

# Revenue Estimates and Analysis

## OVERVIEW

The FY18 Recommended Budget is supported by \$3.14 billion in total revenue, an increase of \$143 million, or 4.8%, from budgeted FY17 total revenue. The FY18 Recommended Budget includes \$3.1 billion in recurring revenue and \$40.0 million in non-recurring revenue.

Over the past decade, the City's revenue structure has shifted toward a growing reliance on property tax. Property tax, excise taxes, and license and permit revenue lead local revenue growth and are driven by an expanding economy. Ninety-three percent of tax revenue growth is from locally derived sources such as property tax and other local revenue. Thus while the City is projected to experience robust property tax growth in FY18, that growth is offset by sluggish and unpredictable state revenue growth.

State revenue, the City's second largest revenue source, never recovered following the last recession. As Figure 1 illustrates, the share of net property tax has increased dramatically since FY08 as the share of state aid has steadily decreased.

In FY18, Boston's state revenue is still \$52.8 million, or 10.7%, lower than Boston's state aid in FY08. While Boston's spending on education has increased substantially, Boston's state education funding has not kept pace. The Chapter 70 education aid formula does not work for Boston, and thus Boston's Chapter 70 growing by 0.6% or \$1.3 million in the Governor's proposed budget, a stark contrast to the \$57.8 million more Boston expects to spend on education in FY18.

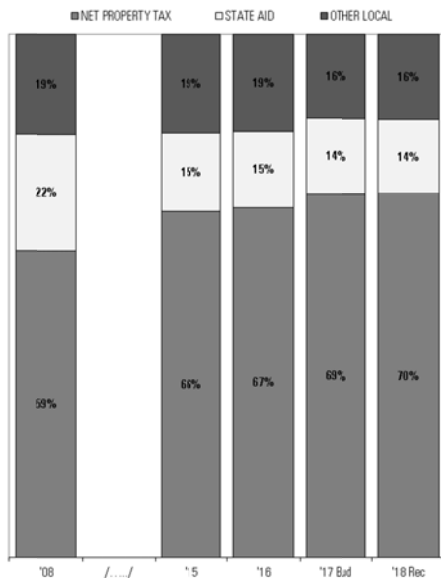
Additionally, while Boston's charter school assessment has risen by 155% since the enactment of the 2010 Achievement Gap Legislation, the State's statutory obligation to fund charter school reimbursement has not kept pace. As a result, the City of Boston is projected to lose \$25 million in the Governor's

FY18 budget, adding to the total lost revenue of \$48 million over three years (FY15 – FY17).

Mayor Walsh filed comprehensive education finance reform legislation that aims to invest equitably in public education and expand access to high-quality education for students of all ages.

Local receipts, which include revenues such as excises, fees, fines, and permits, are projected to grow at \$26.3 million (5.5%). Boston is projecting strong room occupancy and meals excise revenue as well as continued permit revenue growth from commercial and residential real estate development and increased revenue from parking fines. The FY18 Budget also includes \$2 million in new revenue as a result of the state legislation that passed in 2016 to create a per-ride assessment collected from transportation network companies (TNCs) such as Uber and Lyft.

With limited revenue tools, the City is expanding its efforts in FY18 to better maximize the available local revenue tools. In FY18, the Office of Budget Management will initiate revenue audits to verify the accuracy of information reported with certain fees. The City anticipates recovering \$2 million in additional revenue through these audits. This City will also work to maximize federal health insurance reimbursements.



Percentages may not add due to rounding

**Figure 1 - Categories of Recurring Revenue**  
FY08 & FY14-FY17

This chapter begins with a review of national, state, and local economic trends that impact the Boston area economy and the City's revenue. That is followed by a discussion of recent state budget trends and development of the FY18 state budget. Following these sections is a discussion of the City's FY18 revenue estimates by major category including: the property tax levy -- the City's largest single revenue source, state aid, and local receipts. This is followed by a brief discussion of non-recurring revenue.

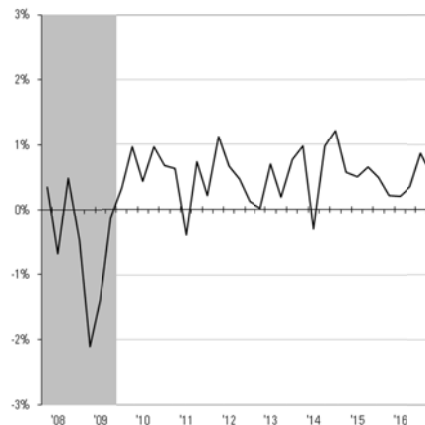
#### *The National Economy*

A city can control only so much of its economic condition in the near term. And a city's economic condition can positively or negatively affect its ability to raise revenue. As such, the state and national economies are of great importance to the City's well-being. The nation's economic recovery is gaining momentum from a deep recession that officially ended almost eight years ago in June 2009.

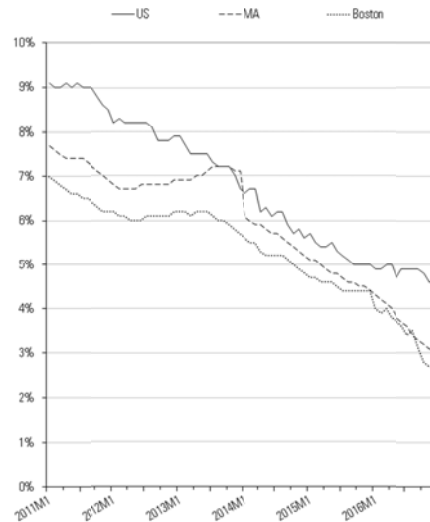
Since the recession, the U.S. economy has grown in fits and starts since June 2009 as evidenced by GDP growth. Accommodative monetary policy and extended unemployment insurance have back-stopped any slide back into recession. But recently, the housing sector has gained steam and other economic variables seem to be stabilizing and beginning to grow.

