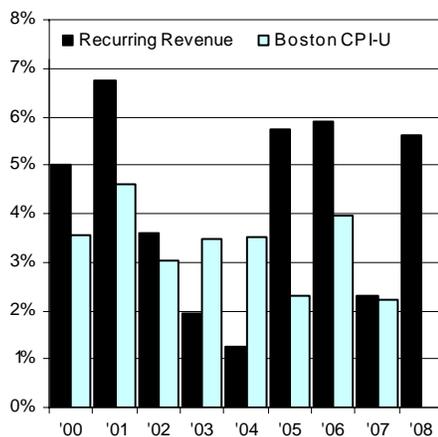


Revenue Estimates and Analysis

OVERVIEW

The FY08 Budget is supported with \$2.266 billion in recurring revenue, an increase of \$120.7 million, or 5.6%, from the FY07 Budget. The budget also includes \$6.7 million in non-recurring revenue and \$25.0 million from budgetary fund balance, yielding total revenue of \$2.298 billion, an increase of \$135.3 million, or 6.3% from FY07.

The FY08 Budget incorporates growth expected to be achieved in FY07. While FY08 growth represents a solid increase over the FY07 budget it also represents a return to a normal growth trend after FY05 and FY06 revenues increased substantially as the economy recovered during those years. The current trend of solid real growth is an improvement over the less than inflationary growth of FY03 and FY04 (Figure 1).

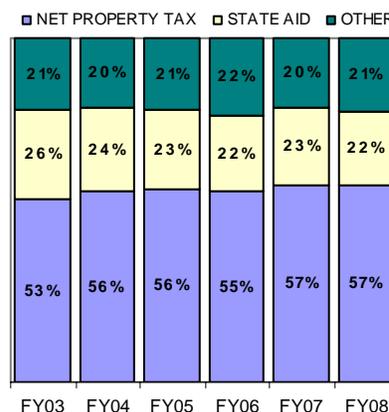


Annual Change in City Revenues and Boston CPI-U

FY00 - FY08 Recurring Revenue

Figure 1

The largest portion of the FY08 recurring revenue increase is again attributable to growth in the property tax. Net property tax and state aid together make up 79% of recurring City revenues with the share of property tax increasing steadily and state aid decreasing steadily over the last several years (Figure 2).



Net Property Tax Levy, State Aid, & Other

Percent of Recurring Revenue

Figure 2

Reducing Property Tax Reliance

The average single-family tax bill in Boston has increased 78% in the last five years. As rapidly increasing fixed costs and reduced state aid occurred concurrently with increasing residential and falling commercial property values in recent years, residential property taxes have increased dramatically.

To combat this trend, the Mayor has committed to reducing the City's reliance on the property tax while increasing flexibility in the City's revenue base. New local revenue sources proposed in the Mayor's legislative package have been pledged to property tax relief for Boston residents and businesses.

Revenues from a 1% restaurant meal tax and from closing a tax loophole on telecommunications property will serve, if passed by the legislature, as a substitute for the allowable 2.5% tax increase on existing property this fiscal year. This would mark the first time since implementation of Proposition 2 ½ that the City had not taken the entire allowable increase in the levy.

Foregoing this increase would save taxpayers over \$30 million in new taxes in FY08. This potential

savings, combined with other proposed legislation on property tax classification and changes in the real estate market could lead to a reduction in taxes for many residential taxpayers in FY08.

This chapter begins with a review of national and state economic trends that have and will continue to impact Boston in FY08 and beyond. It is followed by a detailed discussion of the property tax levy, the City's largest revenue source, an analysis of recent state budget trends and state aid, the City's second largest revenue source and, finally, a discussion of other local revenues.

THE NATIONAL ECONOMY

The Nation's economy is dealing with some adversity with the fourth year of conflict in the Middle East, high energy prices, and fall-out from defaults on sub-prime mortgages. However, according to recent statements by the Board of Governors of the Federal Reserve System, the economy is growing modestly through these challenges as exhibited by steady growth in exports, consumer spending, Gross Domestic Product, employment, wages, and labor productivity.

Earlier concerns regarding employment, wage, and price level pressures have moderated enough over the year to allow the Federal Reserve to leave interest rates unchanged since June, 2006. While the economic outlook remains positive, the combination of on-going volatility in the energy markets, a waning housing market along with high sub-prime foreclosure rates, and the continuance of large federal budget deficits will continue to moderate economic growth.

The Federal Reserve has tightened monetary policy through the Federal Funds rate, from the June 2003, 41 year low of 1.00% to the current rate of 5.25%. Starting in June 2004, the Federal Reserve increased the federal funds rate by 25 basis points at each of 17 intervals through June 2006 (Figure 3). Even with these recent increases, "real" or inflation-adjusted short-term interest rates are still historically low.

Mortgage rates increased along with an increasing Federal Funds rate. The monthly average conventional 30-year fixed-rate mortgage has risen from 5.60% in June 2005 to 6.61% in June 2007.

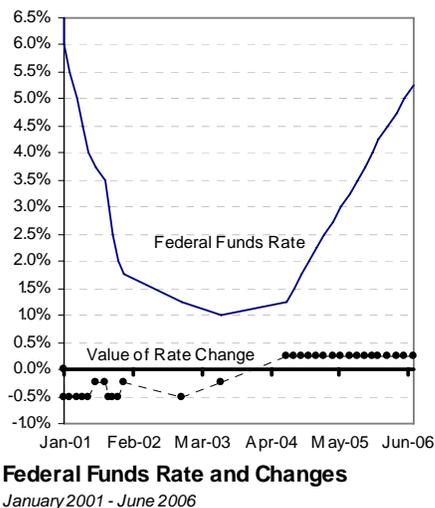


Figure 3

Mortgage rates are expected to rise throughout the remainder of 2007 and into 2008 as the full effect of sub-prime foreclosures come to bear.

