

Revenue Estimates and Analysis

OVERVIEW

The FY26 Recommended Budget is supported by \$4.8 billion in total revenue, which is an increase of \$96 million, or 2.0%, from budgeted FY25 revenue. Excluding the one-time Housing Accelerator Program appropriation in FY25 the year-over year increase is \$206 million, or 4.4%.

The City's revenue budget can be divided into five categories: property tax, state aid, departmental (includes intergovernmental revenue), excise and non-recurring revenue. Over the past two decades, the City's revenue structure has shifted significantly toward property tax, as illustrated in Figure 1, while state aid has decreased as a share of the budget.

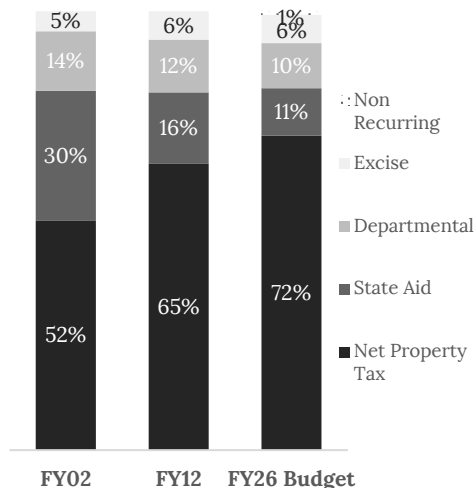


Figure 1 – Categories of Recurring Revenue, FY02, FY12, and FY26

The boom in construction activity has made the shift more dramatic, yielding tax base growth well above the 2.5 percent statutory

limit. Property tax accounts for nearly 70% of the year-over-year net revenue increase in FY26. Excises and Departmental Revenue explain the remainder of the increase.

The National Economy

The macroeconomic climate and policy decisions made at the State and Federal levels can have profound effects on local revenue collections. As such, current economic conditions and forecasts are closely monitored. This includes price trends, inflation, interest rates, and tariffs.

Before the COVID-19 pandemic, the nation's economy was on a 10-year-long growth period following the Great Recession (2008-2009). During this time annual growth in the U.S. Gross Domestic Product (GDP) averaged 2.4% from 2010 to 2019 (Figure 2). In 2020, the sudden suspension of travel, closure of businesses, and shock to supply chains caused GDP to contract by 2.6%.

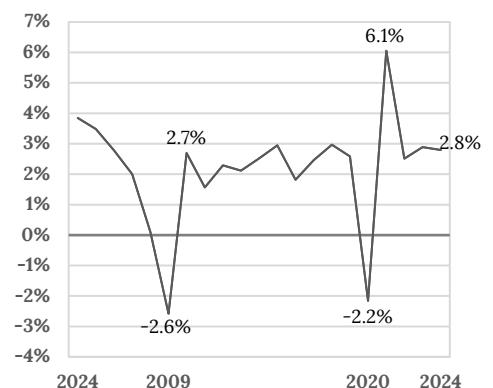


Figure 2 – Real U.S. GDP growth, chained 2017 dollars, 2004-2024 (FRED Economic Data)

As the federal government stepped in to support the economy, economic fortunes quickly rebounded. Relief measures including fiscal stimulus to individuals, businesses, and government entities mitigated some of the negative economic effects of the pandemic and provided a boost as the most severe aspects of the pandemic subsided. In 2021 GDP grew by 6.1%, followed by 2.5% growth in 2022, 2.9% in 2023, and 2.8% in 2024.

Before March 2020, the civilian unemployment rate in the U.S. had steadily decreased since the end of the Great Recession; the unemployment rate was 3.6% at then of 2019. The COVID-19 pandemic caused many companies, institutions, and government entities to lay off or furlough large numbers of their employees. By the end of the first quarter in 2020, the national unemployment rate briefly spiked to 13.0% before sharply falling. By the first quarter of 2022, the unemployment rate was back at pre-pandemic levels. This swift recovery contrasts the more gradual reduction in the unemployment rate following the Great Recession (see Figure 3). Despite the recovery in the unemployment rate, a smaller share of the population is actively working or looking for work than before COVID-19 pandemic began.

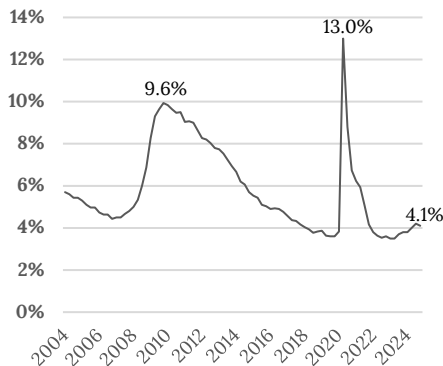


Figure 3 – Quarterly civilian unemployment rate, seasonally adjusted, 2004–2024 (FRED Economic Data)

The speed and magnitude of recovery efforts were effective in quickly turning around the economy. In all, the federal government appropriated more than \$4 trillion in aid to individuals, businesses, government, and nongovernment institutions. These cash infusions spurred demand for goods and services which, combined with global supply chain challenges, drove up prices. Most notably housing, food, and transportation, were all significantly impacted. Prior to the pandemic, annual price increases from inflation as measured by the Personal Consumption Expenditures Index (PCE) averaged below 2%. Between 2021 and 2022, annual inflation increased by 6.5%, more than three times the pre-pandemic average. After the spike in 2022, PCE growth fell to 3.8% in 2023 and 2.5% in 2024 (see Figure 4).

