

Executive Summary

INTRODUCTION

Mayor Walsh puts forward the FY15 budget which balances the city's need to spend responsibly while also meeting essential current needs and building toward Boston's future. In his first days in office, Mayor Walsh reiterated his key priorities, including strategic investments, and these are reflected in this budget. At the same time, the Mayor made some difficult choices in crafting this plan, to address and eliminate a projected budget shortfall and keep Boston on solid financial footing. The result, herein, is a FY15 budget that is balanced in both the fiscal and policy senses, to ensure that Boston's next chapter is its best chapter. Boston faces its future holding a AAA bond rating, with Standard & Poor's recently raising its rating to the highest level, and maintaining its Aaa rating with Moody's Investors Service.

The FY15 Adopted Budget totals \$2.7 billion and represents growth of \$121.4 million or 4.6 percent over the FY14 budget.

The recurring revenue growth of \$121.4 million arises mainly from local sources: property taxes, excise taxes and license and permit revenues are increasing in response to a growing economy. An increase of \$8.5 million is projected in State Aid revenue. However, when reduced by increasing state assessments like those for MBTA and Charter School tuition, "net" State Aid actually decreases by \$14.7 million or 6.8%.

In addition to recurring revenue, the FY15 budget also includes \$40 million from Fund Balance to support the appropriation for Other Post-Employment Benefits (OPEB). This is level with the appropriation for OPEB from Fund Balance in the FY14 budget.

On the expenditure side, the City had some positive outcomes that have helped to balance the FY15 budget. When compared with the FY14 budget, the City is projecting a decrease in health

care costs. This decrease is the result of major efforts by the City, its unions and the state legislature to control these costs. During FY14, the City saw a significant migration of retirees into Medicare plans in response to the recent change in state requirements for Medicare-eligible retirees. This migration was larger than expected, and is having a more positive impact on expenses for FY15 than originally projected. The City, working with the Public Employee Committee (PEC), will continue to address the factors relating to health care cost increases that are within its control.

In the area of debt service, the City received favorable interest rates and high premium on the FY14 bond issue, keeping debt service costs lower than originally projected for FY15.

Significant savings in trash disposal, a large expense for the City, will also be realized as a result of the most recent contract bids.

Collective bargaining increases scheduled for FY15 and inflationary costs did create challenges for most departments. Reductions in administration and other areas allowed for these increases to be accommodated and to allow room for some new initiatives.

The need for careful decision-making and multi-year planning continues to exist. The City's health care costs are expected to rise at a higher pace than revenues in FY17 and beyond and will continue to compete for the City's limited financial resources. All of the City's civilian unions have agreed to two consecutive three year agreements which will expire before the end of 2016.

However, one of the City's public safety unions is still in a stage of mediation. As of June 30, 2014, the contract with the Boston Emergency Medical Services union included in the Public Health Commission budget was still outstanding but close to resolution. A collective bargaining reserve has been established in FY15, to provide funding for

these contracts that can be transferred to the relative departments once they are settled.

Overall budget growth must always be carefully thought out and managed but these uncertainties make it all the more important. Initiatives undertaken in the proposed FY15 budget are sustainable and the total level of employees is expected to be level. As stated previously, the FY15 budget was formulated using \$40 million in reserves, however those funds will not be used to support recurring operating expenses.

This FY15 budget also supports the five-year capital plan, "Building a Better Boston" – an investment program for the City's future. The capital plan totals \$1.9 billion and includes \$286.8 million in new FY15 project authorizations. The plan emphasizes the strategic use of infrastructure to promote economic development, neighborhood vitality, quality education, health care, and public safety. Highlights include major renovations at existing schools as well as the creation of a brand new science/technology/engineering/math (STEM) focused school at the site of the Dearborn School, renovations both large and small at libraries, parks and community centers, and the continuation of significant investments in technology initiatives and infrastructure. One can see the results of the City's capital investments in each and every neighborhood.

Change in Resources and Expenditures

Available revenues and fixed costs provide the basis for planning the FY15 appropriations. The FY15 budget reflects a revenue increase of \$121.4 million or 4.6 percent from the FY14 budget. The two largest sources of FY15 recurring revenue growth are the property tax and excise taxes. Property tax, the City's largest revenue source, reflects a 4.5 percent net increase. Gross State Aid revenue is projected to increase by \$8.5 million, but, net state aid, defined as state aid reduced by the charter school tuition assessment and other assessments, is currently projected to decrease by approximately \$14.7 million (See Figure 1). Although its share of total general fund revenue continues to decline, state aid is still the second largest source of revenue for the City and therefore plays a critical role in determining available resources.