The housing market has slowed somewhat over the course of the year. Production of new housing has slowed, inventories of homes for sale are growing, length of time on the market is increasing, and prices are decreasing. However, a steep decline in home values is not likely as the market is expected to receive increasing support from employment and income gains, and therefore should experience only moderate price decreases before stabilizing.

Overall economic growth as measured through Real Gross Domestic Product (GDP) grew at 3.3% in 2006, up from the 3.2% GDP growth in 2005 but less than that of 2005's 3.9%. Real GDP growth is expected to slow over the course of 2007, with the Federal Reserve estimating growth of between 2.5% and 3.0% for 2007.

The seasonally adjusted unemployment rate in the U.S. improved to 4.5% in June 2007, down from 4.6% in June of 2006 (Figure 5). According to Federal Reserve estimates the unemployment rate is expected to remain in the range of 4.5% to 4.75% through the end of 2007.

The U.S. consumer price index for all urban consumers (CPI-U) rose 2.7% in the year ending June 2007, down from 4.3% for the year ending June 2006, while the "core" rate of inflation, all items less food and energy, increased by 2.2%

between June 2006 and 2007. Fuel prices, the main driver of overall inflation, have slowed, rising only 4.4% in the year ending June 2007 as opposed to an 11.2% increase one year earlier.

Even with a stable national economy, federal budget deficits are expected to grow due to entitlement cost pressures and military action in Iraq. Given this and a lack of consensus on projections of when balanced budgets will return, it is not expected that the states will see substantial increases in federal funds during the coming two years.

THE MASSACHUSETTS ECONOMY

The decline in economic growth during the last recession was substantial and the state has yet to fully recover. During the 1997 to 2004 period, the state's annual average growth of 3.7% in real Gross State Product (GSP) ranked 13th out of all 50 states, according to the Bureau of Economic Analysis (BEA). In 2005 alone, Massachusetts ranked a dismal 44th among all 50 states with growth of only 1.0%. But by 2006, the state's rank had increased to 27th with 2.9% growth.

Massachusetts lost the highest percentage of jobs in the nation during the recession, at one point losing more than 200,000 jobs or 6.0%.

Employment has been increasing recently though. While Massachusetts is still down 119,500 jobs from February 2001, the state has steadily added 85,600 new jobs between December 2003 and February 2007, with 32,300 new jobs in the last year alone.

While the number of jobs has grown, the state's

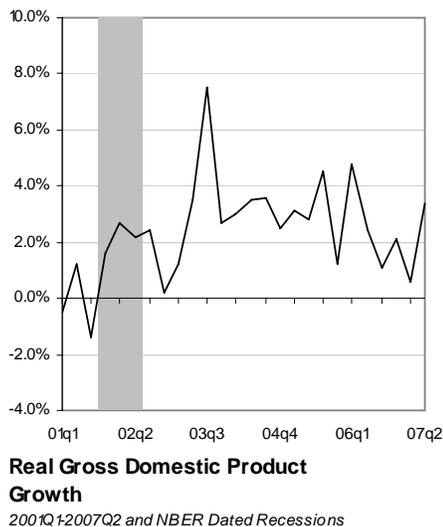


Figure 4

unemployment rate is not decreasing. Over the past year the rate has shown no change at 4.9%, still higher than the national rate of 4.5% in June 2007. The employment outlook is mixed for the coming fiscal year as well with the Massachusetts Department of Revenue estimating slow job growth of between 0.5% and 0.9% percent in FY08.

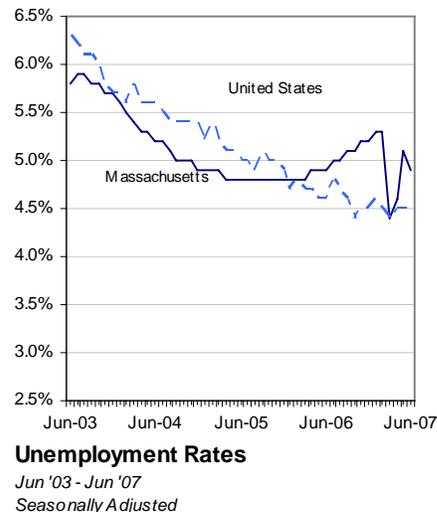


Figure 5

Massachusetts' seasonally adjusted total personal income grew by 5.7% between the quarters ending March 2006 and March 2007. Earnings growth by industry over this period were strongest in Finance and Insurance, Information as well as State and Local Government. Earnings in Military, Construction, and Wholesale Trade exhibited the weakest growth during the same period.

(See *Boston's People & Economy* section of Volume I for detail on Boston's economy.).

PROPERTY TAX LEVY

The property tax levy has been the City's largest and most dependable source of revenue growth over the past 23 years. In FY07, the net property tax levy is \$1.224 billion, providing 57.1% of recurring revenue, with an increase to \$1.291 billion expected in FY08. According to current estimates, the net property tax levy will account for 57.1% of recurring revenue in FY08.

