

Revenue Estimates and Analysis

OVERVIEW

The FY19 Recommended Budget is supported by \$3.29 billion in total revenue, an increase of \$137.0 million, or 4.3%, from budgeted FY18 total revenue. The FY19 recommended budget includes \$3.25 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. 97% percent of tax revenue growth is from locally derived sources such as property tax and other local revenue. So while the City is projected to experience robust property tax growth in FY19, that growth is offset by sluggish and unpredictable State revenue growth.

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

In FY19, Boston's State revenue is still \$48.4 million, or 9.8%, lower than Boston's State aid in FY08. While Boston's spending on education has increased substantially in recent years, Boston's State education funding has not kept pace. The Chapter 70 education aid formula does not work for Boston. Boston's Chapter 70 aid is projected to grow by only 0.6%, or \$1.3 million, in the FY19 budget, a stark contrast to the \$67 million more Boston expects to spend on education in FY19.

Additionally, while Boston's charter school assessment has risen by 184% since the enactment of the 2010 Achievement Gap Legislation, the State's statutory obligation to fund charter school reimbursement has not

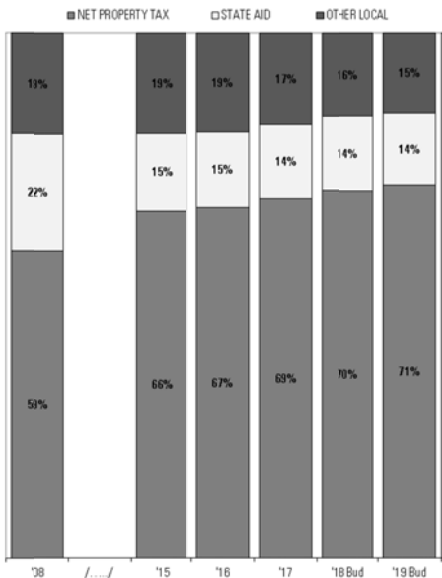
kept pace. As a result, the City of Boston is projected to lose \$27 million in the FY19 budget, bringing the total lost revenue to \$100 million over five years (FY15 – FY19).

If recent trends hold - rising charter school assessment and declining charter school reimbursement and stagnant Chapter 70- it's likely that in three years Boston will receive no education aid from the State. This will mean Boston's 57,000 students will be entirely funded by the City's General Fund.

Mayor Walsh has raised concerns about this trend since taking office and has been proactive in addressing the underlying challenges of the State's education aid system. In 2017, the Mayor filed comprehensive education finance reform legislation that aims to invest equitably and expand access to high-quality public education for students of all ages. By proposing a creative revenue solution to provide every Boston four-year-old a high-quality seat, fixing the broken charter school transition funding model, and increasing reimbursements for the highest-need students, the proposals would increase annual education funding to Boston by \$35 million in its first year of implementation. The proposal would also 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 education. The Mayor continues to advocate for these common sense pieces of legislation, as well as full funding of local aid reimbursement accounts.

Local receipts, which include revenues such as excises, fees, fines, and permits, are projected to grow at \$14.5 million (2.9%). Boston is projecting strong room occupancy and meals excise revenue as well as increased revenue from parking fines and departmental revenue. The FY19 budget also includes \$2.25 million in

revenue for the first time from the recreational marijuana local option excise tax.



**Figure 1 - Categories of Recurring Revenue
FY08 & FY14-FY19**

Percentages may not add due to rounding

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 FY19 State budget. Following these sections is a discussion of the City’s FY19 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.

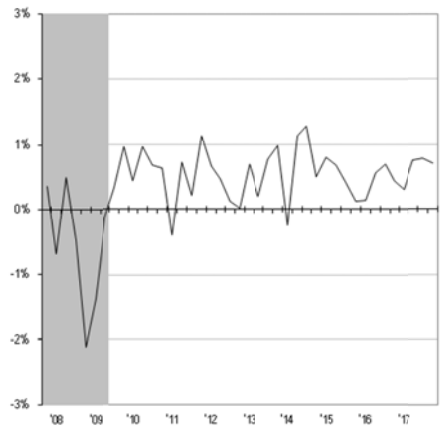
The National Economy

Mayor Walsh continues to strive to grow jobs, housing and the economy for all Bostonians. But the city is subject to market forces limiting its ability to effect 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 now ten years removed from a deep recession. Since the recession, the U.S. economy has grown in fits

