

Executive Summary

INTRODUCTION

This year's \$3.75 billion Fiscal Year 2022 (FY22) Operating Budget and \$3.2 billion FY22-FY26 Capital Plan provides the resources for the City's continued robust public health response to COVID-19 and sets the stage for our shared equitable recovery. COVID-19 has brought on unprecedented economic and social change to our City, and this budget proposal meets that moment responsibly and makes targeted investments to ensure that as we emerge from the public health crisis we are not going back to normal, but going back to better.

While prior to COVID-19, Boston had a growing economy and was attracting more residents and businesses every year, too many were being left behind and unable to take part in that shared prosperity. COVID-19 has deepened that divide and revealed the stark inequalities that have existed in our City for too long. That's why equity lives at the heart of this budget proposal and informs everything from how the City is allocating new resources, to ensuring that those resources are spent with local organizations, especially businesses of color. This budget is one important part of the shared goal of making Boston a more equitable city for all.

The COVID-19 pandemic has brought on tremendous economic disruption to all sectors of Boston's local economy, big and small, including the City budget. But thanks to years of shared fiscal responsibility, Boston entered this pandemic as one of the best prepared local governments in the country. Boston has had 7 years in a row of triple A bond ratings and took decisive

action over the past year to ensure a balanced budget despite large losses in local revenue. Fiscal responsibility remains the foundation of this year's Operating Budget and Capital Plan proposals, and in turn will help accelerate the City's overall recovery from the pandemic

Thanks to continued strength in local revenue and a significant infusion of federal funding from the American Rescue Plan, the Recommended FY22 Operating Budget proposes \$3.75 Billion in spending, a year-over-year increase of \$142 million or 3.9% over FY21. Even with weakness in certain sectors of the economy, property tax revenue has proven resilient over the past year, though the Budget is cautious on projecting the effect that COVID-19 will have on new development in the City. Other local revenue sources like excise taxes and department revenue will rebound slightly as the economy reopens more fully, but will remain well below pre-pandemic levels.

The most significant new dynamic to this year's budget is the recently passed American Rescue Plan that will provide hundreds of millions in federal funding to the City, the Boston Public Schools and other local organizations over the next five fiscal years. While the City awaits formal notice from the federal government, the City is expected to receive an estimated \$215 million in funding for use over the next year and the City's thoughtful approach to the utilizing this funding is two-fold:

- Between FY21 and FY22 dedicate \$100 million to offset local revenue declines during the pandemic to ensure flexibility, stability and

fiscal resiliency, as well as, make near term investments to expand and create vital city programs to **Reopen, Recover and Renew** our City post COVID-19.

- For the second portion of \$115 million, the administration will establish an **Equitable Recovery Resources Coordinating Committee**, made up of stakeholders from across City government to ensure equitable, transparent and accountable distribution of these funds for economic and social recovery.

This fiscally responsible budget will also fully fund long-term liabilities, like pensions and debt service, enabling investment in our City's largest Capital Plan in history. The plan touches all neighborhoods and supports capital projects, including schools and libraries, and programs, such as Vision Zero transportation efforts and street tree plantings. The proposed FY22 budget also fulfills the second year of the City's three-year \$100 million commitment to the Boston Public Schools. \$36 million in new investments will go into schools and classrooms to facilitate a safe return to school buildings and support students and school communities through post-COVID-19 recovery. Total public education spending, including support for our charter school students, will increase by \$66 million, representing 47% of all new city funding.

The City is also proposing a robust \$3.2 billion FY22-26 Capital Plan to invest heavily in revitalizing the shared neighborhood spaces residents cherish. Unlike previous economic slowdowns when the City reduced the capital plan, this year's plan increases the overall size and will serve as a catalyst for the local economy and get Bostonians back to work. This will allow the City to improve not only its vital City assets but to do so in a way that stimulates the local economy.

This year's Capital Plan continues to pay particular attention to equity and focus on investments in the City's inventory of roads, bridges, schools and parks in the neediest parts of the City. The Capital Plan invests in projects in every neighborhood consistent with the strategic master plans that have been developed with the community, under the Imagine Boston 2030 umbrella. This plan ensures the municipal, civic and open space assets, which residents cherish in their neighborhoods, remain active and vibrant parts of the community.

