

Financial Management of the City

OVERVIEW

Managing the City's finances involves both a strategic and an operational component. Strategically, the financial operations must be managed to accommodate fluctuations in the economy and the resulting changes in costs and revenues. Operationally, the City must put in place clear financial goals, policies, and the tools to implement its strategic plan.

The Mayor ultimately directs all of the City's financial operations. The Mayor is the chief executive officer of the City and has general supervision of and control over the City's boards, commissions, officers, and departments.

The City operates under a cabinet form of government. This structure helps to facilitate the execution of mayoral priorities and the day-to-day executive and administrative business of the City.

The following departments are included in the Finance & Budget Cabinet and have major roles in the fiscal management of the City:

- The Treasury Department collects all revenues due to the City and pays all amounts due for payrolls and outside vendors. The Treasury Department prudently manages the investment of City funds and prioritizes the safety of such investments.
- The Auditing Department prepares the City's annual financial statements, implements fiscal controls over departmental spending, provides technical assistance to departments, and reviews and processes all financial transactions for accuracy, completeness, and compliance.
- The Assessing Department is responsible for the valuation and assessment of all real and personal property in the City for the purpose of taxation.

- The Office of Budget Management coordinates the analysis and presentation of the Mayor's operating budget and capital plan, assembles, analyzes, and presents data with respect to revenue and debt management, and facilitates the establishment and use of data to analyze performance.
- The Purchasing Department procures all supplies, materials, and equipment, selects vendors through public bidding and processes purchase orders and contracts.

STRATEGIC FINANCIAL MANAGEMENT

Maintaining a healthy financial base that fully supports City services according to mayoral priorities requires both careful planning and constant scrutiny. This work is reflected in restructuring City services in order to streamline operations, gaining improved operational efficiencies from financial management systems, securing sound recurring revenues, and making responsible spending adjustments in light of any revenue growth limitations in order to achieve a balanced budget. Strong financial management provides a framework within which the City is able to safeguard the present and position itself for the future.

Balanced Responsible Budgets

In accordance with state law, the City develops a balanced budget every year. The Massachusetts Department of Revenue (DOR) approves property tax rates during the tax certification process governed under General Laws Chapter 59, Section 23. This approval ensures that all cities and towns have balanced budgets and that tax levies are within the limits set by Proposition 2 ½ (see *Revenue Estimates and Analysis* section of Volume I for detail on Prop. 2 ½). Appropriations, fixed costs, and any prior year deficits along with the approved property tax levy, estimated local revenues, and available prior year surpluses must

be in balance in order to obtain DOR authorization to issue property tax bills.

Healthy Credit Profile

In March 2014, Standard & Poor's Rating Services raised its investment rating for Boston to AAA from AA+, while Moody's affirmed their Aaa rating. These ratings, the highest possible to achieve and a first in the City's history, send a clear signal of the strength of Boston's deep and diverse economy. Standard & Poor's noted a very strong management environment and strong financial policies in its most recent report.

This superior credit quality allows the City to borrow new money and refinance existing debt at extremely attractive interest rates. The City has saved over \$61.0 million on a net present value basis by refinancing \$957.1 million of debt since 2001. In February 2014, the City sold \$153.0 million of general obligation bonds, resulting in proceeds of \$170.2 million.

Maximizing Return on Investment

The City has articulated a vision to make finance a high performing organization in supporting and serving the departments and citizens of Boston. By making daily operations more efficient, using leading business practices, spending more time on value-added activities, improving customer service while maintaining appropriate controls, and engaging the next generation of finance leaders, this City has been at the forefront of municipal finance.

Protecting and Growing the Revenue Base

Over 80% of recurring general fund revenue comes from just two sources, the property tax and state aid from the Commonwealth. The City continues to support the dual goals of both protecting and growing its revenue base through expansion of current revenue streams and the addition of diversified revenue streams that more closely match its economic strengths. Recent trends in property tax and state aid highlight the risk of relying too heavily on any one source of revenue.

The net property tax levy as a percentage of total recurring revenues has increased from 52% in FY02 to 68% in the FY15 budget, an \$896 million increase over the period (the net levy can be affected by structural changes, such as a change in the amount reserved for abatements, which did

occur over this period). Property tax revenues now account for a larger share of recurring revenues than prior to the passage of Proposition 2 ½ in the early 1980's. This growth, especially during challenging economic times, has again spurred discussion about the level of property taxes in municipalities across the state.