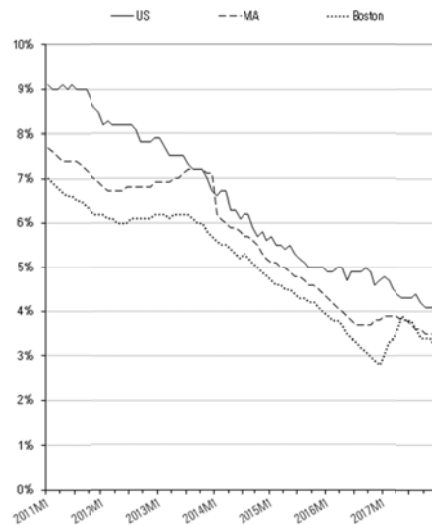
and starts since June 2009 as evidenced by GDP growth. Accommodative monetary policy and extended unemployment insurance back-stopped any slide back into recession. The labor market has continued to strengthen and economic activity has been rising moderately. Recently, job gains have been strong and the unemployment rate has remained low.

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-two quarters after the recession’s official end in the second quarter of 2009 through the fourth quarter of 2017, 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 2.5% to 3.0% for the calendar year 2018 and 2.0% to 2.8% for 2019.



**Figure 2 – Real Gross Domestic Product
Growth (Chained 2009 dollars)
2007Q4-2017Q4 & NBER dated recession**

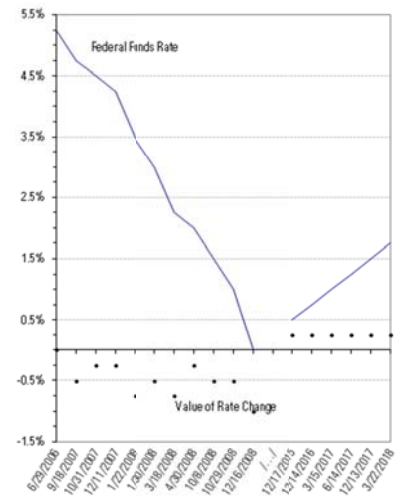
The seasonally adjusted unemployment rate in the U.S. has been steadily decreasing since the end of the recession. The unemployment rate was 4.1% in February 2018. According to Federal Reserve estimates, the unemployment rate is expected to continue improving, falling to a range 3.6% to 4.0% in calendar year 2018 and to a range of 3.3% to 4.2% in 2019.



**Figure 3 - Unemployment Rates
January 2011-December 2017
Seasonally Adjusted**

Inflation has been below the Federal Reserve's target of 2%. The Federal Reserve projects that inflation will range from 1.8% to 2.1% in 2018 and range from 1.9% to 2.3% in 2019.

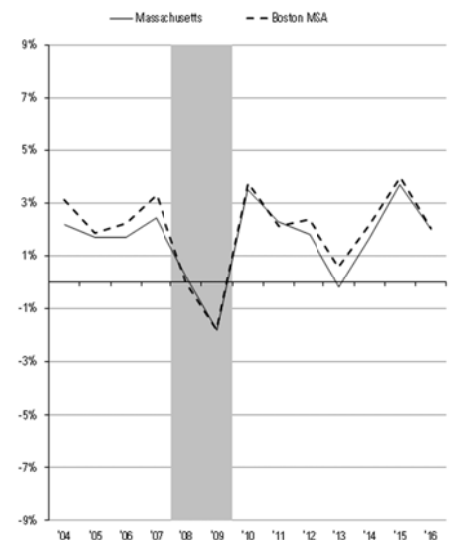
Despite the improvements in the labor market and the expectation that inflation would rise to its target of 2%, the Federal Reserve forecasts that economic conditions will evolve in a manner that will warrant only gradual increases to the federal funds rate. In December 2015, for the first time since 2008, the Federal Reserve increased the Federal Funds target rate by 0.25%, to a target range of 0.25% to 0.50%. Most recently, the Federal Reserve increased the Federal Funds target rate in March 2018 by 0.25%, to a target range of 1.50% to 1.75%. 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 2018**

The State and City Economies

During the period of 2007 to 2016, Massachusetts' annualized growth rate of 1.3% in real Gross Domestic Product (GDP) by state ranked 14th out of all 50 states and DC, according to the Bureau of Economic Analysis (BEA). The state remains one of the wealthiest in terms of its GDP per capita -- \$65,281 in 2016 -- 2nd in the nation and 129% of the national average.