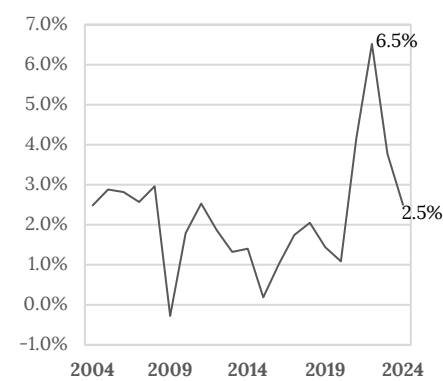


Figure 4 – Annual Change in Personal Consumption Expenditures Index, Chained 2017 Dollars, 2004–2024 (FRED Economic Data)

The federal funds rate is the interest rate established by the Federal Reserve at which depository institutions trade federal funds with each other. In December 2015 the Fed began increasing the target rate for the first time since 2007, an indication of confidence in the economy. After some downward adjustments in late 2019, the Fed slashed rates back to the 0%–0.25% range to spur investment during the pandemic.

Given the rapid ascent of the PCE Index in 2020 and 2022, the Federal Reserve raised interest rates in hopes of moderating price increases. Starting in March 2022 and continuing into 2023, the Fed raised interest rates from the 0% to 0.25% target to 5.25% to 5.50%. In response, PCE growth slowed from the historically high pace experienced in 2022. As inflation measures like PCE continue to fall, the Fed reduced rates three times in 2024 to 4.25%-4.5% (see Figure 5). Further cuts are anticipated in 2025.

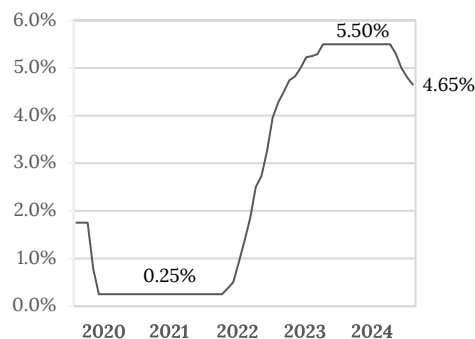


Figure 5 - Federal Funds Target Rate January 2019- January 2024 (FRED Economic Data, Monthly, End of Period)

The State and City Economies

Massachusetts' real GDP decreased by 1.9% in 2020 and rebounded in 2021 with annual growth of 6.4% (see Figure 6). The drop in GDP from the COVID-19 pandemic equaled the Great Recession GDP decline, but had a sharper recovery by 2022, in part due to the magnitude of the fiscal stimulus.

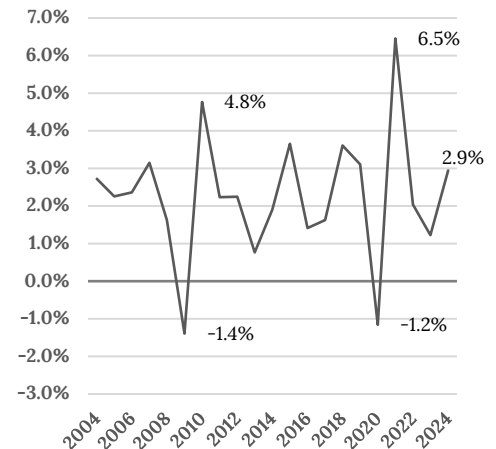


Figure 6 - Real Massachusetts Gross Domestic Product Growth, Chained 2017 Dollars, 2004-2024 (FRED Economic Data)

Like the national trend, the unemployment rate decreased for both Massachusetts and Boston following the Great Recession, reaching 2.5% in 2019. However, the swift and prolonged shutdown in Massachusetts due to the COVID-19 pandemic caused the state unemployment rate to reach 15.5% in the second quarter of 2020. After this initial spike, the rate began to drop, returning near pre-pandemic levels, 3.3%, by December 2022. The Boston metro unemployment rate experienced peaked at 14.9% in the second quarter of 2020 before reaching 3.0% in December 2022. As of December 2024, unemployment rates for the state, 4.0%, and metro, 3.7%, have both edged up as higher levels of inflation linger. See the "Boston's People & Economy" chapter of Volume I for more details 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, although in the past two decades this has been declining as a share of total City revenues. Often, changes to law or policy recommendations 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 Commonwealth Budget History

After the Great Recession, the State faced several years of ups and downs in managing their structural balance. While state revenues, especially income tax, rebounded considerably, large variances in quarterly and yearly revenue collections made budget decisions difficult at the State level. As a result, the State tapped into its stabilization, or “rainy day,” fund on several occasions, in addition to reductions in expenditures and increases in revenues, to improve the fiscal sustainability of its budget.

At the close of FY08, the stabilization fund balance was \$2.1 billion. The State drew down the balance considerably by the close of FY10 to a low of approximately \$670 million before revenues began to increase again in FY11-FY12. By FY18 the fund again exceeded \$2 billion. The State may have been expected to access the fund during the COVID-19 crisis, but a massive infusion of over \$50 billion in federal relief and healthy revenue collections have brought the balance to a historical high point, \$8.5 billion, at the end of FY24.

State tax revenue collections for fiscal year 2024 totaled in \$40.8 billion, roughly \$967 million, or 2.4%, above benchmark expectations. This increase was mostly driven by the 4% income surtax on high earners. This surplus offset shortfalls in sales and use and corporate and business taxes.

The FY25 State budget enacted in July 2024 set revenues at \$41.5B. In January 2025 the revenue benchmark for FY26 was set at \$43.6B. The 4% income surtax is anticipated to be the main driver of revenue growth in FY26.

The FY26 Commonwealth Budget

The City’s FY26 state aid budget is based on the Governor’s proposed budget for FY26. At the time the City proposed its recommended budget, the state budget had not yet been finalized and signed into law.

For more details, see “State Aid and Assessments” under the “Revenue Estimates” section below.

THE GENERAL FUND

The City’s entire \$4.8 billion budget is funded through the General Fund. All revenues discussed below are deposited into the City’s General Fund pursuant to state law and are reflected on a fiscal year basis July 1 through June 30.

REVENUE ESTIMATES

Property Tax

The property tax levy has always been the City’s largest and most dependable source of revenue. In FY25, the net property tax levy (levy less a reserve for abatements) totaled \$3.32 billion, 70.1% of the City’s revenue. In FY26, the estimated net property tax levy totals \$3.47 billion and accounts for 71.7% of budgeted revenues.

