SPECIAL REPORT

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BOSTON MUNICIPAL RESEARCH BUREAU

Diversifying Boston's Revenue

Should the City Try to Become Less Reliant on Property Tax?

The share of Boston's operating revenue coming from property tax has risen dramatically over the last two decades from 55.9% in FY06 to 71.1% budgeted in FY25. What caused this change? What would be needed to diversify Boston's revenue mix? What revenue sources could reduce Boston's reliance on the property tax? What limitations could hamper the City's ability to diversify its revenue? Should the City pursue revenue diversification?

Report Objectives

This report provides information and insights on:

- Boston's current revenue structure
- Changes to Boston's revenue mix over time
- Property tax advantages and disadvantages
- Considerations when diversifying revenue
- Alternative revenue options

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Summary

Despite adopting several new revenue streams in recent years, Boston has become increasingly reliant on a single source of revenue to fund its operations. While the property tax offers some stability because of Proposition (Prop) 2½ —especially during economic downturns— relying so heavily on a single revenue source can create financial vulnerabilities, particularly if new growth slows or if the tax burden shifts between residential and commercial when property values fluctuate. Moving away from a heavy reliance on one revenue source is difficult, will take considerable time, and requires more than just adding new revenue.

A revenue diversification strategy should include the following elements.

- To reduce the City's reliance on the property tax, **new revenue sources** should be used to reduce the property tax levy, not to supplement revenues.

- Boston should **control expenses and reduce the pace of spending increases**. The City's Multi-Year Budget Plan indicates that operating costs are rising faster than its revenue. This is not sustainable and is of concern for future budgets as it will push the City to continue levying to the maximum and thereby maintain its heavy reliance on the property tax. As required by law, Boston produces a balanced budget each year; however, decisions made today—such as those related to collective bargaining and other employee costs—will continue to significantly impact spending and revenue needed in the future.

- Regular **review and updating of existing fee schedules and fines** should be undertaken to ensure revenue from these existing sources keeps pace with rising costs and inflation. This proactive approach will help maintain the purchasing power of revenue sources and contribute, in a small way, to reduced reliance on the property tax.

Revenue diversification should be an essential part of Boston's financial strategy. With a $4.64B operating budget, Boston requires financial flexibility so it can respond to changes in the financial landscape, maintain services, and keep its commitment to the community.

Revenue diversification will require concerted effort over time given the scale of the challenge: reducing the portion of the FY25 budget funded by the property tax just from 71.1% to 70.0% would require $49.6M in new revenue. Reducing the property tax share to 60.0% would require $513.3M in new revenue and reducing it to 50.0% would require $977.0M, something that could happen only over multiple budget cycles.

Seeking new revenue should be seen as a way to replace existing property tax revenue, not as a way to supplement it. Boston does not have a lack of revenue nor a particular need for more revenue growth. Adding more revenues while continuing to maximize the property tax levy in periods of high expenditure growth will simply fuel larger budget increases and make Boston even more expensive for residents and businesses.

The property tax under Prop 2½ has been, and will remain, a reliable and predictable revenue source in both good and bad economic times. Relying less on property tax does not eliminate the City's ability to draw on these funds in the future under the provisions of Prop 2½. If these new revenue sources falter in the future, the City is still able to use the full 2.5% plus new growth to fund the budget. As a practical

matter, Boston can diversify its revenue in a meaningful way only if it secures approval from the state to collect new forms of revenue and if it takes less than the maximum allowed in the property tax.

Background & Findings

Over the last two decades, the City of Boston became increasingly reliant on a single source of revenue to fund its operating budget, with over 70% of the City's revenue budgeted to come from property tax in FY25. While the number of revenue sources increased over time, the proportion of the City's budget funded by property tax continued to grow steadily.

Even with uncertainty in the business sector due to hybrid and remote work, property tax revenue is expected to grow 5.1% in FY25 from the FY24 budget. Boston has experienced significant budget growth over the last two decades on the strength of the property tax, particularly due to strong new growth.

In response to recent calls for Boston to explore revenue diversification, the Research Bureau examined the City's significant reliance on a single source of revenue. This report will explore the City's current revenue sources, potential strategies for decreasing the share of the operating budget funded through property tax, and the limitations that may prevent the City from realizing a more diverse revenue portfolio. Potential new revenue sources described below are drawn from practices in other U.S. cities and proposals at the city or state level in Massachusetts. The inclusion of a potential revenue source in this report does not indicate the Research Bureau's support for it.

What is Revenue Diversification?

In general economic terms, heavy reliance on a single type of revenue can make a municipality financially vulnerable, as even small revenue fluctuations can reduce available revenues. For the purposes of this report, the Research Bureau is focused not on the number of revenue sources but rather on the amount of revenue they can generate relative to the total general fund budget. New revenue sources that raise relatively minor amounts of money will not on their own shift the balance of the revenue mix from property tax.

Overview of Boston's Revenues

Boston's adopted FY25 operating budget consists of $4.64B in revenues, a $344.8M or 8.0% increase over FY24. Nearly half (46.0%, or $158.7M) of the City's projected revenue growth is expected to come from property tax increases.

Boston relies on two revenue sources, property tax and state aid, for 82.2% of FY25 operating revenues. In FY06, these two sources accounted for 77.4% of total revenue. The significant change in this dynamic is the decline in state aid, which fell from 21.5% of total revenue in FY06 to 11.1% in FY25. As a result, property tax has become more crucial, accounting for $3.30B, or 71.1% of budgeted revenue in FY25, in contrast to FY06 when it was 55.9% of revenue.

Excise taxes represent $282.6M or 6.1% of the City's revenue, its third-largest source and the largest area of growth outside of property tax since FY06. Currently, interest on investments is budgeted to be the fourth largest revenue generator for the City, a change from recent levels due to robust returns.[1] Boston

[1] Interest on investments and excise taxes, which benefited in part from high interest rates and inflation in recent years, led to a record surplus of $192.6M in FY23.

also collects revenue from other sources such as licenses, permits, fees (which the City charges to defray its costs for providing certain services) and fines (which the City charges when laws are violated).

Apart from recurring revenue sources, the City may also use limited non-recurring sources to fund its budget. In FY25, the City plans to spend $40.0M from the budgetary reserve, or so-called "free cash," which accumulates due to prior budgetary surpluses. Other recent non-recurring revenue includes one-time federal American Rescue Plan Act (ARPA) funds that were used in FY22 and FY23 to help mitigate impacts of the COVID-19 pandemic.