**Figure 5 - Real Gross Product Growth
2004-2016**

The unemployment rate had been decreasing for both Massachusetts and Boston. The rate in Massachusetts has since fallen to 3.5% as of December 2017, which is still 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. Boston's unemployment rate is at 3.2% as of December 2017.

Massachusetts wage and salary income in the fourth quarter of 2017 rose 6.3% 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 2016 to 2017 was strongest in "Finance and Insurance" and "Utilities", while "Government and Government Enterprises" and "State and Local" showed the weakest growth during the same period.

Massachusetts' seasonally adjusted total personal income rose 4.9% from 2016 to 2017, 9th out of the 50 states and DC in terms of growth and above the national average of 4.0%.

(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 for over a decade 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

Since the economic downturn in June 2009, the State has faced several years of ups and downs in managing their structural balance. While State revenue growth, especially income tax, has rebounded considerably, large variances in quarterly and yearly revenue collections have

made budget decisions difficult at the state level. As a result, 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 \$1.30 billion at the close of FY17. The remaining balance at the end of FY18 is expected to be \$1.31 billion.

The FY19 State Budget

The City's FY19 State aid estimate is based on the Governor's proposed budget as the legislature will release the final version of the state budget following release of the City's budget.

The FY19 recommended budget includes a modest increase in state aid of 1.0%, or \$4.4 million. The FY19 Unrestricted General Government Aid (UGGA) increased by 3.5%, or \$6.6 million. UGGA is the main driver in the increase in State aid in FY19, while Chapter 70 education aid only grew by 0.6%, or \$1.3 million and charter school reimbursements declined by \$1.8 million, or 7.9%.

While Boston's charter school assessment has risen by 184% 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 will lose \$100 million over five years (FY15 - FY19). Boston is projected to lose \$27 million alone in FY19. Without a change 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 the city every day.

In a very short time, Boston will reach a turning point in educational financing when none of the Boston Public Schools budget will be funded with state education aid. With no change,

Boston's net charter school assessment (its charter school tuition and facilities charges less charter school reimbursement) will exceed Boston's Chapter 70 education aid. With this crossroad approaching, during the remaining months of the legislative session and after its conclusion on July 31st, 2018, the Mayor and the Boston Public Schools will focus its advocacy on passage of a more equitable and transformational financing formula for education aid and increase support for quality Pre-Kindergarten seats. During the remainder of FY18 the Mayor and the Boston Public Schools will also advocate for full funding of Boston's current year charter school reimbursement underfunded by over \$25 million.

During 2017 and early 2018 Mayor Walsh's education finance reform legislation made its way through the Commonwealth's biennial legislative process with the City and Boston Public Schools jointly advocating for the Legislature's support of the reform package that provides an equitable investment in public education and expands access to high quality education for students of all ages.

To address the growing challenges of decreasing net education revenue and increasing education costs, the legislative package includes a fix to the broken charter school finance model, more fully funds the cost of the Commonwealth's highest need students, redirects existing tax revenue produced in Boston back to its residents and, if additional funding for education became available, the City's proposed change would increase education funding for Boston by \$150 million within several years.

One of the bills in the Mayor's education finance reform legislative package has been reported out favorably by the Joint Committee on Education. An Act Relative to Expanding Access to High Quality Early Education (House Bill 3759) seeks to provide every Boston 4-year old with a high quality Pre-Kindergarten seat, dedicating \$16.5 million to early education. While Boston has solved the overall access challenge for pre-K seats, the City continues to face a significant shortage of quality seats. The

bill proposes to close the "quality gap" in pre-kindergarten seats in Boston by investing in programs at public schools and community based organizations with surplus revenue raised in Boston from the Convention Center Fund. The proposed legislation redirects the surplus amounts generated from two Convention Center Fund revenues that are produced exclusively in Boston, the Boston Sightseeing Surcharge and the Boston Vehicular Rental Transaction Surcharge.