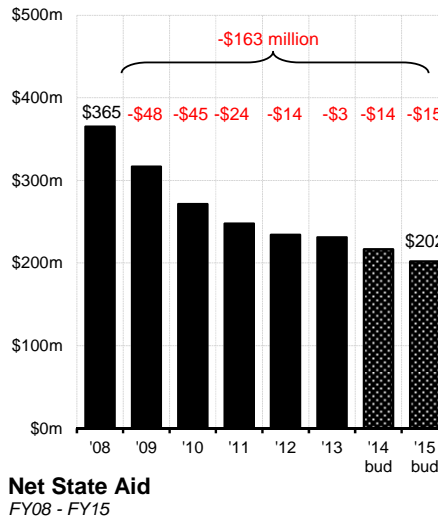


Figure 1

Excise taxes are projected to increase by 8.3 percent in the FY15 budget. The local option meals tax continues to perform well. FY14 receipts are expected to exceed the budgeted amount, as are hotel excise receipts. Both taxes are projected to result in increased revenue in FY15 as well.

The FY15 budget will include a \$40 million allocation of budgetary fund balance (reserves) to support the appropriation for Other Post-Employment Benefits (OPEB) which shows no change from the FY14 budget.

On the expenditure side, the FY15 budget reflects a 4.1 percent or \$72.4 million increase in departmental appropriations (excluding Health

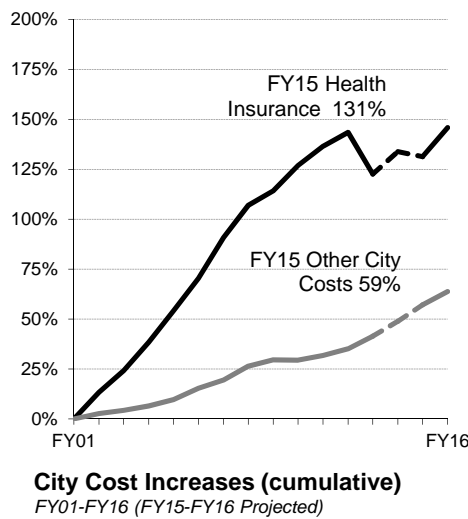


Figure 2

Benefits and OPEB) and a 10.4 percent or \$51.3 million increase in fixed costs (pensions, debt service, state assessments, Suffolk County and the Tregor Reserve).

In FY15 the City has budgeted \$284 million for health care premiums for city employees and retirees – 10.4 percent of the total City budget. Similar to other Massachusetts communities, Boston’s health insurance costs have dramatically increased over the last decade, compared to other City costs over the same period requiring a growing percentage share of the total budget. The Summary Budget chapter of this volume describes some of the successes the City and the state have had in the area of municipal health insurance that have resulted in savings in FY12 and beyond.

With salaries and health benefits representing over 73.5 percent of the City’s operating budget appropriations, it is important to manage the level of the City’s workforce. Through controlled hiring and attrition, the City continues to keep employee levels down overall. The City’s workforce was still down by nearly 300 full-time equivalents between January 2009 and January 2014. In FY15, general fund FTEs are projected to decrease slightly between January 1, 2014 and January 1, 2015. (Figure 3). In the Public Safety area there will be new recruit classes to cover attrition in both Police and Fire. In Education, a decrease in FTEs is expected as the Boston Public School (BPS) system reorganizes, consolidates and realigns its work to best support schools.

A more detailed discussion of the City’s revenues and expenditures as well as personnel levels can be found in the Summary Budget and Revenue Estimates and Analysis chapters of this volume.

Boston’s Economic Climate

The City’s economic recovery appears to be solidifying and expanding. Statistics show growing regional employment, robust commercial real estate development, an active residential real estate market, and high hotel occupancy rates.