The increases in the gross property tax levy have been steady and consistent from FY85 to FY07, ranging from \$28 million to \$63 million. However, because of the increasing property tax levy base, the \$29.9 million increase in FY85 represented an 8.9% increase, while the budgeted \$62.1 million

rise in FY07 represents 5.1% growth. It is important for the financial health of the City that the property tax levy continues to grow, but efforts are also underway to reduce reliance on the property tax through other local revenue sources.

The difference between the Gross and Net property tax levies is due to a required "overlay reserve". The overlay reserve is a portion of the gross levy set aside to pay for abatements of tax bills that are contested. Until FY04, the City was required by Chapter 717 of the Acts of 1957 to reserve between 5% and 6% of the levy for this purpose. In FY04, the City petitioned the state legislature to repeal the act and allow the state Department of Revenue to approve the City's reserve annually as it does with every other city or town in the Commonwealth. The act was repealed and the City reserved 4% of the levy in FY04 and FY05. This 1% lower reserve amount added approximately \$10 million in recurring revenue to the operating budget starting in FY04. The level of needed reserve is determined by the City Assessor each year according to the projected need to satisfy abatements. In FY08, the reserve has been set at 3.0%.

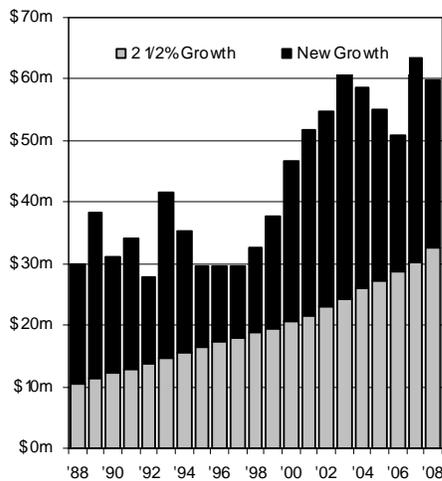
Proposition 2 1/2 has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new growth and construction. Finally, Proposition 2 1/2 provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has not voted to either override the levy limitations or exclude any debt from the limit.

Proposition 2 1/2, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to strengthen revenue growth in a budget that does not have a diversified revenue base.

In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching \$30.2 million in FY07. The levy has also been positively impacted by taxable new value, especially from new construction that has added to the tax base. The amount levied from taxable new value in FY07 was \$33.1 million and is estimated at \$27.2 million in FY08. The combined effect of the allowable 2.5% increase and the taxable new value is an average annual gross levy increase from FY98 through FY07 of \$54.2 million or 5.5%, and a projected increase in FY08 of \$59.7 million or 4.7%.

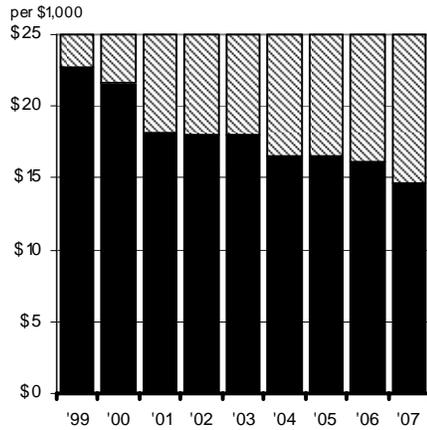
During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$27.2 million in FY08. Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in 16 of the last 24 years. For the four years inclusive between FY00 and FY03, taxable new value revenue growth achieved a new record each year. FY03 taxable new value increased in large part due to the efforts of the Assessing Department to update personal property data. This increase cannot be duplicated in future years.

As real estate values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under Proposition 2 1/2.



Sources of Property Tax Growth
FY88 - FY08 (estimated)

Figure 6



Overall Property Tax Rate & Space Below Levy Ceiling
FY99 -FY07

Figure 7

Between FY90 and FY94, the levy increased each year by an average of 6.4%. The dramatic decrease in values brought the effective tax rate (levy / taxable value) from its healthy low point of 1.4% in FY89 to 2.47% in FY94, dangerously close to the Proposition 2 ½ tax rate ceiling of 2.5%. Reaching the 2.5% cap would have resulted in a very limited increase in allowable annual levy growth. However, due to several years of strong taxable value increases, the City now has some space between its FY07 net effective tax rate of 1.47% and the tax rate ceiling (Figure 7).

Should the real estate market depreciate, the City's lack of proximity to the 2.5% property tax rate threshold should insulate revenues from an immediate shock but could, if values are depressed long enough, impair the growth of the property tax. This would have serious implications for the City's ability to maintain services.

THE COMMONWEALTH BUDGET

The Governor's FY08 budget, the first budget of the Patrick administration, totals \$26.7 billion. The new administration inherited a more than \$1 billion dollar budget deficit upon taking office and describes its first budget as a "blueprint" for change.

Of special interest for municipalities, is companion legislation submitted by the administration entitled the "Municipal Partnership Act". This act among other items, proposes allowing municipalities to enact up to a 2% local tax on restaurant meals at local option, increase

the existing hotel tax by one percentage point (to a maximum of 5%), remove a special property tax exemption for telecommunications equipment, and allow municipalities to join the state's Group Insurance Commission.

The most recent recession and the corresponding drop in state tax revenues left the state in need of making program reductions, drawing on reserves, increasing taxes, and reducing local aid in order to balance the state budget. Most municipalities, including Boston, have yet to fully recover from those sudden and drastic aid reductions. The consequence has been increased property taxes, additional user fees, and reduced public services throughout the state.

