

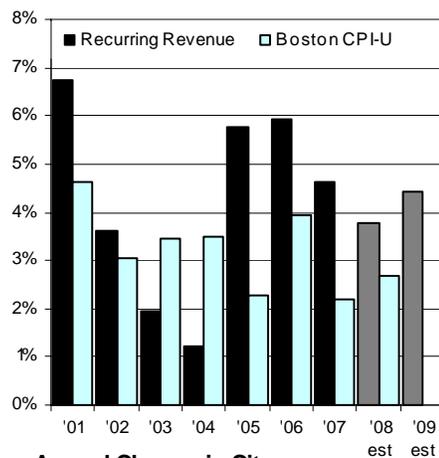
Revenue Estimates and Analysis

OVERVIEW

The FY09 Budget is supported with \$2.378 billion in recurring revenue, an increase of \$100.8 million, or 4.4%, from the FY08 Budget. The budget also includes \$6.0 million in non-recurring revenue and \$35.0 million from budgetary fund balance, yielding total revenue of \$2.419 billion, an increase of \$110.2 million, or 4.8% from FY08.

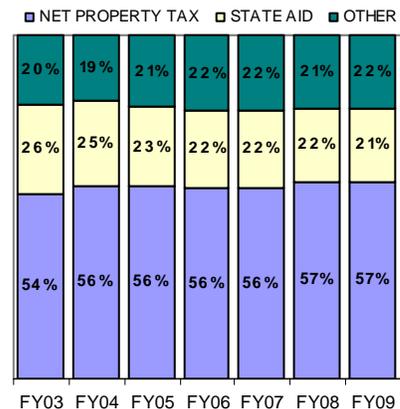
This level of growth continues a pattern of improvement over the less than inflationary growth seen as recently as FY03 and FY04 (Figure 1).

However the source of growth continues to originate from local-source revenues as opposed to state aid. The largest portion of the FY09 recurring revenue increase is attributable to growth in the property tax. Net property tax and state aid together make up 78.3% of recurring City revenues. As Figure 2 shows, the shares of property tax and other local revenues have been increasing steadily as the share of state aid has been steadily decreasing. In fact, the total dollar amount of other local revenues (non-property tax) now exceeds the total dollar amount the City



Annual Change in City Revenues and Boston CPI-U
 FY01- FY09 Recurring Revenue

Figure 1



Net Property Tax Levy, State Aid, & Other
 Percent of Recurring Revenue

Figure 2

receives in state aid, where as recently as FY01 these local revenues amounted to only about three-quarters of the state aid total.

While FY09 revenue growth represents an increase over the FY08 budget it also represents slowing of growth or an actual decline in revenue in specific areas from what is likely to be the FY08 final result. This is due to a slowing, possibly recessionary economic period that is taking hold as this budget is delivered.

Some of the City's revenue streams can continue to perform well in a down cycle of the economy, protecting the City from sudden, very large declines in revenue. For example in the current slowdown, the City expects to benefit from high fuel prices through the jet fuel excise (though fuel costs to the City rise too) and the weak dollar exchange rate spurs foreign travel and therefore hotel excise.

With the property tax, the City's distance from the levy ceiling allows it to take advantage, even through more difficult times, of the allowable 2 ½% annual increase. Also, due to lag time between property valuation and actual tax levy, any slowdown in new construction has a somewhat

delayed impact on “allowable new growth”. Except for pockets of revenues like interest on investments, that are particularly sensitive to economic cycles, City revenues overall are expected to hold up during this slowdown.

There is some renewed risk to state aid as state revenues, which are closely tied to income and sales activity, could decline from the level already assumed in the Governor’s proposed budget and the Legislature’s joint local aid resolution. Therefore, the City will monitor both the House and Senate versions of the state budget due to be released in the next few weeks.

Reducing the Property Tax Burden

The average single-family tax bill in Boston increased 78% between FY02 and FY07. Concurrently increasing residential and falling commercial property values in those years pushed residential property taxes dramatically higher. As this occurred, rapidly increasing fixed costs and reduced state aid limited the City’s ability to respond.

Although residential property taxes eased somewhat in FY08, the Mayor remains committed to reducing the City’s reliance on the property tax by increasing flexibility in the City’s revenue base. New local revenue from a proposed 1% restaurant meal tax or from closing tax loopholes on telecommunications property have been pledged as a substitute for the allowable 2.5% tax increase on existing property this fiscal year.

Just recently a change in telecommunications property taxation has occurred through a decision by the Appellate Tax Board (ATB) which has ruled that telephone poles and wires on the public way are not exempt from taxes. As a result, and in keeping with the Mayor’s promise, the City intends to lower FY09 property taxes for all other taxpayers by the amount of increase from this decision when it sets its tax rate with the state Department of Revenue this fall. This will mark the first time since the implementation of Proposition 2 ½ that the City has not taken the entire allowable annual increase in the levy.