Boston’s economy has performed well despite the COVID-19 pandemic and property values in Boston have continued to appreciate in value steadily. Between FY19 and FY25 aggregate assessed values increased at 5.5% annual rate. In FY25, assessed values increased by \$5.5 billion, or 2.5%.

Proposition 2 ½ has been the overwhelming factor affecting the City’s property tax levy since its approval as a ballot measure in 1980. Proposition 2 ½ 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 (referred to as the levy ceiling). It also limits the increase in the total property tax levy to no more than 2.5% over the prior year’s total

levy (referred as the levy limit), with certain provisions for new construction. In practice the total assessed value of property in Boston has increased 104% in the last 10 years, however the levy limit has only increased 80% due to Proposition 2 ½.

Each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown with the levy, beginning in FY85 at \$8.4 million and reaching \$79.7 million in FY25. The budgeted increase in FY26 is \$84.0 million.

Finally, Proposition 2 ½ provides for local overrides of the levy limit and an option to exclude certain debt from the limit by referendum. The City has never sought a vote either to override or to exclude debt from the levy limitations.

Despite these constraints, the City is committed to keeping residential property tax bills affordable to retain more low and middle-income homeowners in the city. In 2016, the City advocated for a change in State law that increased the residential exemption limit, a reduction in real estate taxes for homeowners who occupy their property as their principal residence, from 30% to 35% of the average assessed value of all Class One residential properties. The City Council, with the approval of the Mayor, once again chose the maximum exemption allowed by law – 35% for the FY25 tax rate. The FY25 residential exemption amount increased by \$374 over the prior year's amount, saving eligible taxpayers up to \$3,984 on their property tax bills. Compared to the average property tax bill for a single family home in Massachusetts, Boston's bill is 12% lower.

In addition to allowable 2.5% increase the levy has also been positively impacted by taxable new value, or "new growth." New growth can arise from both real and personal property and is outside of the Proposition 2 ½ levy limit. Thanks to new commercial developments and residential investment, Boston has experienced

unprecedented new growth in property tax revenue over the past several fiscal years. A large share of recent new growth has come from select developments in the Fenway, Downtown, and Seaport neighborhoods.

In FY26, the City is conservatively budgeting new growth at \$60 million due to economic uncertainty related to price inflation and high interest rates. Property tax growth from new growth has exceeded growth from the allowable 2.5% increase in 14 of the last 20 years. However, as was evident during the Great Recession, revenue from new growth is volatile and depends on the development cycle and the local, state and national economies. See Figure 7 for Property Tax growth in the past 10 years.

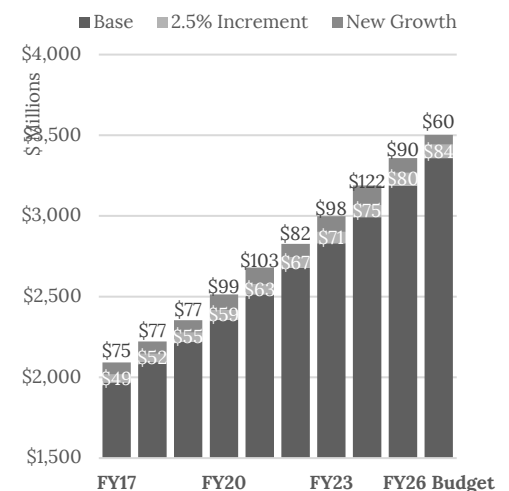


Figure 7 – Property Tax Levy Increase by Type, FY17-FY26

Two-thirds of assessed property value in FY25 is classified as residential. As part of the tax-rate-setting process, the Assessing Department sorts properties into classes. The City's Assessing Department assigns properties in the residential, commercial, industrial, and personal property categories. These categories are then split into two groups: residential and commercial/industrial/personal property. Through classification, the City shifts tax burdens between groups. This allows the

tax rate per \$1,000 of property value for residential properties to be the lowest level allowed by law. Without classification, residential taxpayers would see their properties taxed at a higher rate on average.

Figure 8 shows the two tax rates for residential properties and for commercial, industrial and personal properties since FY13. Rates briefly increased following the Great Recession (FY08-FY13), corresponding to a decline in property values during collapse of the housing market in late 2007. This trend reversed between FY14 and FY17 due to property value appreciation and accelerated property development. Since FY18, rates have moved within a narrow range. Tax rates for both residential and commercial, industrial, and personal property increased in FY25 as overall property value growth slowed due to lingering high vacancy rates in the commercial office and lab markets.

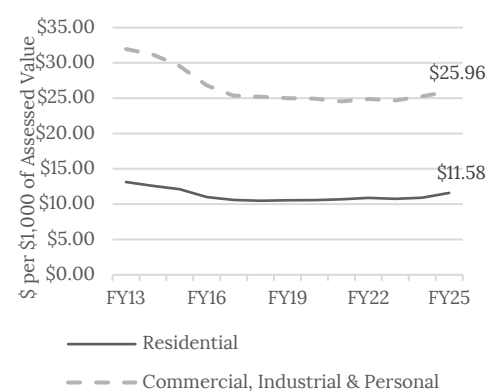


Figure 8 - Property Tax Rates (per \$1,000 of value), FY13-FY25

With the shift of work trends to full remote or hybrid remote/in-office schedules beginning with the COVID-19 pandemic, average office vacancy rates, an important indicator of commercial real estate value, have increased. According to Jones Lang LaSalle data, the commercial office vacancy rate for Boston as a whole was 17.4% in the fourth quarter of 2024. This is a 1.0 percentage point increase from the same

period in 2023, and roughly double pre-pandemic rates. In the South Boston Waterfront and Downtown, Boston’s office core, the rates were 10.9% and 20.1% respectively.