General Fund Revenue Summary *($ in millions)*

	FY24 Budget	FY25 Budget	% of Total FY25	FY25 v FY24 Variance
Net Property Tax	3,136.7	3,295.4	71.1%	5.1%
State Aid	516.3	515.2	11.1%	-0.2%
Excises	244.4	282.6	6.1%	15.6%
Interest On Investments	29.0	100.0	2.2%	244.8%
Misc. Department Revenue	69.7	83.6	1.8%	20.0%
Licenses and Permits	76.3	81.9	1.8%	7.3%
Fines	55.8	58.3	1.3%	4.5%
PILOTs	51.6	57.1	1.2%	10.7%
Intergovernmental Revenues	0.0	42.4	0.9%	N/A
Urban Redevelopment	31.9	39.5	0.9%	24.0%
Parking Meter & Cemetery Trusts	31.0	31.0	0.7%	0.0%
Penalties and Interest	9.5	9.9	0.2%	3.7%
Recurring Revenue Total	**$4,252.2**	**$4,596.9**	**99.1%**	**8.1%**
Non-Recurring revenue	40.0	40.0	0.9%	0.0%
GRAND TOTAL	**$4,292.2**	**$4,636.9**	**100.0%**	**8.0%**

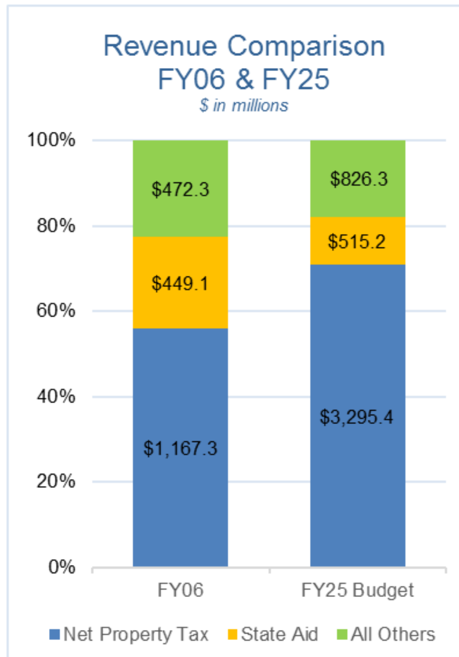
New Growth Drives Property Tax Revenue Increases - Property taxes are levied on owners of real estate based on the class and assessed value of the property. The City's property tax levy limit consists of two parts: an increase of 2.5% over the prior fiscal year's levy limit as well as new growth. Historically, the City increases the property tax levy over the prior year's levy limit by the full amount legally allowed. For more about the mechanics of property taxes under Prop 2½, please see Appendix A.

Over the last 20 years, new growth, caused primarily by new construction, has fueled the City's increase in property tax revenue, allowing it to rise well above 2.5% annually. New development has driven a substantial increase in the City's property tax levy, from $1.96B in FY16 to $3.19B in FY24, an average rate of 6.3%. Since FY16, new growth has accounted for a majority of property tax growth each year. In FY24,

property tax revenue rose 6.5%, with 62.1% of the increase coming from new growth and 37.9% coming from the standard 2.5% increase.

In FY25, the City is budgeting new growth of $60M, well below last year's record new growth of $121.8M. While this projection is consistent with past budgeting practices and may change when the City sets its tax rate, it would represent the first time in a decade that revenue from new growth is less than revenue from the 2.5% levy increase, which is expected at $79.7M.

Maxing out the Tax Levy - Following an adjustment period after Prop 2½ was adopted in 1980, Boston has opted to maximize the amount of revenue it can legally receive from the property tax without enacting a Prop 2½ override. In FY24, Boston's property tax levy of $3.19B fell short of the levy limit by only $709K, or just 0.02% less than allowed. While levying the full amount allowed each year has allowed the City's operating budget to grow consistently over time, the accompanying absence of growth in other large sources of revenue has resulted in the City becoming increasingly reliant on the property tax to fund services.

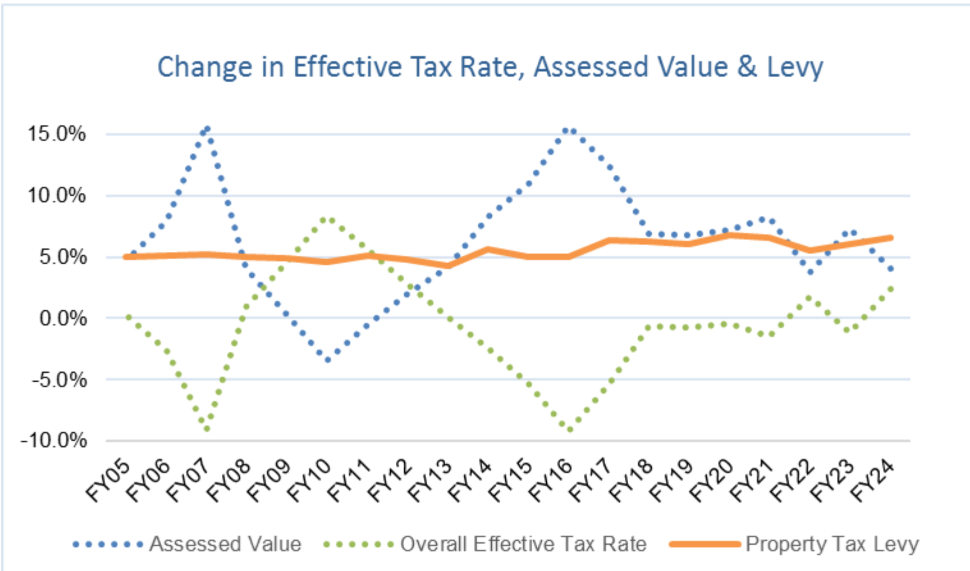


Under Prop 2½, municipalities have the option to levy less than the maximum amount. Each year, Boston has elected to increase the property tax levy by the full 2.5% legally allowed plus new growth. Communities that levy less than the full amount in one year can capture the deferred revenue in the future, but the rate of levy growth to do so will result in a steeper tax increase. For example, if a municipality decides to levy $50.0M less than it is legally allowed in one year, it can tax up to the full levy limit in the next year, which would include the deferred $50.0M. As of FY24, nearly half (48.1%) of all Massachusetts communities had more than 1% of excess levy capacity,[2] 28.5% had more than 5% excess levy capacity and 17.1% had more than 10% excess levy capacity remaining.