This chapter begins with a review of national and state economic trends that have and will continue to impact the Boston area economy in FY09 and

beyond. It is followed by a detailed discussion of the property tax levy, the City’s largest revenue source, discussion 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 has likely entered a recession. Inflation, job loss, and tight credit markets have been spurred on by record oil prices, a weak housing market and the implosion of sub-prime mortgage-backed debt instruments.

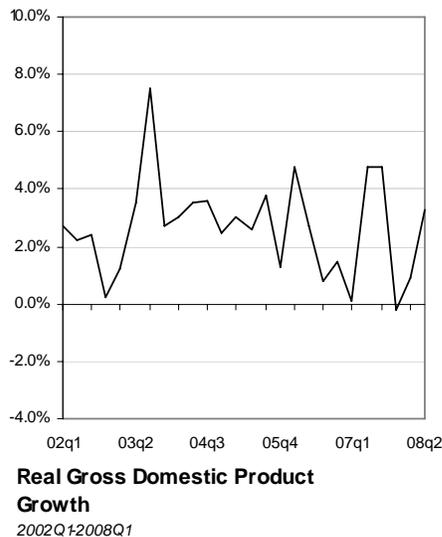


Figure 3

The Federal Reserve and the Federal Government have both moved to stabilize the economy with the former reducing interest rates and increasing liquidity and the latter providing tax rebates to people and businesses. It remains to be seen as to whether these attempts to stimulate the economy will be enough to avoid or at least soften the effects of this economic slowdown.

Overall economic growth as measured by real Gross Domestic Product (GDP) has been declining. Real GDP grew at 2.0% in 2007, down from the 2.8% GDP growth in 2006 and 2.9% in 2005. Real GDP growth is expected to continue to slow over the course of 2008 followed by increases in 2009, with the Federal Reserve estimating growth of between 1.3% and 2.0% in 2008 and between 2.1% and 2.7% in 2009 (Figure 3.). This estimate will likely be revised to include one or two quarters of negative growth.

The U.S. consumer price index for all urban consumers (CPI-U) rose 4.9% in the year ending June 2008, up sharply from 2.6% for the year ending June 2007, while the “core” rate of inflation, all items less food and energy, increased by 2.4% between June 2007 and 2008. Fuel prices, a driver of recent inflation, have increased dramatically, rising 24.4% in the year ending June 2008 as opposed to a 4.5% increase one year earlier.

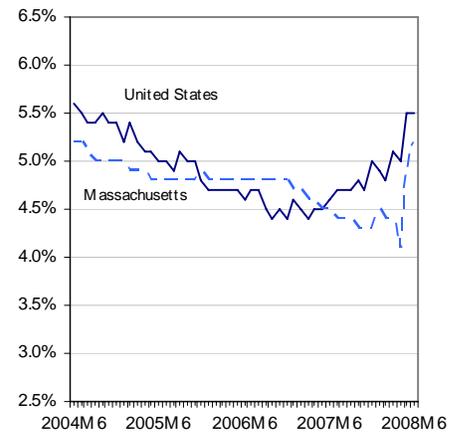
The seasonally adjusted unemployment rate in the U.S. increased from 4.6% in June 2007 to 5.5% in June of 2008 (Figure 4). According to Federal Reserve estimates the unemployment rate is expected to end in the range of 5.2% to 5.3% in 2008.

Rates on the 30 year fixed mortgage have hovered within a 150 basis point range between 5.2% and 6.7% since July 2003. Recently, the monthly average rate has fallen from 6.6% in June 2007 to 6.23% in June 2008. Mortgage rates are expected to rise throughout the remainder of 2008 and into 2009 as the full effect of sub-prime foreclosures continue to shake investors in mortgage-backed securities.

The housing market has slowed appreciably over the course of the year. Production of new housing has nearly halted, sale inventories are growing, sale time on the market is increasing, and prices are declining in nearly every market. A continued decline in housing values is expected at least through the end of 2008 if not longer depending on the length and depth of any recession.

The Federal Reserve, after tightening monetary policy by increasing its target Federal Funds rate from the June 2003, 41 year low of 1.00% to 5.25% in summer 2007, has started easing rates again. From September 2007 through June 2008, the Federal Reserve has reduced its target rate by 325 basis points to 2.00%. The Federal Reserve has also injected billions of dollars in liquidity into the monetary system to ease lending along with other support to help the banking industry deal devalued mortgaged-backed securities.

Congress and the President worked closely this spring to enact tax rebates that will total \$152 billion. These rebates will be based on tax year 2007 incomes and will be paid in May 2008 to more than 130 million households. Rebates are \$600 for

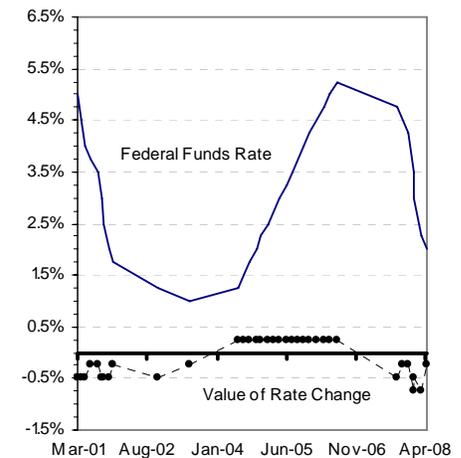


Unemployment Rates
June '04 - June'08
Seasonally Adjusted

Figure 4

singles and \$1,200 for married couples plus \$300 per child.

