

FY21 Recommended Budget Overview

An Early Assessment of COVID-19 Impact on Boston's Finances

The City undertakes the FY21 budget-setting process in the midst of an unprecedented, evolving public health and economic crisis. The Mayor's FY21 recommended budget, released on April 8th as required by the City charter, reflects information available through the first week of April on the potential impact of COVID-19 on city revenues and costs. Which aspects of this budget should the City Council pay particular attention to given these challenging times? What assumptions drove the City's recommended estimates for key revenue sources in FY21? What are the strategic spending priorities in the FY21 recommended budget?

Report Objectives

This report provides information and insights on:

- Snapshot of Boston's \$3.65B operating budget, capital and external funding
- Expectations for revenues that drive spending
- Boston's spending priorities
- Actions for the Boston City Council

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Background

Boston faces a challenging time of uncertainty as it confronts a deadly global public health crisis and a dramatic transition of the Boston economy from an unprecedented boom to broad and deep disruption. This report explores key areas of the recommended budget and the City's reasoning for proposed revenues and expenditures in light of the COVID-19 crisis.¹

The Mayor's FY21 recommended budget, released on April 8th as required by the City charter, reflects information available to the City through the first week of April on the potential impact of COVID-19 on city revenues and costs to address community needs.

The FY21 budget is currently before the Boston City Council, the City's appropriating authority, for review. The Council is, for the first time, conducting virtual budget hearings due to the challenges of COVID-19. The Council must complete its budget review and adopt, reduce or reject the budget by Wednesday, June 10th. This report will highlight some concerns that the City Council should explore, including the assumptions underlying the City's FY21 revenue estimates and spending priorities in light of the evolving public health and economic situation.

The City's annual budget process includes an opportunity in June for city budget writers to leverage two additional months of data on the impact of the evolving public health and economic crisis and submit a revised budget with adjusted revenue and spending expectations.

Report Findings

The FY21 recommended operating budget represents a modest year-to-year increase roughly in line with the prior five years. It does not propose personnel cuts or reductions in services. The City identified approximately \$14M in savings, most of which is made possible through an \$8.6M reduction in health insurance costs negotiated with the Public Employee Commission (PEC).

As required by Massachusetts law, the budget is balanced and the spending plan matches revenue expectations at the time the recommended budget was released. The City's FY21 budget totals \$3.65B, an overall increase of 4.4% over FY20. Beyond own source revenues, the City estimates it will receive \$374M in external funds to supplement the \$3.65B operating budget in FY21, most of which will come from private, state and federal funds. This represents a 2% decrease of approximately \$8M from FY20 estimated external fund revenue.

The City's recommended FY21-25 Capital Plan proposes investments worth \$3B over the next five years, reflecting an 8% increase of \$220M over the FY20-24 plan. Estimated capital spending for FY21 is \$447M.

Revenues: Property Tax and State Aid Both Up in FY21

¹ The bulk of this analysis focuses on the General Fund, the City's main operating fund representing most city resources and which is the only fund for which a budget must be legally adopted.



The \$3.65B budgeted revenue consists of \$3.61B in recurring and \$40M in non-recurring revenue. The two largest sources of revenue—property taxes and state aid—together account for 85% of total revenue budgeted. In this version of the FY21 budget, neither source is projected to be significantly impacted by the COVID-19 crisis, but the City acknowledges that they will likely need to revise their assumptions as they learn more about fallout from the pandemic. In addition, the potential for federal stimulus and recovery resources for Boston has yet to come into focus.

Where the Money Comes From (\$ in millions)

Account	FY20	FY21 April	FY21 % of Total	FY20-FY21 Change (\$)	FY20-FY21 Change (%)
Gross Property Tax	\$2,508.8	\$2,636.5	72.3%	\$161.0	6.4%
Overlay	-\$47.3	-\$14.0	-0.4%	\$33.3	-70.4%
Net Property Tax	\$2,461.4	\$2,622.5	71.9%	\$161.0	6.5%
State Aid	\$464.2	\$473.6	13.0%	\$9.4	2.0%
Excises	\$204.5	\$187.5	5.1%	-\$17.0	-8.3%
All Others [1]	\$323.0	\$323.8	8.9%	\$0.8	0.3%
Subtotal Recurring	\$991.7	\$985.0	27.0%	-\$6.8	-0.7%
Fund Balance	\$40.0	\$40.0	1.1%	\$0.0	0.0%
Other Non-recurring	\$0.4	\$0.0	0.0%	-\$0.4	-100.0%
Subtotal Non-Recurring	\$40.4	\$40.0	1.1%	-\$0.4	-0.9%
General Fund Revenues	\$3,493.5	\$3,647.5	100.0%	\$153.9	4.4%

[1] All Others refers to all revenue sources other than state aid and the property tax, including PILOTs, investment income, and departmental revenues from sources such as parking meters, parking fines, inspection fees, and building permits.