Stability of the Property Tax - Due to the structure of Prop 2½, municipalities can opt to have a steady increase in property tax of 2.5% regardless of economic circumstances. While this base increase is guaranteed, the new growth levy increase is dependent on economic development and, thus, can vary substantially. Thus, the property tax provides both stability, through the 2.5% base, and variability through the amount of new growth. The inherent stability of the base increase under Prop 2½ differs from some other forms of revenue such as sales tax, income tax, or excise taxes, which vary depending on economic conditions such as consumer spending and inflation. According to Moody's, the City's full use of its allowable levy each year is a credit strength that has contributed to the its AAA bond rating. The potential impact that a decreased reliance on the property tax could have on borrowing costs should be considered.

[2] Excess levy capacity refers to the difference between the amount a municipality levies through real and personal property taxes and the maximum amount they are allowed to levy, known as the levy limit.

The property tax is calculated using the assessed value of taxable property and the tax rate that is applied to this value. Because Prop 2½ limits the amount of new property tax revenue, these two factors are often inversely correlated, with tax rates declining when assessed values increase, and vice versa. While this means Boston is secure in its ability to collect property tax revenue, it could place a strain on residents and businesses to have property taxes increase in periods of economic downturn. For example, during the Great Recession, the City's taxable assessed value grew 0.4% in FY09 and fell by 3.5% in FY10, yet the City collected 4.9% and 4.6% more respectively in the property tax levy, as the tax rates increased to accommodate the decrease in value.

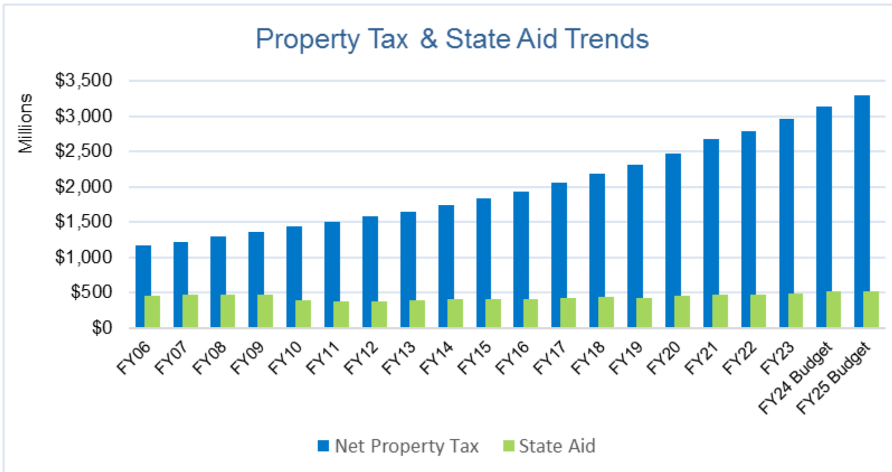


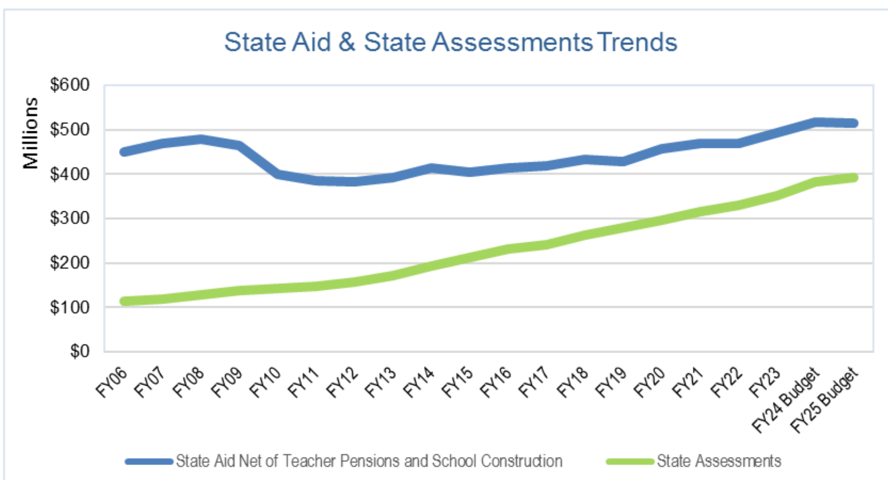
A heavy reliance on property taxes proved to be an advantage for Boston during the COVID-19 pandemic, as the property tax's stability meant Boston did not face the sizable loss of revenue that many other cities around the nation experienced. As a result, Boston used only 17.0% ($95.0M) of American Rescue Plan Act (ARPA) funds to replace lost city revenues and instead invested a significant portion of funds in new programs and services. In comparison, some cities with diverse revenue sources, such as San Francisco and Philadelphia used 100.0% of their ARPA funds to replace lost operating revenues and offset budget deficits.

Flatlining State Aid - After property tax, state aid has been and remains the second largest source of the City's revenue. Over the last two decades, state aid has declined from 21.5% of revenue in FY06 to 11.1% budgeted in FY25. State aid over the last two decades has gone from $449.1M in FY06 to $515.2M budgeted in FY25, an increase of 14.7% ($66.1M), while at the same time property tax has increased from $1.17B to $3.30B, or 182.3% ($2.13B). This dynamic, shown in the chart on the next page, has led the property tax to an even more dominant position in the City's budget.

Over this time, state assessments, charged to the City for items such as the MBTA and per-pupil costs for children attending charter public schools, increased, causing state aid net of assessments to decline from $334.8M in FY06 to $123.1M budgeted in FY25. FY25 is budgeted to be the first year in which Boston's state aid for education, received from Chapter 70 and charter school reimbursements, is less than the amount Boston is assessed for charter school tuition. Additionally, the growth in the City's unrestricted general aid has not kept pace with inflation, growing 3.8% ($8.5M) from FY06 to FY25 while inflation grew 49.3% over the same time. As a result of these factors, other locally-generated revenue sources such as property and excise taxes have replaced the funds Boston once received from the state.

Relying on the scale of the state, with its FY25 budget of $57.78B compared to the City's $4.64B, remains an alluring alternative to city-generated revenues. An increase of state aid could make a substantial difference in revenue diversification, but is largely outside of the City's control and, thus, is not a focus for this report.





Other Changes to the Revenue Mix - Despite the City adopting new revenue sources over the last 20 years, the share of Boston's operating budget funded by all other revenues declined because of robust new growth fueling large increases in property tax revenue. Some of Boston's revenue sources are still adapting to changes caused by the COVID-19 pandemic, and there is uncertainty in how they will stabilize. In FY06, the City derived 22.6% ($472.3M) of its revenue from sources other than property tax and state aid, which included excises, fees, fines, licenses, permits, urban renewal agreements, PILOT agreements and others. In FY25, all of these combined are expected to make up 17.8% ($826.3M) of the City's operating revenue.