During the same period, state aid revenue to the City has fallen \$105 million, or from 30% to 15% of recurring revenue. State aid has been reduced by a total of \$226 million, or 53%, between FY02 and the FY15 budget when including the increase in state assessments to the City. This staggering decline in the City's second largest single source of revenue leaves the City more reliant on local sources of revenue like the property tax.

Recognizing the threat to fiscal stability represented by these trends in property tax and state aid, the City has repeatedly filed legislation to modernize its revenue structure. The City was successful in this long legislative process when subsequent to the passage of the City's FY10 budget the State approved, and the City adopted, a new local option tax of .75% on restaurant meals and a 2% tax increase for hotel occupancy (bringing the City's share of the total hotel tax to 6.0%).

In the current legislative session, the previous Mayor has proposed continuing to expand the local tax base by establishing a local option tax on parking and closing a tax loop-hole benefitting internet resellers of hotel room nights. These small but broad-based taxes would match the City's economic activity and related costs, while helping the environment or exporting some of the tax burden to non-residents who use City services.

As a matter of course, the City also regularly reviews its fee and fine structures for any necessary adjustments to meet the cost of providing services or deterring undesired behavior.

Multi-Year Budget Plan

The City develops a financial forecast as part of the yearly budget process. Preparing a multi-year planning horizon provides time for the Administration to make adjustments and/or policy decisions that may be necessary (see *Summary*

Budget FY15-FY16 section in Volume I for more detail).

FINANCIAL POLICIES, PROCEDURES & CONTROLS

Pursuant to state law mandates and policy initiatives, the City has well-established policies and internal controls to govern its financial operations effectively. These policies and controls are designed to maximize revenue collections, safeguard assets, monitor both operating and capital spending, evaluate infrastructure needs, and enhance the City's internal control of its business procedures. The major components of the City's system of financial management controls and relevant financial policies are discussed below.

Expenditure Controls

The City operates under several statutory financial control systems which are summarized in the *Statutes and Ordinances* section in Volume I. Along with conservative revenue estimates and strong budgetary flexibility, the City is able to maintain a solid financial position. The City monitors spending on a continual basis and all transactions go through a budget-check process prior to procurement. Maintaining tight central expenditure controls allows for critical review of all non-personnel spending. Additionally, the Office of Budget Management prepares monthly variance reports, updating all departments expected year-end position. Dialogue with departments throughout the year informs management of the need to adjust to any fiscal change or recent trend.

Position Review Committee (PRC)

The PRC is comprised of the Chief Financial Officer, the Human Resources Director, and the City's Budget Director. In place for over a decade, the committee serves to strictly control and monitor all hiring. In a budget where people and the benefits they carry account for over 75% of the spending, this committee has been instrumental in maximizing City resources.

Debt Management

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit, and statutory

debt capacity. The Treasury Department manages all City borrowings, focusing on the timing of them in order to take advantage of favorable market conditions. The City's cash flow is anchored by the quarterly billing of the property tax and the monthly receipt of state aid distributions - Treasury manages this cash flow wisely, obviating the need to borrow for operating purposes. The Treasury Department also ensures adherence to the City's conservative debt policies, including the rapid repayment of debt where at least 40% of overall debt is repaid within 5 years and 70% in 10 years, as well as a 7% ceiling on debt service as a percentage of general fund expenditures. The City imposes a 20% ceiling on variable debt and has no variable debt outstanding at this time. The City also utilizes lease-purchase financing of equipment with a three-to-seven year useful life to replace front-line equipment such as vehicles and upgrade technology and telecommunications equipment.

Capital Planning

The Office of Budget Management (OBM) is responsible for managing the City's capital plan and budget. OBM coordinates the evaluation of capital requests, forecasts the timing and financial requirements of new construction and rehabilitation, and recommends the allocation of current and future resources by monitoring capital expenditures.

The capital planning process is synchronized with the annual operating budget cycle, allowing for the regular reassessment of capital needs and refinement of projections, as well as the update of a rolling five-year capital plan.

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City's bond issue is consistent with the City's financial management policies regarding its level of debt and debt service.