Overall economic value as measured by real Gross Domestic Product (GDP) has been positive, but growth has been relatively slow. For all but two of the thirty quarters after the recession's official end in the second quarter of 2009 through the fourth quarter of 2016, real GDP growth has been positive but only averaging 0.5%. The Federal Reserve reaffirmed estimates of moderate economic growth, with real GDP forecast to grow between 1.7% to 2.3% for the calendar year 2017 and 1.7% to 2.4% for 2018.

The seasonally adjusted unemployment rate in the U.S. has been steadily decreasing since the end of the recession. The unemployment rate was 4.7 percent in February, near its recent low. According to Federal Reserve estimates, the unemployment rate is expected to continue improving, falling to a range 4.4% to 4.7% in calendar year 2017 and to a range of 4.2% to 4.7% in 2018.



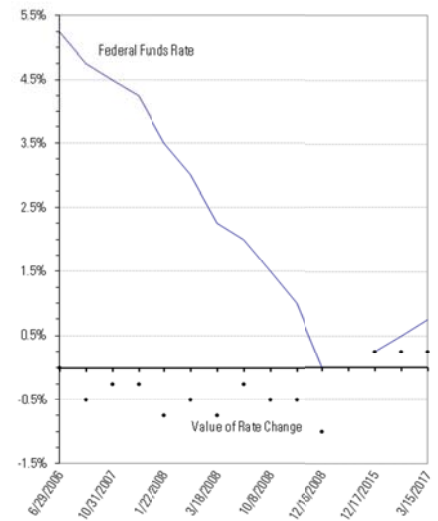
**Figure 2 – Real Gross Domestic Product Growth (Chained 2009 dollars)**  
2007Q4-2016Q4 & NBER dated recession



**Figure 3 - Unemployment Rates**  
January 2011-December 2016 Seasonally Adjusted

Inflation has been below the Federal Reserve's target of 2%. The Federal Reserve projects that inflation will range from 1.7% to 2.1% in 2017 and range from 1.8% to 2.1% in 2018.

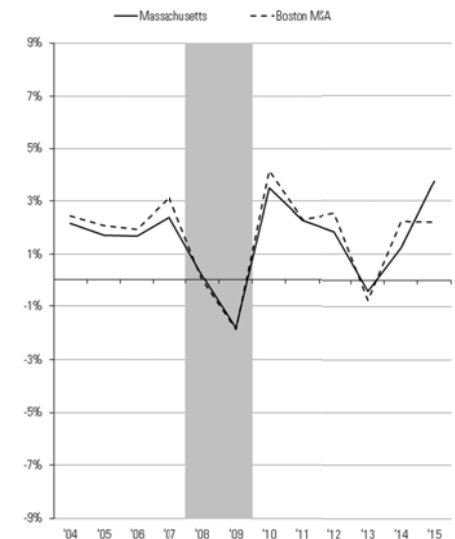
Despite the improvements in the labor market and the expectation that inflation would rise to its target of 2%, the Federal Reserve forecasts that economic conditions will evolve in a manner that will warrant only gradual increases to the federal funds rate. In December 2015, for the first time since 2008, the Federal Reserve increased the Federal Funds target rate by 0.25%, to a target range of 0.25% to 0.50%. The Federal Reserve increased the Federal Funds target rate in December 2016 by 0.25%, to a target range of 0.50% to 0.75% and again in March 2017 by 0.25%, to a target range of 0.75% to 1.0%. The Fed's benchmark rate, after these modest increases, is still quite low by historical standards.



**Figure 4 - Federal Funds Rate Changes**  
June 2006-March 2017

#### *The State and City Economies*

During the period of 2006 to 2015, Massachusetts' annualized growth rate of 1.3% in real Gross Domestic Product (GDP) by state ranked 13<sup>th</sup> out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state remains one of the richest in terms of its GDP per capita -- \$64,017 in 2015 -- 4<sup>th</sup> in the nation and 128% of the national average.



**Figure 5 - Real Gross Product Growth**  
2004-2015

The unemployment rate had been decreasing for both the State and City. The rate in Massachusetts has since fallen to 3.1% as of

December 2016, which is still slightly higher than the 2.6% seen in the year 2000; however, this is due to growth in the labor force. The state and local economies have regained all jobs lost during the recent recessions and have reached peaks. The City of Boston's unemployment rate has steadily fallen to 2.7% as of December 2016.

Massachusetts wage and salary income in the fourth quarter of 2016 rose 4.3% over the same quarter 2016, continuing a trend of positive year-over-year quarterly growth rates since first quarter 2010. Earnings growth by industry grouping over the period of the last quarter in 2015 to 2016 was strongest in "Utilities" and "Durable Good and Manufacturing", while "Forestry, fishing, and related activities" and "State and Local" showed the weakest growth during the same period.

Massachusetts' seasonally adjusted total personal income rose 4.1% from 2015 to 2016, 12<sup>th</sup> out of the 50 states and DC in terms of growth and just above the national average of 3.5%.

(See *Boston's People & Economy* section of Volume I for more detail on Boston's population and labor force trends)

#### *The Commonwealth Budget*

State aid to the City represents its second largest single source of general fund revenue, although it has been declining as a share of recurring revenue. The State also provides many grants that support city programs and expenditures. Often, changes to law or policy recommendations that affect City expenditures and revenue generating capacity occur within or alongside budget language. As a result, the state budget is of great interest to the City.

#### *Recent State Budget History*

The State has faced several very difficult years of structural budget imbalance and is facing more difficult years ahead despite recent revenue increases. The State has made use of its stabilization or "rainy day" fund in addition to reductions in expenditures and increases in revenue to deal with its structural imbalance. At the close of FY08, the stabilization fund balance was approximately \$2.1 billion. The

State had drawn down the balance considerably by the close of FY10 to a low of about \$670 million before revenues began to increase again in FY11. The fund has since increased and stood at about \$1.29 billion at the close of FY16. The remaining balance at the end of FY17 is expected to be \$1.30 billion.