While commercial properties have seen a relative decline in demand, residential property values have appreciated and rents have increased. The citywide median single-family home price was \$800,000 in 2024, up 5% from 2023, and 76% from a decade earlier. After an 8.0% jump from 2022 to 2023, the median monthly rent in Boston was flat in 2024 at \$2,800.

Any significant decline in property values can present a problem for cities as dependent on the property tax as Boston. In the early 1990s property values decreased in Boston while the City continued to maximize the allowable levy increase under Proposition 2 ½. The levy nearly reached the levy ceiling of 2.5% of total assessed value. Reaching the 2.5% ceiling would have further limited the City’s capacity to increase the annual levy and raise the necessary revenue to support the City’s budget.

However, due to years of strong new growth, the City now has a significant buffer between its levy and the levy ceiling. In FY25 the levy was only 1.5% of total assessed value. The gap between the levy and the levy ceiling insulates property tax revenues from an immediate negative shock in real estate markets. Nevertheless, if values were depressed long enough, future growth of the property tax would be impaired. The darker area in Figure 9 shows the difference, or gap, between the tax levy and the levy ceiling.

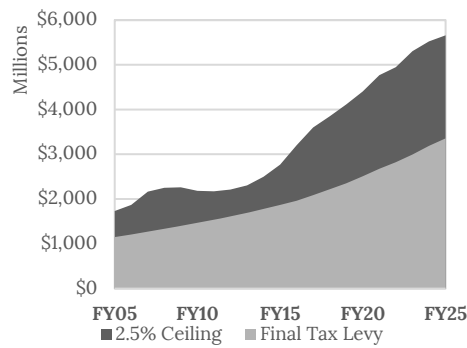


Figure 9 – Property Tax Levy and Levy Ceiling, FY05-FY25

State Aid and Assessments

State aid refers primarily to distributions from the State to municipalities for Chapter 70 education aid, UGGA, and charter school tuition reimbursement, along with relatively small programs such as library aid. State aid, as it is used here, excludes any grants to or offsets for direct expenditures by City departments.

State aid in FY26 is based on the Governor's proposed budget. Both the Massachusetts House of Representatives and the Senate weigh in with their own proposals before submitting a compromise Conference Committee budget for the governor's signature. Due to the timeline of budget negotiations at the state level, the state budget was not finalized at the time the City's recommended budget was submitted.

The City received General Fund gross State aid totaling \$494.0 million in FY23 and \$503.0 in FY24. The City is projected to receive \$516.0 million in State aid in FY25 and has budgeted \$520.9 million for FY26.

Municipal charges, also known as State assessments, are imposed by the State to municipalities for items such as charter school tuition and Massachusetts Bay Transportation Authority service. State aid distributions are reduced by the amount of assessments charged to a municipality. The City paid \$352.0 million in FY23 and \$367.9 million in FY24. The City budgeted to pay

\$387.7 million in assessments in FY25 and is budgeting \$399.7 million in FY26.

In 1993, the State began an effort to increase and equalize funding for local education. The Chapter 70 education aid formula, derived from that effort, establishes a foundation budget, or a minimum level of education spending in each school district. The foundation budget is funded by the district's local contribution and State Chapter 70 education aid. Education aid was further reformed by the Student Opportunity Act in 2019 to provide additional aid to districts with exceptional need. As part of the new funding formula, the City received Chapter 70 education aid from the State totaling \$227.2 million in FY23 and \$230.7 million in FY24. The City expected to receive \$236.7 million from the State in FY25 and is budgeting \$241.0 million for FY26 Chapter 70 education aid.

Boston is assessed by the Commonwealth to fund charter schools on a per-pupil basis. This assessment increased significantly following enactment of the 2010 achievement gap legislation that expanded the number of charter school seats. Boston's charter school tuition assessment is budgeted to increase by \$8.8 million, or 3.1%, over the FY25 budget, as 10,069 Boston students are projected to attend a state charter school in FY26.

Boston has seen its charter school costs rise dramatically in the past 10 years – 92% or \$140.0 million between FY17 and FY26. As seen in Figure 10, net education aid (Chapter 70 funds and charter school tuition reimbursement less the charter school assessment) has been decreasing over the past decade. In FY26, the City is projected to spend \$13.3 million more on the charter school assessment than it will receive in Chapter 70 and reimbursement aid. In comparison the City received \$80.4 million more than it was assessed in FY17.

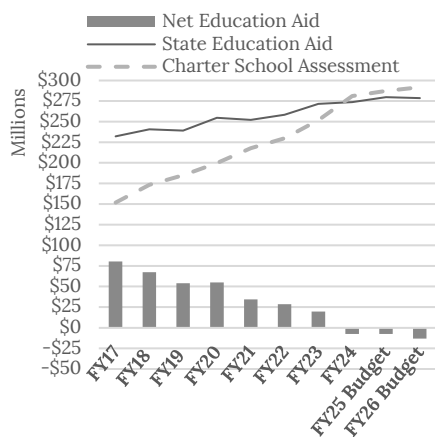


Figure 10 – Net Charter School Costs, FY16-FY25

In FY25 unrestricted general government aid (UGGA) is projected to become the City's largest source of state aid revenue. Since the FY10 budget, the governor and Legislature have combined general government aid from Additional Assistance and Lottery categories into one account: UGGA. Revenue derived from the State's lottery now accounts for nearly all funds dispersed through UGGA. For Boston, UGGA revenue totaled \$219.5 million in FY23 and \$226.5 million in FY24. The City was projected to receive \$233.3 million in FY25 and expects \$238.4 million in FY26, a 2.2% increase over the FY25 budget.

Net state aid, has been trending down since FY08. The rapid annual increase in the charter school tuition assessment contributed to this trend. Despite a substantial increase in net state aid in the FY23 budget, the erosion of net state aid resumed in FY24 and is anticipated to continue in FY25 and FY26. The City projects to be \$243.9 million, or 77%, below its FY08 level of net state aid. Net state aid amounted to \$142 million in FY23, increased to \$135 million in FY24, and was budgeted to decrease to \$128.3 million in FY25. The FY26 projected net state aid totaled \$121.2 million, a \$7.1 million decrease year-over-year, or -5.6% (see Figure 11).

