be 100%, 25%, 25%, 25%. Reimbursement works as follows: 100% of the increase in total tuition in year X. In year X+1, the tuition increase in year X is reimbursed at a 25% rate the second year and each year thereafter up to 6 years in 2016. After the last year, the original year's tuition cost increase is no longer reimbursed

The net cost of charter schools to the City has been increasing rapidly: in FY11 the cost was $55.1 million and in FY12, $61.9 million. In FY13 the City has budgeted a $71.3 million net impact and in FY14, $88.4 million (Figure 10).

Unrestricted General Government Aid (UGGA)

For the FY10 budget and going forward, the Governor and the Legislature combined general government aid from Additional Assistance and Lottery into one account - UGGA. The combined accounts totaled $160.2 million in FY11 and FY12. In FY13, the City will again receive $160.2 million and has budgeted the same for FY14.

Revenue derived from the State's lottery now accounts for nearly all funds dispersed through UGGA. This distribution of UGGA is a weighted average of both Lottery and Additional Assistance distributions of the past.

Below are historical explanations of Additional Assistance and Lottery.

Additional Assistance

Additional Assistance was originally conceived and designed as a revenue-sharing concept and distributed based on the relative need of cities and towns. Additional Assistance had been frozen or reduced annually since FY94, with most local aid increases coming through Chapter 70 education aid instead. Less than half the state's municipalities were receiving Additional Assistance as of FY09, with Boston receiving over 40% of the statewide distribution.

The City received $164.2 million each year from FY04 through FY08 and $148.2 million in FY09 before the account was merged.

The original purpose and usefulness of Additional Assistance came into question during the budget processes of both Governor Swift and Governor Romney. A taskforce set up by the Metropolitan Mayors Coalition in 2005 researched the history and methods of delivering local aid to municipalities in Massachusetts. The taskforce recommended returning to a similar formula.

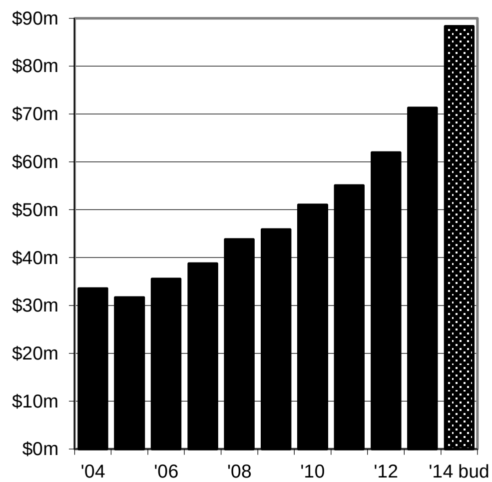
Since that time, the Federal Reserve Bank of Boston has developed a new needs-based formula and has made presentations across the state and the nation explaining the benefits of distributing aid in such a way.

In the current Legislative session, a bill has been filed to renew this formula based on the work of the Federal Reserve. Any changes to this aid account must include a so-called "hold harmless" to protect current distributions of UGGA.

Lottery Aid

The now 39 year old lottery reached its peak in FY06 at $4.52 billion in sales. The original lottery formula was not favorable to the City because it distributed lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City received a smaller percentage share of Lottery Aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

Prior to the FY10 consolidation into Unrestricted General Government Aid, the City received Lottery Aid of $71.6 million in FY08 and $64.6 million in FY09.



Net Charter School Cost
FY04- FY14

Figure 10

Local Receipts

The City collects more than $400 million annually in recurring revenues other than Property Tax or State Aid. Revenue from excise taxes, payments-in-lieu-of-taxes, licenses and permits, fees and fines, investment income and available funds are part of this local receipts group. Forecasts of these revenue types are done by trending historical collections or more detailed econometric modeling depending on the specific revenue source and the availability of other data.

In sum, the City collected $420.9 million in FY11 (excluding a one-time pension payment of $82.0 million) and $446.7 million in FY12 from these sources. The City expects to exceed the mid-year budget estimate of $429.6 million in FY13 and collect $442.8 million in FY14 (Figure 11).