Although the Legislature's Joint Committee on Education chose not to incorporate a cap of 2½ percent for the municipal revenue growth factor for communities like Boston that serve the Commonwealth's most economically disadvantaged students, are investing more in their students than is required, but are receiving stagnant education aid each year in its proposal to fix the Chapter 70 education aid formula the Mayor continues to support the recommendation compiled by the Foundation Budget Review Commission recognizing that without further reforms that the impact will not benefit Boston until more than half way through a seven year roll out of the recommendations and new aid for Boston would be reduced by two-thirds.

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.

Changes to City Revenue Structure

The economy and years of State aid reductions have taken their toll on many municipalities. The consequences have been increased reliance on the property tax, new user fees, and reduced public services throughout the state.

Recognizing the threat to fiscal stability represented by these trends, the City has filed legislation over recent years to diversify and modernize its revenue structure and to secure and grow its tax base. In FY10, after many years of legislative attempts, municipalities were granted their first new local option revenue stream since the hotel and jet fuel taxes in the mid-1980s. The State offered for local adoption

a meals tax at the rate of 0.75% in addition to the state tax as well as a 2 percentage point increase to the existing 4% local option room occupancy tax, both of which were adopted by the Boston City Council effective October 1, 2009.

Most recently, the City of Boston adopted a 3% local option tax for the sale of recreational marijuana. The new sales tax will be effective July 1, 2018. The FY19 budget includes \$2.25 million in revenue for the first time from the recreational marijuana local option excise tax. Given uncertainty around the size and scope of the industry in Massachusetts, the City is budgeting conservatively for these revenues.

The budget again includes \$2.0 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.

As a matter of course, the City updates its fee and fine structure as needed for any increases necessary to cover the cost of providing services or deterring undesired behavior. The FY19 budget projects \$5.0 million in increased revenue from parking fines based on the Mayor's proposal to update certain fines. This additional funding will be directed towards transportation projects contained in both the operating and capital budgets.

Additionally, several departments have expressed interest in reviewing existing fee structures or adding new fees for new services that will be reviewed in the upcoming months.

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 FY18 the net property tax levy (levy less a reserve for abatements) totals \$2.186 billion, providing 70.1% of recurring revenue. In FY19,

the net property tax levy is estimated to total \$2.304 billion and accounts for 70.8% of budgeted recurring revenues.

Thanks to a surging economy and smart policies implemented by Mayor Walsh, property values in Boston continue to rise steadily. In FY17, property values increased by \$15.9 billion or 12.4%, and in FY18, property values increased by \$9.9 billion or 6.9% to \$153.9 billion.

However, 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. This means that while the property values have grown 54% since FY14, property tax revenue has only grown 25% due to proposition 2 ½.

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 \$55.4 million in FY19.

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.

Despite these constraints, the Mayor is committed to keeping residential property tax bills down to retain more low and middle class homeowners in the city. Policies the Mayor has pursued are demonstrating success, as residential taxes fall 41% below last year's statewide average. Mayor Walsh advocated for a change in State law that increased the residential exemption limit from 30% to 35% of the average assessed value of all Class One residential properties. This year, the City Council, with the approval of the Mayor, once again chose the maximum exemption allowed by law. The FY18 residential exemption amount

increased by \$106 over last year's amount. Additionally, the FY18 classified tax rates decreased from the FY17 levels, resulting in substantial savings for the City's residential taxpayers, while still maximizing its taxable levy.