#### *The FY18 State Budget*

As the time of submitting Mayor Walsh's proposed FY18 Budget, the State is in the middle stage of development of its FY18 budget with only the Governor's budget having been submitted. The Governor's budget includes a modest increase in state aid 2.5%, or \$10.7 million. The Governor's budget (H.1) increased Unrestricted General Government Aid (UGGA) by 3.9%, or \$7 million. UGGA is the main driver in the increase in state aid in FY18, while Chapter 70 Education Aid only grew by 0.6%, or \$1.3 million and Charter School reimbursements grew by \$3 million, or 14%. While Boston's charter school assessment has risen by 155% since the enactment of the 2010 Achievement Gap Legislation, the State's statutory obligation to fund charter school reimbursement has not kept pace. As a result, the City of Boston lost \$48 million over three years (FY15 – FY17). Based on H.1, Boston is projected to lose another \$25 million in FY18. Without a change of course in how the state funds this critical local aid line item, the City of Boston will be left to make difficult budgetary decisions that will impact the quality of life for not only our residents but for the hundreds of thousands more who work and visit this City every day.

Given these challenges, Mayor Walsh is building on his commitment to Boston's students and proposed transformative education finance legislation to expand access to high-quality education for students of all ages. Mayor Walsh, partnering with Boston's State Legislators, proposed targeted state education finance reforms that will increase annual funding to Boston by \$35 million in its first year of implementation, and position Boston to receive \$150 million in additional annual Chapter 70 aid within a few years if the state identifies a new revenue source for investments in education. In concert with the Boston Public School Long-

Term Financial Plan, the additional revenue will allow for the continued expansion of investments necessary to support all of Boston's children. The package would unlock resources that would improve educational outcomes in Boston's district, charter, and non-profit settings. The proposals would:

- Grant charter schools access to the Massachusetts School Building Authority and relieve the State General Fund of the cost of charter facilities, creating additional capacity for state funding for charter transition costs;
- Streamline charter school transition funding in a way that limits state and City costs;
- Provide every Boston 4-year old with a high quality Pre-K seat;
- Increase districts' reimbursements for the highest-need and highest-cost students; and
- Make transformational education funding available for Boston if the State identifies a new education revenue source.

The following discussion details the three major local revenue streams to the City: Property Tax, State Aid, and Local Receipts. This is followed by a brief discussion of Non-recurring Revenue.

## *REVENUE ESTIMATES*

### *The Property Tax*

The property tax levy has always been the City's largest and most dependable source of revenue. In FY17 the net property tax levy (levy less a reserve for abatements) totals \$2.048 billion, providing 69.6% of recurring revenue. In FY18, the net property tax levy is estimated to total \$2.159 billion and accounts for 69.6% of budgeted recurring revenues.

Recently, property values in Boston have been increasing steadily. In FY16, property values increased by \$17.3 billion or 15.6%, and in FY17, property values increased by \$15.9 billion or 12.4% to \$143.9 billion. However, in Massachusetts Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base. This means that while the property values have

grown 44% since FY14, property tax revenue has only grown 17% due to proposition 2 ½.

While still maximizing the City's property tax revenue under Proposition 2 ½, Mayor Walsh expanded the residential exemption which lowered Boston homeowner's property tax in 2017. The change reduced the average property tax bill for single-family, owner occupied homes by \$299.

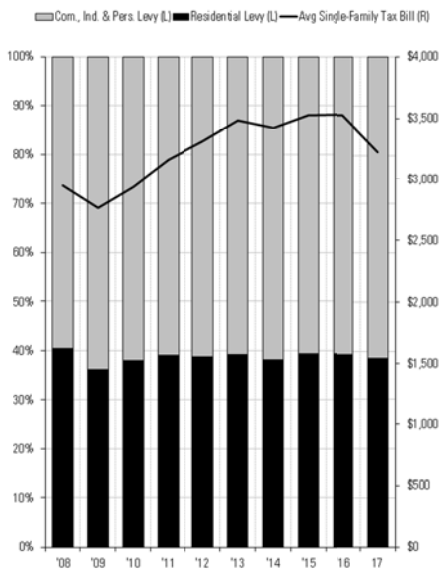
Proposition 2 ½ has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 ½ limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new construction. Finally, Proposition 2 ½ provides for local overrides of the levy limit and a local option to exclude certain debt from the limit by referendum. The City of Boston has never sought a vote to either override the levy limitations or exclude any debt from the limit. In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at \$8.4 million and reaching \$50 million in FY18.

During these same years, the levy has also been positively impacted by taxable new value or "new growth." New growth can arise from both real and personal property. Thanks to efforts to attract business development to Boston and grow its housing stock, Boston experienced unprecedented new growth property tax revenue in FY17, which is outside of Proposition 2 ½. Last year, the City saw construction projects in the Seaport District, the Longwood Medical Area and the New Balance headquarters in Brighton Landing enter the tax base. Residential development, which is linked to Mayor Walsh's housing production goals, accounted for 60 percent of the new growth. New growth is expected to be approximately \$50 million in FY18. Property tax growth from new growth has exceeded that from the allowable 2.5% increase in 21 of the last 34 years. However, as was evident during the last

recession – new growth revenue is volatile, and depends on the development cycle.

It is important for the financial health of the City that the property tax levy continues to grow, but efforts continue to reduce reliance on the property tax through increasing existing or establishing new local revenue sources as discussed in the previous section.

The percentage of the total tax levy being borne by residential taxpayers increased from 36.2% to 38.6% between FY09 and FY17. This shift is due to the larger increase in residential property values in the levy compared to commercial property values.