Through the proposals made in the Municipal Partnership Act, the Governor and his administration, as promised during his campaign and advocated for by local officials, including Mayor Menino, have made positive steps towards helping municipalities reduce reliance on the property tax and to diversify local revenues.

The Mayor, independently from the administration, has filed legislation to close the same property tax loophole, add a 1% local option tax on restaurant meals, and tax on parking in commercial parking lots. The Mayor has pledged to forego the allowable 2.5% increase in property taxes in FY08 with the receipt of new local revenue sources.

The following discussion details some fiscal decisions made by the Commonwealth over the past several years.

In recent years, the Commonwealth has tended to be relatively conservative in its revenue estimates. This caution had been rewarded by the accumulation of reserves that have allowed the state more options in dealing with revenue shortfalls than in the past. The state had nearly exhausted its reserves by the close of FY03 and has now largely rebuilt them. The administration projects that the State's stabilization fund will amount to \$2.2 billion by the end of FY07.

Debate in the state budget has centered for many years around taxes and the rate for income tax in particular. The Governor's FY01 Budget recommended a reduction in the tax rate on earned income and the interest and dividend components of unearned income to 5.0% over

three tax years, which was later passed by referendum in November of 2000.

The FY02 Budget included the above rate cut and some smaller targeted tax cuts taking effect in tax year 2001. The tax cuts included a refundable local property tax credit for low income senior citizens, an increase in the residential rental deduction, a new deduction for charitable donations, and a credit for developers of low income housing.

The Governor's FY03 Budget included the continuation of the voter-approved income tax rate reduction to 5.0%. In FY03, the legislature, instead of continuing tax cuts, voted to accept a tax increase package. Valued at \$1.14 billion by the Massachusetts Taxpayers Foundation, the package included a freeze of the income tax rate at 5.3% (\$215 million), reducing the personal exemption by 25% (\$240 million), repeal of the charitable donations deduction (\$190 million), an increase in capital gains taxes (\$275 million), and a \$0.75 increase in the cigarette tax (\$220 million) along with other increases to fees for various licenses. The Governor vetoed these tax increases but the legislature overrode those vetoes.

Even with the enacted tax increases, the FY03 budget was reduced several times during the course of the year as revenues failed to meet estimates. Most early reductions fell on executive branch agencies or grant accounts where the governor has the power to cut unilaterally. In January 2003, the governor sought from the legislature temporary power to reduce local aid accounts normally under legislative control. The legislature granted that temporary power and local aid for FY03 was reduced statewide. The FY04 Budget then further reduced major local aid accounts. The FY05 and FY06 budgets, while not further reducing local aid, did not increase revenues enough to mitigate any of the serious operating challenges facing municipalities.

STATE LOCAL AID

Local aid refers primarily to distributions from the Commonwealth to municipal general revenue for Chapter 70 education aid, additional assistance and lottery aid, along with other relatively smaller Commonwealth programs such as library aid, school construction, transportation and other reimbursements, and highway funds.

The City's FY08 local aid estimate is based in part on the Governor's FY08 Budget submitted to the Legislature and in part on a new local aid resolution developed by the House and Senate that sets the minimum aid a community will receive in education, lottery, and additional assistance aid. The City's FY08 local aid estimate assumes growth only in Education and Lottery aid. Both the Governor's budget and the Legislature's local aid resolution have under-funded the full value of the Charter School Tuition reimbursement for FY08.

The City received local aid totaling \$461.1 million in FY05 and \$464.6 million in FY06. The City expects to receive \$487.2 million in local aid in FY07 and has budgeted \$493.0 million in FY08.

Assessments (or Charges) are charged by the Commonwealth to municipalities for items such as MBTA service and Charter School tuition among other items. Local aid distributions are reduced by the amount of assessments charged to a municipality.

The City paid \$111.7 million in assessments in FY05 and \$114.3 million in FY06. The City expects to pay \$125.0 million in assessments in FY07 and is budgeting \$131.0 million in FY08.

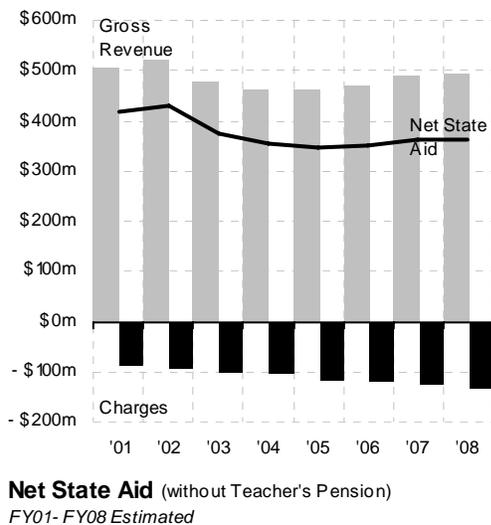


Figure 8

Net state aid, gross state aid revenue minus assessments, has been largely flat since FY03. The rapid annual increases in the Charter School Tuition assessment combined with very low growth in education and lottery aid have served to keep

the City's net state aid at a virtual standstill (Figure 8).

Even with a marginal increase in net state aid for FY07, Boston still remains \$66 million below its FY02 level of net state aid of \$428 million.

Net state aid amounted to \$349.4 million in FY05 and \$350.3 million in FY06. FY07 budgeted net state aid totals \$362.12 million and the FY08 Budget assumes a reduction to \$362.08 million.