Excise taxes have become increasingly important in the City's budget over time, rising from 4.3% ($89.7M) of revenue in FY06 to 6.1% ($282.6M) budgeted in FY25. In addition to excise taxes on things such as hotel rooms, motor vehicles, and jet fuel, Boston has generated new revenue through the adoption of the meals excise (FY10), short-term rental excise (FY20), and marijuana excise (FY22). As these taxes are dependent on the tax rate, cost of goods, and demand, they fluctuate with economic conditions and, as a result, can be a volatile source of revenue.

Another notable change to the revenue mix is declining revenue from parking fines, down from 3.1% ($64.0M) in FY06 to 1.2% ($54.0M) budgeted in FY25. Revenue from the City's 121A and 121B agreements, which provide payments as an alternative to the property tax on agreed-upon parcels, declined from 3.1% ($65.1M) of revenue in FY06 to 0.9% ($39.5M) in FY25. While many of these urban renewal agreements have expired, accounting for their decreased share, property coming off of 121A and 121B becomes taxable through the property tax.

Boston has also become less reliant on its Payment in Lieu of Tax (PILOT) program, through which the City receives voluntary contributions from major non-profit medical, educational, and cultural institutions, which are exempt from the property tax. PILOT funds have increased overall but are expected to make up 1.2% ($57.1M) of City revenues in FY25, down from 1.5% ($32.0M) in FY06. Another revenue change occurred in FY25 with the addition of intergovernmental revenue payments from the Boston Planning and Development Agency, which accounts for 0.9% ($42.4M) of the City's projected revenues for FY25. This source is not intended to raise revenue, but rather to recover the cost of relocating the Planning Department to the City.

What is Needed to Diversify Revenue?

To reduce the percentage of the City's budget funded with property taxes, the City has two options: replace property tax revenue with alternative revenues or add enough non-property tax revenue so that it grows faster than the property tax levy. Boston should also use a range of other criteria when evaluating the potential components of a revenue diversification strategy, including competitiveness, fairness, and the cost of administration.

In FY25, all other conditions being equal, every 1% drop in the share of the total budget funded by property tax would require $46.3M in new revenue to offset it.

Replace Property Tax Revenue - Even small decreases in property tax reliance would require large amounts of alternative revenues. In FY25, all other conditions being equal, every 1% drop in the share of the total budget funded by property tax would require $46.3M in new revenue to offset it. For property tax to equal 60.0% of revenue rather than 71.1%, it would require $513.3M in offsets. For property tax to equal 50.0% of the budget, it would require $977.0M in new revenues. For a budget in which just $1.34B comes from sources other than property tax, substantial diversification is a considerable challenge. This approach would require the City to take less in property tax than legally allowed, which would require discipline by the Mayor to forgo additional revenue for the sake of diversification.

Outpace Property Tax Revenue Growth - Reducing the percentage of the budget funded by property taxes by outpacing the growth in property taxes would require the City to raise substantially more in alternative revenues. In FY25, property taxes are budgeted to increase $158.7M, or 5.1%. However, raising so much additional revenue while maintaining the maximum property tax increase of 2.5% plus new growth would permit an even greater expansion of the City's expenditures, which grew 8.0% in FY25.[3]

Revenue Diversification Scenario *($ in millions)*

% Property Tax Share of Budget	Net Property Tax *	Amount Needed in Revenue Offsets
71.1%	$3,295.4	$0.0
70.0%	$3,245.8	$49.6
65.0%	$3,014.0	$281.4
60.0%	$2,782.2	$513.3
55.0%	$2,550.3	$745.1
50.0%	$2,318.5	$977.0

* Based on FY25 budget

Competitiveness - As Boston decides whether to pursue new revenues as part of a revenue diversification strategy, economic competitiveness should be front and center. If the City implements certain taxes that no other municipalities have, such as a local sales tax or income tax, Boston would be at a competitive disadvantage. How such local option taxes impact economic activity is an essential consideration.

Fairness - Changes to the City's revenue mix may shift who pays for municipal services. Currently, Boston taxes business property owners significantly more than residential property owners. Business properties in FY24 paid 58.3% ($1.86B) of Boston's property tax bill while holding only 33.3% of the property value. Largely as a result of this, coupled with the residential exemption, Boston residents have substantially lower property tax bills than residents in surrounding municipalities, with the average single-family residential tax bill coming in at $5,522 for FY24. Attempts at revenue diversification should take into account shifts in the balance between commercial and residential taxpayers as well as the added burden that homeowners or renters could face.

If new forms of revenue such as sales and income tax are adopted to diversify the City's revenue mix, residents will have a higher cost of living unless property taxes are reduced. While changes in who pays are inevitable if Boston supplants property tax revenue with other revenue, the City should consider the fairness of each revenue source. For example, a higher sales tax may have a disproportionate impact on lower-income households that tend to spend more of their income towards sales tax than higher-income households.

Cost of Administration - The administrative cost of collecting new sources of revenue is another factor to consider as such costs may reduce the net revenue gained. For revenues such as meals and room excise taxes, Boston tacks on an additional rate to the amount already assessed and collected by the state, with funds distributed to the City quarterly. A surcharge on top of existing sources of state revenue allows Boston to mitigate its administrative costs by relying on existing methods of collection. If Boston pursues revenue sources that do not exist at the state level, it would face increased costs for collection and enforcement, reducing the net revenue generated.

Potential Revenue-Generating Options

Boston is the most dependent on property tax to fund its operating budget of any major city in the United States. To understand how Boston could diversify its revenue beyond the obvious option of more state aid, the Research Bureau looked at the revenue sources other American cities use to fund their operations

[3] Without the transfer of the Planning Department and Office of Workforce Development to the City from the Boston Planning and Development Agency, the budget would have grown 7.0% from FY24.

as well as revenue ideas proposed at the city or state level in Massachusetts. This resulted in a wide range of potential revenue generators that could make Boston less reliant on the property tax. Given this report's focus on reducing reliance on the property tax, the Research Bureau did not examine other revenue sources outside of the general fund, such as a [real estate transfer fee](#) or funding from additional federal and state grants.

The inclusion of a potential revenue source in this report does not indicate the Research Bureau's support for the idea. The Research Bureau explored potential new revenue options to help further the discussion, but factors such as the City's limited revenue raising power under Home Rule and the potential negative consequences of alternative revenue types must be taken into account.

The Research Bureau calculated potential revenue generated from several of the sources mentioned. These examples are intended to give a sense of the potential scope of revenue generated at varying levels of implementation. Factors such as market reaction to new taxes and other policies are not included in this analysis.