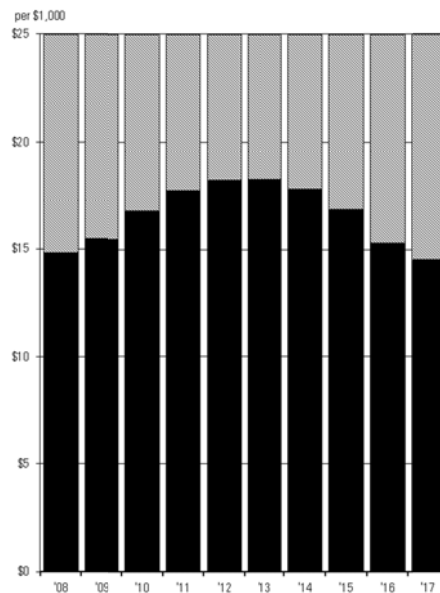
**Figure 6 - Boston Property Tax Trends FY08-FY17**

Indicators of the property tax in the current economy are improving as well. Office vacancy rates, an indicator of commercial real estate value, are declining from their peak. According to the firm Colliers International, the City had a vacancy rate of 11.3% as of fourth quarter 2016. The median sales price, adjusted for inflation, for a single-family home in Boston increased by 1.5% per year between the fourth quarter 2006, \$421,450, and the fourth quarter of 2016 \$488,750, posting a 7.1% increase from the fourth quarter in 2015.

Any significant decline in property values can present a problem for cities as dependent on the property tax as Boston. As property values decreased in the early 1990's, and the City

continued each year to maximize the allowable levy increase under Proposition 2 ½, the levy rapidly approached the levy ceiling of 2.5% of total assessed value. Reaching the 2.5% ceiling would have further limited the City's capacity to increase the annual levy.

However, due to years of strong new growth increases, the City has some space between its FY17 net effective tax rate of 1.45% and the tax levy ceiling of 2.5%. If the real estate market were to depreciate, the City's lack of proximity to the 2.5% property tax rate threshold will insulate revenues from an immediate shock. However, if values were depressed long enough, future growth of the property tax would be impaired.



**Figure 7 - Overall Property Tax Rate & Space Below Levy Ceiling FY08-FY17**

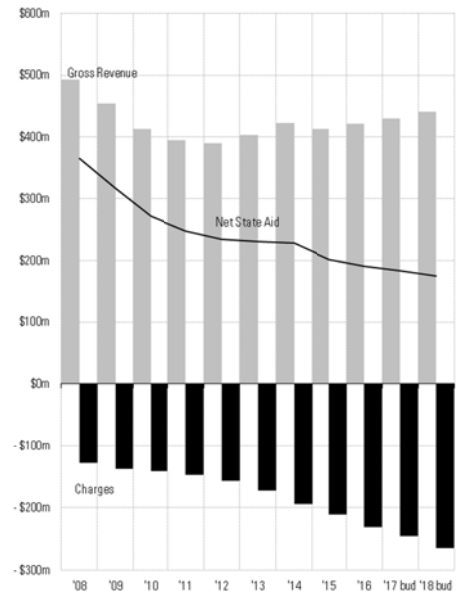
#### State Aid

State aid refers primarily to distributions from the Commonwealth to municipalities for Chapter 70 Education Aid, Unrestricted General Government Aid, Charter School Tuition Reimbursement along with other relatively small Commonwealth programs such as library aid and various reimbursements. State aid, as it is used here, excludes any grants to or offsets for direct expenditure by City departments. It also includes reimbursements from the Massachusetts School Building Authority (MSBA).

The City received general fund gross state aid totaling \$413.4 million in FY15 and \$421.6 million in FY16. The City expects to receive \$429.9 million in state aid in FY17 and has budgeted \$440.5 million in gross state aid in FY18, 2.5% over FY17.

“Municipal Charges”, also known as, “State Assessments” are charged by the Commonwealth to municipalities for items such as Charter School Tuition Reimbursement and MBTA service. State aid distributions are reduced by the amount of assessments charged to a municipality. The City paid \$211.7 million in FY15 and \$230.6 million in FY16. The City expects to pay \$245.8 million in assessments in FY17 and is budgeting \$264.9 million in FY18. The largest assessments are those of the Charter School Tuition and MBTA. The former has rapidly increased since the enactment of the 2010 legislation that expanded the number of charter school seats.

Net state aid, which is gross state aid revenue minus state assessments, has been trending down steeply since FY02. The rapid annual increase in the Charter School Tuition Assessment, combined with reductions in education and general government aid, contributed to this trend. With a decrease in net state aid for FY18, Boston is \$189.4 million, or 52%, below its FY08 level of net state aid of \$365.1 million. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources as well as levels of expenditures. To mitigate some of this loss, the state expanded local option taxing authority and created savings opportunities, but their combined value does not offset the aggregate losses in net state aid.



**Figure 8 – Net State Aid  
FY08-FY18**

Net state aid amounted to \$201.8 million in FY15 and \$191.0 million in FY16. FY17 budgeted net state aid totals \$184.1 million and the FY18 Budget assumes a reduction to \$175.7 million.

#### Education Aid

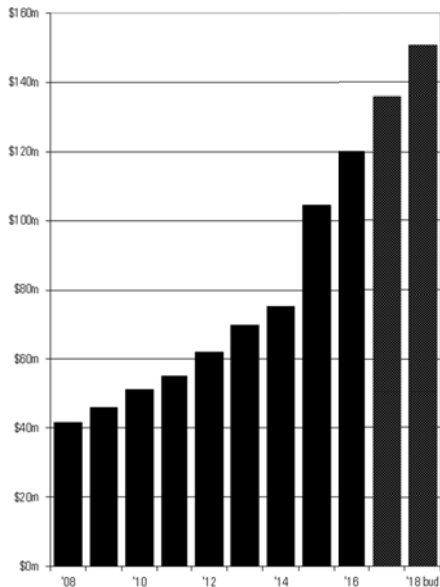
In 1993, the Commonwealth began an effort to increase and equalize funding for local education. The Chapter 70 formula derived from that effort establishes a foundation budget, or a minimum level of education spending in each school district, which the state and district then share the cost of funding. The Chapter 70 Education Aid formula does not work for Boston. Despite the Commonwealth adding over \$994 million to Chapter 70 Aid since FY08, in FY18 Boston's Chapter 70 Aid is only \$1.6 million higher than it was in FY08. The City received Chapter 70 education aid totaling \$211.0 million in FY15 and \$212.6 million in FY16. The City expects to receive \$216.1 million from the state in FY17 and \$217.4 million in FY18, a 0.6% increase from FY17.