Investment Policy

Investment policies are defined in Chapter 643 of the Acts of 1983 ("The City of Boston Bond and Minibond Procedure Act"), Chapter 107 of the Acts of 1991, and Chapter 44 of the Massachusetts General Laws. The City's policy for the investment of operating funds prioritizes security, liquidity, and yield. Certain limitations placed on the City's investment activities or operational protocols are self-imposed so as to make sound, timely, and safe

investment decisions. As a matter of practice, the City tends to limit its investments to repurchase agreements, money markets and certificates of deposit, all of which are collateralized by U.S. Government obligations and are held with a third party.

Contracting Procedures

The Uniform Procurement Act (the UPA), Massachusetts General Laws Chapter 30B, creates uniform procedures for the contracting of services and supplies by all municipalities in the Commonwealth. The City has implemented internal processes to conform its contracting procedures to the requirements of the UPA and utilizes an online eProcurement system to further support these compliance efforts.

Tax Collections

The City's aggressive property tax collection efforts help reduce the number of accounts that become delinquent. A variety of collection remedies are prescribed by state law if taxes are delinquent, namely the City's ability to secure its right to foreclose by recording a tax title lien at the Registry of Deeds. The foreclosure process constitutes the most effective payment enforcement tool available to the City and these efforts continue to pay off, as the property tax collection rate was 99.1% of the FY13 gross tax levy as of June 30, 2013.

A Taxpayer Referral and Assistance Center provides "one-stop" service on tax-related matters and the City offers an on-line payment option for taxpayer convenience. Parcel-specific information as well as payment history is also available on-line.

Pension Management

The City's employees are not participants in the federal social security system. Instead, they participate in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System (SBRS), of which the City is the largest member. The SBRS provides pension benefits to retired City employees under a state contributory retirement statute and is administered by a Retirement Board comprised of five members: the City Auditor, who serves ex-officio; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or

appointed by the Mayor, if a selection is not agreed upon within 30 days of a vacancy.

The SBRS performs a full valuation every two years to determine the total system liability and assets and the annual funding requirement for future years. A legislative change affecting FY10 forward occurred with regard to funding teachers' pensions, eliminating what was a special circumstance for Boston. The City no longer pays nor is it reimbursed for the cost of teacher's pensions - the funding of this liability has moved to the Commonwealth where it resides for all other teachers in Massachusetts (See the *Statutes and Ordinances* section in Volume I for detail of this legislation). The actuarial valuation has been separated into SBRS-Teachers and SBRS-All Other.

In FY11, the City made an additional one-time payment totaling \$82 million to the pension system, one of two pension decisions made with FY12 and beyond in mind. The additional payment, along with extending the actuarial schedule two years, helped mitigate the effect of asset value loss experienced in 2008 and recognized in the updated pension schedule.

The adoption of a new funding schedule as of January 1, 2012, updated mortality rates, decreased the investment return assumption from 8% to 7.75%, and reflected the increase to the retiree cost of living adjustment ("COLA"). The City remains on track toward reducing the unfunded liability of the SBRS to zero by 2025, fifteen years prior to the legally required funding date of 2040.

As of January 1, 2012, the SBRS-All Other (non-teacher) pension liability was 70.7% funded. The SBRS hires an investment manager who oversees the various fund managers of the SBRS-All-Other (non-teacher) pension assets.

Other Post-Employment Benefits

While the City is required by law to make an annual contribution toward reducing its unfunded pension liability, there is no such requirement for retiree health and life insurance benefits. Similar to pensions, employees earn these other post-employment benefits (OPEB) over their years of

service, but do not actually receive them until retirement. The most recent independent actuarial valuation, as of June 30, 2013, valued the City of Boston's unfunded liability for these benefits at \$2.1 billion.

In FY08, the City was required to follow new Governmental Accounting Standards Board (GASB) requirements to identify and disclose this estimated liability. At the same time, the City also voluntarily began to annually allocate funds to reduce the OPEB liability. Annual allocations are retained in an irrevocable Trust Fund, authorized through the City's acceptance of M.G.L. Chapter 32B section 20, and summarized in Table 1.

The Annual Required Contribution (ARC) for the City (including the PHC) to significantly reduce the OPEB liability over a 30 year period is projected at \$168.3 million in FY15, as shown in Table 2 below. The City will fund \$166.3 million of

	City Annual Appropriations to OPEB Trust	
	City	PHC
FY08	20.0	-
FY09	25.0	-
FY10	20.0	-
FY11	35.0	1.3
FY12	35.0	1.3
FY13	40.0	2.3
FY14	40.0	2.3
FY15	40.0	2.3
Total	255.0	9.3

Table 1

build Trust assets. (The PHC will also deposit an additional \$2.25 million to the Trust.) This level of annual contribution balances the City's acknowledgement of the future cost of OPEB benefits, with the City's current duty to deliver valuable public services today.