The FY22-FY26 Capital Plan includes funding for new schools and upgrading existing school facilities through the BuildBPS plan; transformative transportation projects like new bridges, roads, bus and bike lanes; major park upgrades in neighborhoods throughout the city; new civic places like City Hall Plaza and new community centers; and dedicating over 10% of new City funding toward climate resilient projects.

Boston, like every major city in the country has seen tremendous economic upheaval brought on by COVID-19. Businesses large and small have had to adjust to delivering services and products during the pandemic and will need to prepare for a post pandemic world. But Boston's local economy continues to demonstrate resilience and its future is bright. The near-term public health measures have forced business to look different in Boston, but Boston's innovation and creativity will allow it to come back stronger than before.

Boston is still a thriving city- adding new people and development at an extraordinary rate. Boston is a beacon for new residents, with the population up 12% since 2010; the City makes up 17% of the jobs in Massachusetts, up 21% since 2010. The City has 21 in-patient hospitals and was ranked first or second among most NIH funding of any city for the past 25 years. Boston is home to corporate headquarters old and new and the City continues to

compete to be the home base of some of the nation's most storied and most innovative corporations.

The City continues to monitor local revenue streams, but is projecting cautious optimism for next fiscal year. While the most economically elastic sources like Excises taxes from lodging and restaurants may remain at pandemic levels, other sources like Property Taxes and State Aid show signs of strength and new Federal funding will be available for the next several fiscal years.

The FY22 Operating Budget and FY22-26 Capital Plan reflect a commitment to growing opportunity, increasing equity, and moving Boston forward despite the new reality of a post COVID-19 world. This fiscal plan will help serve a roadmap for Boston to come back better than before.

REVENUE

Even within the context of the coronavirus, Boston's expanding economy and ongoing development is generating growing revenue to support investments in city neighborhoods. Property tax revenue remains the primary driver of year-over-year revenue growth, thanks to the allowable 2.5% increase and cautious new growth estimates. Local receipts, such as fines, fees and excise tax, are expected to somewhat improve in the coming fiscal year, though will remain below pre-pandemic levels. The City projects new State Aid based on the FY22 Governor's budget.

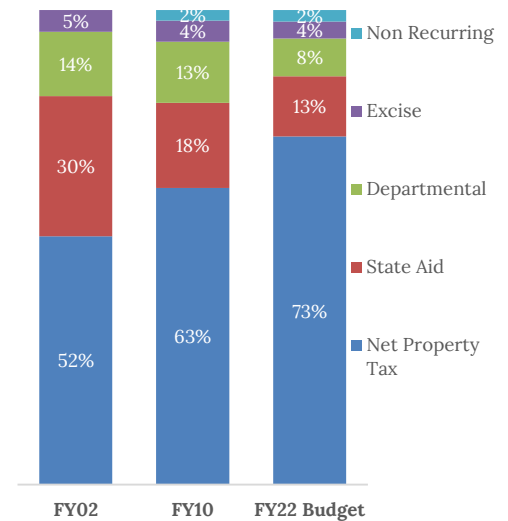


Figure 1 - Categories of Recurring Revenue FY02, FY10 and FY22

The FY22 Operating Budget relies on \$3.75 billion in revenue, a \$141.8 million increase over the FY21 budget (3.9%). \$82.2 million is projected to come from property tax growth, state revenue is budgeted to increase by \$8.2 million and local receipts (including Excises and Departmental revenue) are projected to increase by \$1.4 million. Non-Recurring revenue is increasing by \$50.0 million, as it includes funds from the American Rescue to offset local revenue declines.

Property Tax

While property tax remains the primary revenue source for all City services and departments, in Massachusetts, Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base to a 2.5% annual increase. So while total property value has grown 115% in the past 10 years, property tax revenue has grown by 66%. However, Proposition 2 ½ also allows the addition of new growth (e.g. new construction) to the City's property tax levy. Due to the City's commitment to new housing construction and the strength of Boston's development climate, property tax growth continues to be a point of strength for the City.