Boston's Charter School Tuition Assessment is projected to increase by \$17.5 million, or 11.2%, over the FY17 budget, as 10,599 students are projected to attend a Commonwealth Charter School in FY18. Boston has seen its charter school costs rise dramatically since the enactment of the 2010 Achievement Gap Legislation (155% or \$106 million between 2011 and 2018).

Unfortunately the Commonwealth has not fulfilled its obligation under the 2010 law to fund Charter School Tuition Reimbursement, totaling a projected \$73 million in lost revenue for Boston in FY15 and FY18.

In the 2010 law, when tuition payments increase for a given school district over the prior year, the state reimburses that district for 100% of the increased cost in the first year (when the formula is fully-funded). The state then reimburses 25% of this first year increase amount for each of the subsequent five years. Cities and town are also reimbursed for the portion of the charter school assessment related to facilities. Because the Commonwealth has underfunded the appropriation, the Commonwealth has only funded a portion of the first year costs, and cities and towns have not been reimbursed for the subsequent five years.

The net cost of charter schools to the City has been increasing rapidly: in FY15 the cost was \$104.6 million and in FY16, \$120.3 million. In FY17 the City has budgeted a \$136.2 million net impact, and in FY17, \$150.7 million. The net cost has grown more rapidly since the Commonwealth stopped fully funding the charter school reimbursement which is meant to ease transition costs.



**Figure 9 – Net Charter School Costs**  
FY08-FY18

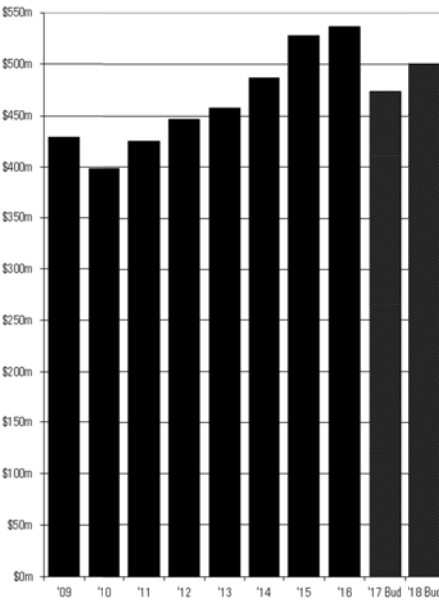
Unrestricted General Government Aid (UGGA)

For the FY10 budget and going forward, the Governor and the Legislature combined general government aid from Additional Assistance and Lottery into one account - UGGA. Revenue derived from the State's lottery now accounts for nearly all funds dispersed through UGGA. The current distribution of UGGA is a weighted average of both Lottery and Additional Assistance distributions of the past.

For Boston, the combined accounts totaled \$168.6 million in FY15 and \$174.7 million in FY16. In FY17, the City will receive \$182.2 million and has budgeted for an increase to \$189.3 million for FY18, which is included in the Governor's FY18 Budget.

Local Receipts

The City annually collects a significant amount of recurring revenues other than Property Tax or State Aid. In sum, the City collected \$527.7 million in FY15 and \$536.4 million in FY16 from these sources. The City expects to exceed the mid-year budget estimate of \$474.3 million in FY17 and collect \$500.6 million in FY18 (Figure 10).



**Figure 10 – Recurring Local Receipts**  
FY09-FY18, FY12 forward includes all hotel tax (non property tax/state aid)

Revenue from excise taxes, payments-in-lieu-of-taxes, licenses and permits, fees and fines, investment income and available funds are part



of this local receipts group. Forecasts of these revenue types are done by detailed econometric modeling or trending historical collections, depending on the specific revenue source and the availability of other data.

#### Excise Taxes

The Commonwealth imposes an excise in-lieu of property tax on motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally kept. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. Valuations are determined by a statutorily-defined depreciation schedule based on the manufacturer's list price and the year of manufacture.

Motor vehicle excise revenue totaled \$53.0 million in FY14, \$53.0 million in FY15 and \$67.6 million in FY16. The City budgeted \$53.0 million in FY17 and FY18 for motor vehicle excise revenue. Since the excise tax lags the sale of the vehicle, this revenue estimate is generated based on state projections of current year tax collections on motor vehicle sales in the Commonwealth.

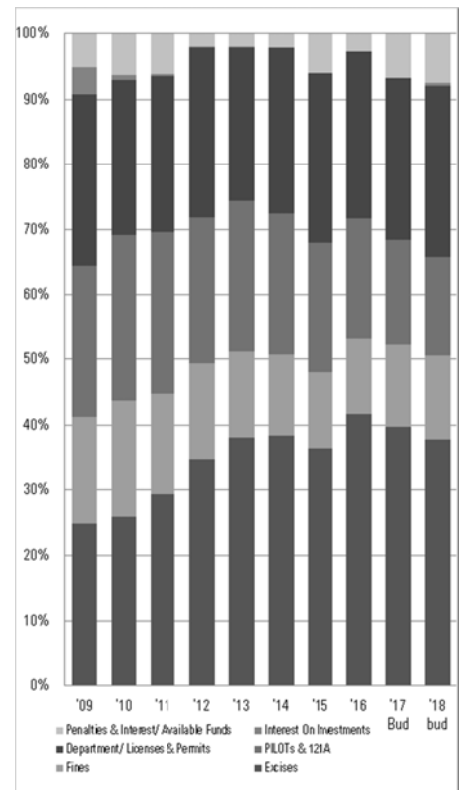
The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and collected \$25.9 million in FY15 and \$28.0 million in FY16. The City budgeted \$26.0 million in FY17 and FY18 for meals excise revenue. This revenue is estimated using the income of area residents, employment numbers for local restaurants, expected local room occupancy excise revenues (a driver of restaurant meals), and historical trends.