The future annual ARC for the City will vary based on the total estimated OPEB liability, largely influenced by changes to retiree health benefits, the annual additional contribution, and the discount rate used. The total estimated liability was significantly reduced in the most recent June 2013 valuation, primarily due to health benefit changes negotiated between the City and the Public Employee Committee (PEC), statewide

municipal health care reform, mandating that Medicare eligible retirees enroll in a Medicare health plan, and the increase in the discount rate.

Risk Management

Risk-related costs include legal liability claims, property losses, costs incurred due to workplace injuries, employee healthcare, and unemployment compensation. These costs are managed by central departments, such as Law and Human Resources, in addition to individual operating departments. The Office of Budget Management works to maximize the effectiveness of these intra-departmental efforts by reviewing cost trends, assisting in improvements, and implementing the City's risk financing strategy.

FY15 Annual Required Contribution (ARC) to Reduce OPEB Liability Over 30 Years		% ARC
Total ARC	\$168.3	
FY15 Projected Benefit Payments	\$124.1	
FY15 Annual Allocation	\$42.3	
Total FY15 Payments	\$166.3	99%
Difference	-\$2.0	

\$millions

Table 2

The City's risk financing strategy is a planned self-insurance program which protects both individual departments' budgets and the citywide budget through central accounts, reserves, and catastrophic commercial insurance.

The City budgets for predictable risk-related costs through the general fund, except for almost 90% of health care costs which are self-insured, managed by third party plan administrators, and financed through employee/employer trust funds established in compliance with Section 3A of Chapter 32B of the General Laws. Actuarially determined reserves are maintained to protect each trust fund from unexpected sudden cost increases.

For other unexpected large losses, the City continues to build a catastrophic risk reserve, the available balance of which will be \$21.8 million at the end of fiscal 2014. Commercial insurance is purchased strategically for specific exposures. Catastrophic property insurance for all City buildings provides \$100 million coverage after a \$10 million deductible and 10% self-insured share, with the same coverage for fine arts with a \$1,000

deductible. Boiler and machinery losses are insured up to \$25 million.

Financial Reserve

As required by law since 1986, the City has maintained a reserve fund equal to 2 1/2% of the preceding year's appropriations for all City departments except the School Department. The fund may be applied to extraordinary and unforeseen expenditures after June 1 in any fiscal year with the approval of the Mayor and the City Council. To date, this budgetary reserve has not been utilized. As of June 30, 2013, the reserve fund had a balance of \$29.1 million. The FY15 Recommended Budget adds an additional \$700,000 to this reserve in anticipation of a required contribution based on the FY14 Budget.

Annual Audit/Management Letters

The City has consistently received unqualified opinions on the audit of its Basic Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its latest Comprehensive Annual Financial Report.

The City's independent auditors deliver a yearly management letter containing comments and recommendations on internal financial controls. The current management letter did not identify any deficiencies in internal control considered to be material weaknesses.

Financial Accounting Systems

Financial management is supported through the use of the Boston Administrative Information System (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department.

The utilization of these systems supports the rigorous monitoring and reporting requirements enforced by the City.

FINANCIAL MANAGEMENT PROGRAMS

Performance Management and Program Evaluation

Boston About Results (BAR) is the City's performance management and evaluation program. BAR provides city leaders and departmental managers tools to track the services they provide and evaluate performance against strategic goals. Analysis of performance data is used to assist in the decision making process, identify areas of improvement, and communicate results to a broad range of stakeholders.

BAR encourages operational improvements and innovation to increase the effectiveness and productivity of City departments.

Performance data also informs funding and policy decisions during the annual budget development process. For more information regarding the BAR program, please see "*Boston About Results*" section in Volume 1 for more detail about the City's efforts in this area.

Energy Management

The Mayor's Energy Management Board is charged with making decisions regarding the City's procurement, use, and conservation of energy. In addition, they monitor the City's progress in meeting the greenhouse gas reduction goals required by the City's Climate Action Plan. The Energy Management Unit, housed in the Environment, Energy and Open Space Cabinet, works with City departments and the Office of Budget Management to develop design standards and implement measures that enhance the energy efficiency of the City's new construction and capital improvement projects.