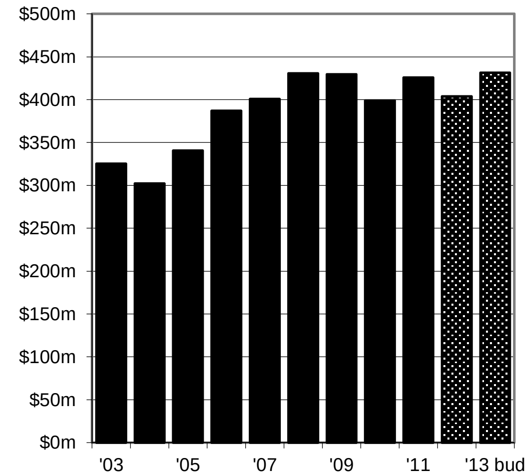
Excise Taxes

The Commonwealth imposes an excise in-lieu of property tax on motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally kept. The excise is a uniform rate of $25 per $1,000 of vehicle valuation. Valuations are determined by a statutorily-defined depreciation schedule based on the manufacturer's list price and the year of manufacture.

The City expects the market for automobiles to stabilize in the coming fiscal year. Motor vehicle excise revenue totaled $46.9 million in FY11 and $40.4 million in FY12. The City expects motor vehicle excise revenue to exceed the midyear annual projection of $38.4 million in FY13 and rise to $40.0 million in FY14. Since the excise tax lags the sale of the vehicle, this revenue estimate is generated based on state projections of current year tax collections on motor vehicle sales in the Commonwealth.

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and received $20.2 million for FY11, the first full year of tax collections. In FY12, the City collected $22.0 million. In FY13, the City expects to exceed the budgeted estimate of $20.3 million and the FY14 budget assumes an increase to $21.5 million. This revenue is estimated using the income of area residents, expected local room occupancy excise revenues (a driver of restaurant meals), and historical trends.

Due to the refunding of special obligation debt related to the City's costs of construction of the Boston Convention and Exhibition Center (BCEC) to general obligation debt, the City's general fund now receives funds that used to directly offset special obligation debt service. The room occupancy excise is fully recognized in general fund revenue as of FY12 and a portion of receipts is used in support of general obligation debt related to the Convention Center.



Recurring Local Receipts
(non-property tax/state aid/)
FY03 - FY13 (adj. for actual base hotel collections)
FY12 forward includes all hotel tax

Figure 11

The local room occupancy excise amounts to 6.0% of the total amount of rent for each hotel or motel room occupied. This rate was increased in the fall of 2009 from 4.0%, along with the enactment of the new meals tax. Another 5.7% excise tax is directed to the state general fund and another 2.75% fee to the state's convention center fund, for a total tax from all sources on hotel rooms in the City of 14.45%. Room occupancy excise revenue to the City totaled $58.5 million in FY11 with a full year at the new 6.0% rate ($24.0 million was used as an offset to debt service and $34.5 million was transferred to the general fund). In FY12, all $60.1 million collected remained in the general fund. The City expects to exceed the mid-year budget estimate of $58.0 million in FY13 due to very strong hotel bookings. The FY14 budget estimates an increase to $59.5 million.

Room occupancy excise receipts are estimated based on air travel statistics from Logan International Airport and regional gasoline prices.

The vehicle rental surcharge is a revenue-sharing arrangement with the Commonwealth. Under this arrangement, all vehicle rental contracts originating in the City are subject to a $10 surcharge. The City receives $1 of this surcharge. This revenue source was not budgeted for FY12 or prior because it was pledged to BCEC special obligation debt and is estimated at $1 million for FY13 and FY14.

The excise on the sale of jet fuel is 5% of the sales price, but not less than five cents per gallon. With recent increases in fuel prices, jet fuel excise revenue has increased as well. Jet fuel excise revenue totaled $23.3 million in FY11 and $32.6 million in FY12. The City expects this revenue source to meet the midyear annual projection of $31.5 million in FY13 and to increase to $30.8 million in FY14. Estimates incorporate fuel price forecasts from the Energy Information Administration (EIA) and air traffic volume from Logan International Airport.

Parking Fines

In fiscal 2012, the City issued over 1.42 million parking tickets and has maintained a high rate of collection on those tickets. Approximately 84% of tickets are collected in the first six-months after issuance and 90% are collected within a year. The major factors contributing to the City's successful collection rate include non-renewal of violator's registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to recover fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles. The City also contracts with a third-party vendor to collect delinquent fines from out of state vehicles and other hard to reach offenders.

The City collected parking fine revenue of $61.1 million in FY11 and $61.0 million in FY12. Parking fine revenue is expected to reach the mid-year budget estimate of $59.0 million in FY13 and remain level in FY14. The lower recent revenue is due to lower numbers of tickets issued overall. Issuance of parking fines is down in many major cities nationwide, likely due to economic conditions.

