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A Plan of Action

Conclusion and Recommendations: A Plan of Action

As the Walsh Administration begins its management of the City of Boston, the Research Bureau strongly believes that analyzing Boston's past practices as well as its performance through cycles of both economic growth and downturn will help shape the policies of Boston's future. Stemming from this analysis is a framework of opportunities that are highlighted over the next few pages and are intended to serve as a useful guide for Mayor Walsh and his Administration to efficiently provide basic services and maintain the strong fiscal health of the City.

FINANCIAL MANAGEMENT

1) Estimate Revenues Conservatively The Menino Administration ended each of its twenty years with operating surpluses because from the start its policy was to be conservative in its revenue estimates in building the city budget each year. That policy served the City well, especially in times of economic slowdown so that the decrease of revenues more affected by the economy would be offset by receipts collected over estimates by other revenues. Building permits and the excise taxes are revenues influenced by the economy. Conservative revenue estimates also help address budget expenses that exceed their appropriations. Police and Fire Departments due to overtime, Snow Removal and Execution of Courts are accounts that tend to incur year-end deficits that have required revenues in excess of estimates to offset the shortfall. Remaining surplus revenue at year end is also beneficial since it goes to fund balance to be included in the next year's free cash certification for future appropriation.

2) Importance of New Growth With the property tax representing two-thirds of the City's total operating revenues, new growth is a critical component of the tax levy growth, as

described in the property tax section. The City's development process must be structured to support responsible new development and to continue to make development in Boston attractive and competitive with other major cities in the country. The success of creating new growth in Boston is indicated by the fact that over the past 12 years, new growth represented 50% or more of the total tax levy increase in seven years and constituted 49% of the levy increase in three other years. Any changes in the development process should be carefully made after open discussion with all interested parties.

3) Free Cash Treating the City's budgetary fund balance or free cash as a non-recurring revenue has been beneficial to the City by carefully and over time building up healthy free cash reserves that contribute to a high bond credit rating and lower interest costs. The importance of this reserve, that currently is equivalent to 6.8% of the fiscal 2014 operating budget, cannot be overstated. Free cash has been applied to help mitigate some revenue loss during times of economic slowdown and lately to annually provide limited funding to the OPEB Trust Fund. As a non-recurring revenue source, applying the funds first to non-recurring expenses is a prudent policy as is the policy of not using this source for recurring collective bargaining expenses.

4) Pursue Legislative initiatives As the Capital city and source of much of the state's economic activity, the City of Boston should pursue opportunities to increase the diversity of its revenue sources and reduce its expense obligations. Boston's inability to establish its own revenue sources places it in a competitive disadvantage with other major cities in the country, which is why the City has advocated for new revenue sources and partnered with other Massachusetts cities in supporting

municipal relief legislation when the occasion arises. In 2008, the City of Boston initiated a public campaign to establish the meal excise tax for municipalities. That work contributed to the enactment of state law (Chapter 27 of the Acts of 2009), which the City adopted and from which it received \$10.0 million for a partial year in fiscal 2010 and \$22.9 million in fiscal 2013. The meals excise budget estimate in fiscal 2014 is \$21.5 million. The same legislation also was supported by the City because it authorized an increase in the room occupancy excise from 4% to 6%.

Other examples described in the report include the effort of Boston and other cities to be authorized to tax locally telecommunication property including poles, underground conduits and switches. The City's legislative success in eliminating the legal requirement that it set aside between 5% and 6% of the levy for the overlay is another example.

While coming before the period covered in this report, an active campaign by the City of Boston, with assistance from the business community, resulted in the enactment of the room occupancy excise of 4% for cities and towns and the aircraft fuel excise which in fiscal 2014 are expected to produce \$59.0 million and \$30.8 million respectively.

On the expense side, legislation in 2011 transferred approximately 1,000 Suffolk County Sheriff Department employees to the state and separate legislation transferred the responsibility for the payment of Boston teacher pensions to the Commonwealth.

5) Update Fees and Charges Updating a different group of fees and charges every few years has enabled the City to keep them aligned to some degree with the actual cost of providing the service and, in aggregate, has produced an important increase in city revenue. Since fiscal 2002, the modification of fees and charges has created approximately \$29 million increase in General Fund revenue.

6) Focus on Revenue Collection Process

Given the two-thirds share the property tax represents of the total revenue, the City employs a robust process for the collection of property taxes. A combination of letters and calls reminds taxpayers of the tax bill due. The City also pursues the legal steps for delinquent property tax bills including placing a lien on the property by taking legal title. In fiscal 2013, the City succeeded in collecting 99.1% of the gross levy. The City has implemented a comprehensive accounts receivable management program that coordinates the collection of departmental revenue. Facilitating payment by enabling the taxpayers to submit payment for licenses, permits, fees and fines with credit and debit cards has been implemented. Taxpayers can pay real estate taxes by use of online direct debit. The City has been participating with the state Department of Motor Vehicles in its program that will not allow a license to be renewed unless all parking violations of the driver are paid. Contributing to the success of these steps and more is the assistance of improved technology under the guidance of the City's Department of Information and Technology.