AUDITING & BUDGETING PRACTICES

The City prepares its comprehensive financial reports in accordance with generally accepted accounting principles (GAAP). However, accounting practices established by the Commonwealth's Department of Revenue, the so-called "budgetary basis" method of accounting, are used in the annual general fund budget and

property tax certification process. Budgetary basis departs from GAAP in the following ways:

- (a) Real and personal property taxes are recorded as revenue when levied (budgetary), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budgetary), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented as components of the general fund (budgetary), rather than as separate funds (GAAP).
- (d) Prior years' deficits and utilized available funds from prior years' surpluses are recorded as expenditure and revenue items (budgetary), but have no effect on GAAP expenditures and revenues.

In addition, there are certain differences in classifications between revenues, expenditures and transfers. The reconciliation in Table 3 summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2013. Table 4 shows a Statement of Revenues and Expenses and Changes in Fund Balance for FY12 – FY15. The FY14 and FY15 columns are budgetary numbers while FY12 and FY13 are audited GAAP results.

Financial statements for the fiscal year ended June 30, 2014 are expected to be available in late fall.

General Fund Equity

The City's management of its finances has resulted in growth in general fund equity. General Fund equity from FY02 forward appears artificially high as compared to prior years due to the required implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB No. 34 fundamentally changed the treatment of liabilities and receivables in the General Fund. The sharp decline in FY10 was due to a change in the mechanism of funding teachers' pensions in Boston. As a result of the change in legislation, the City did not receive reimbursement of \$118.8 million in teachers' pension expense in FY10 that was accrued for at the end of FY09. This change caused a dramatic, one-time impact on the City's financial statements that is evident at both the government-wide and fund levels. (See the *Statutes and Ordinances* section in Volume I for detail of this legislation.) The decline in FY11 was largely the result of the one-time additional payment to the Pension Trust Fund discussed previously under Pension Management. Although Table 4 shows no change in fund balance based on a balanced budget for FY14, it is expected that the actual results at the close of FY14 will add to general fund equity. The City expects to preserve its policy of maintaining a GAAP Undesignated Fund Balance in the General Fund that is 15% or higher than the current fiscal year's GAAP General Fund Operating Expenditures, while maintaining a

Adjustments Between Budgetary Basis and GAAP Basis of Accounting for FY13

(in thousands)

	Revenue	Expenditures	Other Financing Sources, Net	Excess (Deficiency) of Revenue and Other Financing Sources
As reported on a budgetary basis	2,504,347	2,496,128	-	8,219
<u>Adjustments:</u>				
Revenues to modified accrual basis	70,452	-	-	70,452
Expenditures, encumbrances and accruals, net	-	16,972	-	(16,972)
On-behalf contribution for teachers pension	94,846	94,846	-	-
<u>Reclassifications:</u>				
Debt Service	-	(1,455)	1,455	-
Housing Initiative	-	(22,120)	22,120	-
As reported on a GAAP basis	<u>2,669,645</u>	<u>2,584,371</u>	<u>23,575</u>	<u>61,699</u>

Table 3

**Statement of Revenues, Expenditures, and Changes in Fund Balances -
General Fund
Years ended June 30 2012 and 2013 (Actual), and 2014 (Budgeted)
(in Thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues:			
Real and personal property taxes	\$ 1,743,923	\$ 1,677,581	\$ 1,591,998
Excises	180,822	221,254	187,572
Payments in lieu of taxes	63,269	72,335	63,066
Fines	58,955	58,835	64,566
Investment income	175	179	982
Licenses and permits	40,460	47,220	48,753
Departmental and other	58,675	87,585	78,438
Intergovernmental	409,211	504,656	486,379
	<u>2,555,490</u>	<u>2,669,645</u>	<u>2,521,754</u>
Total revenues			
Expenditures:			
Current:			
General government	103,480	77,515	68,828
Human services	32,008	29,924	28,604
Public safety	537,296	553,851	524,476
Public works	107,173	102,789	84,727
Property and development	30,964	32,568	30,089
Parks and recreation	19,194	19,229	16,653
Library	32,873	30,888	30,069
Schools	937,962	879,898	830,839
Public health programs	66,757	67,845	73,455
Judgements and claims	3,500	3,010	3,871
Retirement costs	157,115	235,078	220,340
Other employee benefits	244,677	232,831	251,194
State and district assessments	196,311	176,300	160,547
Total Current Expenditures	<u>2,469,310</u>	<u>2,441,726</u>	<u>2,323,692</u>
Capital outlays	-	1,745	6,950
Debt Service	143,488	140,900	138,210
Total expenditures	<u>2,612,797</u>	<u>2,584,371</u>	<u>2,468,852</u>
Excess(deficiency) of revenues over expenditures	(57,307)	85,274	\$ 52,902
Other financing sources (uses):			
Transfers in	57,307	-	-
Transfers out	-	(23,575)	(16,136)
Total other financing sources	<u>57,307</u>	<u>(23,575)</u>	<u>(16,136)</u>
Net change in fund balance	-	61,699	36,766
Fund balance - beginning	751,396	689,697	652,931
Fund balance - ending	\$ <u>751,396</u>	\$ <u>751,396</u>	\$ <u>689,697</u>