Today, the Boston region has nearly reached the peak levels of employment last seen in 2001. While the unemployment rate is still elevated, that can be attributed to the labor force growing with job seekers, who are being absorbed into the work force at a steady rate. The City is experiencing a commercial building boom and a residential real

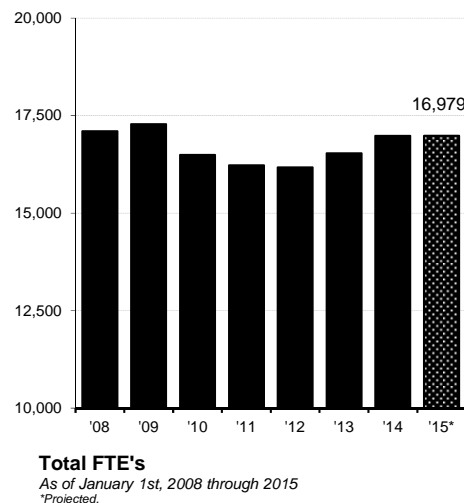


Figure 3

estate market displaying dual increases in supply and price appreciation. Hotel occupancy rates and average daily room rates are the highest in over a decade.

National monetary policy is very favorable at the moment and signs from the Federal Reserve are that it will stay as such deep into 2015. The withdrawal of monetary support will be a true test as to whether the economy is expanding under its own power. Until then, the solid performance we are seeing locally is welcome news but could prove to be fleeting should the national economy once again founder.

As Boston generates nearly one-quarter of Massachusetts’ economic output, the City will continue to play a critical role in the economic growth of the state and the region.

Long-Term Financial Outlook

The City of Boston has a long history of achieving balanced budgets through all economic cycles. The City’s consistently strong and proactive approach to management has been recognized by the credit markets over the past several years. In February 2014, Standard & Poor’s Rating Services raised Boston’s investment rating to AAA from AA+, while Moody’s affirmed their Aaa rating. A bond rating is a statement of credit quality and is analyzed when determining the interest rate that should be paid for a municipality’s bonds. A higher bond rating translates into lower interest rates and real dollar savings for the City.

City management places a high priority on adhering to comprehensive financial policies and

long-range planning strategies as well as continuing to exercise strong fiscal discipline. These practices ensure the City's ability to preserve budgetary balance, maintain essential services and address future budget challenges.

***FY2015 BUDGET PRIORITIES:
ONE BOSTON, MOVING FORWARD***

In his first budget, Mayor Walsh has identified several priorities: strengthening the economy and creating 21st century jobs along with a 21st century workforce; improving public safety and combating gun violence; ensuring that Boston Public Schools enable every child from every neighborhood to succeed; creating a comprehensive plan for the development of housing that meets a range of needs; and increasing accountability and transparency in government. This budget represents his values, and seeks to create an environment that promotes equity, builds community and helps fulfill Boston's great promise.

EDUCATION

The BPS budget is 36% of the City's total budget. Boston, the birthplace of public education, is known the world over for its colleges and universities. Mayor Walsh is committed to putting into place initiatives that will see its public school system enjoy the same renown. This year's budget is approximately \$37 million higher than FY14, thanks to Mayor Walsh's decision to increase the city appropriation to schools by nearly four percent when many other City departments are facing reductions.

Although planning for the FY15 budget presented significant challenges due to rising costs and declining state and federal revenue, BPS proposes to raise the overall weighted student funding allocation to schools by \$5 million.

Other key investments in FY15 are highlighted below:

- Expanding early education: A \$1 million, 100 seat expansion of the BPS early education (K1) program, which studies have shown is among the most effective in the nation at closing achievement gaps.

- School choice implementation: We are implementing the new Home-Based school choice plan, including the recommendations from the External Advisory Committee (more K-8 pathways, more inclusive and dual language programs, and overlays for English Language Learners and Special Education to provide services closer to home).
- Common Core and PARCC: We are investing \$1 million in technology devices and another \$1 million in upgrades to technology infrastructure in preparation for the online Partnership for Assessment of Readiness for College and Careers (PARCC) assessments.
- Hiring autonomy: We are investing in all schools to hire qualified, diverse candidates early (\$6.1M to make our early hiring initiative a success, \$400K to support hiring diversity).
- Extended Learning Time (ELT): We are investing in ELT options by maintaining ELT at current and former turnaround schools (\$2.75M) and six other schools across the district (\$3.5M), maintaining Acceleration Academies during school vacations (\$1.4M), and expanding ELT to two new Level 4 schools.
- High-Need Students: We are increasing resources for some of our highest-need students (\$3.2M for students with emotional impairment, \$5M for English Language Learners in grades 6-12, and \$1.5M for inclusion specialists in 26 schools).
- Technology: We are renewing our investments in technology to support teachers, families, and students (\$1.2M to support Laptops for Learning and \$675K for continued use of the Student Information System).
- Facilities: We are investing in upgrades to facilities (\$1M increase in funds for deferred maintenance).

