# Bureau Update

**Boston Municipal Research Bureau, Inc** 

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www.bmrb.org

## Research Bureau 72<sup>nd</sup> Annual Meeting

February 24, 2004

Keynote Speaker: Mayor Thomas M. Menino Corporate Tables \$1,000 - Individual Tickets \$100

Call Diane Smith at 617-227-1900 for more details.

#### **BPS** Notes

- Marchelle Raynor and Angel Amy Moreno were reappointed to four-year School Committee terms. The School Committee officers for 2004 are Elizabeth Reilinger, Chair, and Marchelle Raynor, Vice-Chair.
- Superintendent Thomas Payzant was chosen to receive the 2004 President's Technology Award. The award recognizes his leadership in using technology to increase BPS student achievement.

### **BPS BUDGET PROBLEM**

The BPS is projecting an FY04 budget problem of \$7.2M. Salaries, purchased services, fuel, and transportation, due to increased costs for student MBTA passes, are the key accounts that are running over budget. It is expected that this gap will be closed by employing standard BPS cost reduction strategies: a requisition deadline in April, a review of all vacant positions, and maximizing grant revenue.

### SCHOOL FY05 Budget Watch:

- Aggregate FY05 school allocations will be "level service," meaning most schools will be able to fund operations similar to FY04 levels.
- Due to a new methodology for FY05, most schools will be level-funded or receive slight increases over last year, while about 23 larger schools will see a drop in funding.
- The new methodology differentiates by school size, level, and program mix as well as schools serving many students with disabilities, which were most impacted by FY04 cuts.
- System-wide reductions will be absorbed centrally.
- Cost pressures are likely in utilities, food service and transportation.
- Teacher staffing process expected to be shorter than last year.

### CLASSIFICATION SHIFT OK'd

Cities and towns whose residential share of the tax levy would otherwise increase are now authorized to temporarily shift tax burden to the business (CIP) levy. Under the new law (Ch. 3, Acts of 2004) signed by the Governor on January 16, the business ceiling and residential floor will be based on the following schedules:

Fiscal Year	Maximum CIP Ceiling	Minimum R Floor
2004	200%	45%
2005	197%	47%
2006	190%	49%
2007	183%	50%
2008	175%	50%
2009, only for cities and towns that adopt the new formula	170%	50%
2009, cities and towns that do not adopt the new formula	175%	50%

The property tax bill for the average single-family homeowner in Boston will increase by \$272 or 13.8% instead of \$816 or 41.4% without this legislation. The tax per square foot for a commercial office building will decrease by \$0.42 or 5.3% due to value decline. However, with a CIP tax rate increase of \$1.46 or 4.6%, other commercial, industrial and personal properties whose values remain level or increase will receive tax bill increases. (See Bureau Special Report No. 04-1).

The FY04 impact of this legislation will take effect primarily in the fourth quarter tax bill that will be mailed in April. The act established three separate study initiatives to report back to the Legislature with recommendations.

- By December 1, the DOR will offer options for temporary relief to residential owners in the future.
- By April 30, the Taxation Committee will suggest a small business exemption for communities with split tax rates.
- By April 30, the Natural Resources and Agriculture Committee will offer a plan to reclassify agricultural and horticultural land for property tax purposes.

The small business exemption deserves particular scrutiny since the effect of any exemption would be to shift the amount of the total tax reduction to other business properties within the class.

#### **FY04: MIDPOINT CHECK**

Halfway through FY04, the City's operating budget is \$1.852B, \$45.1M or 2.5% more than the budget approved by the Mayor and the City Council last June. However, \$39.8M of this increase is due to a state-mandated accounting change for the charter school tuition line item. The balance of \$5.3M is the result of mid-year adjustments to other revenue accounts. Conservative revenue budgeting gives the City the flexibility to meet spending needs that have surfaced since last July 1 as highlighted below and to address potential spending issues in the last half of FY04, such as overtime costs in the Fire Department.