Table 4

Budgetary Undesignated Fund Balance at 10% or higher of Budgetary Operating Expenses (Figure 1).

Fund Structure and Use

The accounts of the City are organized on a fund basis. Each fund is considered to be a separate accounting entity and complies with finance-related legal requirements. All of the funds of the City can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds.

The City has four governmental funds. The General Fund, the Special Revenue Fund, the Capital Projects Fund and all non-major governmental funds in an "Other" category. The General Fund is the only fund for which a budget is legally adopted and is used to account for all revenues, expenditures and other financial resources except those required to be accounted for in other funds.

The Special Revenue Fund accounts for proceeds that are legally restricted for specific purposes. This fund accounts for a number of federal and state grants that provide additional support to departmental programs. It also accounts for money that has been set aside by state statute and can be used to support the City's general fund operations.

The Capital Projects Fund accounts for financial resources, primarily from the issuance of bonds, used for the acquisition or construction of major capital facilities. Fiduciary Funds are used to account for resources held for the benefit of parties outside City government and are not available to support the City's own programs.

The City's fiduciary funds are the Pension Trust Fund, the Other Post-Employment Benefits (OPEB) Liability Trust Fund, as well as Private Purpose Trust Funds. The City's operating budget is also supported by available governmental funds transferred and appropriated from other available funds. The City may appropriate yearly parking meter revenues (Special Revenue Fund) to support the Transportation Department and cemetery trust monies (Other Governmental Funds) to support the City's maintenance of its public cemeteries.

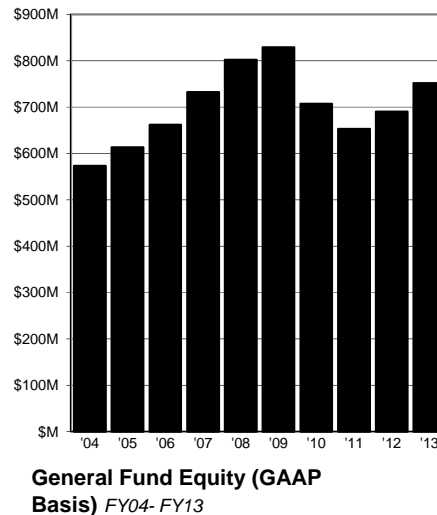


Figure 1

Tables 5-7 provide a history as well as projected changes in fund balances for the available funds used to support the City's operating budget.

Additional discussion of these revenue sources used to support the operating budget can be found in the *Summary Budget* section.

Budgetary Support

Budgetary fund balance can be appropriated for use during the fiscal year. 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.

Parking Meter Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In	Ending Year Balance
FY08	62.536	(10.000)	8.960	61.496
FY09	61.496	(12.000)	11.204	60.700
FY10	60.700	(15.000)	13.662	59.362
FY11	59.362	(15.000)	14.729	59.091
FY12	59.091	-	16.560	75.651
FY13	75.651	-	15.514	91.165
*FY14	91.165	(16.500)	16.000	90.665
*FY15	90.665	(19.000)	16.000	87.665