The local room occupancy excise amounts to 6.0% of the total amount of rent for each hotel or motel room occupied. This rate was increased in the fall of 2009 from 4.0%, along with the enactment of the new meals tax. Another 5.7% excise tax is directed to the state general fund and another 2.75% fee to the state's convention center fund, for a total tax from all sources on hotel rooms in the City of 14.45%. Room occupancy excise revenue to the City totaled \$83.5 million in FY15 and \$89.1 million in FY16. The City expects to exceed the \$80.0 million budgeted in FY17 due to very

strong hotel bookings. The FY18 budget estimates an increase to \$84.0 million.

Room occupancy excise receipts are estimated based on air travel statistics from Logan International Airport, leisure and hospitality employment numbers, and the consumer price index for recreation for Boston.

The vehicle rental surcharge is a revenue-sharing arrangement with the Commonwealth. Under this arrangement, all vehicle rental contracts originating in the City are subject to a \$10 surcharge. The City receives \$1 of this surcharge. The City received \$300,000 in FY15 and \$1.6 million in FY16. In FY17, the City expects to exceed the budgeted \$1.3 million and the FY18 budget assumes an increase to \$1.5 million.



**Figure 11 – Recurring Local Receipts**  
FY09-FY18 Non property tax/state aid

The excise on the sale of jet fuel is 5% of the average sales price of the previous quarter, but not less than five cents per gallon. Increases in fuel prices lead to increased jet fuel excise revenue. Jet fuel prices have decreased sharply from their peak in FY12. Jet fuel excise revenue totaled \$29.7 million in FY15 and \$36.8 million in FY16 due to a late payment from FY15. The

City budgeted \$27.7 million in FY17 and the FY18 budget estimates a decrease to \$22.0 million as low fuel prices are expected to continue. Estimates incorporate fuel price forecasts from the Energy Information Administration (EIA) and air traffic volume from Logan International Airport.

In August 2016, Governor Charlie Baker signed bipartisan legislation creating a statewide regulatory framework for transportation network companies (TNCs). In addition to creating regulations for the industry, the law creates a \$0.20 per-ride assessment collected from TNCs that by statute shall not be charged to a rider or driver and sunsets after ten years. The City of Boston will receive half of the per-ride assessment, or \$0.10, for each ride originating in Boston. The FY18 budget estimates \$2 million in new revenue from the per ride assessment.

#### Parking Fines

In FY16, the City issued over 1.3 million parking tickets and has maintained a 92% rate of collection on those tickets. The major factors contributing to the City's successful collection rate include non-renewal of violator's registration and license by the Registry of Motor Vehicles until penalties are paid, booting and towing of vehicles, increased ability to recover fine payments from rental agencies, and systematic collection of fines for company cars and leased vehicles. The City also contracts with a third-party vendor to collect delinquent fines from out of state vehicles and other hard to reach offenders.

The City collected parking fine revenue of \$57.1 million in FY15 and \$57.8 in FY16. Parking fine revenue is expected to exceed the \$57.0 million budgeted in FY17 and reach \$61.3 million in FY18.

#### Interest on Investments

In general, the City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Since 2007, interest rates have been reduced in an effort to stimulate the economy. Given the very low interest earnings potential of recent years, the Treasury department had instead engaged in a compensating balance approach with banks,

having fees paid through depositing minimum balances. Investment income totaled \$61 thousand in FY15 and \$184.3 thousand in FY16. The City projects interest income will exceed the \$200 thousand budgeted in FY17.

In FY18 the City will reduce the amount required to maintain a compensating balance (due to the need to offset credit card fees becoming unnecessary), and instead invest this money. By standardizing practices and adding fees to the cost of point of sale transactions, revenue from Interest on Investments is estimated to increase to \$2 million.

#### Payments in Lieu of Taxes

Payments in Lieu of Taxes (PILOTs) are payments made by property tax-exempt institutions located in the City, including hospitals, universities, and cultural institutions. These are voluntary contributions for municipal services such as police and fire protection, street cleaning, and snow removal.

Growth in PILOT revenue comes from new agreements, escalations that adjust the payments for inflation, and re-negotiation or expansion of current agreements. The Massachusetts Port Authority (MassPort) currently provides over 40% of the PILOT revenue the City receives annually.

In April 2010, a Mayoral appointed task force released a report suggesting more standardization of PILOT agreements. Specifically, each agreement should represent, in cash or in-kind, 25% of the amount of tax that would be due if properties were not tax exempt. This type of change would generate more revenue than what is currently collected while providing some equity across paying institutions. New agreements under this framework were adopted in FY12 and that year includes the first installment of a five-year phase-in period to the new amounts. FY17 is the first year after that phase-in period.

Payments in lieu of taxes totaled \$49.4 million in FY15 and \$51.2 million in FY16. The City expects this revenue source to exceed the \$44.5 million budgeted for FY17 and estimates \$45.0 million in FY18.

## Urban Redevelopment Chapter 121A

Massachusetts General Law (MGL), Chapter 121A allows local governments to suspend the imposition of property taxes at their normal rates in order to encourage redevelopment. Chapter 121A revenues are based on two separate sections of the law as described below.

The Urban Redevelopment Corporation excise (Chapter 121A, section 10) is collected in-lieu-of-corporate income tax for which the Commonwealth acts as the collector and distributes the proceeds to municipalities. In most cases, the formula for the 121A, section 10 excise in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of gross income. In FY15 and FY16, the City received Chapter 121A, section 10 distributions of \$26.2 million and \$10.4 million, respectively. Chapter 121A section 10 revenues are budgeted at \$10.5 million in FY17 and FY18. The decreases in this line in recent years is a result of the expiration of several Chapter 121A section 10 agreements and the properties transitioning back to regular property taxes. They contribute to the new growth portion of the property tax levy.