7) Manage Personnel Levels Management of personnel levels is essential to controlling overall operational expenditures since spending on employees represents almost 70% of the City's total operational costs. In fiscal 2013, salaries alone represented 48% of total General Fund spending and benefits constituted 16.6%. The task of monitoring personnel levels and evaluating requests for an increase in new positions, filling budgeted vacancies or determining when staff reductions are required should be an integral part of the budget process, and continued throughout the year. Since 2002, that responsibility has been undertaken by the Position Review Committee. As a result, over the past 11 years, Boston's city-funded workforce decreased by 6% as a means of controlling spending and contributing to ending each year with an operating surplus.

8) Approve and Manage a Balanced Budget

Approving a balanced budget is a basic principle of fiscal policy but one that requires discipline in light of the demand for services beyond what the City can afford. Developing a budget based on realistic and preferably conservative revenue estimates is an important first step. Projecting the future financial impact of current spending is a necessary exercise in developing the next year's budget. Included in the analysis should be the current and future operating budgetary demands for services from collective bargaining contracts, the City's capital program and debt service costs, pension-related expenses, health insurance premium growth, state assessments and trends in external funding. Managing the operating budget is essential to insure that spending is kept within budget parameters and adjustments are made if necessary during the course of the year.

9) Ensure Balance in Collective Bargaining

With the City of Boston negotiating with 40 different unions that represent 91% of Boston's total workforce and almost 70% of the operating budget tied to employee expenses, the collective bargaining process is a driver of the City's growing budget. The City should strive to balance providing a fair wage increase with efficiency measures that would enable services to be provided more cost effectively. Caution should be exercised in expanding any existing benefits or compensation adjustments beyond salary increases without a full assessment of the short and long-term cost implications. Included in this category would be the current benefit buy-back features in existing contracts such as vacation pay. Every negotiating proposal from the unions should be costed-out by OBM before it is considered by the City.

10) Fully Fund Pension Liability by 2025

The City's current timetable of maintaining a pension funding schedule that will enable the City to reach full funding of its unfunded

pension liability by 2025 should continue to be followed. That schedule would mean that any further reduction of the SBRS' investment return assumption or change in the COLA base should be evaluated by how either would affect the 2025 schedule. As noted in this section, if full funding of the pension unfunded liability is reached in 2025, the City's pension cost in fiscal 2026 would be reduced by approximately 77% as the amortized portion of the liability would have been fully paid and those funds could be allocated to the OPEB Trust to fund that larger liability.

11) Fund the OPEB ARC The City should increase its annual contribution to the OPEB Trust over the next three years so that when combined with the retiree health insurance appropriation, it at least meets the Annual Required Contribution (ARC) as established by the most recent Actuarial Valuation statement. The fiscal 2014 health insurance budget for retirees is \$115.3 million and \$40 million was added to the OPEB Trust for a total of \$155.3 million. The ARC, which represents the liability incurred by active employees, is \$162.8 million or \$7.5 million more than what the City funded.

12) Ongoing Discipline The monitoring and evaluating of employee levels and decision-making on growth or cuts in positions should be a continual process in periods of economic downturn and fiscal stress, and periods of fiscal health and growth. During the more stressful economic times, reduction of staff is one of the few tools available for spending reduction. However, greater discipline over position review is required during more economically healthy times to prevent excess position expansion adding to salary and benefit costs that will force even larger employee reductions at the next downturn in the economic cycle.

13) Factor Impact on Unfunded Liabilities

The decisions by city officials regarding

increases in city-funded positions should take into consideration their affect on the City's annual health insurance costs and the impact on its long-term unfunded pension liability and retiree health insurance liability (OPEB). The City's pension funding schedule requires a 9.25% increase each year to reach full-funding of its pension liability in 2025. The City is only appropriating each year a small portion of what should be allocated to the OPEB Trust to deal with a \$2.1 billion unfunded liability. The significant fiscal obligations of these two unfunded liabilities should be a factor that influences all decisions regarding increases in employee levels, salaries and benefits.

14) Integration of Budget and Labor Relations

The City's finance and labor relations officials worked collaboratively to understand the current and potential future cost of each salary, benefit and language change in its own proposals and in each iteration of every union proposal. That sounds like a logical process, but finance and labor relations officials working together as a team throughout the whole bargaining process did not always happen in past Administrations when budget officials were charged with costing out an agreement after negotiations had concluded. As part of this relationship, labor relations officials must be given a realistic financial number to negotiate the efficiency and reform language sought in the contract along with salary increases.