Education Aid

Beginning in 1993 with the passage of the FY94 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its local aid distributions. During this period, Chapter 70 increased and additional assistance remained frozen. In general, state local aid during the FY94-FY03 period has been less favorable for Boston than the revenue sharing arrangement during the FY83-FY89 period. To illustrate, the City's total state aid between FY92 and FY03 grew \$121 million or 36.9%, while its total state aid between FY82 and FY89 increased by \$215 million or 111%.

The City received Chapter 70 education aid totaling \$200.5 million in FY04 and FY05, \$203.6 million in FY06, and expects to receive \$210.5 million in FY07 and a minimum of \$215.8 million in FY08.

FY00 was the last year of the statutorily established funding schedule for education reform. There has yet to be established a post-FY00 funding schedule. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committees and teacher union rules and regulations. There are two kinds of charter schools, the Commonwealth charter school and the Horace Mann charter school. The former is a school outside the local public school system and the latter is part or all of a school in the public school system. Unlike a Commonwealth charter

school, Horace Mann charter school budgets remain part of the public school budget. In addition to the Board of Education, the local school committee and local bargaining agent must approve Horace Mann charter schools.

There are currently both Commonwealth charter schools and Horace Mann charter schools available to Boston resident students. There are approximately 4,591 Boston resident students attending Commonwealth charter schools in FY07. The City expects that number to increase to 4,971 in FY08.

Before FY99, all charter school tuition was drawn directly from the City's Chapter 70 aid. This draw on the City's education aid totaled \$10.9 million in FY98. Under amendments to the charter school law, the Commonwealth, subject to appropriation, is required to pay to the City as reimbursement for Chapter 70 aid reductions 100% of tuition for new charter school students the first year, followed by 60% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% thereafter.

The net cost to the City of charter schools in FY05 was \$31.7 million and in FY06, \$35.5 million. In FY07 the city has budgeted a \$15.0 million reimbursement against a \$53.7 million tuition cost, yielding a net impact of \$38.7 million and in FY08, a \$14.3 million reimbursement against a \$58.2 million tuition cost, yielding a net impact of \$43.9 million.

The tuition portion of the FY08 Charter School reimbursement has been under-funded by both the Governor's budget (91%) and the Legislature's local aid resolution (86%). The City has budgeted the lower funding figure from the Legislature.

Lottery Aid

Lottery aid for the City, as for most municipalities, had grown steadily over the last few years as a result of a state decision to phase-out an earlier imposed lottery cap and return to the practice of returning all lottery profits to cities and towns. The City's lottery aid was \$71.0 million in FY01, and \$63.5 million in FY02. Lottery aid was then level funded in the state's FY03 budget and then later reduced to \$57.6 million after the Governor effectively capped Lottery aid to cities and towns, diverting the excess funds to the state. In FY04, Lottery aid was further reduced to \$54.0 million

and remained at that level through FY05. The City received \$60.5 million in FY06 and expects \$70.6 million in FY07 and \$71.6 million in FY08.

Under normal circumstances, the lottery formula is not favorable to the City because it distributes lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City receives a smaller percentage share of lottery aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

Additional Assistance

Additional Assistance, as mentioned above, had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead. Its purpose and usefulness came into question during the FY03 state budget process when the Governor vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, the new Governor, using his temporary local aid reduction powers, reduced additional assistance yet again in January 2002 by \$73 million. As Boston receives over 40% of the statewide distribution of additional assistance, these reductions fell disproportionately on the City. The City received \$206.6 million in additional assistance in FY02 and adjusted additional assistance of \$175.1 million in FY03. The City received \$164.2 million in FY04, FY05 and FY06 and expects the same in FY07 and FY08. Additional assistance has been important to Boston in supporting schools, public safety, and other basic services to residents and visitors alike.

LOCAL REVENUES

The City regularly collects more than \$400 million annually in recurring revenues other than Property Tax or State Aid. Revenue from taxes, payments-in-lieu-of-taxes, fees, investments, and available funds are part of this local revenue group. These revenue streams tend to be either very stable annually or highly cyclical, varying with economic conditions.

In sum, the City collected \$413.0 million in FY05 and \$465.6 million in FY06 from these sources. The City expects to exceed the mid-year budget estimate of \$434.9 million in FY07 and estimates an 10.8% increase to \$482.1 million in FY08.

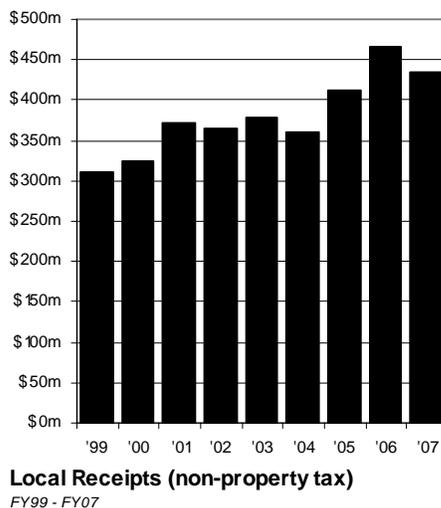


Figure 9

Excises

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

The City expects the market for automobiles to slow somewhat with recently higher interest rates. Motor vehicle excise revenue totaled \$44.7 million in FY05 and \$50.1 million in FY06. The City expects motor vehicle excise revenue to fall short of the midyear projection of \$38.0 million in FY07 (due to the timing of bills) and has budgeted \$40 million in FY08.