With a slowing national economy, federal budget deficits are expected to grow due to low tax revenues plus entitlement cost pressures and the cost of prolonged military action abroad. Given this and a lack of consensus on projections of when balanced budgets might return, it is not expected that the states will see substantial increases in federal funds in the coming years.



Federal Funds Rate and Changes
March 2001 - April 2008

Figure 5

THE MASSACHUSETTS ECONOMY

While the national economy is slowing considerably, the state's economy shows less dramatic signs of weakening so far. This could be due in part to lagging state level data in some

cases and more so due to the state's relatively anemic recovery from the last recession and the strength in diversification of its economy. Of particular concern for state revenues will be those generated from capital gains taxes where a large decline may occur due to recent market volatility and uncertainty.

During the decade of 1997 to 2006, the state's annual average growth of 3.2% in real Gross State Product (GSP) ranked 19th out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state's real GDP has grown an average of 2.3% annually since the 2001-2002 recession produced negative growth of nearly 1.0%. This rate of growth ranks Massachusetts 38th of the 50 states and DC since 2002.

In 2006 alone, Massachusetts still ranked a mediocre 27th among all 50 states and DC with real GDP growth of 2.9%. However, the state does remain one of the richest in terms of its GDP per capita of \$46,721 -- third in the nation behind Delaware and Connecticut and 124% of the national average.

Massachusetts did lose the highest percentage of jobs in the nation during the last recession, at peak losing more than 200,000 jobs or 6.0%. Employment has been increasing recently though. While Massachusetts is still down 88,600 jobs from February 2001, the state has steadily added 116,500 new jobs between December 2003 and June 2008, adding more than 20,000 jobs annually since 2004.

With the number of jobs growing, the state's unemployment has still increased. Over the past year the rate has decreased from 4.5% to 5.2%, lower than the national rate of 5.5% in June 2008. The employment outlook is mixed for the coming fiscal year as well with the Massachusetts Department of Revenue estimating job growth of just between 0.3% and 0.6% percent in FY09 before recent negative economic reports.

Massachusetts' seasonally adjusted total personal income grew by 4.8% between the quarters ending March 2007 and March 2008. Wage and salary income increased slower at 4.6%. Earnings growth by industry over this period were strongest in Arts, Entertainment and Recreation, Professional and Technical Services, and Information. Earnings in Real Estate and Rental and Leasing,

Transportation and Warehousing, and Retail Trade exhibited the weakest growth during the same period.

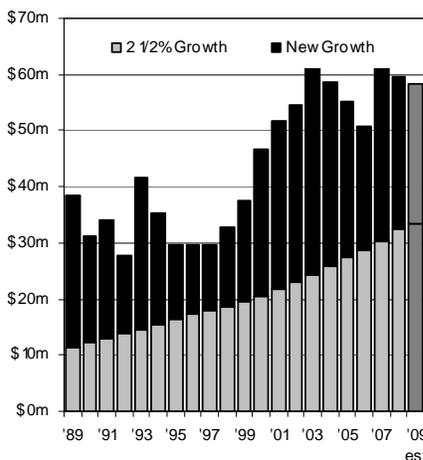
(See *Boston's People & Economy* section of Volume I for detail on Boston's economy.).

PROPERTY TAX LEVY

The property tax levy has been the City's largest and most dependable source of revenue growth over the past 24 years. In FY08, the net property tax levy is \$1.295 billion, providing 57.1% of recurring revenue, with an increase to \$1.359 billion expected in FY09. According to current estimates, the net property tax levy will account for 57.2% of recurring revenue in FY09.

The increases in the gross property tax levy have been steady and consistent from FY85 to FY08, 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 \$63.5 million rise in FY08 represents 5.0% 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.

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



Sources of Property Tax Growth
 FY89 - FY09 (est. includes tax cut from telecom)

Figure 6

over the prior year's total levy with certain provisions for new construction.

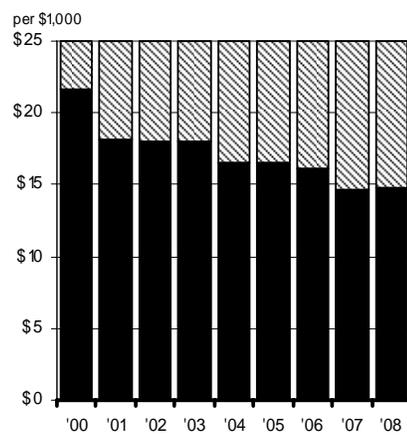
Finally, Proposition 2 ½ provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has never voted to either override the levy limitations or exclude any debt from the limit.

