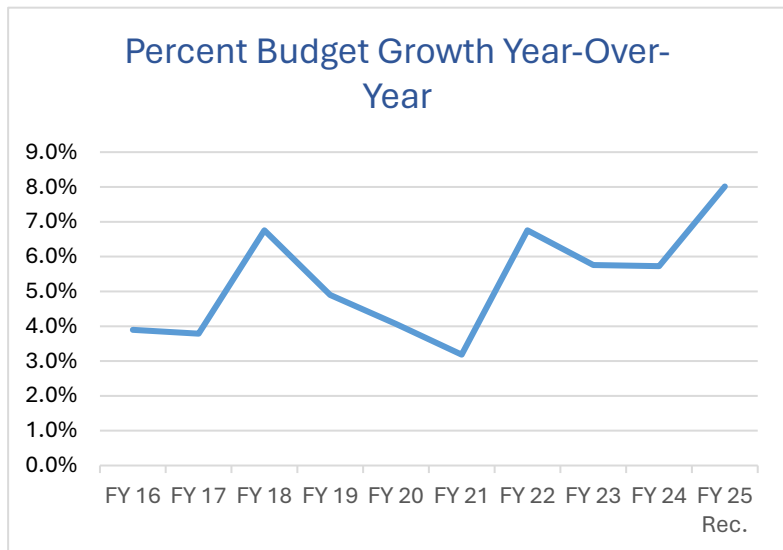


Mayor Recommends 8.0% Budget Increase

Increased spending driven by Schools, Planning Department, and Fixed Costs

Budget season in the City of Boston has officially begun with the release of Mayor Michelle Wu’s FY25 recommended budget. The \$4.64B operating budget represents a \$344.0M increase from FY24, or an increase of 8.0%, driven by increased spending on Boston Public Schools, debt service, pension payments, and the creation of a new Planning Department. The Mayor’s recent proposal for a temporary classification change is projected to have no impact on the budget; it is revenue-neutral. There are no cuts to programs or services to ameliorate the impact of the increase in commercial property taxes included in the Mayor’s home rule petition regarding classification. The City’s workforce will increase by nearly 500 full-time equivalents (FTEs), with 209 coming from the transfer of BPDA employees to the City. Alongside the operating budget, the Mayor also released a \$4.70B 5-year capital plan, an increase of 11.9% over the previous capital plan.

Property Tax – The property tax, the City’s most important source of revenue, is budgeted to make up 71.1% of the City’s revenue in FY25. Net property tax is expected to grow \$158.7M, or 5.1% from FY24. The overlay reserve, a portion of the property tax set aside to cover the costs of abatements and noncompliance of taxes, decreased from \$52.0M to \$33.0M, allowing the City to use more of its tax collections. New growth, which has driven the City’s increase in the property tax base over much of the last two decades and



allowed the tax levy to rise well above the base 2.5% each year, is budgeted at \$60.0M for FY25. While this is in line with the City’s previous conservative budgeting practices, it is well below the [record \\$121.8M](#) in new growth in FY24.

The budget comes at a time when the Wu administration is concerned about potential declines in business property values. While overall property tax revenue is expected to grow to keep pace with spending, Mayor Wu recently filed a home rule petition that would temporarily allow Boston to reduce the residential share of the tax levy and increase the business share. This would shift more of the burden of Boston tax bills to business properties in an attempt to mitigate tax increases for residents. Business property, which constitutes 33.3% of assessed value in the City, generates 58.3% of the property tax revenue that the City takes in.

Declining State Aid – State aid, the City’s second largest revenue source, which reflects the governor’s proposed level of \$515.2M, is budgeted to decrease by \$1.1M (0.2%) from FY24. Despite this slight decrease, state assessments increased by \$8.9M or 2.3%, driven primarily by increased MBTA and charter school tuition assessments. State aid will only account for 11.1% of the City’s FY25 total general fund revenue, down from 12.1% in FY24. This continues a longstanding decline in state aid for the City, which received 22.1% of its revenue from state aid as recently as twenty years ago.

	FY24 Current	FY25 Budget	% of Total FY25
Net Property Tax	\$3,136.7	\$3,295.4	71.1%
State Aid	\$516.3	\$515.2	11.1%
Excises	\$244.4	\$281.8	6.1%
Interest on Investments	\$29.0	\$100.0	2.2%
All Others	\$325.8	\$403.7	8.7%
Subtotal Recurring	\$4,252.2	\$4,596.1	99.1%
Non-recurring	\$40.0	\$40.0	0.9%
Total Revenue	\$4,292.2	\$4,636.1	100.0%

Cost & Inflation-Dependent Revenues Benefit – The City continues to benefit from higher-than-usual returns from interest on investments and excise taxes. These factors contributed to a record surplus of \$192.6M in FY23. In FY25, the City is expecting continued strong performance, with interest on investments budgeted at \$100.0M, up 244.8% from \$29.0M in FY24. Meanwhile, excises are expected at \$281.8M, up 15.3% from FY24, driven by particularly strong growth in room occupancy (19.8%), meals (11.8%) and motor vehicle (10.4%) excises. Revenue from building permits, the price of which is tied to the cost of construction, are budgeted to increase by \$3.0M, or 5.0%.

Expenditures Overview – Expenditures are projected to rise 8.0% to \$4.64B in FY25, driven by increases in funding for schools, the creation of a new Planning Department, debt service, and pension plan payments. The public safety cabinet (Police, Fire, and Emergency Management) is budgeted to increase by \$12.0M, or 1.6% from FY24. The Mayor’s Office of Housing, a key source of investment under Mayor Wu, increased 8.4% to \$53.6M.