The local room occupancy excise amounts to 4.0% of the total amount of rent for each hotel or motel room occupied. Another 5.7% excise is directed to the state general fund, and another 2.75% to the state's convention center fund. The City divides its 4.0% excise into "Base," from the pre-July 1, 1997 hotels, targeted to the general fund, and "New," from the post-July 1, 1997 hotels, targeted to the City's convention center fund.

Base room occupancy excise revenue (a portion of this revenue is sometimes retained in the convention center fund) totaled \$22.1 million in FY05 (\$18.0 million went to the general fund) and \$24.5 million in FY06 (\$18.0 million went to the

general fund). The City's base room occupancy excise tax receipts are expected to exceed the midyear budget estimate of \$22.0 million in FY07, and are projected to increase to \$25.0 million in FY08.

A significant number of new hotel rooms are planned, already in construction, or were recently constructed. This will benefit the City's convention center fund and pay for a significant portion of the City's debt for the new Boston Convention and Exhibition Center. The debt is scheduled to be fully paid in FY2027. Therefore, for the foreseeable future, growth in room occupancy excise in the general fund depends upon increases in room rates and room occupancy in the 1997 base of hotel rooms.

The excise on the sale of jet fuel is 5% of the sales price, but not less than five cents per gallon. With recent increases in fuel prices, jet fuel excise revenue has increased dramatically. Jet fuel excise revenue in FY05 totaled \$18.4 million (which had an extra payment from FY04) and \$19.9 million in FY06. The City expects this revenue source to exceed the midyear projection of \$18.5 million in FY07 and to grow to \$21.5 million in FY08, due to a likely continuation of elevated fuel prices.

Fines

In fiscal 2006, the City issued over 1.63 million parking tickets and has maintained a high rate of collection on its tickets. Approximately 82.4% of tickets were collected in the first six-months after issuance and 89% were collected within a year. The major factors contributing to the City's successful collection rate include non-renewal of violator's registrations and licenses by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to recover fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles.

The City collected parking fine revenue of \$62.2 million in FY05 and \$63.9 million in FY06. Parking fine revenue is expected to reach the mid-year budget estimate of \$62.7 million in FY07 and return to \$64.0 million in FY08.

Interest on Investments

In general, the City's level of investment income is a function of the level of prevailing short-term

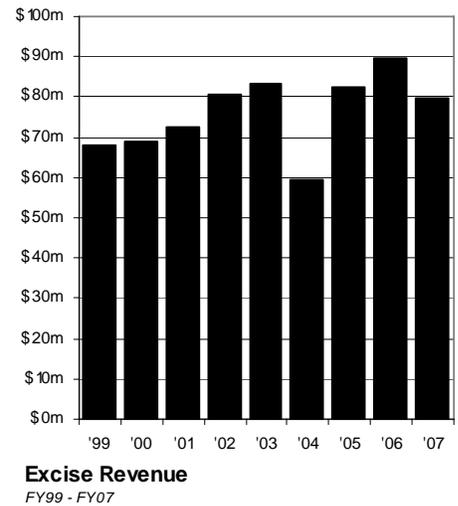


Figure 10

interest rates and daily cash balances. Interest rates have risen from their recent 41-year lows as cash balances have improved, and earnings have increased as a result. Investment income totaled \$17.8 million in FY05 and \$30.0 million in FY06. The City projects interest income will exceed the \$32.5 million mid-year estimate in FY07 and grow to \$39.0 million in FY08.

Payments In Lieu of Taxes

Payments in lieu of taxes (PILOTs) are payments made by 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 PILOTs comes from new PILOT agreements, contract escalations that adjust the payments for inflation, or re-negotiation of a current contract. The Massachusetts Port Authority (MassPort) recently renegotiated its agreement with the City and now provides more than half of the PILOT revenue the City receives annually.

Payments in lieu of taxes totaled \$23.4 million in FY05 and \$32.1 million in FY06 (due to payment of a balance owed by MassPort). The City expects this revenue source to meet the midyear budget estimate of \$27.3 million for FY07 and projects \$30.8 million in FY08.

Urban Redevelopment Chapter 121A

Chapter 121A legislation allows local governments to suspend the imposition of property taxes at their normal levels in order to encourage

redevelopment. In recent years, the City used this mechanism to encourage development of the Seaport Hotel and the World Trade Center office buildings. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise is a municipal excise in-lieu-of-corporate property tax for which the Commonwealth acts as the collector and distributor. In most cases, the formula for the 121A, Section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current fair cash value plus 5% of current gross income. In FY05 and FY06, the City received Chapter 121A, Section 10 distributions of \$36.1 million and \$36.5 million, respectively. In FY07, Chapter 121A Section 10 revenues are budgeted at \$34.3 million and in FY08, at \$37 million.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual Section 6A agreements with the City that result in additional payments made directly to the City. These Section 6A agreements are complex, with actual amounts owed dependent on a formula that varies widely among the 121As. The City collected Section 6A payments of \$17.7 million in FY05 and \$27.3 million in FY06 (due to a back payment). The City expects FY07 Section 6A collections to exceed the midyear budget estimate of \$18.9 million and increase to \$21.1 million in FY08.

Miscellaneous Department Revenue

This category contains several large accounts and many more small accounts. The largest revenue source in this revenue category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$14.2 million in FY05 and \$13.5 million in FY06. Municipal Medicaid reimbursement is expected to exceed the midyear budget estimate of \$12.3 million in FY07 and reach \$13.5 million in FY08.