Interest on Investments

In general, the City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Since June 2007, interest rates have been quickly reduced in an effort to stimulate the economy out of recession. Given the very low interest earnings potential, the Treasury department has instead engaged in a compensating balance approach with banks, having fees paid through depositing minimum balances. Investment income totaled $1.4 million in FY11 and $1.0 million in FY12. The City projects interest income will not reach the $900,000 mid-year annual estimate in FY13 and is projected to decline to $500,000 in FY14.

Payments in Lieu of Taxes

Payments in lieu of taxes (PILOTs) are payments made by property tax-exempt institutions located in the City, including hospitals, universities and cultural institutions. These are voluntary contributions for municipal services such as police and fire protection, street cleaning, and snow removal.

Growth in PILOT's comes from new agreements, escalations that adjust the payments for inflation, and re-negotiation or expansion of current agreements. The Massachusetts Port Authority (MassPort) currently provides nearly half of the PILOT revenue the City receives annually.

Recently, a Mayoral appointed task force released a report suggesting more standardization of PILOT agreements. Specifically, each agreement should represent, in cash or in-kind, 25% of the amount of tax that would be due if properties were not tax exempt. This type of change would generate more revenue than what is currently collected while providing some equity across paying institutions. New agreements under this framework were adopted in FY12 and that year includes the first installment of a five-year phase-in period to the new amounts. Revenue estimates for FY14 assume the third year of that period.

Payments in lieu of taxes totaled $35.5 million in FY11 and $36.0 million in FY12. The City expects this revenue source to exceed the midyear annual budget estimate of $40.1 million for FY13 and estimates $43.0 million in FY14.

Urban Redevelopment Chapter 121A

Massachusetts General Law (MGL), Chapter 121A allows local governments to suspend the imposition of property taxes at their normal rates in order to encourage redevelopment. In recent years, the City used this mechanism to encourage development of the Seaport Hotel, the World Trade Center office buildings, and many housing developments. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise (Chapter 121, section 10) is collected in-lieu-of-corporate income tax for which the Commonwealth acts as the collector and distributes the proceeds to municipalities. In most cases, the formula for the 121A, section 10 excise in-lieu-of-tax is $10 per $1,000 of the current cash value of property plus 5% of gross income. In FY11 and FY12, the City received Chapter 121A, section 10 distributions of $33.8 million and $37.6 million, respectively. In FY13, Chapter 121A section 10 revenues are budgeted at $35.0 million. In FY14, Chapter 121A Section 10 revenues are budgeted at $36.0 million.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual agreements with the City that result in additional payments made directly to the City. These “Section 6A” agreements are complex, with actual amounts owed dependent on a formula that varies widely. The City collected Section 6A payments of $30.6 million in FY11 and $24.6 million in FY12. (The FY11 figure contains a one-time “gap” payment made by an property whose agreement expired and was moved to the tax role.) The City expects FY12 Section 6A collections to reach the midyear budget estimate of $24.0 million and increase to $24.5million in FY14.

Miscellaneous Department Revenue

This category contains several large accounts and many more small accounts. The largest revenue source in this category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received $7.8 million in FY11 and $8.1 million in FY12. Municipal Medicaid reimbursement is expected to reach the midyear annual budget estimate of $6.7 million in FY13 and decline slightly in FY14.

Other Miscellaneous Department Revenue, which consists of accounts collecting miscellaneous fees for services, rents, and reimbursements that are not separately stated on the Revenue Detail at the end of this chapter, is budgeted at $15.7 million and $14.6 million in FY13 and FY14, respectively.

This category of revenues is estimated largely by historical trend.

Licenses and Permits

This category is dominated by building permit revenue, from which the City received $23.5 million and $32.6 million in FY11 and FY12 respectively. Building permit revenue will meet the midyear budget estimate of $23.0 million in FY13, and is projected to increase to $24.0 million in FY14. This estimate is forecast based on the Producer Price Index (PPI), the commercial paper issued to support commercial construction, as well as trending of recent collections.

The next largest license and permit revenue is the cable television license fee from which the City received $5.9 million in FY11 and $7.5 million in FY12 (an increase due to an early FY13 payment.) The City has budgeted $4.5 million for FY13 and $6.0 million in FY14.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds $3 million in annual revenue. Alcoholic beverage licenses are budgeted at $3.4 million in FY13 and FY14.

Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills, motor vehicle excise bills and other payments. The historical trend has been down for these revenues as the City excels in the timely collection of receivables, but recent economic conditions have likely made it more difficult for taxpayers. The City collected $9.2 million in such penalties and interest in FY11 and $8.6 million in FY12. Actual penalty and interest collections for FY13 will meet the current midyear budget estimate of $8.4 million and are projected to be $8.4 million in FY14.

Available Funds

Available funds are linked to a separate category of expenditure appropriation - those supported by immediately available fund transfers. Most of the City's general fund budget is supported by the revenues that are estimated to come in during the course of the fiscal year. This includes the property tax levy, excises, state aid, and the various other categories of revenues described above.

The only two significant available funds that the City generally budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies which are used to support the City's maintenance of its public cemeteries. The City transferred a total of $17.1 million from these two sources combined in FY11 and did not transfer any funds in FY12 The City expects to transfer $15.0 million from the parking meter fund to the general fund in FY13 and $16.5 million in FY14. The City also plans to transfer roughly $807,000 from the cemetery trust fund to the General Fund in FY14 but will make no transfer in FY13.

Both special funds have fees collected during the course of the year. By transferring out less than what is collected over the years, the City has built up the balances in these funds. Trust fund balances, such as the cemetery trust, also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments (see *Financial Management* section of Volume I for detail).

Non-recurring Revenue

Surplus Property

The surplus property disposition fund contains the proceeds from the sale of various City land or buildings. The use of these funds is usually restricted to one-time expenditures. No funds are included in the FY14 Budget from this revenue source.

Budgetary Fund Balance

Budgetary Fund Balance can be appropriated for use during the fiscal year after certification by the DOR. Budgetary Fund Balance is more commonly referred to as "Free Cash" when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The FY13 Budget assumes no use of these funds, instead using recurring revenue to support the appropriation for Other Post-employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY14 budget assumes the use of $40.0 million to support OPEB.

(See *Financial Management* section of Volume I for more detail on this revenue source).

CITY OF BOSTON
REVENUE DETAIL

		FY11 Actual	FY12 Actual	FY13 Budget	FY14 Budget
	PROPERTY TAX LEVY	1,541,920,523	1,615,908,723	1,683,681,079	1,753,873,825
	OVERLAY RESERVE	(37,354,838)	(38,656,031)	(41,055,345)	(34,389,683)
	Subtotal	1,504,565,685	1,577,252,692	1,642,625,735	1,719,484,142
	EXCISES				
	Motor Vehicle Excise	46,918,295	40,436,404	38,413,772	40,000,000
40601	Meals Excise	20,245,189	21,990,978	20,300,000	21,500,000
40129	Room Occupancy Excise	34,500,000	60,138,593	58,000,000	59,500,000
40130	Jet Fuel Excise	23,253,088	32,644,073	31,500,000	30,800,000
41113	Vehicle Rental Surcharge	NA	NA	1,000,000	1,000,000
40140	Condominium Conversion Excise	259,000	266,000	250,000	300,000
	Boat Excise	59,182	70,660	70,000	75,000
	Subtotal	125,234,753	155,546,708	149,533,772	153,175,000
	FINES				
	Parking Fines	61,147,745	60,991,478	59,000,000	59,000,000
45104	Code Enforcement - Trash	728,659	426,104	425,000	600,000
	Other Fines	3,461,363	3,278,691	3,250,000	3,220,000
	Subtotal	65,337,767	64,696,272	62,675,000	62,820,000
47151	**INTEREST ON INVESTMENTS**	1,391,924	981,948	900,000	500,000
40167	PILOTs	16,735,965	18,006,472	22,100,000	24,600,000
40168	Other Payments In Lieu of Taxes	1,680,563	572,184	575,000	600,000
40169	Massport	17,085,116	17,405,856	17,437,000	17,769,000
	Subtotal	35,501,644	35,984,511	40,112,000	42,969,000
	URBAN REDEVELOPMENT CHAPTER 121				
40230	Urban Redev. Chap. 121B Sec. 16	5,879,328	2,283,202	2,200,000	2,100,000
40231	Urban Redev. Chap. 121A Sec. 6A	30,617,835	24,634,446	24,000,000	24,500,000
41013	Urban Redev. Chap. 121A Sec. 10	33,807,502	37,579,447	35,000,000	36,000,000
	Subtotal	70,304,665	64,497,095	61,200,000	62,600,000
	MISC. DEPARTMENT REVENUE				
43105	Registry - Vital Statistics	1,450,616	1,541,735	1,450,000	1,475,000
43109	Liens	578,600	650,900	575,000	585,000
43120	City Clerk Fees	553,674	453,773	450,000	450,000
43137	Municipal Medicaid Reimbursement	7,798,733	8,075,890	6,675,000	6,650,000
43138	Medicare Part D Reimbursement	4,090,408	4,411,738	3,000,000	3,000,000
43202	Police Services	693,302	604,633	600,000	650,000
43211	Fire Services	3,697,952	4,790,011	4,500,000	4,500,000
43301	Parking Facilities	1,283,345	1,010,229	1,000,000	1,500,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,251,018	3,662,860	3,500,000	3,500,000
43425	Street Furniture - Fixed Fees	1,500,000	1,500,000	1,500,000	1,500,000
43426	Street Furniture - Ad Fees	863,450	906,057	900,000	900,000
44002	Tuition & Transportation - Schools	1,587,093	791,497	800,000	1,550,000
47119	Affirmative Recovery	531,668	1,633,769	525,000	525,000
47130	Fringe Retirement	5,258,976	6,496,101	5,200,000	5,200,000
47131	Pensions & Annuities	3,233,945	3,373,132	3,200,000	3,300,000
47132	Fringe Benefit & Indirect	736,806	527,526	525,000	525,000
48000	Detail Admin. Fee	2,913,986	3,149,226	3,000,000	3,100,000
	Other Misc. Department Revenue	99,966,754	20,883,762	15,682,534	14,676,515
	Subtotal	138,990,324	64,462,840	53,082,534	53,586,515