Continuing a multi-decade trend of growing reliance on property tax revenue, net property taxes are expected to total \$2.62B and make up 71.9% of General Fund revenues (72.7% of all recurring city revenues) in FY21.² In this budget the City projects the impact of COVID-19 on FY21 property tax revenue to be minimal. FY21 revenue from new growth—additional taxable property value generated by new construction and renovations—is budgeted at \$65M. This is a more conservative figure than the budgeted all-time high of \$99.5M in FY20, which represented 63% of the FY20 levy increase. In the past four years,

² The net property tax is equal to gross property tax less the overlay reserve amount the City sets aside each year to address abatements and non-collection of taxes.



revenue from new growth provided more property tax revenue to the City than the property tax levy on all existing properties.

Total General Fund state aid is projected to be \$473.6M in FY21, making up 13% of the total budget. As a percent of overall revenues, this is roughly consistent with the last five years and represents an increase of 2% from FY20, following a multi-decade trend of decline in state aid. Chapter 70 Education Aid (\$223.8M) and Unrestricted General Government Aid (\$206.8M) make up 91% of state aid to Boston. State aid projections are based on the Governor’s January budget, which included a \$9M annual increase, \$7M of which comes in the form of Chapter 70 and Charter Reimbursement (via the Student Opportunity Act).

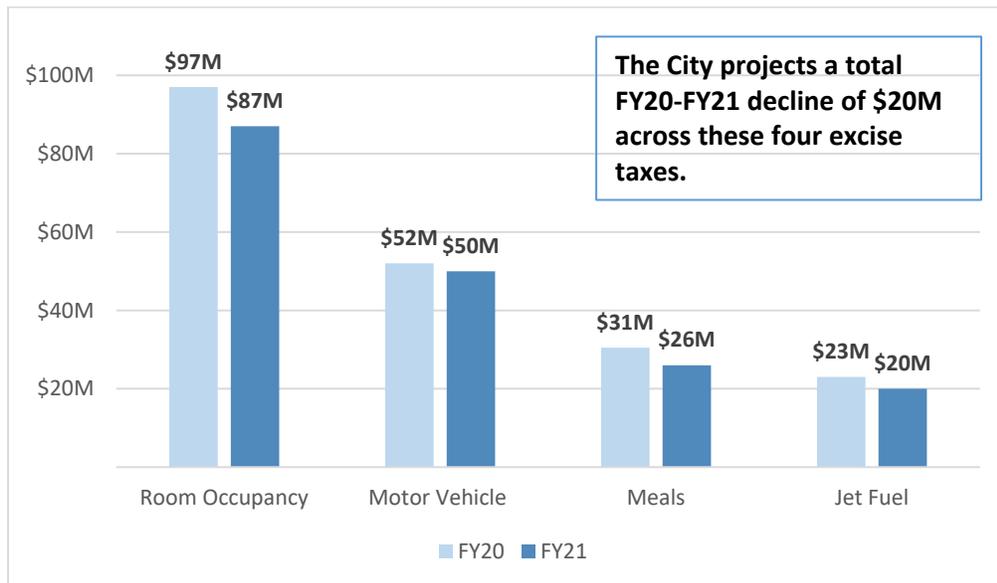
The degree to which state aid will be impacted by COVID-19 is still uncertain. The Governor’s budget, which is the basis for the City’s state aid projections, doesn’t reflect more recent legislative deliberations on the state revenue picture.

Revenues: Local Receipts

Excise taxes, Payment-in-lieu-of-Taxes (PILOT), redevelopment tax agreements, fees and fines, licenses and permits, and investment income combined are budgeted to bring in \$511.4M in FY21. This is a drop of approximately \$16.5M (3%) from FY20, intended to account for anticipated economic effects of the ongoing public health crisis.

