

2005 Research Agenda

The Research Bureau's 2005 Agenda includes the following new initiatives:

- Analyze Boston's housing permitting process
- Independent review of Commonwealth's local revenue structure
- Determine if District Improvement Financing (DIF) will work in Boston
- Identify the key issues in 2005 city elections
- Study the performance of Pilot Schools

See the back page for further information on our agenda.

Boston's \$2.0 Billion Budget

Six percent increase masks tight departmental operations

Boston's first \$2.0B budget makes clear that the city faces long-term fiscal challenges that will require continued strong management and restraint even with an improving economy. Mayor Menino presented his recommended FY06 general fund budget of \$2.045B to the City Council on April 13, 2005. Growth in personnel-related costs have led to a 6% increase in this budget as compared with a 2.2% increase in FY05. Looking ahead, local aid for Boston may increase only marginally over the next few years.

Expense

The \$116.1M increases breaks out as follows:

- 85.9% of the increase is for salary raises, a spike in pension costs and double-digit health insurance premium increases.
- 10.7% is allocated for growth in snow removal, housing and state assessments.

That leaves little room for restoration of cuts in departmental budgets from past years except for the School Department in which 1% is provided to each school from the 7% cut in FY03. The Police and Fire Departments will each add a new class to offset attrition and maintain uniform force gains achieved this year. This budget provides for an increase of 129 funded positions (FTE) on top of the growth of over 200 positions in FY05, primarily in public safety and schools in both years.

Revenue

Revenue highlights include:

- Property tax levy: 56.7% (\$1.159B) of revenues come from the property tax levy. The levy increased by \$53.9M due to the normal 2.5% increase and \$22M in new growth.
- State aid: \$15.1M is due to teacher pension reimbursements, leaving only \$1.4M for other costs (a 0.3% increase over FY05).

The recently approved House budget does not change in any meaningful way state aid support for Boston. Instead, the Mayor's budget relies on increases in excise taxes, fines, interest on

investments and building permits for additional revenue. These increases reflect more the conservative nature of the revenue estimates in the FY05 budget than real growth in FY06.

The budget is not balanced with recurring revenue and relies on "Free Cash" reserves for \$20M in FY06.

HIGHLIGHTS

\$2.045B	Total Budget
6%	Increase over FY05
85.9%	Amount of expenses dedicated to personnel-related costs
56.7%	Amount of revenue covered by property tax levy
3.2%	State aid increase (including teacher pension reimbursement)

New Initiatives

The budget includes a few new initiatives:

- 450-seat expansion of full-day kindergarten for 4-year olds
- GPS pilot program in Public Works' trucks
- \$3.3M savings through re-bid and extension of solid waste contracts

Other initiatives include restructuring of 2 high schools into smaller learning communities; replacement of 6,000 traffic signal lights with Light Emitting Diodes; and merger of the Rental Housing Center into the Department of Neighborhood Development.

Research Bureau Recommendations

In this tight fiscal climate, the Research Bureau urges the Mayor and City Council to guard against adding non-essential positions that will increase its spending obligations. The Council should be open to new approaches to providing services more cost-effectively. The Research Bureau currently is preparing a Special Report that will further analyze key spending and revenue accounts.

Research Bureau's 2005 Agenda

Priorities include analysis of housing permitting revenue structure

The Research Bureau presented its 2005 Agenda at its 73rd Annual Meeting last month. The Agenda includes four initiatives and several on-going ones—all designed to promote stability and predictability in the basics of city government—tax policies, service delivery and public education.

New initiatives

Housing permitting. Analyze current procedures and recommend ways to streamline the process so that it retains safeguards, but improves predictability and facilitates production. This project is undertaken in coordination with a city task force on housing permitting.

Tax structure. Respond to Mayor Menino's request for an independent analysis of the local revenue structure in Massachusetts.

DIF. Determine if District Improvement Financing, which applies growth in tax revenue in a district to infrastructure improvements, can be an effective tool for Boston given the City's heavy reliance on the property tax for operations.

Mayoral Election. The Research Bureau will offer its assessment of key issues facing the next mayor as a way to promote an informed dialogue among the candidates, the general public and the media.

On-going

The Research Bureau will continue to advocate for implementation of recommendations made in our 2004 Competitive Service Delivery Report. In addition, research staff will conduct on-going analysis of city and school budgets, tax rates, and collective bargaining agreements. Also, a study of the impact of Pilot Schools on student performance in Boston will be initiated in 2005.

Boston's Bond Rates Increase

City's rating increases come after three years of tight finances

Moody's Investors Service and Fitch Ratings recently both increased Boston's bond rating to Aa1 and AA, respectively. The increase puts Boston in an elite group of cities such as Dallas, Denver and Phoenix with a solid AA rating. The higher ratings signify better credit worthiness and will result in slightly lower interest costs on bonds sold. Boston's bond rating is now one grade above the Commonwealth's (AA-).

The rating increases reflect Boston's:

- Strong and proactive fiscal management
- Stable, diverse and growing tax base
- Sound financial position with adequate reserves
- Manageable debt position.

The ratings are tied to the City's bond sale of \$131.5M on February 15, 2005. Of that total, \$75M is new money for capital projects such as roads and school buildings and \$56.5M is a refunding bond that produced a net present value savings of \$3M or 5.4%. A portion of these savings will be applied to the City's FY06 debt service costs.

Research Bureau News

Highlights of recent work and accomplishments

Tax levy: In February, the Research Bureau released its analysis of Boston's FY05 tax rate. The report predicted continued above average increases in residential property tax bills and called for a hard look at the City's revenue structure and spending priorities.

Annual Meeting: Mayor Menino spoke to an overflow crowd at the 73rd Annual Meeting on March 4. The Mayor called upon the Research Bureau to conduct an independent assessment of the local tax structures in Massachusetts.

Police and Fire Departments: The press continues to turn to the Research Bureau as the leading independent voice calling for reform in police and fire salary and overtime policies. Visit www.bmr.org for the latest articles on this important issue which continues to absorb growing amounts of city resources.

A special thank you to the Research Bureau's Cabinet Members for their significant support throughout the year!

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In Memorium: The Board, members and staff of the Research Bureau mourn the passing of long-time director Ed Sidman. We salute Ed's countless contributions to Greater Boston's business and philanthropic communities.