In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching \$31.8 million in FY08.

During these same years, the levy has also been positively impacted by taxable new value. Taxable new value is expected to be approximately \$25.0 million in FY09. Revenue growth from taxable new value has exceeded revenue growth from the 2.5% increase in 17 of the last 25 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.

The combined effect of the allowable 2.5% increase and the taxable new value is an average annual gross levy increase from FY99 through FY08 of \$55.2 million or 5.5%, and a projected increase in FY09 of \$58.4 million or 4.4%.

Declining real estate values can present a problem for cities as dependent on the property tax as Boston. As real estate values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under



Overall Property Tax Rate & Space Below Levy Ceiling
FY00 -FY08

Figure 7

Proposition 2 ½. 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 FY08 net effective tax rate of 1.48% and the tax rate ceiling (Figure 7). Should the real estate market continue to 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

In recent years, the Commonwealth has been 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 current administration projects that the State's stabilization fund will amount to \$1.85 billion by the end of FY09.

The Commonwealth's attention and its budget have been focused on specific priorities recently. The newly enacted health insurance reform law, transportation infrastructure repairs and maintenance, and a new life sciences industry incentive package have constituted this focus.

The costs of each of these initiatives is massive. The success of the health insurance reform law, especially enrolling previously uninsured residents, has driven costs at a faster than anticipated rate causing substantial financial strain on the state budget. Infrastructure costs continue to mount as the state neglected for many years the necessary maintenance and repairs to our aging system of roads, bridges, and dams. The life sciences incentive package consists of over \$ 1

billion dollars in grants and tax incentives to this hugely important and growing industry.

The Governor's FY09 budget, the second budget of the Patrick administration, totals \$28.2 billion or a 3.1% increase over projected FY08 spending. The Governor's budget is based in part on revenue sources that have not been approved by the legislature. Specifically, \$296.6 million from the closure of several corporate tax loopholes and \$124.2 million in proceeds from the sale of casino gaming licenses. Of special interest for municipalities, is the gaming revenue that is used in the budget to support flagging Lottery revenues paid to municipalities as local aid.

The House recently defeated the Governor's proposal on casino gaming but the House and Senate have passed a joint local aid resolution guaranteeing the same amount of local aid as the Governor. The gap in lottery revenues is instead filled by an increase in the cigarette tax in the upcoming House version of the state budget.

Most municipalities, including Boston, have yet to fully recover from sudden and drastic aid reductions of the 2001-2002 recession and the corresponding drop in state tax revenues. The consequence has been increased property taxes, additional user fees, and reduced public services throughout the state. The fiscal health of many municipalities is in question.

Through proposals made in the Municipal Partnership Act submitted along with the Governor's FY08 budget, 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 Patrick administration, has filed legislation to close the same property tax loopholes, add a 1% local option tax on restaurant meals, and levy a small 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 legislature, for the most part, has not acted on the revenue generating components but rather focused on pension and health insurance pieces.

In the pension piece, underperforming pension systems are mandated to be rolled into the state pension system while other systems can voluntarily opt in. The health insurance piece allow municipalities, with union approval, to join the state's Group Health Insurance Commission (GIC) which has consistently beat local costs for employee health insurance premiums. The City has not elected to participate in either of these reforms as of yet.

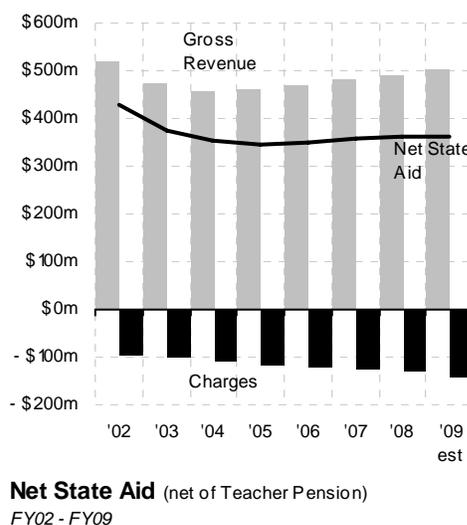
The following discussion details the three major local aid streams to the City

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 FY09 local aid estimate is based in part on the Governor's FY09 Budget submitted to the Legislature and in part on a 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 FY09 local aid estimate assumes growth only in Education aid. The Governor's budget has under-funded the full value of the Charter School Tuition reimbursement for FY09.

The City received local aid totaling \$464.6 million



Net State Aid (net of Teacher Pension)
FY02 - FY09

Figure 8

in FY06 and \$483.0 million in FY07. The City expects to receive \$493.7 million in local aid in FY08 and has budgeted \$503.0 million in FY09.