	FY24 Current	FY25 Budget	% of Total FY25
Schools	\$1,445.9	\$1,526.6	32.9%
Police	\$444.1	\$454.9	9.8%
Fire	\$305.5	\$306.6	6.6%
Public Health Com.	\$130.3	\$138.8	3.0%
Public Works*	\$140.3	\$140.7	3.0%
Health Insurance**	\$222.4	\$234.1	5.0%
Other Appropriations	\$578.8	\$740.2	16.0%
Subtotal Appropriations	\$3,267.2	\$3,541.9	76.4%
State Assessments	\$383.2	\$392.1	8.5%
Pensions	\$390.6	\$422.5	9.1%
Debt Service	\$248.3	\$276.4	6.0%
Other	\$2.9	\$3.2	0.1%
Total Expenditures	\$4,292.2	\$4,636.1	100.0%

*Includes Snow Removal **Does not include BPS

Schools Drive Overall Expenditure Growth – The School Committee approved Boston Public Schools’ \$1.53B budget in March, comprising 32.9% of the City’s FY25 operating budget and its largest budget expenditure. The BPS budget included an \$80.8M (5.6%) increase, yet, because of the significant decrease in ESSER funding, all-funds spending on schools is decreasing by 4.8% (\$83.8M). Per student cost has increased by 46% over the last five years as enrollment has declined, with the cost rising to over \$30,000 per student in FY25. The school budget also represents a continued investment in key areas for the administration, such as universal pre-K, early college programs, and an additional \$20.0M investment for implementing inclusive education.

Budget-Neutral BPDA Transfers Drive Budget Growth – On April 2, Mayor Wu signed an ordinance creating a new Planning Department as part of her effort to restructure the Boston Planning and Development Agency (BPDA). As part of the restructuring, the Office of Workforce Development, currently located within the BPDA, will transfer to the City as well. These moves will bring almost all the BPDA’s assets, personnel, and funding under direct City control, with 199 FTEs transferring to the Planning Department and 10 FTEs transferring to the Office of Workforce Development.

	FY24	FY25	Change	% Change	FTE Change
FY25 Budget	\$4.29B	\$4.64B	\$344.0M	8.0%	497.9
FY25 Budget without BPDA Transfers	\$4.29B	\$4.59B	\$301.6M	7.0%	288.9

However, the BPDA will remain a quasi-governmental agency specifically to protect the benefits and pensions of certain employees. The budget impact of the transfer is expected to be neutral, with the BPDA covering the costs of the transfer by providing \$42.4M in revenue. The exact terms of the financial arrangement are expected to be codified in a Memorandum of Agreement between the City and the BPDA, which has not yet been finalized. The Planning Department is budgeted at \$32.7M and the Office of Workforce Development is budgeted at \$6.9M, with the remaining \$2.8M used to cover associated personnel expenses. The BPDA transfer constituted 12.3% of the total growth of the budget. Without the transfer of the new departments, the budget would have increased \$301.5M or 7.0% from FY24, and FTEs would have grown by 288.9.

Budget-Neutral BPDA Transfers

Revenue from BPDA \$42.4M	
Planning Department	\$32.7M
Office of Workforce Development	\$6.9M
Health Insurance and Benefits	\$2.8M
Total Expenditures	\$42.4M

Debt Service Costs Tick Up – Among the larger increases in the FY25 budget are those that are made up of fixed costs. Debt service costs, which are payments on debt previously incurred, are budgeted to increase by 11.3% from FY24 and represent 6.0% of total expenditures, up from 5.8% last year. The FY25-FY29 capital plan, which will impact future debt service costs, is budgeted to increase by \$498.8M, or 11.9%, to \$4.70B, with new capital investments focusing on areas such as school facilities and coastal resiliency.

Pension Costs Increase – Boston’s spending on pensions is also budgeted to increase 8.2% to \$422.5M, as the City remains on course to fully fund its pension liability by 2027. As the end of the funding schedule nears, the City is committing larger amounts to meet its obligations and reduce its unfunded liability.

Personnel Spending – Personnel services, including reserves for future collective bargaining increases, continue to be the largest expenditure for the City and account for 62.4% of the proposed budget, with an additional 12.4% budgeted on health benefits. The budget proposes adding 497.9 FTEs, increasing the City’s FTE count by 2.7% to 18,906.4 FTEs in FY25.

- The transfer of employees from the BPDA to the City accounts for 42.0% of the FTE growth, as 199 FTEs for the Planning Department and 10 for the Office of Workforce Development will be added to the City’s personnel rolls.

- Apart from the BPDA transfers, the largest department increase will occur in Boston Public Schools, which will add 160.2 FTEs amid increased City investment to help offset the loss of ESSER funding. With this increase, BPS is projected to have 10,209.9 FTEs, comprising 54.0% of the City's FTE count.
- Among all other departments, FTEs grew by 128.7 distributed across multiple departments, including police (33 FTEs), the Boston Public Health Commission (10.7 FTEs), and property management (12 FTEs).

Spending on personnel is expected to further increase as major collective bargaining contracts with the Boston Teachers Union and Boston Firefighters Local 718 are set to expire in the coming fiscal year.

Next Steps – FY25 marks the third budget process in which the City Council has increased power and will be the first budget process for five councilors. Despite its newfound budgetary powers, the Council has enacted only relatively minor changes in past budget cycles. Throughout its review, the City Council should exercise its responsibility as the appropriating authority for the City and ensure that the fiscal health of the City is at the forefront of the process. After holding a series of budget hearings and considering amendments to the recommended budget, action must be taken by the 2nd Wednesday in June. Following the City Council vote, the Mayor has 7 days to approve or veto any amendments made to her proposed budget. Following any veto, the budget moves back to the City Council, which will have the opportunity to override the Mayor's vetoes in a final vote expected by the last Wednesday in June.