Home Rule – State Imposed Limits

Like all municipalities in Massachusetts, Boston is limited in its power to raise revenue. The 1966 Home Rule Amendment to the state's constitution granted certain authority for self-governance to cities and towns but prohibits them from, among other things, the right "to levy, assess and collect taxes" without the legislature's authorization. From a practical perspective, this restriction on revenue-raising powers requires the City to pursue a change in state law to raise most new revenues.

A home rule petition in Boston must first be passed by the City Council and approved by the Mayor. It is then filed as a bill in the state legislature, where the normal process is followed. Thus, the House of Representatives and the Senate must approve the home rule petition, and the Governor must sign it. For more on the way home rule impacts the City's ability to raise revenue, please see the Boston Foundation's 2007 *Boston Bound* [report](#).

Sales and Excise Taxes

Sales and excise taxes, in their various forms, are among some of the most common municipal revenue sources throughout the country. This section will explore various sales and excise taxes that could be revenue generators for Boston.

Increasing Existing Excise Taxes - Boston could raise more revenue by increasing the tax rate of existing excise taxes. In the 2023-2024 legislative session, Governor Maura Healey proposed the Municipal Empowerment Act, which would allow Boston to increase its meals tax from 0.75% to 1.0% and its lodging excise from 6.5% to 7.5% as well as add a 5% surcharge on the existing motor vehicle excise tax. Based on the FY25 budget, these increases would have resulted in $37.3M in new revenue, a 13.2% increase in total excises, as seen in the chart above. The lodging tax would have

Potential Effect of Municipal Empowerment Act (MEA)
($ in millions)

	FY25 Budget	FY25 with MEA Increase	Change	% Change
Room Occupancy + Short Term Rental Excise	$140.2	$161.8	$21.6	15.4%
Motor Vehicle Excise	$59.7	$62.7	$3.0	5.0%
Meals Excise	$38.3	$51.1	$12.8	33.3%
All Other Excises	$44.4	$44.4	$0.0	0.0%
Total Excises	**$282.6**	**$319.9**	**$37.3**	**13.2%**

increased $21.6M, the meals tax would have increased $12.8M, and the motor vehicle tax would have increased $3.0M. Supplanting property tax revenue with these funds would have resulted in a 0.8% decrease in the property tax share of the City's budget.

Alcohol and Tobacco Excises - A local tax on alcohol and tobacco products could provide new revenue for Boston similar to how the City collects a 3% tax on sales of recreational marijuana. To reduce the cost of collection, Boston could rely on the state's existing collection infrastructure, with distributors responsible for paying the tax at a wholesale level and remitting it to the state. Distributors can incorporate this into the price they charge retailers, which can pass this on to consumers.

Massachusetts has an alcohol excise tax of $0.11/gallon of beer, with higher rates for wine and spirits. The state also has a cigarette excise tax of $3.51 per average-sized pack, a cigar and smoking tobacco excise at 40% of the wholesale price, a smokeless tobacco tax of 210%, and vaping products excise of 75%. Other major cities around the country impose their own taxes on these items in addition to the state tax. Some examples include:

- Chicago: $0.29 local excise per gallon of beer, in addition to Illinois' $0.23 per gallon; $2.68 per gallon for hard liquor, on top of Illinois' $8.55 tax per gallon.
- Philadelphia: $2.00 local cigarette tax, plus the state tax of $2.60 per pack.
- New York City: $1.50 local cigarette tax, plus a $5.35 state tax per pack.

Boston also generates annual revenue from marijuana and alcohol through licensing. In FY25, alcohol licenses are expected to generate $4.6M in revenue while marijuana licenses are budgeted to bring in $75.0K. Following the approval of 225 new liquor licenses in September 2024, Boston can expect to see increased revenue from this source in future fiscal years.

Local Sales Tax - A local sales tax could offer Boston another revenue source. Currently, Massachusetts collects a 6.25% sales tax, and no municipalities in the state impose a local sales tax. Of the top 25 cities in the United States by population, 22 impose a sales tax. In most cases, the state collects the local sales tax and distributes it to each city.

45 states and the District of Columbia impose sales taxes ranging from 2.90% to 7.25%, with 38 allowing for local sales taxes. Major cities with the highest combined state and local sales tax rates are Seattle at 10.35%, followed by Chicago at 10.25% and Denver at 8.81%. Large cities at the lower end of the spectrum include Houston and Charlotte, both of which have a combined rate of 7.25%. Depending on its size, a local sales tax could place Boston near the upper end of the combined state-local sales tax spectrum.

Sales Taxes of Major U.S. Cities

City	State Sales Tax	Local Sales Tax	Combined Sales Tax
Boston, MA	*6.25%*	*-*	*6.25%*
Houston, TX	6.25%	1.00%	7.25%
Charlotte, NC	4.75%	2.50%	7.25%
Jacksonville, FL	6.00%	1.50%	7.50%
Columbus, OH	5.75%	1.75%	7.50%
San Diego, CA	6.00%	1.75%	7.75%
Phoenix, AZ	5.60%	3.00%	8.60%
Denver, CO	2.90%	5.91%	8.81%
Chicago, IL	6.25%	4.00%	10.25%
Seattle, WA	6.50%	3.85%	10.35%

Because sales taxes are sensitive to economic downturns, they are a volatile source of revenue. Also, if Boston imposed a higher sales tax than adjacent communities, consumers may opt to spend their money elsewhere. As a result, a local sales tax could drive some economic activity out of the city, a risk that warrants deeper study before Boston pursues it.

Ticket Tax - Sporting events and other events that require admissions tickets are currently exempt from the state's sales tax. A local ticket tax could essentially eliminate this exemption. Several cities, including Chicago, Cleveland, Philadelphia, Denver, and Baltimore impose a tax on event tickets, with rates ranging from 5%-10%. A ticket tax is typically collected by the business from consumers and remitted to the city.

Potential Ticket Tax Revenue *($ in millions)*

Team	2023 Full Season Gate Receipts	Annual Revenue from a 1% Tax	Annual Revenue from a 5% Tax	Annual Revenue from a 10% Tax
Red Sox	$186.0	$1.9	$9.3	$18.6
Celtics	$116.0	$1.2	$5.8	$11.6
Bruins	$99.0	$1.0	$5.0	$9.9
Total	**$401.0**	**$4.0**	**$20.1**	**$40.1**

Source: Forbes MLB, NBA and NHL Team Valuations. Red Sox: 2023 season, Bruins/Celtics: 2022-2023 Season

Even just among the major sports teams that play in Boston, a ticket tax could generate millions annually. The Red Sox, Celtics, and Bruins took in a combined $401.0M from ticket sales (gate receipts) in their seasons ending in 2023. A 5% tax on ticket sales by these three teams combined could raise $20.1M annually, and a 10% tax could generate $40.1M in annual revenue based on existing sales. While this example highlights potential revenue from only sports teams, an admissions ticket tax could apply to other sales of admissions tickets, such as music and theatrical performances, museums, and movie theaters.