Excise taxes, which have consistently made up 4-8% of the City’s revenue over the last decade, will be significantly impacted by decline in consumption and other economic fallout of the COVID-19 health crisis. Though the extent of the impact is unknown, the recommended budget projects a decrease in 8% across all excise taxes. Room occupancy and meals taxes are estimated to take the biggest hit in lost dollars—a combined drop of \$14.5M—declining by 10% and 15%, respectively. Jet fuel tax revenue is also estimated to decrease, from \$23M to \$20M in FY21—a 13% decline. We expect the Mayor will submit a revised budget in June that includes updated expectations for excise tax revenues based on the most current indications of how quickly and to what extent economic activity in the city may resume.

Selected Excise Tax Revenue FY20 vs FY21



Total PILOT revenue for FY21 is budgeted at \$49.3M, up less than 1% compared to what the City budgeted in FY20 (\$49M). The \$49.3M includes a \$20M contribution from Massport/Department of Transportation (DOT) and \$29M is expected to come from the voluntary PILOT program which covers 46 nonprofit entities in Boston including cultural institutions, hospitals, and colleges and universities, all of which have experienced dramatic disruption in operations due to the impact of the public health crisis—unlike what little disruption, if any, they experienced during the Great Recession.

Interest on investments is budgeted at significantly less (-47%) than the prior year. The City projects revenues of \$8M for this account in FY21, mostly in response to the Federal Reserve reducing interest rates down to effectively 0% in March 2020. Interest on investments was originally budgeted at \$22M for FY20, and was later adjusted down to \$15M. In FY19 the City collected \$30M from interest on investment.

Most other revenues, including fines and miscellaneous department revenue, are projected to stay essentially level in FY21.

Expenditures: Top Departments and Additional Spending

With a budget increase for FY21 of \$154M (4.4%) over FY20, there is little room for discretionary funding. The recommended budget dedicates \$97M of the \$154M (63%) to public education, \$45.7M to pensions and debt service (\$26.5M and \$19.2M, respectively), and a \$9M increase for the Boston Public Health Commission (BPHC). The additional appropriation for the BPHC is a 10% increase to support the City's response to the COVID-19 crisis, Emergency Medical Services and services for substance abuse disorders.

The largest spending priority in the FY21 recommended budget is education. The Boston Public Schools (BPS) budget is up \$80M (\$70.7M excluding school health insurance), a 7% increase from FY20. The FY21



increase includes \$44M in additional operating costs plus \$36M out of the \$100M Mayor Walsh committed to BPS over three years, which will be dedicated to additional resources for BPS families, teacher development and improving learning environments and instructional materials. In addition to the increase to the BPS appropriation, the City is paying an additional \$17.4M towards the Charter School Assessment (up 7.5% to \$232M from FY20).

Where the Money Goes (\$ in millions)

Department	FY20	FY21 April	FY21 % of Total	FY20-FY21 Change (\$)	FY20-FY21 Change (%)
School [1]	\$1,052.1	\$1,122.8	30.8%	\$70.7	6.7%
Fire	\$271.6	\$275.1	7.5%	\$3.4	1.3%
Police	\$414.3	\$414.2	11.4%	-\$0.1	0.0%
Public Health Commission	\$93.4	\$102.5	2.8%	\$9.1	9.7%
Public Works [2]	\$125.1	\$125.8	3.4%	\$0.7	0.6%
Reserve for Collective Bargaining	\$5.7	\$3.0	0.1%	-\$2.7	-46.9%
Other Departmental [3]	\$349.2	\$348.3	9.5%	-\$0.8	-0.2%
Total Departmental	\$2,311.3	\$2,391.6	65.6%	\$80.3	3.5%
Non-Departmental [4]	\$15.7	\$15.7	0.4%	\$0.0	0.0%
Benefits/Mandatory [5]	\$1,166.6	\$1,240.2	34.0%	\$73.6	6.3%
General Fund Expenses	\$3,493.5	\$3,647.5	100.0%	\$153.9	4.4%