Notes: (\$millions), *projected
Table 5

Cemetery Trust Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In**	Ending Year Balance
FY08	11.283	(2.203)	1.096	10.177
FY09	10.177	(1.952)	(0.514)	7.711
FY10	7.711	(2.507)	2.264	7.468
FY11	7.468	(2.651)	2.477	7.293
FY12	7.293	-	(1.152)	6.141
FY13	6.141	-	2.260	8.401
*FY14	8.401	(0.807)	1.000	8.594
*FY15	8.594	(0.773)	1.000	8.821

Notes: (\$millions), *projected, **Includes investment return
Table 6

Surplus Property Disposition Fund				
Fiscal Year	Beginning Year Balance	Funds Out	Funds In	Ending Year Balance
FY08	35.756	(5.669)	0.000	30.087
FY09	30.087	0.000	0.000	30.087
FY10	30.087	(5.979)	0.000	24.108
FY11	24.108	0.000	0.972	25.080
FY12	25.080	0.000	1.291	26.371
FY13	26.371	(22.120)	5.057	9.307
*FY14	9.307	0.000	0.000	9.307
*FY15	9.307	(5.250)	0.000	4.057

Notes: (\$millions), *projected
Table 7

The law governing the calculation and availability of budgetary fund balance for cities and towns is Chapter 59, section 23 of Massachusetts General Law, and is administered by the Massachusetts Department of Revenue. This calculation and the amount derived from it must be certified annually for funds to be appropriated. The City considers the appropriation of certified free cash to offset certain fixed costs such as post-retirement health benefits (OPEB) and to fund extraordinary and non-recurring events as determined by the City Auditor. The appropriation of free cash shall not

Budgetary Fund Balance		
Date	Annual Amount Certified	Amount Appropriated from Certification*
Jan. 2005	56.3	20.0
Mar. 2006	54.4	11.7
Jan. 2007	63.1	25.0
Apr. 2008	110.2	35.0
Mar. 2009	121.2	45.0
Mar. 2010	139.0	45.0
Mar. 2011	117.8	30.0
Mar. 2012	142.8	-
Mar. 2013	217.3	40.0
Mar. 2014	185.3	40.0

*Not all amounts appropriated were used
Notes: (\$millions),
Table 8

cause the fiscal year's GAAP Undesignated Fund Balance to go below 15% of the fiscal year's GAAP General Fund Expenditures. Prior year certifications and the amount used or appropriated from each certification are in Table 8.

In March 2014, the Director of Accounts certified that the amount of funds available for appropriation ("free cash"), as of July 1, 2013, was \$185.3 million. The FY15 Budget assumes the use of \$40 million in Budgetary Fund Balance from this certification.

Table 9 shows the appropriations that make up the City's FY15 budget as adopted.

CITY OF BOSTON
BUDGET SUMMARY - APPROPRIATED FUNDS

(Dollars in Millions)

	Direct General Fund	Parking Meter Fund Transfer	Cemetery Trust Fund Transfer	Budgetary Fund Balance	Total FY15 General Fund Budget
REVENUES					
Property Tax Levy	1,858.43				1,858.43
Overlay Reserve	(36.44)				(36.44)
Excises	167.20				167.20
Fines	60.50				60.50
Interest on Investments	0.20				0.20
Payments In Lieu of Taxes	45.14				45.14
Urban Redevelopment Chapter 121A	48.21				48.21
Misc. Department Revenue	57.63				57.63
Licenses and Permits	47.24				47.24
Penalties & Interest	8.68				8.68
Available Funds	0.00	19.00	0.77		19.77
State Aid	417.68				417.68
Total Recurring Revenue	2,674.46	19.00	0.77		2,694.23
Budgetary Fund Balance				40.00	40.00
Non-Recurring Revenue					0.00
Total Revenues	2,674.46	19.00	0.77	40.00	2,734.23
EXPENDITURES					
City Departments	1,074.40	19.00	0.77		1,094.18
Public Health Commission	67.62				67.62
School Department	974.93				974.93
Reserve for Collective Bargaining	13.00				13.00
Other Post Employment Benefits	0.00			40.00	40.00
Total Appropriations	2,129.95	19.00	0.77	40.00	2,189.72
Pensions	169.62				169.62
Debt Service	154.74				154.74
State Assessments	215.57				215.57
Suffolk County	3.87				3.87
Reserve	0.70				0.70
Total Fixed Costs	544.51				544.51
Total Expenditures	2,674.46	19.00	0.77	40.00	2,734.23
Surplus (Deficit)					

Numbers may not add due to rounding

Table 9