If Boston were to attempt to adopt a ticket tax, it is essential to balance the revenue generated with the burden placed on consumers, especially given the high cost of tickets and the fees charged by ticket sellers.

Sugary Drink Tax - A sugary drink tax, also known as a sweetened beverage tax, refers to a levy imposed on beverage distributors of drinks that contain added sugar. The tax is paid by distributors that typically pass the additional cost on to retailers, which are likely to pass the cost onto consumers. While primarily implemented for health reasons to alter consumer behavior and reduce sugar consumption, it can also result in significant revenue generation. Cities that have imposed a sugary drink tax include Philadelphia, Seattle, and San Francisco.

Since 2017 in Philadelphia, all sweetened beverages including sodas, energy drinks, and sweet teas have been taxed at a rate of 1.5 cents per ounce. Seattle implemented a sugary drink tax in 2018 that placed an excise of 1.75 cents per fluid ounce on the distribution of sugar-sweetened beverages. Collections from the tax have generated between $17.3M and $22.9M each year in revenue. San Francisco also instituted a 1 cent per ounce sugary drink tax in 2018. The tax generates approximately $12M to $13M for the city's general fund annually.

In Massachusetts, no such tax exists at the state level, although a bill imposing an excise tax on sugary drinks was proposed in the 2023-2024 legislative session.

Outdoor Advertising Tax - An outdoor advertising tax applies to those who purchase or rent advertisements on billboards or other outdoor signage, with advertising signage companies collecting the tax and remitting it to the city. In Philadelphia, a 7% tax is charged on the rental or purchase price of outdoor advertising. In a different approach, Baltimore imposes a tax on the billboard owner of $5 per square foot of advertising space, or $15 per square foot for electric billboards with rotating images.

Billboards in Massachusetts are subject to the property tax using a valuation based on the cost to build the billboard. Outdoor advertising in Massachusetts is regulated by the Office of Outdoor Advertising, which collects annual license and permit fees on billboards. There are over 1,450 outdoor advertising signs in Boston, representing about 40% of the state total. Given the high concentration of outdoor advertising in the city, Boston could expect to benefit from adoption of a local outdoor advertising tax.

Parking Tax - A commercial parking tax refers to a tax on gross receipts from private off-street parking operators, such as parking lots and garages. Across the country, cities like Chicago and Los Angeles have imposed a commercial parking tax at various rates. Chicago has a tax rate of 22% for weekday, weekly, and monthly parking, with a 20% rate for weekends. The tax is applied to businesses that operate parking lots or garages, which collect the tax from consumers and remit it to the city. Similarly, Los Angeles requires all parking operators to collect a 10% tax from customers and remit it to the city. According to an August 2024 Metropolitan Area Planning Council report, a commercial parking tax in downtown Boston alone could generate between $19.0M (at a 10% rate) and $47.6M (at a 25% rate) in new revenue.

Similarly, some cities impose a tax for valet parking services, with the tax applied to the total cost of valet parking and collected by the business offering the valet service. Philadelphia imposed a valet parking tax in 2015 as a part of the city's 22.5% parking tax. Boston requires a valet parking permit for valet parking services, charging $40 per linear foot of curb space used a year, with additional costs for signage, but does not collect a tax on valet parking receipts.

Fees, Fines and Permits

Communities in Massachusetts are limited in their ability to raise revenue through fees under the Supreme Judicial Court's 1984 *Emerson College v. Boston* decision, which set out a three-part test for the legality of a fee. Fees charged for a particular service must be paid voluntarily in exchange for using that service. In addition, they cannot be used to simply raise revenue, but rather must be used to defray the cost of providing the service. Regular review and updating of existing fee schedules can be an effective way to ensure that revenue from fees and permits keeps pace with rising costs and inflation.

Resident Parking Permits - Charging for residential parking permits could be a new revenue source. Currently, Boston gives preferential treatment to residents in certain neighborhoods by allowing them to park in designated street areas if they have a permit sticker on their vehicles. Boston does not charge a fee for the sticker. Nearby cities such as Cambridge ($25) and Somerville ($40) charge annually for residential parking permits. If Boston implemented a similar fee, it could generate millions in potential revenue. Potential revenue generated from this fee can be seen in the chart at right, with more detail by neighborhood found in Appendix B.

Potential Resident Parking Permit Revenue *($ in millions)*

Active Residential Permits Citywide	125,561
$25 Fee	$3.1
$50 Fee	$6.3
$100 Fee	$12.6

Source: Boston Parking Clerk, June 2023

Third-Party Delivery Fees - The City could also consider implementing a fee on third-party delivery services, such as e-commerce or food delivery services. It could be charged at a flat rate as an added cost to the item being purchased, being collected from the consumer at the time of purchase. This fee could help mitigate the impacts of third-party deliveries, such as traffic congestion and emissions, while simultaneously creating revenue. It could apply to any delivery of a retail item that is subject to the state's sales tax, with sales from small businesses potentially exempted.

A report by the Metropolitan Area Planning Council (MAPC) explores the possibility of a retail delivery fee at the state level, modeled after those in Colorado and Minnesota. Colorado's $0.29-per-delivery fee generated $92.9M in FY24, while Minnesota's $0.50-per-delivery fee is projected to generate $59.0M in FY25, its first year. E-commerce in Massachusetts is on a steady rise, with online retail sales accounting for 25% of total retail sales in 2023. Boston was also ranked third in the nation for per-capita spending on food deliveries in 2019. According to the MAPC report, if Massachusetts were to implement a $0.50 fee, it could bring in $192.5M for the state annually. The state could consider a revenue-sharing model, allocating a portion of the earnings to municipalities where the deliveries take place.

Garbage Collection Fees - Some Massachusetts cities provide residential trash removal as a free service while others charge a fee to defray the cost. Boston does not charge for residential waste collection, with the service funded solely through the City's budget. Boston could generate revenue by charging a fee to households that use municipal trash service.