ECONOMIC DEVELOPMENT

Creation of a Chief Economic Development Officer

In order for the City to help Boston grow economically, the City must ensure that it works collaboratively within its departments to achieve the important goals of creating jobs and growing businesses in Boston. To do this, Mayor Walsh has created Boston's first-ever Economic Development Chief who will be charged with ensuring that the City works efficiently and speaks with one voice to our business community. The FY15 budget invests in the creation of this office.

This office will be tasked with the following objectives

- Supporting businesses in Boston through programs that foster an environment for growth and job creation.
- Developing pathways to overcome income and wealth disparity and disproportionate opportunity
- Establishing a stronger connection between education and workforce development
- Establishing fair and transparent policies on land use and development
- Establishing an environment that encourages, supports and promotes entrepreneurship and new business development
- Enhancing and expanding the essential environment of innovation and technology
- Enhancing the lucrative tourism industry with the establishment of a new office

Strengthening Small Business

Mayor Walsh knows that our small businesses are an economic engine for our neighborhoods. Because of this, he will increase the budget of each of the 20 Main Streets Districts by over 30%. He has committed to doing this because he knows that the resourceful people who run these programs are experts in leveraging small investments to pay big dividends.

Streamlining the Permit Process

Recognizing the importance of certainty in development and construction, the Mayor pledged to streamline the permitting process. After a performance audit by a nationally recognized consulting firm, the Mayor has committed to adding two new positions dedicated to moving more permitting online, and has also approved the addition of a new position which will expedite the process for homeowners and small businesses.

Bringing Innovation to the Neighborhoods

Innovation should not be restricted to a single district or neighborhood. Instead, innovation should be spread throughout the city and throughout all of our neighborhoods. Mayor Walsh will invest in neighborhood innovation and incubator space, including funds for crowdsourcing to identify community need and resources to look at challenges such as access to capital.

PUBLIC SAFETY

Mayor's Safety Initiative

Every department in city government plays a role in ensuring the public safety of our residents. Because of this, Mayor Walsh's Public Safety Initiative has charged two new staff members with ensuring that all departments are working together to achieve our public safety goals. This will ensure that City departments no longer operate in silos but rather that they work collaboratively.

A New Boston Police Department Class and More Tools to Close Cases

Mayor Walsh is committed to maintaining a strong Boston Police Department, and will invest \$1.3 million dollars to enroll a new police class in December 2014. In addition, \$170,000 will be invested in two new criminalist positions, which will help clear the backlog of open cases, mitigating risk and reducing crime.

A New Boston Fire Department Class

A safe city must be served by a well-trained fire department, and the Mayor has committed \$2.3 million dollars to a new fire class beginning in September 2014.

Increased Trauma-Informed Services to Female Victims of Violence and Exploitation

Recognizing that female survivors of violence and exploitation have been underserved for a long time, the Mayor has stated a commitment to more resources for the Anti-Human Trafficking Unit. These victims range from survivors of rape, domestic violence, prostitution and human trafficking, to victims of street assaults and harassment, as well as females coerced into holding/purchasing firearms. All these forms of violence are highly traumatic. The Mayor invests in increased, trauma-informed public safety resources for women who experience this kind of violence.

HOUSING

Housing Boston 2020

Using the prior administration's Housing Boston 2020 report as a starting point, Mayor Walsh moves to protect affordable housing and strengthen the development of workforce housing. The Department of Neighborhood Development will convene a panel of advisors, including private and non-profit development communities, financial institutions and universities, neighborhood activists, as well as thought leaders on housing and advocates for affordable housing. By early summer, these leaders will release a plan to guide the City's housing policy over the next four years. This plan will lay out strategic and measurable goals for meeting all of Boston's housing challenges, with special areas of focus on innovative housing models; controlling development costs; senior and low-income housing; and creating incentives for private developers to meet the needs of the middle class.

HEALTH AND HUMAN SERVICES

Office of Recovery Services

Mayor Walsh will invest in the city's first ever Office of Recovery Services, which will be placed in the Boston Public Health Commission. The office will play a leading role in both advocating for treatment options while improving the services which already exist in Boston. Mayor Walsh's

personal experience with and knowledge of the recovery community combined with the city's need for increased and better integrated recovery services makes this a natural area for investment. The office will help those in need of services to navigate the recovery system and help them to find treatment. The office will provide a 24-hour referral line for narcotic detoxification services to help those in need of a detox center bed.