Assessments 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 \$114.3 million in assessments in FY06 and \$119.9 million in FY07. The City expects to pay \$131.1 million in assessments in FY08 and is budgeting \$142.0 million in FY09, a \$10.8 million or 8.3% increase. The largest increases in assessments are due to the MBTA and Charter Schools. A temporary limit on MBTA assessment increases enacted in FY00 along with forward funding of the system has expired leaving urban core cities with higher increases than in the past.

Net state aid, gross state aid revenue minus assessments, has been largely flat since FY03. The rapid annual increases in the Charter School Tuition and MBTA assessments combined with low growth in education and lottery aid have served to keep the City's net state aid at a virtual standstill (Figure 8).

With a marginal decrease in net state aid for FY09, Boston remains \$67.4 million below its FY02 level of net state aid of \$428.3 million. In inflation-adjusted dollars, the City's FY09 estimated amount of local aid is \$166.9 million less than its FY02 level.

Net state aid amounted to \$350.3 million in FY06 and \$363.2 million in FY07. FY08 budgeted net state aid totals \$362.6 million and the FY09 Budget assumes a reduction to \$361.0 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. 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.

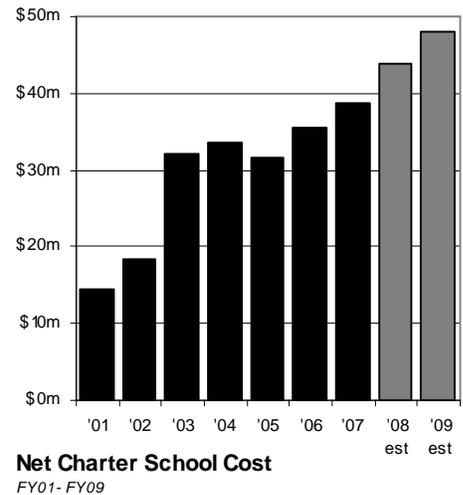


Figure 9

The City received Chapter 70 education aid totaling \$203.6 million in FY06 and \$210.5 million in FY07, and expects to receive \$215.8 million in FY08 and a minimum of \$221.4 million in FY09.

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 4,841 Boston resident students attending Commonwealth charter schools in FY08. The state Department of Education projects that this number will increase to 5,254 in FY09.

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 FY06 was \$35.5 million and in FY07, \$38.8 million. In FY08 the city has budgeted a \$43.8 million net impact and in FY09, a \$48.0 million net impact (Figure 9).

The tuition portion of the FY09 Charter School reimbursement has been under-funded by the Governor's budget (91% of amount necessary to fully fund). The City has budgeted this lower funding figure.

Lottery Aid

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.

The growth in Lottery aid has slowed in large part due to the slowing of lottery sales that occurs with a mature, established lottery system. The now 37 year old lottery reached its peak in sales in FY06 at \$4.52 billion in sales. The state has continually over projected lottery sales, and therefore lottery aid in recent years leaving it at a point of funding a shortfall to cities and towns.

The Governor's FY09 budget included \$124m from casino revenues to fund that shortfall. The House voted down casinos but by resolution covered the shortfall to municipalities once again. While the lottery's current year sales are improving over a poor FY07, its ability to grow in the future is seriously in doubt.

The City received \$60.5 million in FY06 and \$70.6 million in FY07 and expects to receive \$71.6 million both in FY08 and FY09.

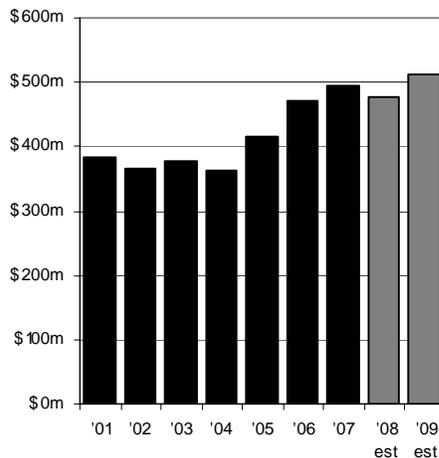
Additional Assistance

Originally conceived and designed as a revenue-sharing concept and distributed based on need to equalize financial resources between cities and towns. Additional Assistance, as mentioned above, had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead.

Its original purpose and current usefulness came into question during the FY03 state budget process when Governor Swift vetoed \$31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, Governor Romney, 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 from FY04 through FY08 and expects the same for FY09.

LOCAL REVENUES

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



Local Receipts (non-property tax/state aid)
 FY01 - FY09 (adj. for Actual base hotel collections)

Figure 10

varying with economic conditions.

In sum, the City collected \$465.6 million in FY06 and \$487.5 million in FY07 from these sources. The City expects to exceed the mid-year budget estimate of \$488.2 million in FY08 and estimates a 5.7% increase to \$516.3 million in FY09. The FY09 increase includes substantial reductions in economically sensitive revenue streams and targeted increases in fees for services and fines expected to be enacted with the budget.

Excise Taxes

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 statutorily-defined depreciation schedule based on the manufacturer's list price and the year of manufacture.