15) Collective Bargaining Negotiating Team

The City should be represented by a team at the negotiating table. Team members should attend all of the negotiations to the extent possible. One or more managers from appropriate line departments need to serve on the negotiating team. Contract negotiations are time consuming so the Mayor, or Superintendent of Schools in the case of school union contracts, should entrust full responsibility for negotiations to the bargaining team while staying briefed on the progress and only

participating at the end of talks if it would help reach a final settlement. Once a union has had direct access to the chief executive officer during a negotiation, the union will generally not accept any other party as the legitimate management representative.

16) Collective Bargaining Proposals

Developing powerful, rational and thoughtful proposals that are well researched is important for city negotiators and once the proposals are established, officials should be firm in what is important to achieve and not back down during discussions.

17) Consistency in Contracts

Once the first civilian contract is negotiated, the City should price all other contracts based on the first standard and stay consistent. That is the model followed in the current round of negotiations with the City's civilian unions that agreed to the same wage package and uniform set of personnel policies in areas of attendance, light duty, military leave, medical leave, and holidays.

18) Open Process for Collective Bargaining

Follow a more open process in communicating about contract status and objectives so the public and taxpayers are more aware of the expectations and cost factors after they have been placed on the bargaining table and discussed.

19) Work with Financial Experts

The legal and financial knowledge required for the complexity involved with the planning, preparation and timing of a General Obligation or Special Obligation bond issue requires particular expertise requiring outside professional firms to assist the City as its Financial Advisor and Bond Counsel. The City has utilized the leading firms in Boston and the country to serve in these capacities. Currently the Boston office of Edwards Wildman Palmer LLP serves as the City's Bond Counsel and the Boston office of Public Financial Management, Inc. (PFM) serves as the City's Financial

Advisor. The City's RFP for Financial Advisor stipulates that it should be an independent financial advisor, not an investment bank, a policy reinforced by new regulations of the federal Dodd-Frank Act. The City's strong standing and success in the market and its ability to take advantage of unique bond opportunities are, in good part, due to the work of these firms. After a reasonable time, it is appropriate for the City to open up the bidding for these services to ensure competitive service and cost for this high level expert service.

20) Adopt Prudent Debt Standards The carefully followed conservative debt standards established by the City proved especially beneficial during economic downturns when municipal debt was more difficult to sell. During the last recession, the City was able to sell its bonds in the market without insurance and each year received multiple bids at excellent rates. Not all cities during this time were able to issue bonds or were required to pay higher interest rates. The annual infrastructure needs of the City are extensive and require meeting a balance between the capital requirements and the debt standards which should keep debt service costs within the standard but not too much below it. The City should maintain the discipline of following these debt standards equally in good and challenging financial times.

21) Be Flexible on Bond Sale Schedule The City's capital plan consists of a five-year plan that includes the amount of bonds that will be issued each year. In times of a slow economy and fiscal stress, adjusting the amount of bonds issued for one or two years has been a factor in managing the problem as a means of reducing the estimated cost of annual debt service. In a period of abnormally low interest rates, increasing borrowing to support needed infrastructure improvements for future development should be considered as well.

22) Maintain Healthy Reserves The City high bond ratings and its positive standing in

the market are due to several factors, but its strong unassigned fund balance is an essential ingredient. The City has assigned or committed funds to various reserves which exceed the Generally Accepted Accounting Principles (GAAP) fund balance policy which requires an unassigned general fund balance of at least 10% of budget. The rating agencies look positively on healthy reserves since they provide ample liquidity for the City's operations if unexpectedly needed.

23) Refinance Debt When Practical The refinancing of the City's debt by the issuance of refunding bonds and applying available reserves or a combination of both to take advantage of lower interest rates and generate savings is a practice that should be utilized when the conditions are right. The City has benefitted by the market which has resulted in lower interest rates allowing the City to issue refunding bonds every year except two during the 12-year period of this study. The market is expected to move into a rising interest rate environment which will limit the frequency of opportunities.

24) Take Advantage of New Types of Bond Issues While the City will primarily issue General Obligation Bonds annually, the opportunity to issue other GO-type bonds that provide lower interest rates should be considered when they become available. This situation may involve state or federal programs in response to an effort to stimulate the economy during an economic downturn. For example, the City did utilize the ability to issue Build America Bonds (BABs), Recovery Zone Bonds and Qualified School Construction Bonds (QSCBs) at lower interest rates as part of the federal ARRA economic stimulus effort. The City should also continue to defer use of variable rate debt which is subject to a floating interest rate.

25) Fully Utilize Debt Service Standard Boston's policy that debt service should not exceed 7% of the operating budget is a

reasonable but still conservative standard. Boston's capital budget does not meet the capital requirements of its 127 schools or the demands for technology improvements. More capital funds should be devoted to infrastructure to support new development. In fiscal 2013, debt service costs represented 5.2% of operating expenditures. Capital expenses should increase to a point that debt service costs reach but do not exceed 7%.