Potential Revenue From Municipal Waste Fee *($ in millions)*

Boston Households *	272,500
$25 Fee	$6.8
$50 Fee	$13.6
$100 Fee	$27.3

* Served by Waste/Recycling Service

Given the number of households using the City's trash program, 272,500 as of 2023, even a relatively small fee has the potential to generate substantial revenue. As seen in the chart at left, a $25 municipal waste fee has the potential to generate $6.8M based on current household participation, and a $50 fee could generate $13.6M. With municipal garbage removal budgeted to cost the City $65.2M in FY25, even a $100 fee would generate less than the cost of providing the service.

The City could also consider a "pay-as-you-throw" program for residential trash collection, in which residents are charged by the volume of waste they produce. While a pay-as you-throw system varies from the current model of waste management, 156 (44.4%) of Massachusetts municipalities use it as a means to raise additional revenue while reducing the volume of trash generated.

Congestion Pricing - Congestion pricing, a strategy that applies fees to drivers entering high-traffic areas during peak hours, could raise revenue for Boston. Congestion pricing can include methods such as tolls, priced lanes, zone-based pricing to enter specific areas, and dynamic pricing based on the time of day. In addition to raising revenue, this policy tool could reduce congestion, promote alternative modes of transportation, reduce greenhouse gas emissions, and improve air quality.

New York City was poised to be the first major U.S. city to implement a congestion pricing system, which has been more commonly used in cities in Europe. In November 2023, the Traffic Mobility Review Board submitted a report to the Metropolitan Transportation Authority (MTA), suggesting that congestion pricing could generate $15B in revenue for the MTA's 5-year capital plan. Governor Kathy Hochul indefinitely paused the New York City congestion pricing proposal in June 2024.

While congestion pricing could generate additional revenue for the City of Boston, it is regressive, disproportionately impacting low-income drivers, and it may add to the cost of getting around in the city. It may also require a substantial up-front infrastructure investment to implement.

Fine Structure and Enforcement - Boston should regularly update the cost of its fines to ensure they remain a deterrent to illegal behavior while also recouping some costs. Increasing fines will deter unwanted behavior, but it should not be relied upon as revenue diversification strategy since the goal is to decrease the number of violations, which in turn will lead to reduced revenue.

Parking fines were most recently increased in 2018. Since then, the consumer price index for Boston-Cambridge-Newton has risen by 22.0%, potentially weakening their deterrent effect. New revenue may be possible from proposed state legislation that would allow for camera-enforcement of bus stop and bus lane traffic violations.

Increased fines and enhanced code enforcement for trash violations is another area for potential revenue growth. Boston has a home rule petition pending in the state legislature to allow an increase in the maximum fine for trash violations from $300 to $2,000. The maximum fine, last updated in 1989, has not increased with inflation, resulting in less compliance with the law and missed revenue generation.

Additional Revenue Options

Income Tax - Adoption of a local income tax on income earned in Boston is another potential revenue source. Massachusetts currently applies a 5.0% tax rate for both earned and unearned income, with an additional 4% surtax applied to income over $1,053,750 for tax year 2024.

Currently, 16 states allow municipalities to collect local income taxes in addition to the state income tax, and income tax is a significant source of revenue in cities such as Detroit and New York City. Of the top 25 cities in the United States by population, 5 implement a local income tax. Local income taxes vary between and within states. On the low end of the spectrum, Indianapolis has a 2.02% rate, which, when combined with the state rate (3.05%) results in a combined rate state-local rate only marginally higher than Massachusetts' state income tax rate. Philadelphia is at the higher end of the spectrum, with a local income tax of 3.75% for residents, which in combination the flat state rate of 3.07% leads to a combined 6.82% rate. Certain cities, such as Detroit and Philadelphia, tax residents and non-residents at different rates. New York City graduates its local income tax by income level, while others impose a flat tax. A comparison of local and state income taxes can be seen in the chart above.

State-Local Income Tax Rates of Major U.S. Cities

City	State Income Tax	Local Income Tax	Combined Income Tax
Boston, MA	*5.00%*	*-*	*5.00%*
Indianapolis, IN	3.05%	2.02%	5.07%
Columbus, OH	2.75% to 3.50%	2.50%	5.25% to 6.0%
Detroit, MI	4.25%	2.40%	6.65%
Philadelphia, PA	3.07%	3.75%	6.82%
New York, NY	4.0% to 10.9%	3.08% to 3.88%	7.08% to 14.78%

*Using resident rate for cities that have differentiate between residents and non-residents

Income taxes are particularly volatile, with economic downturns affecting revenue due to factors such as increased unemployment and decreased earnings. A local income tax would likely require cooperation with the state to administer the program, distributing the local share of the revenue to the City. If Boston becomes the only municipality to adopt a local income tax, it runs the risk of businesses and perhaps residents leaving the city for municipalities that do not tax income.

Payment in Lieu of Tax (PILOT) - In FY12, Boston implemented a revamped Payment in Lieu of Tax (PILOT) program, with certain educational, medical, and cultural institutions owning property valued over $15M agreeing to participate based on 25% of what the organization might have paid in property tax had it been subject to taxation, with up to 50% of the total made up of agreed upon community services that address city needs. PILOT cash payments have increased 83.6% over the length of the program, from $19.5M in FY12 to $35.7M in FY23.

The $15M threshold has not been updated in more than ten years, and only institutions with property having assessed values of over $15M in FY12 have been asked to participate in the program. The threshold for participation and the list of participating institutions should be updated to reflect changes in the assessed values over this time. Additionally, there is legislation pending at the State House that would allow municipalities under a local option to require PILOT payments from certain non-profit institutions owning property with assessed values over $15M, rather than the purely voluntary system in place currently.

Newark, Delaware, has considered implementing a $50 per-student per semester fee on private colleges and universities aimed at recouping costs associated with the students at the University of Delaware. While there would be no requirement that the charge be paid by the students, institutions could pass it onto them. Massachusetts has no such per-student fee at the state or municipal level. There were 96,428 undergraduate students and 66,553 graduate students enrolled in Boston in 2023, according to the Mayor's Office of Housing. An annual $100 per-student tax ($50 per semester) would generate $16.3.M in revenue for Boston. If the City pursues such a fee, it would have a detrimental effect on the voluntary participation of higher educational institutions in the PILOT program.

Merchandise Licensing Program - Trademarking symbols and logos associated with Boston, many of which are currently unlicensed and open to reproduction, could allow the City to generate new revenue. New York City implemented a similar initiative in 2004, which is fully self-funded with annual retail licensing sales exceeding $24M in 2010.

This program could primarily target tourists, generating revenue from visitors rather than residents. New York City's program is managed by NYC & Company, the city's official marketing and tourism arm, which acts as the exclusive licensing agent, issuing Requests for Proposals for services supporting the licensing initiative. Merchandise categories include apparel, souvenirs, home furnishings, and office products. A similar program in Boston would need to be evaluated to see the costs associated with it exceed the potential revenue gained.