In FY22, we expect new growth to decrease compared to the last five years, due to the slowdown in the local and national economies. During the past five years, the City saw notable construction projects in Boston enter the City property tax base for commercial, mixed-use and residential properties, most notably in the Seaport District, Dorchester, and the Back Bay. According to the Boston Planning and Development Agency, the estimated revenue from building permit fees during FY20 indicated the potential for \$8.2 billion in construction activity compared to an estimate of \$7.4 billion for FY19.

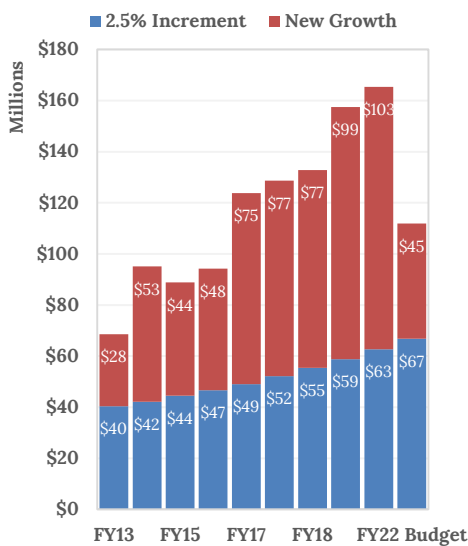


Figure 2 - Property Tax Levy Increase by Type, FY13 - FY22

Despite the need to maintain and grow property tax revenue, the City is committed to keeping residential property tax bills down to retain more low and middle class homeowners in the City. Policies we have pursued are demonstrating success, as residential taxes are 32.8% below the statewide average. Thanks to advocacy to increase the residential exemption limit to 35% of the average assessed value of all class one residential properties, the City Council, with the approval of Mayor Walsh, once again was able to allow the maximum exemption permitted by law. The FY21

residential exemption amount increased by \$273 over the FY20 exemption and has saved residents over \$33 million annually since it was increased to 35%.

State Aid

In 2002, State Aid comprised 30% percent of the City's annual budget and helped the City maintain a sustainable balance between local revenue and other resources. In the following decades the State pulled back from its investment and FY22 State Aid is projected to be 13% of the City's budget. This divestment by the State has largely been driven by stagnant increases in K-12 Education (Chapter 70) and increases in State assessments.

The Student Opportunity Act, passes in 2019, represents a fundamental change in trajectory of State funding for Boston's schools and students. The act will make an unprecedented \$1.5 billion investment in Massachusetts public schools and will roll out in different phases over the next seven years as the Legislature funds it during their annual budget process. When fully implemented, the bill will ensure that Boston benefits in two main ways: a dramatic increase to Boston's Chapter 70 funding and a commitment to fully fund the City's charter school tuition reimbursement.

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY02. With a decrease in net state aid in the FY22 budget, Boston is \$235.5 million, or 64.5%, below its FY08 level of net state aid. The FY21 projected net state aid totals \$153.9 million, and the FY22 budget assumes an additional reduction to \$129.5 million. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources, as well as on levels of expenditures.

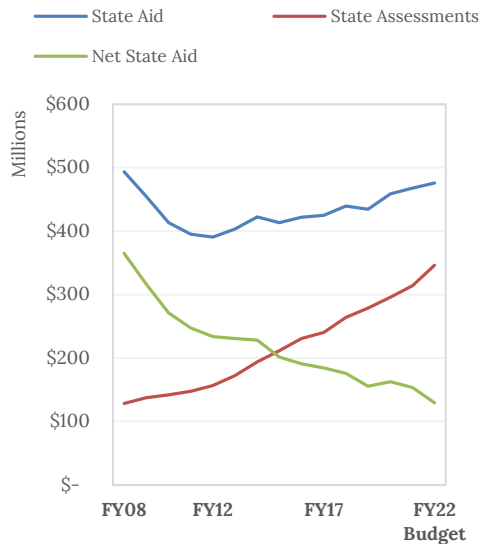


Figure 3 - State Aid, State Assessments and Net State Aid (in millions), FY08-FY22

Local Receipts

Local receipts or revenue the City is able to generate locally, include items like excise taxes, fees, fines, and permits. This vital revenue source generally follows the City’s overall economic health and because of the coronavirus pandemic and economic fallout is projected to remain below pre-pandemic levels, increasing by only \$1.4 million or 1.5% in FY22. The effects of the coronavirus pandemic are likely to continue to affect the collection of these sources. This category also represents the City’s limited opportunity to pursue new and expanded revenue streams and target that revenue towards important new projects.