26) Competitive Service Delivery (CSD)

The Walsh Administration should embrace the implementation of CSD. CSD is a process that encourages both public employees and private companies to bid on the delivery of selected municipal services. Successfully implemented in other cities, CSD produces improved city services, cost savings over time and better prioritization of resources. CSD is not currently utilized by Boston. CSD is not a method for eliminating jobs and is not privatization. The goal of CSD is to ensure that city government: 1) delivers services that it should, 2) delivers them efficiently and 3) delivers the best quality and price to taxpayers.

27) Departmental Operation Review

A system to provide a comprehensive management study of the operations of at least one major line department of the City each year should be established by the Administration. Past studies of the Fire and the Election Departments are good models in that they identified areas of inefficiency and made recommendation for improved service delivery. A comprehensive operational review process would give department heads incentive to devote more attention to service efficiency and human resource issues, especially if there were no advanced schedule of which departments would be selected each year. The experience with the Fire Department studies shows that the Administration must be committed to implementing the study's key recommendations after its review if the management review is to be successful.

At the start of his Administration, Mayor Walsh has initiated management operational studies for the Boston Redevelopment Authority and the Inspectional Services Department. Continuing this process for one line department a year would help improve efficiency of service delivery and better align limited public resources to serve the public.

THE DEVELOPMENT PROCESS

For a City that relies on the property tax for two-thirds of its operating revenue, new development is essential to maintaining its fiscal health, balance its budget, provide basic services and finance any new initiatives. Based on the Research Bureau's examination of the development process in Boston, the report offers the following recommendations:

1) Inclusionary Development Program

Conduct an evaluation of the Inclusionary Development Program (IDP) to gauge its effectiveness in creating housing for moderate income households, and determine if adjustments should be made. Consider raising the income limit to a higher percent of Area Median Income (AMI) to provide more funding for workforce housing or moderate income housing. Determine if a density bonus should be available in exchange for workforce units? Evaluate whether IDP requirements could be varied by neighborhood so that the income limits would be higher in high-value core neighborhoods. Reach agreements with unions to adjust wage rates based on the income limit of the housing being built. Evaluate whether the BRA should increase the amount of the buyout for developers for the delivery of new units in other project in the relatively same general area of the City.

2) District Increment Financing

Create one or more District Increment Financing (DIF) Districts in areas with multiple development sites, such as the Fairmount Corridor. By devoting a specific percentage of property tax

revenues towards bonding for public improvements in the neighborhoods surrounding the anticipated development, a DIF could provide area residents tangible benefits flowing from new construction. These improvements could range from mitigation measures surrounding the site to new recreational facilities at a local park.

3) Create Incentive Guidelines Rather than provide incentives on a case-by-case basis, the City should consider creating incentive guidelines for redevelopment of sites with particular challenges, such as the Turnpike Corridor, or areas where the City wants transformational change, such as Dudley Square. Incentives could take many forms, from density bonuses to TIFs to streamlined permitting.

4) Simplify Mitigation Requirements The BRA should simplify mitigation requirements by stating them in a single comprehensive mitigation agreement that would provide guidelines for mitigation and public benefits based on project size, cost and impacts to reduce case-by-case negotiations.

5) Streamline Permitting Process From the independent assessment of the City's permitting process now underway, the City should establish an improved permitting process that insures better coordination among the city departments and agencies that issue development permits. This process should provide for smoother ISD zoning and building permit review and expedited permitting for projects subject to Article 80 and those meeting planning goals such as transit-oriented development or workforce housing.

6) Address Design Review Earlier The BRA should initiate the detailed design review of a development project earlier in the development review process so that substantial changes can be addressed sooner when plan modifications can be less expensive to achieve.

7) Manage Departmental Comments The Article 80 process is criticized for taking too long to complete and often contributing to the delay are comments from city departments that are required as part of the scoping determination exercise. Procedures should be established that require completion of departmental review and comments by a time certain. To facilitate the scoping process, the Cabinet Office of Economic Development should designate an official to manage departmental comments for Article 80 development projects.

8) Develop a Joint Project Review Process Because the Boston Zoning Code is highly restrictive, most development projects, from the smallest to the largest, require zoning relief from the Board of Appeal. This multi-step process is confusing and expensive for homeowners and small businesses and, for large project developers, is time-consuming and not well-coordinated with Large Project Review by the BRA. A simplified administrative appeal process for small projects should be created to relieve the Board of Appeal's case backlog and provide a more user friendly small project review. The Chief of Economic Development and the Chief of Environment and Energy should establish an inter-departmental BRA/ISD unit to jointly process projects subject to both BRA review and Board of Appeal relief.