The loss of hundreds of millions of dollars over the past two decades has put extraordinary pressure on the City to generate necessary revenue elsewhere. Therefore it is important for the financial health of the City that the property tax levy continues to grow, combined with diversification of the City's revenue sources. Efforts to collect revenues more efficiently, establish new revenue sources, and refresh existing fee schedules all help reduce the City's reliance on state aid.

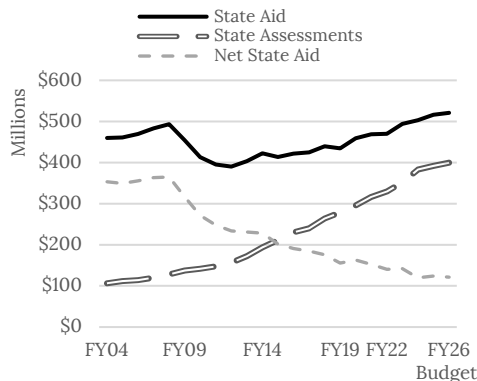


Figure 11 – State Aid, State Assessments and Net State Aid, FY04-FY26

Local Receipts

The City collects recurring revenues other than property tax and state aid. Revenue from excise taxes, payments in lieu of taxes, tax agreements, licenses and permits, fees and fines, investment income, intergovernmental transfers and available funds are part of this local receipts group. To forecast these receipts, the City uses a combination of methods including analytical trending of historical collections, econometric modeling using relevant economic data, and projections of departmental activity.

The City collected \$749.2 million in local receipts revenue in FY23 and \$829.1 million in FY24, a \$79.9 million improvement. The City budgeted \$751.2 million to be collected in FY25, roughly in line with FY23 actual collections (see Figure 12).

In FY26 the City is budgeting \$809.4 million. Local receipts are expected to build on the strong collections experienced in FY24 and the performance as of the publication of this volume. The budget for local receipts reflects the strength of local receipts, but also takes into consideration current macroeconomic pressures, anticipated federal rate cuts, and other specific factors that could impact revenue accounts.

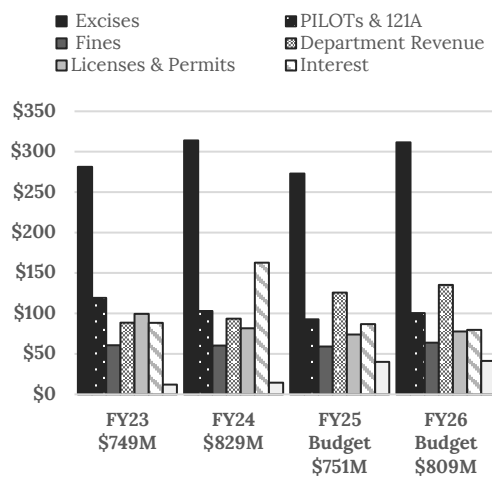


Figure 12 – Recurring Local Receipts by Type, FY23-FY26

Excise Taxes

The City collects eight excise taxes. Four of these – rooms, motor vehicle, jet fuels, and meals excises account for over 99% of budgeted excise revenues in FY26. These revenues are described in more detail below.

The local room occupancy excise is a 6.5% excise levied on both hotels and short-term rental units. In addition to the local tax, the State collects a 5.7% excise tax and a 2.75% fee transferred to the State’s convention center fund. The total tax from all sources is 14.95%. Short term rentals hosted on platforms like Airbnb or Vrbo also pay an additional 3% fee unrelated to the local room occupancy excise. The local room occupancy excise was significantly impacted by the COVID-19 pandemic.

Revenues totaled \$15.6 million in FY21 before recovering strongly to \$129.3 million in FY23 and \$144.6 million in FY24.

Occupancy and daily rates have continued to improve each year with calendar year 2024 marking the local lodging industry’s best year since 2019. However, occupancy and daily rates are still only 93% of pre-pandemic levels. Corresponding to the continued improvement of this excise the City budgeted \$134.5 million in FY25 and \$148.5 million in FY26.

The Commonwealth imposes an excise in lieu of property tax on motor vehicles, the proceeds of which are collected by the municipality in which 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.

Motor vehicle excise revenue, including prior year collections, totaled \$59.9 million in FY23 and \$72.7 million in FY24. The City budgeted \$59.0 million in FY25 and is budgeting \$71.3 million in FY26. Since the tax lags the sale of the vehicle, this revenue estimate is generated based on projections of current year tax collections on motor vehicle sales in the state, as well as trend analyses.

Beginning in 2009, the State granted municipalities a new local option tax on restaurant meals up to 0.75%. The City recorded \$37.7 million in meals excise collections in FY23 and \$40.6 million in FY24. Meals excise revenue more than doubled since the COVID-19 pandemic following a national trend in restaurant sales rebounding past pre-pandemic levels. The City budgeted \$36.0 million in FY25 and is increasing its projection to \$42.8 million in FY26, reflecting healthy restaurant demand and strong wage growth despite elevated price inflation.

The excise on the sale of jet fuel is 5% of the average sales price of the previous quarter, but no less than 5 cents per gallon. Excise revenues are highly correlated with jet fuel prices and the flight activity at Logan International Airport. Jet fuel excise revenue totaled \$49.6 million in FY23, and \$48.2 million in FY24. In those years, the City benefited from historically high jet fuel prices and increased demand for travel. As jet fuel prices receded from these highs, the City budgeted \$38.6 million in FY25 and is budgeting \$41.5 million in FY26.