As the City enters the unknown territory of an economic recession due to a global pandemic, extra precaution was used in projecting these receipts’ budgets. Excise taxes, such as Room Occupancy, Meals and Aircraft Fuel tax, are closely linked to the economy, and are likely to only somewhat increase in FY22. In addition, recent decreases of the Federal Reserve Federal Funds target range are likely to severely impact the City’s interest on investments revenue.

With limited revenue tools, and a developing economic environment, the City is continuing to strive to maximize local revenue. In FY22, the entire Administration & Finance Cabinet will continue to work with departments citywide to review collections, understand revenue drivers, and maximize revenue recovery efforts.

Non-Recurring Revenue

The FY22 budget includes \$50 million from the \$215 million payment estimate the City is expected to receive as part of the American Rescue Plan Act of 2021 (ARPA). The act is a \$1.9 trillion economic stimulus bill passed by the U.S. Congress and signed into law by President Joe Biden on March 11, 2021.

This funding source will help the City continue provide essential services to its residents and make targeted investments to help **reopen, recover and renew** the City from the pandemic, despite facing revenue reductions due to the COVID-19 pandemic and the economic recession.

EXPENDITURES

Overall FY22 expenditures are increasing by \$142 million or 3.9% over FY21, for a total of \$3.75 billion. The FY22 spending growth falls within the City’s projected revenue growth and coupled with revenue replacement provided by the American Rescue Plan protects core services and allows for strategic recovery-based investments. The combined appropriations for City Departments, the Public Health Commission (PHC) and the School Department (BPS), and non-departmental appropriations as shown in the FY22 Budget Summary have increased by 2.4% from FY21.

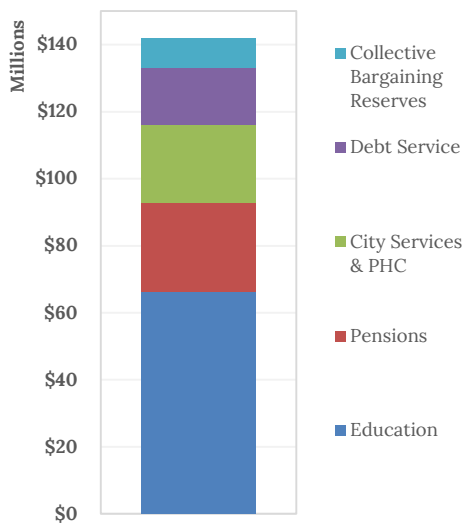


Figure 4 - Budgetary Growth by Category

Education

With a record \$1.3 billion appropriation, the Boston Public Schools (BPS) budget is increasing by \$34.2 million over the FY21 appropriation. Boston’s total investment in education, including BPS and the City’s charter school tuition assessment, is growing by \$66 million, or 4.5%, over FY21.

FY22 marks the second year of a historic education funding commitment of \$100 million over three years over and above standard cost increases. In FY22, the BPS level services budget is decreasing slightly, driven by central office efficiencies, while \$36 million in funding for new investments will be added to provide for the health and safety of school communities returning to classrooms, address COVID-19 impacts to learning and wellness, and improve student outcomes while advancing equity goals. Federal COVID-19 relief funding will also be marshalled to make investments in these areas.