One other account in this revenue category is projected to exceed \$5.0 million in FY07 and FY08, Other Miscellaneous Department Revenue, which consists of miscellaneous fees for services, rents, and reimbursements, is projected at \$8.8 million and \$13.3 million in FY07 and FY08, respectively.

Licenses and Permits

The level of economic activity largely determines the amount of licensing and permitting done by City agencies. This category is dominated by building permit revenue, from which the City received \$23.2 million and \$26.3 million in FY05 and FY06 respectively. Building permit revenue should exceed the midyear budget estimate of \$20.6 million in FY07 due to increasing commercial projects and increase to \$24 million in FY08.

The next highest license and permit revenue is the cable television license fee from which the City received \$3.1 million in FY05 and \$4.2 million in FY06. The City has budgeted \$3.8 million for FY07 and \$4.5 million for FY08.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds \$2 million in annual revenue. Alcoholic beverage licenses are budgeted at \$3.1 million in FY07 and \$3.2 million in FY08.

Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills and motor vehicle excise bills and other payments. The recent trend has been down for these revenues as the City excels in collection of receivables, but when the economy suffers and unemployment increases, more taxpayers are late in making payments, temporarily increasing revenues. The City collected \$9.8 million in such penalties and interest in FY05 and \$9.2 million in FY06. Actual penalty and interest collections for FY07 will exceed the current midyear budget estimate of \$8.1 million and are projected to be \$9.1 million in FY08.

Available Funds

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

The only two significant available funds that the City budgets each year are parking meter revenues to support the Transportation Department, and

cemetery trust monies which are used to support the City's maintenance of its public cemeteries. The City transferred a total of \$5.5 million and \$3.1 million from these two sources combined in FY05 and FY06 respectively. The City expects to transfer \$10.0 million from the Parking Meter Fund to the General Fund in both FY07 and FY08. The City also plans to transfer \$2.2 million from the Cemetery Trust Fund to the General Fund in FY07 and \$2.1 million in FY08.

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

Teachers' Pension Reimbursement

Boston's cherry sheet includes an item unique to the City, the teachers' pension reimbursement for pension charges to the City. The pensions paid to retired teachers in all other cities and towns in Massachusetts come directly from the Commonwealth via the State-Teachers Retirement System.

In a singular arrangement mandated by general law, pensions paid to retired Boston teachers are paid by the State-Boston Retirement System, which charges the City of Boston for this cost as part of its annual pension funding. The City is then reimbursed by the Commonwealth through the cherry sheet. In short, the Boston teachers' pension payroll is administered locally, but, as with all other teachers' pensions in Massachusetts, is the financial responsibility of the Commonwealth. The teachers' pension reimbursement totaled \$76.5 million in FY05, \$85.2 million in FY06, and is budgeted to be \$85.2 million in FY07 and \$93.3 million in FY08.

NON-RECURRING REVENUE

Surplus Property

Included in the FY08 Budget is \$6.7 million in non-recurring revenue to be transferred from the surplus property disposition fund. In maintaining its policy of not supporting recurring operating expenditures with non-recurring revenue, the City limits this transfer to an amount not greater than

\$1.0 million for the Risk Retention Reserve plus \$5.7 million for the Mayor's "Leading the Way" housing initiative.

Budgetary Fund Balance

Fund Balance can be appropriated for use during the fiscal year. Fund Balance, or 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.

In the FY07 Budget, \$11.65 million has been appropriated and the FY08 Budget assumes the use of an additional \$25.0 million, \$20 million of which will be transferred to a new created Health Insurance Stabilization Fund. This new fund represents an initial reserve funding for Other Post-Retirement Benefits (OPEB), or the liability associated with retiree health insurance costs. Budgetary (See *Financial Management* section of Volume I for more detail on this revenue source).