The 2017 state legislation that established the framework for cannabis sales included a 3% local tax option layered on top of the 6.25% sales tax and a 10.75% state marijuana excise. The City receives quarterly payments for the 3% local option marijuana excise on cannabis sales within Boston. Under a City ordinance, the first \$1 million of total marijuana excise received and one-sixth of subsequent revenues until 2024 was transferred to the Cannabis Equity Fund to assist entrepreneurs disproportionately harmed by marijuana prohibition participate in the cannabis industry. Net collections to the general fund for the marijuana excise totaled \$2.2 million in FY23 and \$3.6 million in FY24. In FY25 the City is budgeting \$2.6 million and \$3.7 million in FY26 as the market continues to mature.

The vehicle rental surcharge is a revenue-sharing arrangement with the State. Under this arrangement, all vehicle rental contracts originating in the City are subject to a \$10 surcharge. The City receives \$1 of this surcharge. Revenue from this source was \$1.1 million in FY23 and \$1.4 million in FY24. In FY25 the City budgeted \$1.3 million and \$1.4 million in FY26 as rental car demand remains elevated.

Fines

The City issues fines for various code violations, most notably parking. Parking related fines account for more than 90% of

all fines revenue. The remaining 10% is split between trash and moving violations. Fines revenue totaled \$60.6 million in FY23 and \$60.3 million in FY24. Fines revenue was conservatively budgeted at \$59 million in FY25 and \$63.8 million in FY26.

In FY23 and FY24, the City issued more than one million parking tickets. Total Parking fine collections in those years totaled \$56.1 million and \$55.5 million respectively. The City maintains a high collection rate on issued tickets by implementing a variety of tactics. Major factors contributing to the City's successful collection rate include nonrenewal of violator's registration and license by the Registry of Motor Vehicles until penalties are paid, 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.

In FY24 and FY25 the Streets Department has made a substantial gain in reducing enforcement officer vacancies. Despite decreased traffic volumes downtown, increased enforcement may yield additional parking fine revenues. In FY25 Parking Fine revenues are conservatively budgeted at \$54.9 million and in FY26 at \$58.7 million.

Interest on Investments

The City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Therefore these revenues are highly sensitive to rate actions by the Fed. In FY23 the Federal Reserve increased rates to over 5%, a level not seen since 2007. Interest revenues jumped from \$4.4 million in FY22 to \$88.3 million in FY23. Interest revenues nearly doubled to \$162.7 million in FY24. As interest rates have declined from their 2023 peaks, the City budgeted \$86.7 million in interest revenue in FY25 and is budgeting \$79.6 million in FY26 with the expectation

of interest rate reductions continue over the course of the year.

Intergovernmental Revenues

The intergovernmental revenues category is a new revenue group established with the integration of the Boston Planning and Development Agency (BPDA) into the general fund in FY25. This category includes transfers from current BPDA revenue streams and is anticipated to cover all planning-related expenditures that moved to the city. This amount is budgeted at \$42.4 million in FY25. In FY26 Intergovernmental revenues are budgeted at \$46.1 million to reimburse the City for pension obligations of BPDA staff.

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 revenue comes from new agreements, escalations that adjust the payments for inflation, and renegotiation or expansion of current agreements. The Massachusetts Port Authority (MassPort) currently provides 40% of the total PILOT revenue the City receives annually, with miscellaneous institutional PILOTs making up the remaining 60%.

In April 2010, the City released a report suggesting a more standardized framework for 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. Under new guidelines, PILOT agreements would generate more revenue for the City while providing a more equitable suggested payment structure across paying institutions. New agreements under this framework were adopted in FY12, and that

year included the first installment of a five-year phase-in period to the new amounts. FY17 was the first year after that phase-in period.

PILOTs, inclusive of MassPort, totaled \$56.4 million in FY23 and \$57.6 million in FY24. The FY25 budget included \$55 million in PILOTs revenue and the FY26 budget sets PILOTs revenue at \$58.2 million.

Urban Redevelopment Chapter 121A

Massachusetts General Law, Chapter 121A allows local governments to suspend the imposition of property taxes at their normal rates in order to encourage redevelopment. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise (Chapter 121A, 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 Chapter 121A Section 10 payment in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of gross income. In FY23 and FY24, the City received Section 10 distributions of \$16.8 million, and \$14.3 million respectively. Due to unpredictability revenues associated with projects under agreement and contract terminations, Chapter 121A section 10 revenues are conservatively budgeted at \$13.3 million in FY25 and \$14.8 million in FY26.

In addition to the Section 10 payments collected by the State, most 121A corporations have individual agreements with the City that result in additional payments that are negotiated and made directly to the City. These Section 6A agreements are often complex, with actual amounts owed dependent on the terms of each agreement. The City collected \$33.1 million Section 6A payments in FY23 and \$16.1 million in FY24. The elevated collections in FY23 are from the early

termination of large agreement. The City budgeted Section 6A collections at \$14.5 million in FY24 and expects \$13.4 million in FY26. Like Section 10 payments, Section 6A payments can be volatile due to early and scheduled agreement terminations. When Chapter 121A agreements expire, the 121A payments cease and the properties associated with the 121A contract transition to the property tax levy in the form of new growth.

Miscellaneous Department Revenue

With local revenue generation authority heavily restricted in Massachusetts, the City strives to optimize and improve timely collection across its more than three dozen miscellaneous department revenue accounts.

The largest revenue source in this category is Street Occupancy permits, which was \$25.7 million in FY23 and \$22.8 million in FY24. These revenues are influenced by the local construction industry and are conservatively budgeted. Street Occupancy Permits were budgeted at \$18.0 million in FY25 and are budgeted at \$16.0 million in FY26.

In FY23 and FY24 miscellaneous department revenues totaled \$88.2 million and \$93.4 million respectively. Overall miscellaneous department revenue is budgeted at \$83.3 million in FY25 and \$89.1 million in FY26. This category is conservatively budgeted but includes higher estimates for school related transportation reimbursements and other departmental reimbursements.