City Services

City Services such as Police, Fire, Public Works, Housing, and other central funds are projected to increase by a total of \$19.3 million (1.4%). The City has created two new cabinets, Equity & Inclusion including

approximately \$3 million in new investments in FY22 and the Office of Police Accountability & Transparency with an initial budget of \$1 million. The FY22 budget includes over \$4 million in various departments for job training to assist those in hard hit industries and to promote green jobs and other emerging industries. Other investments address immediate needs and expand services for post COVID-19 programming including in Arts & Culture, Parks, Youth Engagement and Employment, and Age Strong. The appropriation for the Housing Cabinet is growing by \$6.2 million or 21.3% with the significant investments in housing and homelessness efforts to prevent displacement and expand housing opportunities for families of every income in neighborhoods across the city. The majority of union contracts have expired, so departmental wage growth is limited, while outstanding contracts are reserved for centrally. Funding for unsettled City, PHC and BPS union contracts are centralized in a \$10 million collective bargaining reserve.

The Public Health Commission (PHC) budget is growing by \$4.2 million (4.0%) in FY22. This increase includes key investments in infectious disease sustainable infrastructure, an after action report on COVID-19, and Emergency Medical Services equipment. Unlike other city departments, the PHC budget contains health insurance and pension.

Fixed Costs

City continues to honor its long-term financial commitments. This budget will continue to support the City’s fixed costs for next year, including pensions, debt service and non-charter school state assessments, and it maintains the City’s level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 30% of the City’s revenue growth but this funding commitment is critical to maintaining

Boston's AAA bond rating and securing the long term fiscal health of the City.

Boston's current pension schedule is based on an actuarial valuation as of January 1, 2020. Boston's pension liability is 75.6% funded and will be fully funded by 2027.

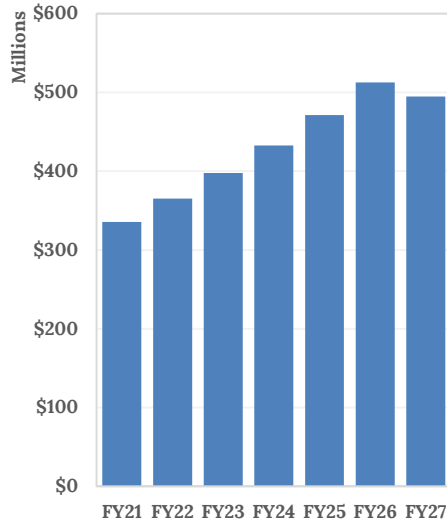


Figure 5 - Pension Funding Schedule

FY22-26 CAPITAL PLAN

The \$3.2 billion FY22-26 Capital Plan will make critical investments in the City's infrastructure in every Boston neighborhood, guided by Imagine Boston 2030 and the schools, streets, arts, climate and resilience plans under its umbrella. Taken together, these initiatives will support Boston's dynamic economy and improve quality of life for residents by encouraging affordability, increasing access to opportunity, promoting a healthy environment, and guiding investment in the public realm.

The Capital Plan moves Imagine Boston 2030 from idea to action. Planned borrowings are expected to increase 18.8% over last year's plan, one-time funding sources are leveraged, and the City continues to collaborate with the Massachusetts School Building Authority on the design and construction of new schools and the repair of existing building systems.

An estimated 90% of the investment in the FY22-26 Capital Plan is aligned with the City's planning efforts:

- The Capital Plan supports a commitment to invest \$1 billion over ten years to bring Boston's school buildings into the 21st century, with the construction of new schools, MSBA Accelerated Repair Program partnerships, completion of projects in the pipeline, school kitchen renovations that support the delivery of fresh, nutritious food, and reserves for future projects identified by BuildBPS community engagement.
- Boston, in collaboration with State and Federal sources, will invest \$1.2 billion implementing the core initiatives outlined in Go Boston 2030: streets that are safer for all users of our roads and sidewalks, particularly pedestrians and cyclists; travel that is more reliable and predictable; and quality transportation choices that improve access to interconnect our neighborhoods for all modes of travel.
- Boston will prepare for climate change by investing at least 10% of all new capital funding to open space, infrastructure, and facilities projects that are climate resilient or contribute to making the City more environmentally friendly.
- Setting the stage for planning and early action items for the comprehensive, long-term recovery campus on Long Island to tackle the opioid crisis and when fully permitted move forward with the construction of a new bridge to Long Island.
- The Percent for Art Program, demonstrates the City's leadership and commitment to sustainable funding for the arts by setting aside one percent of the City's annual capital borrowing for the commissioning of public art.