The City expects the market for automobiles to slow over the coming year with the economy. Motor vehicle excise revenue totaled \$50.1 million in FY06 and \$34.5 million in FY07 (low due to the timing of bills which will increase FY08). The City expects motor vehicle excise revenue to exceed the midyear projection of \$40.0 million in FY08 and to fall to \$39.5 million in FY09.

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 revenue into "base rooms", those in hotels built prior to July 1, 1997, targeted to the general fund, and "new rooms," those in hotels built after July 1, 1997, 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 \$24.5 million in FY06 (\$18.0 million went to the general fund) and \$26.6 million in FY07 (\$20.0 million went to the general fund). The City's base room occupancy excise tax receipts are expected to exceed the midyear budget estimate of \$25.0 million in FY08, and are projected to increase to \$28.8 million in FY09 based on the elevated amount of foreign travel the weak dollar is generating and the

impact of conventions scheduled in the upcoming year.

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 FY06 totaled \$19.9 million and \$24.3 million in FY07. The City expects this revenue source to exceed the midyear projection of \$21.5 million in FY08 and to steady at \$24.5 million in FY09, due to a likely continuation of elevated fuel prices and demand supported by increased international tourism.

Fees and Fines

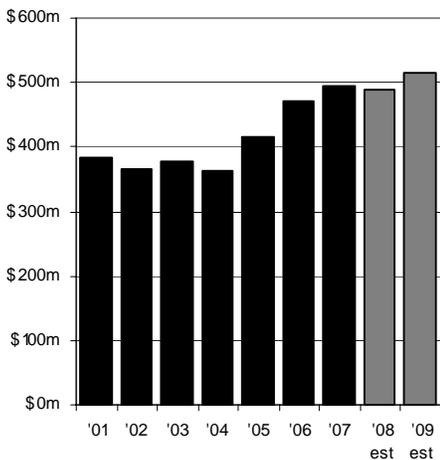
In fiscal 2006, the City issued over 1.51 million parking tickets and has maintained a high rate of collection on its tickets. Approximately 82% of tickets were collected in the first six-months after issuance and 88% were collected within a year. The major factors contributing to the City's successful 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 \$64.0 million in FY06 and \$62.8 million in FY07. Parking fine revenue is expected to reach the mid-year budget estimate of \$64.0 million in FY08 and increase to \$76.5 million in FY09.

The strong FY09 increase is due to proposed increases in several public safety and traffic congestion related fines as well as an increase in the number of Parking Enforcement Officers to patrol proposed expanded metering of parking spaces and additional posted street cleaning routes.

Interest on Investments

In general, the City’s level of investment income is a function of the level of prevailing short-term interest rates and daily cash balances. Interest rates through June 2007 had risen from their recent 41-year lows as cash balances improved and earnings increased as a result. But as mentioned above, since September 2007 interest rates have been quickly reduced in an effort to stave off economic recession. FY08 and FY09 revenues are likely to be strongly impacted as a result. Investment income totaled \$30.0 million in FY06 and \$43.5 million in FY07. The City projects interest income will exceed the \$37.5 million mid-year estimate in FY08 and decline sharply to \$20.4 million in FY09.



**Local Receipts
(non-property tax/state aid)**
FY01 - FY09 (adj. for Actual base hotel collections)

Figure 10

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 in lieu of property taxes for municipal services such as police and fire protection, street cleaning, and snow removal.

Growth in PILOT’s comes from new agreements, contract escalations that adjust the payments for inflation, or re-negotiation or expansion of a current contract. The Massachusetts Port Authority (MassPort) recently renegotiated its agreement with the City and now provides nearly half of the PILOT revenue the City receives annually.

Payments in lieu of taxes totaled \$32.1 million in FY06 (due to payment of a balance owed by MassPort) and \$32.4 million in FY07. The City expects this revenue source to exceed the midyear budget estimate of \$30.8 million for FY08 and projects \$33.5 million in FY09.

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 collected in-lieu-of-corporate income tax for which the Commonwealth acts as the collector and distributes the proceeds to municipalities. In most cases, the formula for the 121A, Section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of current gross income. In FY06 and FY07, the City received Chapter 121A, Section 10 distributions of \$36.5 million and \$40.1 million, respectively. In FY08, Chapter 121A Section 10 revenues are budgeted at \$37.0 million and in FY09, at \$40.5million.

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 \$27.3 million in FY06 (due to a back payment) and \$22.8 million in FY07. The City expects FY08 Section 6A collections to exceed the midyear budget estimate of \$21.1 million and increase to \$22.8 million in FY09.

Miscellaneous Department Revenue

This category contains several large accounts and many more small accounts. The largest revenue source in this category is municipal medicaid reimbursements for school health services. This federal reimbursement, administered by the state, began in FY94. The City received \$13.5 million in FY06 and \$18.4 million in FY07. Municipal

medicaid reimbursement is expected to reach the midyear budget estimate of \$13.5 million in FY08 and decline to \$9.2 million in FY09 due to changes in the requirements for gaining parental consent to provide services to children in the Boston Public Schools.