Licenses and Permits

This category primarily consists of building permits revenue, from which the City received \$80.3 million and \$62.7 million in FY23 and FY24 respectively. Building permits revenue was higher than average in FY23 due to a higher volume of large development projects. In FY25 this source was budgeted closer to historical averages

at \$57.5 million and is budgeted at \$59.5 million in FY26.

The second largest Licenses and Permits revenue is the cable television license fee, from which the City received \$4.7 million in FY23 and \$3.9 million in FY24. A declining base of cable subscribers explains the decrease over time. Revenue from cable television was conservatively budgeted at \$3.4 million in FY25 and \$3.6 million in FY26.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds \$4 million in annual revenue. This revenue source was consistent even during the pandemic with \$4.6 million in collections in FY23 and \$4.7 million in FY24. Alcoholic beverage licenses were budgeted at \$4.3 million in FY25 and \$4.8 million in FY26. In FY25 the state legislature approved 225 new liquor licenses in Boston. As establishments come online the increase in licenses will translate to additional licensing revenue

Penalties and Interest

Taxpayers are assessed both penalties and interest for late payments of property tax bills, motor vehicle excise bills, and other payments. The City collected \$12.0 million in such penalties and interest in FY23 and \$14.4 million in FY24. Recent tax title reforms passed by the state legislature in FY25 reduce the interest rate charged on delinquent property taxes. Both FY25 and FY26 revenues factor these changes. The City budgeted this revenue source at \$9.1 million in FY25 and \$10.3 million in FY26.

Available Funds

Most of the City's general fund budget is supported by the revenues that flow directly to the general fund and are received at regular intervals, including property tax, excises, state aid, and the various other categories of revenues described above. Unlike General Fund revenues, available funds carry over from

year-to-year rather than closed to fund balance at the end of the year. Additionally, revenues are appropriated for specific purposes within the General Fund rather than used for any purpose.

The only two significant available funds that the City budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies that are used to support the City's maintenance of its public cemeteries. 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 typically builds up a balance in both 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.

The City transferred \$20 million from the Parking Meter Fund to the general fund in FY21 but did not make any transfers in FY23 or FY24. The City has budgeted transfers of \$30 million from the Parking Meter Fund and \$950,000 from the Cemetery Trust Fund to the general fund in FY25 and FY26.

See the "Financial Management" chapter of Volume I for more details on this revenue source.

Non-Recurring Revenue

Surplus Property

The surplus property disposition fund contains proceeds from the sale of various City land or buildings. The use of these funds is usually restricted to one-time expenditures. No general fund appropriations are included in the FY25 or FY26 budgets from this revenue source.

Budgetary Fund Balance

Budgetary fund balance can be appropriated for use during the fiscal year after certification by the Department of Revenue. Budgetary fund balance is more commonly referred to as "Free Cash" when

used this way. This item is the portion of available reserves, generated to a considerable degree by annual operating surpluses that the City can responsibly appropriate for spending.

In FY21 \$40.0 million in Budgetary Fund balance was dedicated to supporting the appropriation for Other Post-Employment Benefits (OPEB), the liability associated with retiree health insurance costs. This same amount was budgeted but not taken in FY23 and FY24. The sum of \$150 million was budgeted in FY25, \$40 million for OPEB and another \$110 million for a one-time investment in the Housing Accelerator Program. The Housing Accelerator Program is a Mayoral led and City Council approved initiative aimed at spurring housing production by assisting approved housing projects unable to start construction due to financing constraints. In FY26 the City is once again budgeting \$40 million for OPEB.

See the "Financial Management" chapter section of Volume I for more details on this revenue source.

American Rescue Plan Act

In response to decreased local receipts following the onset of the COVID-19 pandemic, the City utilized \$95 million in federal aid to reduce the shortfall. These funds were part of the State and Local Fiscal Recovery Funds program provided by the 2021 American Rescue Plan Act (ARPA). The funds were split across two years, \$55 million in FY22 and \$40 million in FY23. As local revenues recovered, the City opted not to use ARPA funds for revenue replacement in FY25 and FY26.

See the "Operating" chapter of Volume I (the External Funds subsection) for more details on the City's programming of federal relief funding.

Revenue Detail (Table 1)

	FY23 Actual	FY24 Actual	FY25 Budget	FY26 Budget
Property Tax	2,998,918,437	3,188,943,148	3,357,989,105	3,501,938,834
40116 Property Tax Overlay	-29,845,007	-52,000,000	-33,000,000	-34,000,000
Subtotal	2,969,073,430	3,136,943,148	3,324,989,105	3,467,938,834
EXCISES				
Motor Vehicle Excise	59,834,716	72,654,905	59,000,000	71,300,000
40129 Room Occupancy Excise	129,271,291	144,629,614	134,500,000	148,500,000
40130 Aircraft Fuel Excise	49,639,023	48,206,305	38,650,000	41,500,000
40140 Condominium Conversion Excise	917,000	387,500	350,000	500,000
40162 Short Term Rental	648,814	2,427,613	700,000	1,800,000
40601 Meals Excise Tax	37,669,911	40,632,300	36,000,000	42,800,000
40602 Marijuana Excise	2,197,933	3,615,227	2,600,000	3,660,000
40603 Community Host Agreements	0	0	0	0
41113 Vehicle Rental Surcharge	1,124,536	1,414,759	1,250,000	1,440,000
Boat Excise	29,298	627	0	10,000
Subtotal	281,332,521	313,968,849	273,050,000	311,510,000
FINES				
Total Parking Fines	56,078,417	55,492,119	54,900,000	58,700,000
45104 Code Enforcement - Trash	1,246,204	1,428,138	1,370,000	1,650,000
Other Fines	3,305,312	3,369,608	2,739,229	3,442,500
Subtotal	60,629,932	60,289,865	59,009,229	63,792,500
Interest On Investments				
47151 Interest On Investments	88,335,175	162,660,741	86,700,000	79,600,000
Subtotal	88,335,175	162,660,741	86,700,000	79,600,000
Intergovernmental Revenues				
49201 BPDA Transfer	0	0	42,363,742	46,115,964
Subtotal	0	0	42,363,742	46,115,964
PILOTS				
40167 PILOTS	34,292,702	34,135,678	31,500,000	33,500,000
40168 Other PILOTS	106,189	103,928	100,000	100,000
40169 Massport/DOT	21,978,239	23,352,615	23,400,000	24,600,000
Subtotal	56,377,130	57,592,222	55,000,000	58,200,000
URBAN REDEVELOPMENT CHAPTER 121A				
40230 121B Section 16	11,778,125	13,644,340	10,000,000	14,000,000
40231 121A Section 6A	33,051,098	16,130,274	14,500,000	13,400,000
40232 121C	1,091,691	1,212,990	0	0
41013 Chapter 121A Section 10	16,802,860	14,332,509	13,250,000	14,780,000
Subtotal	62,723,774	45,320,112	37,750,000	42,180,000