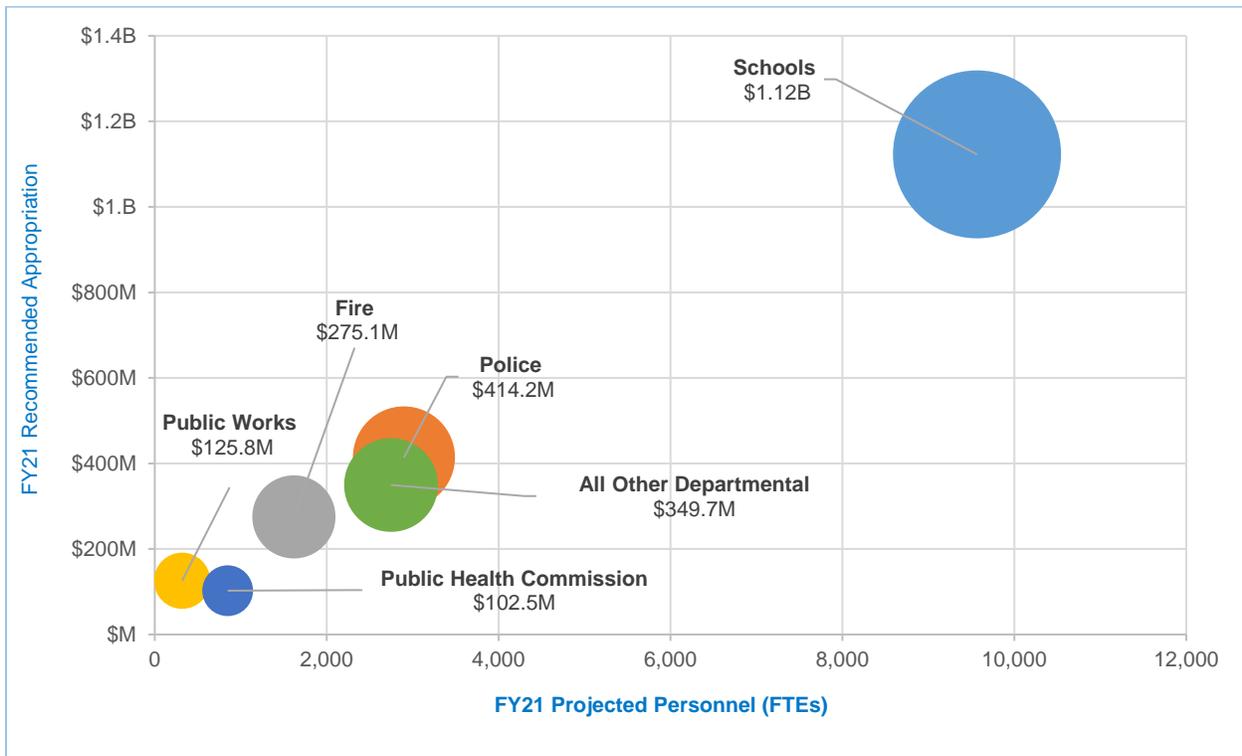
[1] Does not include school health insurance costs.
 [2] Includes snow removal.
 [3] Other Departmental includes all City departments other than the top five broken out in this table.
 [4] Non-Departmental refers to worker's compensation, the City's housing trust, unemployment compensation, medicare payments and tax title and audit appropriations.
 [5] Benefits/Mandatory comprises all less flexible expenditures accounts. Examples include debt service, state assessments like charter schools and the MBTA, City and School health insurance, pensions and OPEB.

Overall, FY21 city departmental spending is slightly higher than in FY20, increasing by 3.5%, or approximately \$80M. Spending increases in the School Department and BPHC account for the overall rise in departmental spending. Other notable changes from FY20-FY21 include the appropriation for the Treasury Department, which declined by \$15M due to a one-time FY20 investment in prekindergarten (K1) through the Quality Pre-K Fund, and a \$6.5M increase in the recommended appropriation for the Department of Neighborhood Development—a 32% increase intended to bolster housing initiatives as part of the Mayor's five-year plan.



Spending across all other departments is otherwise either level or adds modestly to the dollar total. The five largest departments, Schools (net of health insurance), Police, Fire, Public Works and BPHC, make up 85% of all departmental spending in the FY21 recommended budget (\$2B out of \$2.4B) and 56% of the total budget.

FY21 Budget, Top Five Departments and Other Departmental



[1] All other departmental includes all City departments other than the top five in terms of budget appropriation.

[2] The Schools Dept. total does not include BPS health insurance costs, which total \$135.9M in the FY21 recommended budget.

[3] Public Works includes snow removal.