Within the \$5.3M increase, the net property tax is budgeted at \$1.049B, an increase of \$14.8M or 1.4%. Most of that growth, \$9.8M, comes from the repeal of the state law requiring that 5%-6% of Boston's gross property tax be put in an overlay reserve for abatements. The City now determines its own overlay amount that it set at \$41.9M for FY04, 4.0% of the gross property tax. The remaining \$5.0M in property tax growth comes from an increase in the new growth estimate from \$25.0M to \$30.0M. Local aid is currently budgeted at \$450.9M, an increase of \$46.9M or 11.6%. After factoring in the charter school tuition change, local aid grew by \$7.0M or 1.7% as a result of the state setting a higher aid amount after the City approved its budget.

Spending for FY04 was adjusted upward by \$5.3M after accounting for the charter school tuition change. Departmental budgets increased by \$2.1M, primarily due to the City's required contribution to a federal public safety grant it received and a budget correction for Municipal Police service. Additionally, the initial FY04 pension cost estimate was revised upward by \$1.9M. Budgeted County costs increased by about \$1.0M since last June.

### FREE CASH CERTIFIED

The notion that the City has significant reserves for union contracts should be put to rest with the recent certification of \$61.1M in budgetary fund balance or "free cash" for Boston by the Department of Revenue (DOR). Boston is required to prepare financial statements using two different standards: (1) nationally recognized Generally Accepted Accounting Principles (GAAP) and (2) the Commonwealth's own statutory accounting standard. For Boston's purpose, only the Massachusetts statutory standard matters in determining funds available for spending.

Boston's fund balance at the end of FY03 using the GAAP standard was \$491.3M. However, after subtracting funds committed for specific purposes such as retirement, school summer payroll and Quinn Bill payments, the undesignated fund balance under GAAP was reduced to \$331.5M. Applying the Massachusetts statutory standard and deducting funds for reserves for encumbrances, abatements and Tregor reserves created a statutory undesignated

fund balance of \$147.1M. The City presented these statements to DOR for certification of free cash. State officials then further reduced the fund balance to cover other receivables and fund deficits in determining the free cash number. DOR certified free cash for Boston in FY03 at \$61.1M on December 9, 2003.

From this free cash, the Mayor and City Council appropriated \$25M for the FY04 operating budget for non-recurring expenses, leaving a balance of \$36.1M. The free cash balance is not expected to increase measurably and will need to be carefully applied over the next few years. Free cash is non-recurring revenue and should be appropriated for only one-time expenditures.

FY03 Fund Account	\$ in Ms
GAAP Fund Balance	\$491.3
GAAP Undesignated Fund Bal.	331.5
Statutory Undesignated Fund Bal.	147.0
Certified Free Cash	61.1
Amount Appropriated in FY04	25.0
Free Cash Balance	36.1

#### SERVICE ACCOUNTABILITY

In an upbeat State of the City Address delivered on January 13, Mayor Menino announced a new initiative of establishing Neighborhood Response Teams. Teams of public works, police, neighborhood services, transportation and parks employees in each neighborhood would coordinate efforts to provide services more efficiently. The Mayor promised to track performance and hold these teams accountable. If the Mayor carries through with this initiative, it would signal a marked shift in evaluating and improving departmental service delivery in Boston.

Tracking performance through the collection and evaluation of key indicators and statistics is being undertaken successfully in several large cities. An excellent example of the benefits of this process can be found in the Boston Police Department and its Crime Analysis Meetings that have contributed to the success of its community policing program. New York City's Mayor's Management Report program and Baltimore's CitiStat program are two good examples of efforts in other cities. Planning in Boston is still underway so the operating structure of this program has not been finalized. The Mayor's Office of Neighborhood Services is taking the lead with the Office of Budget Management providing performance indicators by department. Department head, employee and union participation in the planning will enhance its chances for success. In the past, Mayor Menino has not embraced performance evaluation, preferring, for example, to give each department head a 3% raise rather than evaluating performance in determining compensation. This initiative will only be successful if the Mayor makes it a top priority, stays committed to it and allows it to be fully executed.