CITY OF BOSTON
REVENUE DETAIL

		FY11 Actual	FY12 Actual	FY13 Budget	FY14 Budget
	LICENSES & PERMITS				
40211	Building Permits	23,461,018	32,565,249	23,000,000	24,000,000
40213	Weights & Measures	253,665	300,686	250,000	250,000
40215	BTD - Street & Sidewalk Permits	2,206,687	3,144,683	3,000,000	3,000,000
40221	Health Inspections	1,591,391	1,783,619	1,600,000	1,650,000
40222	Alcoholic Beverage Licenses	3,388,635	3,444,963	3,350,000	3,400,000
40224	Entertainment Licenses	1,995,807	2,116,457	2,017,936	2,100,000
40229	Other Business Licenses and Permits	152,701	194,145	150,000	150,000
40235	Cable Television	5,922,547	7,504,563	4,500,000	6,000,000
	Other Licenses and Permits	914,394	877,198	875,000	900,000
	Subtotal	39,886,846	51,931,563	38,742,936	41,450,000
	PENALTIES & INTEREST				
40133	Penalties & Interest - Property Tax	2,534,256	2,426,691	2,400,000	2,400,000
40134	Penalties & Interest - Motor Vehicle Excise	2,806,660	2,876,671	2,800,000	2,800,000
40136	Penalties & Interest - Tax Titles	3,845,817	3,268,188	3,200,000	3,200,000
	Other Penalties & Interest	4,832	6,521	5,000	5,000
	Subtotal	9,191,565	8,578,071	8,405,000	8,405,000
	AVAILABLE FUNDS				
42502	Cemetery Trustee	2,108,718	-	-	807,129
42503	Parking Meters	15,000,000	-	15,000,000	16,500,000
	Subtotal	17,108,718	-	15,000,000	17,307,129
	STATE AID				
41015	State Owned Land	262,485	271,873	271,960	272,158
41101	R.E. Abatements - Veterans/S.S./Blind/Elderly	1,888,089	501,498	1,177,655	1,152,329
41114	Veterans Services	2,831,578	3,151,268	3,418,164	3,197,376
41118	Unrestricted General Government Aid	160,247,301	160,247,301	160,247,301	160,247,301
41119	Racing Taxes	427,158	649,818	498,061	-
41301	School Construction	11,157,748	8,107,767	10,419,271	8,474,584
41305	Charter Schools Reimbursement	13,236,601	12,130,766	20,166,920	19,812,414
41306	Chapter 70 Education Aid	204,317,586	205,414,453	207,858,813	209,406,563
41117	Police Career Incentive	831,900	-	-	-
	Subtotal	395,200,447	390,474,744	404,058,145	402,562,725
	RECURRING REVENUE TOTAL	2,402,714,338	2,414,406,444	2,476,335,122	2,564,859,511
	NON-RECURRING REVENUE				
42504	Budgetary Fund Balance	27,000,000	-	-	40,000,000
42501	Surplus Property	-	-	-	-
	TOTAL REVENUE	2,429,714,338	2,414,406,444	2,476,335,122	2,604,859,511