CITY OF BOSTON REVENUE DETAIL

		FY05 Actual	FY06 Actual	FY07 Budget	FY08 Budget
PROPERTY TAX LEVY		1,150,589,723	1,208,179,004	1,270,259,839	1,329,992,455
OVERLAY RESERVE		(44,253,451)	(40,837,386)	(46,603,909)	(38,736,164)
Subtotal		1,106,336,272	1,167,341,618	1,223,655,930	1,291,256,291
EXCISES					
	Motor Vehicle Excise	44,697,767	50,103,964	38,000,000	40,000,000
40129	Room Occupancy Excise	18,000,000	18,000,000	22,000,000	25,000,000
40130	Jet Fuel Excise	18,403,579	19,944,273	18,537,772	21,500,000
40140	Condominium Conversion Excise	1,347,500	1,558,000	985,000	1,000,000
	Boat Excise	65,771	73,419	50,000	75,000
Subtotal		82,514,616	89,679,655	79,572,772	87,575,000
FINES					
	Parking Fines	62,207,762	63,987,157	62,700,000	64,000,000
45104	Code Enforcement - Trash	309,669	269,393	300,000	250,000
	Other Fines	3,095,702	3,728,427	3,185,000	3,685,000
Subtotal		65,613,133	67,984,978	66,185,000	67,935,000
47151	INTEREST ON INVESTMENTS	17,787,353	30,049,117	32,543,171	39,000,000
40169	Massport	11,128,435	17,500,000	15,000,000	16,273,600
	Other Payments In Lieu of Taxes	12,319,365	14,562,436	12,341,631	14,476,400
Subtotal		23,447,800	32,062,436	27,341,631	30,750,000
URBAN REDEVELOPMENT CHAPTER 121A					
	Urban Redev. Chap. 121B Sec. 16	1,049,853	1,227,504	1,250,000	1,200,000
	Urban Redev. Chap. 121A Sec. 6A	17,720,143	27,294,434	18,962,500	21,114,275
41013	Urban Redev. Chap. 121A Sec. 10	36,142,426	36,528,125	34,337,500	37,000,000
Subtotal		54,912,421	65,050,063	54,550,000	59,314,275
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,647,714	1,610,027	1,600,000	1,625,000
43109	Liens	844,675	755,925	800,000	800,000
43120	City Clerk - Fees	748,353	537,317	500,000	500,000
43137	Municipal Medicaid Reimbursement	14,150,466	13,522,085	12,315,279	13,500,000
43202	Police Services	982,032	967,083	825,000	1,000,000
43211	Fire Services	2,763,405	3,086,019	2,700,000	3,000,000
43301	Parking Facilities	1,444,229	817,072	800,000	800,000
43311	PWD - Street & Sidewalk Occupancy Fees	1,987,005	2,417,855	2,025,000	2,400,000
43797	PWD - Fiber Optic Rental Fees	1,470,199	1,073,339	300,000	500,000
44002	Tuition & Transportation - Schools	785,981	585,187	450,000	600,000
47119	Settlements	633,610	1,176,516	595,870	600,000
47131	Pensions & Annuities	2,961,575	3,467,356	2,500,000	3,000,000
47132	Fringe Benefit & Indirect	0	0	0	1,000,000
47155	Prior Years Reimbursements	448,446	(196,010)	0	-
48000	Detail, 10% Admin. Fee	2,002,980	2,430,888	2,300,000	2,400,000
	Other Misc. Department Revenue	10,186,798	12,298,253	8,814,852	13,499,890
Subtotal		43,057,468	44,548,913	36,526,001	45,224,890

CITY OF BOSTON REVENUE DETAIL

		FY05 Actual	FY06 Actual	FY07 Budget	FY08 Budget
LICENSES & PERMITS					
40211	Building Permits	23,213,600	26,253,029	20,633,412	24,000,000
40213	Weights & Measures	238,835	234,925	235,000	235,000
40215	BTD - Street & Sidewalk Permits	1,327,803	2,020,011	1,500,000	2,000,000
40221	Health Inspections	1,228,258	1,245,306	1,200,000	1,250,000
40222	Alcoholic Beverage Licenses	2,360,181	2,358,639	3,103,375	3,200,000
40224	Entertainment Licenses	1,431,551	1,512,012	1,400,000	1,500,000
40229	Other Business Licenses and Permits	100,564	90,677	90,000	100,000
40235	Cable Television	3,050,569	4,153,266	3,750,000	4,500,000
	Other Licenses and Permits	869,716	887,314	815,000	900,000
	Subtotal	33,821,076	38,755,179	32,726,787	37,685,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	2,008,769	2,093,324	1,850,000	2,100,000
40134	Penalties & Interest - Motor Vehicle Excise	3,113,460	3,682,708	3,000,000	3,600,000
40136	Penalties & Interest - Tax Titles	4,627,377	3,403,843	3,200,000	3,400,000
40139	Penalties & Interest - 121A	92	3,097	0	0
	Other Penalties & Interest	1,280	10,491	10,000	15,000
	Subtotal	9,750,978	9,193,461	8,060,000	9,115,000
AVAILABLE FUNDS					
42502	Cemetery Trustee	2,029,004	2,110,000	2,220,500	2,140,770
42503	Parking Meters	3,500,000	1,000,000	10,000,000	10,000,000
	Subtotal	5,529,004	3,110,000	12,220,500	12,140,770
STATE AID					
41015	State Owned Land	266,810	349,232	226,372	253,872
41101	R.E. Abatements - Veterans/S.S./Blind	201,595	463,894	463,894	457,736
41104	Elderly Exemptions	617,460	570,272	570,272	576,798
41111	State Lottery Local Aid	53,968,473	60,545,688	70,589,023	71,585,070
41114	Veterans Services	1,783,305	2,209,164	2,082,956	2,224,617
41116	Additional Assistance	164,211,152	164,211,152	164,211,152	164,211,152
41119	Racing Taxes	735,583	454,053	609,000	541,334
41301	School Construction	16,144,882	15,463,685	13,815,487	13,612,877
41305	Charter Schools Reimbursement	7,089,219	3,241,429	15,034,864	10,049,705
41306	Chapter 70 Education Aid	200,498,366	203,634,716	210,540,147	215,807,608
41307	Charter Schools Capital Reimbursement	3,135,364	5,144,556	0	4,220,379
41311	School Transportation	0	0	0	0
41117	Police Career Incentive	7,846,979	8,325,340	9,025,000	9,500,000
41121	Municipal Relief	4,635,129	0	0	0
	Subtotal	461,134,319	464,613,182	487,168,167	493,041,148
41115	TEACHERS PENSION REIMBURSEMENT	76,520,673	85,164,054	85,164,054	93,329,794
	RECURRING REVENUE TOTAL	1,980,425,114	2,097,552,656	2,145,714,013	2,266,367,168
NON-RECURRING REVENUE					
42500	Budgetary Fund Balance	0	0	11,650,000	25,000,000
42501	Surplus Property	0	6,700,000	5,331,000	6,669,000
	GRAND TOTAL	1,980,425,114	2,104,252,656	2,162,695,013	2,298,036,168