Expenditures: Fixed Costs and Personnel

Fixed costs are projected to increase by \$66M from FY20 to FY21, mainly due to increases in pension and debt service costs, each of which is budgeted to rise by 10%. The increase in pension and debt service spending translates to an additional cost of \$45.7M. Adding in other less flexible costs, including city health insurance, school health insurance and other post-employment benefits (OPEB), brings the total FY21 increase in mandatory and benefits spending to \$73.6M, for a total of \$1.22B budgeted in FY21.

Personnel costs continue to make up the largest share of the City's General Fund spending (70%). Personnel levels are projected to increase by 304 full-time equivalents (FTE) in FY21, 262.7 of which are



designated for the School Department for recruitment of art, music and physical education teachers, bilingual and special education instructors and paraprofessionals, social workers and family liaisons.

FY21-25 Capital Plan

The City has budgeted \$447M for capital spending in FY21. More than half of planned spending for FY21-25 is dedicated to projects under the Streets (30%) and School (24%) departments, most of which advance the City's goals with its long-term transportation plan, Go Boston 2030, and its school building and renovation initiative, BuildBPS. Other key capital investments include dedicating at least 10% of new capital funds to climate resiliency and \$45M for new and ongoing open space projects.

Budgeted capital spending has doubled over the last decade through a combination of more aggressive issuance of General Obligation bonds, which make up 2/3 of total FY21-25 capital funding, and state and federal grants. The City's efforts to ramp up capital spending, while limiting the impact of borrowing funds for capital projects to no more than 7% of the city's operating budget, will be important during the upcoming period of economic instability. Advancing infrastructure projects during economic downturns can allow local governments to produce public benefits at comparatively lower cost.

Conclusion

The City's FY21 recommended budget submitted April 8th proposes sufficient money to fund the Mayor's commitments to key education and housing initiatives for the coming year. The budget seeks to address resource demands on public health services and economic impact on elastic revenue sources, like excise taxes, using what information was available through the first week of April about the rapidly evolving public health crisis. The probable financial hit from COVID-19, though, will likely require budget writers to adjust revenue estimates to more conservative figures for sources linked to the local economy and state aid when submitting the revised budget to the City Council in June.

According to the Mayor's recommended budget, property tax revenue, the principal source of funding for city operations at 72.7% of budgeted recurring city revenue, is unlikely to take a heavy hit in FY21. But other sources of revenue will be precarious as the COVID-19 health crisis continues to make normal commerce impossible.

The crisis's long-term impact on local small businesses, events and entertainment commerce and tourism are just a handful of areas where consumer activity could be significantly lower than levels reflected in the FY21 recommended budget. The increasing likelihood of a second surge of COVID-19 cases in the fall or winter should be thoughtfully considered in determining appropriate excise estimates for the coming fiscal year. COVID-19's impact on hospitals, universities and cultural institutions and their capacity to respond to the City's FY21 PILOT requests should also be considered.

State government fiscal challenges and their impact on state aid to Boston, as well as any federal resources the state may share with cities and towns, will hopefully be more clear in time to inform city



budget writers as they make any needed adjustments for the final budget submittal to City Council in June.

Phase III of the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”), signed into law on March 27th, established a \$150 billion relief fund for state and local governments to address unbudgeted COVID-19-related expenditures. To date, Boston has received federal grants worth \$120.8M to address unbudgeted COVID-19 expenses from March 2020 to December 2020. Legislative deliberations on Phase IV are now underway, and may result in additional federal aid for state and local governments.

Boston would be well-served if the Administration and City Council approach the remainder of the FY21 budget process anticipating that the current crisis could well be broader and deeper in impact—more like the Great Depression than the Great Recession—and could well demand substantially more city resources.

Recommendations:

City Council Role: The City Council FY21 budget hearings, and realistic policy discussion around the resource constraints wrought by the fallout of COVID-19, will be key in meeting Boston’s challenges in FY21 and going forward. More specifically, the Council can play a valuable role in discerning how much revenue estimates should be revised for revenue sources most exposed during the crisis.

Revenue Watch: The recommended budget projects a decline of 8% of total excise tax revenue in FY21, but the more current economic outlook suggests greater impact than initially projected for revenue sources like the meals and occupancy taxes. This new information should inform the Council’s deliberations on spending priorities. The Council should likewise assess potential impact on departmental revenue tied to economic conditions, such as building permits and parking fees, which will likely be impacted by the COVID-19 crisis as well.

Stay tuned for more on Boston’s fiscal health in the coming months.