In addition to the Section 10 payments collected by the Commonwealth described above, most 121A corporations have individual agreements with the City that result in additional payments made directly to the City. These “Section 6A” agreements are complex, with actual amounts owed dependent on a formula that varies widely. The City collected Section 6A payments of \$26.3 million in FY15 and \$29.7 million in FY16. The City expects Section 6A collections to reach \$15 million in both FY17 and FY18.

## Miscellaneous Department Revenue

With such limited revenue tools, the City is launching an initiative in the FY18 budget to better maximize the local revenue tools. The FY18 budget includes an additional \$9.7 million identified in departmental revenues. In FY18, the Office of Budget Management will initiate revenue audits to verify the accuracy of information reported with certain fees. The City anticipates recovering \$2 million in revenue through these audits. This City will also work to maximize federal health insurance

reimbursements and address past due bills to recover revenue.

The largest revenue source in this category is Municipal Medicaid reimbursements for school health services. This federal reimbursement, administered by the State, began in FY94. The City received \$7.1 million in FY15 and \$8.2 million in FY16. Municipal Medicaid reimbursement is expected to reach budget of \$7 million in FY17 and increase to \$7.25 million in FY18.

## Licenses and Permits

This category is dominated by building permit revenue, from which the City received \$51.7 million and \$52.3 million in FY15 and FY16 respectively. Building permit revenue is expected to exceed the \$42.7 million budgeted in FY17, and is projected to increase to \$45.0 million in FY18. This estimate is a conservative estimate based on historical trends and analysis on real estate market and investment trends.

The next largest license and permit revenue is the cable television license fee from which the City received \$8.1 million in FY15 and \$7.1 million in FY16. The City has budgeted \$6.5 million in FY17 and FY18.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds \$4 million in annual revenue. Alcoholic beverage licenses are budgeted at \$4.2 million FY17 and \$4.5 million in FY18.

## Penalties and Interest

Taxpayers are assessed both a penalty and interest for late payments of property tax bills, motor vehicle excise bills and other payments. The City collected \$13.1 million in such penalties and interest in FY15 and \$14.5 million in FY16. Actual penalty and interest collections for FY17 will exceed the budget of \$8.5 million and are projected to be \$14.5 million in FY18.

## Available Funds

Most of the City's general fund budget is supported by the revenues that are estimated to come in during the course of the fiscal year, including property tax, excises, state aid, and the various other categories of revenues described above. Available funds are linked to a separate category of expenditure appropriation

- those supported by immediately available fund transfers.

The only two significant available funds that the City generally budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies which are used to support the City's maintenance of its public cemeteries. Both special funds have fees collected during the course of the year. By transferring out less than what is collected over the years, the City has built up the balances in these funds. Trust fund balances, such as the cemetery trust, also benefit from the opportunity to invest in securities offering a higher return than short-term fixed-income investments.

The City transferred \$19.0 million from the parking meter fund to the general fund in FY15 and did not transfer any funds in FY16. The City expects to transfer \$22.5 million from the parking meter fund to the general fund in FY17 and FY18. The City also plans to transfer \$950,000 from the cemetery trust fund to the General Fund in FY17 and in FY18.

(See *Financial Management* section of Volume I for detail)

#### *Non-Recurring Revenue*

##### Surplus Property

The surplus property disposition fund contains the proceeds from the sale of various City land or buildings. The use of these funds is usually restricted to one-time expenditures. The FY17 budget included a one-time transfer of \$4 million from the surplus property disposition fund to the Boston Housing Authority. No funds are included in the FY18 Budget from this revenue source.

##### Budgetary Fund Balance

Budgetary Fund Balance can be appropriated for use during the fiscal year after certification by the DOR. Budgetary Fund Balance is more commonly referred to as "Free Cash" when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The FY15 and FY16 budget did not use any fund balance, instead using recurring revenue to support the appropriation for Other Post-employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY17 and FY18 budget assume the use of \$40.0 million to support OPEB.

(See *Financial Management* section of Volume I for more detail on this revenue source)