Addressing Trauma

Hearing the need for comprehensive trauma treatment for victims and witnesses to violence, the Mayor has committed to investing \$730,000 to establish trauma recovery units at neighborhood health centers. Understanding the importance of trauma-informed care, the Mayor will use this budget to augment the ability of health centers to deliver needed services.

Engaging Our Teens

Mayor Walsh seeks to ensure that our teenagers have safe, inviting spaces in which to interact, and so he will invest \$100,000 in renovating five teen-friendly spaces in neighborhoods across the City. In addition, young people throughout the City will be led through a year-long process of learning about city government and budgeting. The youth will identify projects in their communities, vet those projects and consider trade-offs in making funding decisions.

Examining the Effects of Alzheimer's

The Mayor's commitment to the treatment of Alzheimer's patients and their families is very personal, as his grandmother died from the disease. Therefore, he will invest \$41,000 in a new staff position that will coordinate the Alzheimer's-related activities of the Elderly Commission.

Strengthening the Women's Commission

In this budget, Mayor Walsh has shown a commitment to the newly re-energized Women's Commission by adding a staff position. This will enable the department to work on initiatives such as the Women's Workforce Council, which strives for pay equity, and to work on fighting human trafficking.

ARTS AND CULTURE

Elevation of the Arts Commissioner

The arts play a role in the lives of all residents of Boston and have a role to play in all of the City's departments. Because of this, Mayor Walsh is using his FY15 budget to elevate the role of Arts Commissioner to a cabinet level position. At the cabinet level, an Arts Commissioner can ensure that an arts perspective is brought to all of Boston's major decisions. This elevation will send an important signal to everyone inside and outside of the city that Boston is serious about the arts as an economic driver, and as a way to tell our story. In addition, the Mayor has committed to matching the Massachusetts Cultural Council's annual grant, which effectively doubles the amount of money the Boston Cultural Council will have to grant to the City's non-profit arts groups.

Re-envisioning Libraries

Mayor Walsh believes that libraries will play an important role in the future of our city, but that we must re-envision and expand their role. Libraries can serve as a key hub which connects neighborhoods both as a place which provides resources to its users and also as a space where residents can come together. Further investment in libraries will allow the City to better utilize libraries as a place where residents can come to engage with the City and also to find ways to bring increased programming to our libraries. In addition, these investments, as well as a commitment from the unions, will allow for extended weekend hours at the main library and all neighborhood branches. And, the BPL will continue construction this year on the transformation of the Johnson Building at the Central Library. This project is focused on opening up the main floor to Boylston Street; improving and expanding the Children's room and Teen's space; and upgrading the Rabb lecture hall, all to better meet the needs of patrons. The Mayor also added two new children and teen librarian positions to meet the expected demand when the renovated sections reopen.

INFORMATION TECHNOLOGY

Mayor's Data Dashboard

Mayor Walsh believes that data can play a key role in driving the way in which government works. With this in mind, Mayor Walsh has invested in developing a data dashboard in his office which will allow him to monitor the way city government is functioning through up-to-date data feeds of key information. Through two computer screens in his office, Mayor Walsh can track the number and types of calls coming in to his office from constituents, track the on-time performance of school buses, and any number of key metrics. This culture of data-driven decision-making will also be an essential part of City Hall culture going forward. Cabinet heads will each be responsible for key metrics indicating the performance of the departments under them and will be responsible for explaining data performance against these metrics on a bi-weekly basis at cabinet meetings with the Mayor. This will allow for greater accountability and transparency throughout City Hall.

Investments in Technology

The City continues to make substantial investments in information technology, including a plan to provide fiber to more schools and upgrading key enterprise business applications. In addition, the City will expand "Wicked Free Wifi," providing connectivity in Main Streets districts around the City.

PARKS

Investing in Boston's Parks

Parks play an important role in the life of our city. Parks are where our residents gather to walk, bike, perform, compete, or just relax. A strong park system helps to make for a strong city and Mayor Walsh's FY15 budget commits to a comprehensive asset study. This will enable the administration to identify needs and develop a plan to protect and enhance one of the City's most valuable commodities.