Other Miscellaneous Department Revenue, which consists of accounts collecting miscellaneous fees for services, rents, and reimbursements that are not separately stated on the Revenue Detail at the end of this chapter, is projected at \$14.0 million and \$26.7 million in FY08 and FY09, respectively. The large increase in FY09 is mostly due to the addition of reimbursements for Medicare Part D and the retirement costs of grant-funded employees.

Licenses and Permits

The level of economic activity largely determines the amount of licenses and permits issued by City agencies. This category is dominated by building permit revenue, from which the City received \$26.3 million and \$27.9 million in FY06 and FY07 respectively. Building permit revenue will exceed the midyear budget estimate of \$28.6 million in FY08 but decrease to \$26 million in FY09 due to declining residential projects.

The next largest license and permit revenue is the cable television license fee from which the City received \$4.2 million in FY06 and \$4.6 million in FY07. The City has budgeted \$4.5 million for FY08 and \$4.7 million for FY09.

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 \$3.2 million in FY08 and \$3.3 million in FY09.

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 \$9.2 million in such penalties and interest in FY06 and \$8.7 million in FY07. Actual penalty and interest collections for FY08 will exceed the current midyear budget estimate of

\$8.1 million and are projected to be \$9.1 million in FY09.

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 \$3.1 million and \$3.2 million from these two sources combined in FY06 and FY07 respectively. The City expects to transfer \$10.0 million from the Parking Meter Fund to the General Fund in FY08 and \$12.0 in FY09 due to proposed increases in the number of parking meters. The City also plans to transfer \$2.1 million from the Cemetery Trust Fund to the General Fund in FY08 and \$2.2 million in FY09.

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, such as the cemetery trust, also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments (see *Financial Management* section of Volume I for detail).

Teachers' Pension Reimbursement

Boston's cherry sheet includes an item unique to the City among municipalities. 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 \$85.2 million in FY06, \$93.3 million in FY07, and is budgeted to be \$98.0 million in FY08 and \$103.0 million in FY09.

NON-RECURRING REVENUE

Surplus Property

The surplus property disposition fund contains the proceeds from the sale of various City land or buildings. The use of these funds is restricted to one-time expenditures. Included in the FY09 Budget is \$1.0 million in non-recurring revenue to be transferred from the surplus property disposition fund for the Risk Retention Reserve and \$5 million for the Mayor's Leading the Way III housing program.

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.

The FY08 Budget assumes the use of \$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. (See *Financial Management* section of Volume I for more detail on this revenue source).

The FY09 budget assumes the use of another \$25 million for OPEB and an additional \$10 million to support the operations of the school department as it recovers from the loss of grant revenues available in previous years.

CITY OF BOSTON REVENUE DETAIL

		FY06 Actual	FY07 Actual	FY08 Budget	FY09 Budget
PROPERTY TAX LEVY		1,208,179,004	1,270,775,170	1,334,278,371	1,392,635,330
OVERLAY RESERVE		(40,837,386)	(46,603,909)	(39,125,823)	(33,966,715)
Subtotal		1,167,341,618	1,224,171,261	1,295,152,548	1,358,668,615
EXCISES					
	Motor Vehicle Excise	50,103,964	34,450,035	40,000,000	39,500,000
40129	Room Occupancy Excise	18,000,000	20,000,000	25,000,000	28,750,000
40130	Jet Fuel Excise	19,944,273	24,338,441	21,500,000	24,500,000
40140	Condominium Conversion Excise	1,558,000	1,326,500	1,000,000	450,000
	Boat Excise	73,419	50,162	75,000	65,000
Subtotal		89,679,655	80,165,138	87,575,000	93,265,000
FINES					
	Parking Fines	63,987,157	62,804,096	64,000,000	76,500,000
45104	Code Enforcement - Trash	269,393	559,528	250,000	450,000
	Other Fines	3,728,427	4,000,912	3,685,000	4,000,000
Subtotal		67,984,978	67,364,536	67,935,000	80,950,000
47151	INTEREST ON INVESTMENTS	30,049,117	43,471,114	37,500,000	20,375,000
40169	Massport	17,500,000	15,232,000	16,273,600	16,076,034
	Other Payments In Lieu of Taxes	14,562,436	17,130,883	14,476,400	17,423,966
Subtotal		32,062,436	32,362,883	30,750,000	33,500,000
URBAN REDEVELOPMENT CHAPTER 121A					
	Urban Redev. Chap. 121B Sec. 16	1,227,504	982,019	1,091,415	1,000,000
	Urban Redev. Chap. 121A Sec. 6A	27,294,434	22,801,303	21,114,275	22,750,000
41013	Urban Redev. Chap. 121A Sec. 10	36,528,125	40,069,093	37,000,000	40,500,000
Subtotal		65,050,063	63,852,415	59,205,690	64,250,000
MISC. DEPARTMENT REVENUE					
43105	Registry - Vital Statistics	1,610,027	1,625,659	1,625,000	1,625,000
43109	Liens	755,925	719,650	800,000	750,000
43120	City Clerk Fees	537,317	416,208	500,000	550,000
43137	Municipal Medicaid Reimbursement	13,522,085	18,423,248	13,500,000	9,200,000
43202	Police Services	967,083	949,940	1,000,000	1,000,000
43211	Fire Services	3,086,019	3,489,908	3,000,000	3,250,000
43301	Parking Facilities	817,072	1,130,477	800,000	1,100,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,417,855	2,414,179	2,400,000	2,425,000
43797	PWD - Fiber Optic Rental Fees	1,073,339	167,700	500,000	300,000
44002	Tuition & Transportation - Schools	585,187	540,287	600,000	1,350,000
47119	Affirmative Recovery	1,176,516	798,661	600,000	600,000
47131	Pensions & Annuities	3,467,356	469,627	3,000,000	3,250,000
47132	Fringe Benefit & Indirect	0	927,559	0	1,000,000
47132	Prior Years Reimbursement	(196,010)	191,686	0	176,744
48000	Detail Admin. Fee	2,430,888	2,975,400	2,400,000	3,300,000
	Other Misc. Department Revenue	12,298,254	18,334,593	13,971,731	26,714,999
Subtotal		44,548,913	53,574,783	44,696,731	56,591,743