	FY23 Actual	FY24 Actual	FY25 Budget	FY26 Budget
MISC DEPARTMENT REVENUE				
43105 Registry Division Fees	1,708,113	1,659,876	1,500,000	1,650,000
43109 Liens	484,225	436,500	400,000	450,000
43120 City Clerk Fees	598,546	636,277	500,000	545,000
43137 Municipal Medicaid Reimbursement	5,435,903	7,651,290	6,660,000	6,900,000
43138 Medicare Part D	263,767	669,938	0	0
43202 Police Services	608,564	913,978	725,000	750,000
43211 Fire Services	7,575,426	7,223,788	6,800,000	6,600,000
43301 Parking Facilities	5,183,031	7,465,697	7,000,000	7,000,000
43311 PWD - Street Occupancy.	25,695,130	22,796,201	18,000,000	16,000,000
43425 St. Furniture Prgm Fixed Fees	1,500,000	1,500,000	1,500,000	1,500,000
43426 St. Furniture Prgm Ad. Fees	1,195,310	1,104,432	1,000,000	1,250,000
44002 Tuition & Transportation	2,634,466	2,800,460	2,000,000	3,350,000
47119 Affirmative Recovery Unit	168,526	96,018	300,000	220,000
47130 Fringe Retirement	8,958,238	12,775,474	7,750,000	8,000,000
47131 Pensions & Annunities	8,082,237	8,409,407	8,400,000	8,800,000
47132 Indirect Costs Reimbursement	720,712	687,167	500,000	680,000
48000 Detail Admin Fee	3,107,589	3,734,184	3,000,000	5,895,000
Other Misc Department Revenue	14,517,131	12,811,530	17,300,000	19,556,538
Subtotal	88,436,914	93,372,218	83,335,000	89,146,538
LICENSES & PERMITS				
40211 Building Permits	80,297,909	62,696,716	57,500,000	59,500,000
40213 Weights & Measures	250,212	247,255	240,000	250,000
40215 BTM - Street & Sidewlk Permits	1,883,398	1,804,165	1,250,000	1,500,000
40221 Health Inspections	1,693,674	1,782,046	1,550,000	1,750,000
40220 Boat Mooring Permits	0	0	0	0
40222 Alcoholic Beverage Lics.	4,570,004	4,748,622	4,250,000	4,750,000
40223 Marijuana License	56,605	93,687	60,000	75,000
40224 Entertainment Licenses	1,883,354	1,920,035	1,700,000	1,900,000
40227 Police - Firearm Permits	120,613	195,171	100,000	80,000
40229 Other Business Lic. & Permits	226,421	207,871	150,000	203,000
40235 Cable Television	4,664,896	3,855,331	3,350,000	3,600,000
46001 Dog License	236,613	230,901	200,000	230,000
Other Licenses & Permits	3,508,606	3,766,741	3,550,000	3,800,000
Subtotal	99,392,304	81,548,540	73,900,000	77,638,000

	FY22 Actual	FY23 Actual	FY24 Budget	FY25 Budget
PENALTIES & INTEREST				
40133 Pen & Int - Property Tax	3,584,177	4,120,504	3,000,000	3,730,000
40134 Pen & Int - MV Excise	3,283,303	2,921,451	2,100,000	3,030,000
40136 Pen & Int - Tax Title	5,102,868	7,326,914	4,000,000	3,500,000
Other Penalties & Interest	289	0	0	0
Subtotal	11,970,636	14,368,869	9,100,000	10,260,000
AVAILABLE FUNDS				
42502 Approp. Cemetery Trust Fund	0	0	950,000	950,000
42503 Approp. Parking Meters	0	0	30,000,000	30,000,000
Subtotal	0	0	30,950,000	30,950,000
STATE AID				
41015 State Owned Land	611,856	704,852	722,416	722,416
41104 Exemptions - Elderly	1,103,534	801,420	743,236	1,204,998
41114 Veterans Benefits	965,979	697,570	958,747	1,487,791
41118 Unrestricted General Government Aid	219,466,517	226,489,446	233,284,129	238,416,380
41119 Local Share Of Racing Taxes	358,396	717,536	560,700	499,693
41301 School Construction	0	0	0	0
41305 Charter Tuition Asses. Reimb.	44,225,385	42,866,506	43,117,721	37,599,310
41306 Chapter 70 Education Aid	227,236,505	230,700,785	236,667,161	240,988,361
Subtotal	493,968,172	502,978,115	516,054,110	520,918,949
RECURRING REVENUE TOTAL	4,212,239,988	4,469,042,678	4,592,201,186	4,798,250,785
NON-RECURRING REVENUE				
42501 Approp. Surplus Property Fund	0	0	0	0
42504 Approp. Fund Balance	0	0	150,000,000	40,000,000
42507 American Recovery Plan	40,000,000	0	0	0
GRAND TOTAL	4,252,239,988	4,469,042,678	4,742,201,186	4,838,250,785