## Revenue Summary

	<i>FY15 Actual</i>	<i>FY16 Actual</i>	<i>FY17 Approp</i>	<i>FY18 Recom</i>
<b>PROPERTY TAX</b>	1,875,145,255	1,963,090,945	2,086,675,511	2,189,017,912
<b>OVERLAY RESERVE</b>	-35,866,506	-38,045,747	-38,739,551	-30,361,194
<i>Subtotal</i>	1,839,278,749	1,925,045,198	2,047,935,960	2,158,656,718
<b>EXCISES</b>				
Motor Vehicle Excise	52,922,322	67,646,832	53,000,000	53,000,000
40129 Room Occupancy Excise	83,451,278	89,102,297	80,000,000	84,000,000
40130 Aircraft Fuel Excise	29,707,187	36,806,170	27,680,122	22,000,000
40140 Condominium Conversion Excise	352,000	646,000	350,000	500,000
40601 Meals Excise Tax	25,870,183	27,967,166	26,000,000	26,000,000
41122 TNC Assessment	--	--	--	2,000,000
41113 Vehicle Rental Surcharge	251,532	1,617,402	1,250,000	1,500,000
Boat Excise	65,885	38,923	40,000	40,000
<i>Subtotal</i>	192,620,387	223,824,790	188,320,122	189,040,000
<b>FINES</b>				
Total Parking Fines	57,126,503	57,763,621	57,000,000	61,295,000
45104 Code Enforcement - Trash	1,033,300	1,220,564	700,000	1,000,000
Other Fines	2,494,265	2,067,425	2,010,000	1,555,751
<i>Subtotal</i>	60,654,068	61,051,610	59,710,000	63,850,751
<b>47151 Interest On Investments</b>	60,998	184,305	200,000	2,000,000
40167 PILOTS	29,140,414	31,265,462	25,000,000	25,635,603
40168 Other PILOTS	1,183,162	1,104,965	500,000	500,000
40169 Massport/DOT	19,089,784	18,829,960	18,970,031	18,865,411
<i>Subtotal</i>	49,413,360	51,200,387	44,470,031	45,001,014
<b>URBAN REDEVELOPMENT CHAPTER 121A</b>				
121B Section 16	3,148,808	8,005,061	6,000,000	6,000,000
121A Section 6A	26,268,387	29,685,848	15,000,000	15,000,000
41013 Chapter 121A Section 10	26,197,951	10,421,981	10,500,000	10,500,000
<i>Subtotal</i>	55,615,146	48,112,890	31,500,000	31,500,000
<b>MISC DEPARTMENT REVENUE</b>				
43105 Registry Division Fees	1,578,952	1,528,751	1,500,000	1,525,000
43109 Liens	633,775	680,675	625,000	625,000
43120 City Clerk Fees	599,856	636,147	600,000	605,000
43137 Municipal Medicaid Reimbursement	7,132,251	8,171,549	7,000,000	7,250,000
43138 Medicare Part D	5,181,890	5,111,138	4,000,000	4,300,000
43202 Police Services	325,588	416,086	400,000	500,000
43211 Fire Services	5,695,540	5,649,952	6,500,000	6,500,000
43301 Parking Facilities	1,536,557	1,284,656	1,000,000	1,900,000
43311 PWD - Street Occupancy.	5,223,407	5,500,190	4,850,000	8,500,000
43425 St. Furniture Prgm Fixed Fees	1,500,000	1,500,000	1,500,000	1,500,000
43426 St. Furniture Prgm Ad. Fees	1,170,575	1,492,392	1,100,000	1,100,000
43796 DOIT E-Rate	--	--	--	1,163,520
43797 Fiber Optic Access Fees	249,640	318,296	300,000	300,000
44002 Tuition & Transportation	859,818	1,272,879	1,000,000	1,318,678
47119 Affirmative Recovery Unit	542,143	393,348	400,000	400,000
47121 Revenue Recovery	--	--	--	2,000,000
47131 Pensions & Annunities	7,369,951	4,385,556	4,385,556	4,570,000
47132 Indirect Costs Reimbursement	528,608	661,500	525,000	660,000
47133 3rd Party Fringe	--	--	--	471,462
48000 Detail Admin Fee	3,227,308	4,640,055	3,000,000	4,600,000
Other Misc Department Revenue	21,372,874	19,446,293	17,014,749	15,581,244
<i>Subtotal</i>	64,728,733	63,089,463	55,700,305	65,369,904

**Table 1**

## Revenue Summary

	<i>FY15 Actual</i>	<i>FY16 Actual</i>	<i>FY17 Approp</i>	<i>FY18 Recom</i>
<b>LICENSES &amp; PERMITS</b>				
40211 Building Permits	51,741,661	52,285,385	42,746,300	45,000,000
40213 Weights & Measures	288,500	288,766	285,000	288,500
40215 BTD - Street & Sidewlk Permits	3,057,166	4,033,548	3,100,000	3,500,000
40221 Health Inspections	1,768,864	1,811,191	1,700,000	1,800,000
40222 Alcoholic Beverage Licenses	4,133,952	4,337,107	4,200,000	4,449,463
40224 Entertainment Licenses	1,835,274	1,842,754	1,900,000	1,700,000
40229 Other Business Lic. & Permits	1,375	171,810	170,000	170,000
40235 Cable Television	8,109,980	7,132,311	6,500,000	6,500,000
Other Licenses & Permits	1,599,234	2,539,503	1,840,000	2,525,000
<i>Subtotal</i>	<i>72,536,006</i>	<i>74,442,375</i>	<i>62,441,300</i>	<i>65,932,963</i>
<b>PENALTIES &amp; INTEREST</b>				
40133 Pen & Int - Property Tax	5,533,035	6,012,167	3,000,000	5,400,000
40134 Pen & Int - MV Excise	3,171,835	3,162,688	2,500,000	2,800,000
40136 Pen & Int - Tax Title	4,373,260	5,303,407	3,000,000	6,250,000
Other Penalties & Interest	3,964	221	5,000	5,000
<i>Subtotal</i>	<i>13,082,094</i>	<i>14,478,483</i>	<i>8,505,000</i>	<i>14,455,000</i>
<b>AVAILABLE FUNDS</b>				
42502 Approp. Cemetery Trust Fund	--	--	950,000	950,000
42503 Approp. Parking Meters	19,000,000	--	22,500,000	22,500,000
<i>Subtotal</i>	<i>19,000,000</i>	<i>0</i>	<i>23,450,000</i>	<i>23,450,000</i>
<b>STATE AID</b>				
41015 State Owned Land	294,886	294,886	291,377	291,377
41104 Exemptions - Elderly	1,069,468	386,038	1,040,644	769,716
41114 Veterans Benefits	2,765,369	3,410,101	2,546,909	2,108,090
41118 Unrestricted General Government Aid	168,584,213	174,653,245	182,163,335	189,267,705
41119 Local Share Of Racing Taxes	373,076	376,473	293,300	314,391
41301 School Construction	8,175,513	7,344,337	6,720,152	6,720,147
41305 Charter Tuition Asses. Reimb.	21,176,214	22,514,613	20,670,575	23,643,118
41306 Chapter 70 Education Aid	210,991,435	212,596,335	216,128,435	217,420,475
<i>Subtotal</i>	<i>413,430,174</i>	<i>421,576,028</i>	<i>429,854,727</i>	<i>440,535,019</i>
<b>RECURRING REVENUE TOTAL</b>	<b>2,780,419,715</b>	<b>2,883,005,529</b>	<b>2,952,087,445</b>	<b>3,099,791,369</b>
<b>NON-RECURRING REVENUE</b>				
42501 Approp. Surplus Property Fund	--	--	4,000,000	0
42504 Approp. Fund Balance	--	--	40,000,000	40,000,000
<b>TOTAL REVENUE</b>	<b>2,780,419,715</b>	<b>2,883,005,529</b>	<b>2,996,087,445</b>	<b>3,139,791,369</b>