CITY OF BOSTON REVENUE DETAIL

		FY06 Actual	FY07 Actual	FY08 Budget	FY09 Budget
LICENSES & PERMITS					
40211	Building Permits	26,253,029	27,861,224	28,644,510	26,000,000
40213	Weights & Measures	234,925	223,645	235,000	225,000
40215	BTD - Street & Sidewalk Permits	2,020,011	1,761,134	2,000,000	2,500,000
40221	Health Inspections	1,245,306	1,137,627	1,250,000	1,750,000
40222	Alcoholic Beverage Licenses	2,358,639	3,189,394	3,200,000	3,250,000
40224	Entertainment Licenses	1,512,012	1,584,993	1,500,000	1,585,000
40229	Other Business Licenses and Permits	90,677	105,116	100,000	100,000
40235	Cable Television	4,153,266	4,581,252	4,500,000	4,700,000
	Other Licenses and Permits	887,314	987,515	900,000	975,000
	Subtotal	38,755,179	41,431,900	42,329,510	41,085,000
PENALTIES & INTEREST					
40133	Penalties & Interest - Property Tax	2,093,324	2,586,581	2,100,000	2,750,000
40134	Penalties & Interest - Motor Vehicle Excise	3,682,708	3,495,909	3,600,000	3,600,000
40136	Penalties & Interest - Tax Titles	3,403,843	2,616,460	2,400,000	2,750,000
40139	Penalties & Interest - 121A	3,097	6,789	7,500	8,000
	Other Penalties & Interest	10,491	6,155	7,500	8,000
	Subtotal	9,193,461	8,711,894	8,115,000	9,116,000
AVAILABLE FUNDS					
42502	Cemetery Trustee	2,110,000	2,220,500	2,140,770	2,188,825
42503	Parking Meters	1,000,000	1,000,000	10,000,000	12,000,000
	Subtotal	3,110,000	3,220,500	12,140,770	14,188,825
STATE AID					
41015	State Owned Land	349,232	226,372	253,872	272,418
41101	R.E. Abatements - Veterans/S.S./Blind	463,894	457,736	721,082	719,528
41104	Elderly Exemptions	570,272	576,798	576,798	639,046
41111	State Lottery Local Aid	60,545,688	70,589,023	71,585,070	71,585,070
41114	Veterans Services	2,209,164	1,569,069	2,224,617	2,920,758
41116	Additional Assistance	164,211,152	164,211,152	164,211,152	164,211,152
41119	Racing Taxes	454,053	548,820	541,334	536,667
41301	School Construction	15,463,685	15,134,146	13,711,961	13,198,866
41305	Charter Schools Reimbursement	3,241,429	9,599,156	10,385,188	17,119,662
41306	Chapter 70 Education Aid	203,634,716	210,540,147	215,807,608	221,422,839
41307	Charter Schools Capital Reimbursement	5,144,556	0	4,220,379	0
41117	Police Career Incentive	8,325,340	9,589,224	9,500,000	10,350,000
	Subtotal	464,613,182	483,041,643	493,739,061	502,976,006
41115	TEACHERS PENSION REIMBURSEMENT	85,164,054	93,329,794	98,000,000	103,000,000
	RECURRING REVENUE TOTAL	2,097,552,656	2,194,697,860	2,277,139,310	2,377,966,189
NON-RECURRING REVENUE					
42500	Budgetary Fund Balance	6,700,000	7,500,000	25,000,000	35,000,000
42501	Surplus Property	0	0	6,669,000	6,000,000
	GRAND TOTAL	2,104,252,656	2,202,197,860	2,308,808,310	2,418,966,189