Conclusion and Recommendations

The Research Bureau recommends that Boston adopt a revenue diversification strategy as part of its financial toolbox. Revenue diversification is not a quick fix and alone will not resolve Boston's dependence on property tax. The goal is not to eliminate property taxes but rather to reduce reliance on them; new revenue streams should primarily support this purpose and not drive additional budget growth. Diversification is neither easy nor without risk and will rely upon mayors' willingness to forgo collecting the maximum amount legally allowed of property taxes.

The Research Bureau recommends that to decrease reliance on the property tax, the City should pursue the following.

1. **Supplant Revenue to Reduce Property Tax Levy:** New revenue sources should be used to reduce the property tax levy, not to expand overall revenue. Boston does not have a lack of revenue nor a particular need for more revenue growth. Adding more revenues while continuing to maximize the property tax levy in periods of high expenditure growth will simply fuel larger budget increases and make Boston even more expensive for residents and businesses.

2. **Control Spending:** Boston should control expenses and reduce the pace of spending increases. The City's Multi-Year Budget Plan indicates that operating costs are rising faster than its revenue. This is not sustainable and is of concern for future budgets as it will push the City to continue levying to the maximum and thereby maintain its heavy reliance on the property tax. As required by law, Boston produces a balanced budget each year; however, decisions made today—such as those related to collective bargaining and other employee costs—will continue to significantly impact spending and revenue needed in the future.

3. **Update Fees & Fines:** Regular review and updating of existing fee schedules and fines should be undertaken to ensure revenue from these existing sources keeps pace with rising costs and inflation. This proactive approach will help maintain the purchasing power of revenue sources and contribute, in a small way, to reduced reliance on the property tax. The City should publish a log of all municipal fees to keep track of fee amounts, when fees are updated, and the factors that should be considered when updating fee amounts. This should be readily accessible to the public.

4. **Expand Excise Revenue:** Excises are one of Boston's most promising areas of revenue growth. The Municipal Empowerment Act could net $37.3M in new revenue for Boston, providing a strong incentive for the Mayor to aggressively lobby the state legislature to adopt it in the 2025-2026 legislative session.

5. **Add Alternative Revenue Sources:** Boston's reliance on the property tax for operating revenue is far greater than other major cities in the country. Expanding existing revenue sources alone will not materially alter the City's reliance on the property tax. Other than a local sales tax or income tax, most new revenue sources will not make a material difference given their relatively small scale. Nonetheless, reducing reliance on property taxes, even at the margins, would provide financial flexibility for the City.

If Boston pursues new revenue sources or seeks to increase revenue from current sources other than property taxes, key considerations include the following.

- **Impact** - Understanding who will bear the costs of new revenue sources and the broader effects on individuals, businesses, and the local economy is essential. Factors such as competitiveness, fairness, and the cost of administering new revenue sources should be taken into account.

- **State approval -** Meaningful revenue diversification requires state legislative approval. Coordination with the state will be necessary to overcome this legislative hurdle and to ensure that the implementation of any new revenue source goes smoothly.

- **Scope and timeframe -** Diversifying revenue will be a gradual process. Reducing the portion of the FY25 budget funded by the property tax just 1% would require $46.3M in new revenue. More substantial reductions would require hundreds of millions of dollars in new revenue, likely achievable only through a sustained effort over multiple budget cycles.

- **City Commitment -** Ensuring that any increase in revenue from new sources results in a proportional reduction in property taxes will require mayoral discipline to forgo revenue for the sake of diversification.

Revenue diversification is a means to allow the City greater financial flexibility to respond to changes in the financial landscape while maintaining services for the community, and it should be an essential part of Boston's financial strategy moving forward.

Appendix A

A Proposition 2 ½ Refresher

Boston's ability to raise revenue through the property tax is restricted by Proposition 2½ (Chapter 59, section 21C), a 1980 law that constrains both the total property tax levy the City can raise as well as the annual increase in the tax levy. The law prohibits the tax levy from increasing more than 2.5% over the prior fiscal year's levy limit. In addition to the maximum 2.5% increase, the City is allowed to capture new growth, primarily due to new construction. The new growth addition is calculated by multiplying the incremental increase in assessed value associated with new growth by the prior year's tax rate. That new growth addition is then tacked onto 102.5 % of the prior year's tax levy limit to form the new tax levy limit for the fiscal year. Thereafter, that new growth becomes a permanent part of the tax base, increasing up to 2.5% annually.

Proposition 2½ also states that the total property tax levy cannot exceed 2.5% of the total fair cash value of all real and personal property, known as the levy ceiling. In FY24, Boston's levy ceiling was $5.52B. This is $2.33B above the City's levy limit of $3.19B, which means that absent a catastrophic decline in property values, the levy ceiling is unlikely to limit Boston's property tax growth.

Appendix B

Potential Revenue from Residential Parking Permit

Neighborhood	Active Residential Permits	$25 Fee	$50 Fee	$100 Fee
ALLSTON/BRIGHTON	24,532	$613,300	$1,226,600	$2,453,200
BACK BAY	5,974	$149,350	$298,700	$597,400
BAY VILLAGE	687	$17,175	$34,350	$68,700
BEACON HILL	4,949	$123,725	$247,450	$494,900
CHARLESTOWN	7,701	$192,525	$385,050	$770,100
CHINATOWN	567	$14,175	$28,350	$56,700
DORCHESTER	12,718	$317,950	$635,900	$1,271,800
E. BOSTON	12,613	$315,325	$630,650	$1,261,300
FENWAY/KENMORE	3,260	$81,500	$163,000	$326,000
HYDE PARK	429	$10,725	$21,450	$42,900
JAMAICA PLAIN	4,059	$101,475	$202,950	$405,900
LEATHER DISTRICT	148	$3,700	$7,400	$14,800
MATTAPAN	161	$4,025	$8,050	$16,100
MISSION HILL	3,379	$84,475	$168,950	$337,900
NORTH END	2,853	$71,325	$142,650	$285,300
ROSLINDALE	785	$19,625	$39,250	$78,500
ROXBURY	1,299	$32,475	$64,950	$129,900
S. BOSTON	28,906	$722,650	$1,445,300	$2,890,600
SOUTH END	9,369	$234,225	$468,450	$936,900
W. ROXBURY	689	$17,225	$34,450	$68,900
WEST END	483	$12,075	$24,150	$48,300
TOTAL	**125,561**	**$3,139,025**	**$6,278,050**	**$12,556,100**

Source: Boston Parking Clerk, June 2023