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 and grow its housing stock, Boston experienced unprecedented new growth in property tax revenue over the past two fiscal years. In FY19, we expect new growth to continue, but will likely not exceed experiences in FY17 and FY18. New growth is outside of the Proposition 2 ½ cap. During the past two years, the City saw notable construction projects in the Seaport District, the Fenway area and Brighton Landing enter the tax base. Other major projects such as Clippership Wharf in East Boston and South Bay Town Center in Dorchester will move to completion and impact new growth. A large segment of the new growth being developed in the city is in the form of mixed use developments. They consist of commercial spaces at the lower levels with larger proportions of residential space above. During FY18, over 50% of the residential new growth was due to new condominiums created in all neighborhoods in the city.

New growth is expected to be approximately \$55.0 million in FY19. Property tax growth from new growth has exceeded that from the allowable 2.5% increase in 22 of the last 35 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 FY18. This shift is due to the larger increase in residential property values in the levy compared to commercial property values.

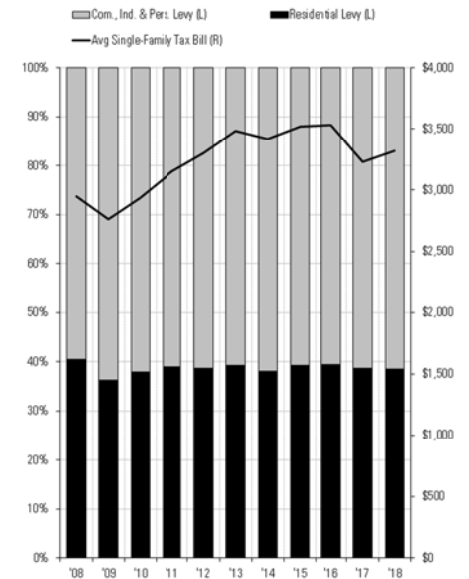


Figure 6 - Boston Property Tax Trends FY08-FY18

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 10.5% as of fourth quarter 2017. The median sales price, adjusted for inflation, for a single-family home in Boston increased by 3.1% per year between the fourth quarter 2007 (\$409,650) and the fourth quarter of 2017 (\$557,500).

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 FY18 net effective tax rate of 1.44% 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.

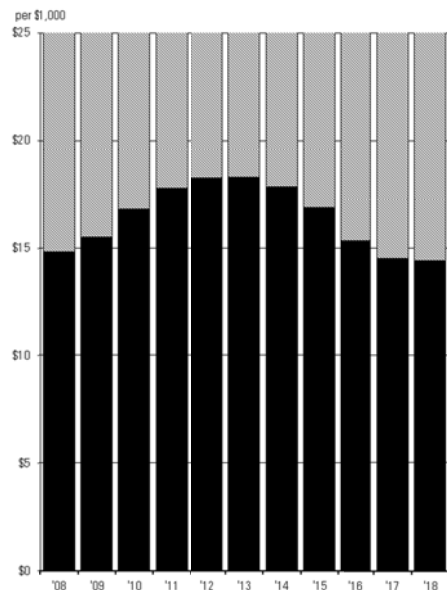


Figure 7 - Overall Property Tax Rate & Space Below Levy Ceiling FY08-FY18

State Aid and Assessments

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 \$421.6 million in FY16 and \$424.9 million in FY17. The City expects to receive \$440.6 million in State aid in FY18 and has budgeted \$445.0 million in gross State aid in FY19, 1% over FY18.

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 \$1.125 billion to Chapter 70 education aid since FY08, in FY19 Boston's Chapter 70 education aid is only \$3.5 million higher than it was in FY08. The City received Chapter 70 education aid totaling \$212.6 million in FY16 and \$216.1 million in FY17. The City expects to receive \$218.0 million from the State in FY18 and \$219.4 million in FY19, a 0.6% increase from FY18.

The second largest source of State revenue is the unrestricted general government aid (UGGA.) From the FY10 budget 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 \$174.7 million in FY16 and \$182.2 million in FY17. In FY18, the City will receive \$189.3 million and has budgeted for an increase to \$194.9 million for FY19.

"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 \$230.6 million in FY16 and \$240.4 million in FY17. The City expects to pay \$264.4 million in assessments in FY18 and is budgeting \$287.4 million in FY19.

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 contributed to this trend. With a decrease in net State aid for FY19, Boston is \$207.4 million, or 65.5%, below its FY08 level of

net State aid of \$365.1 million. Net State aid amounted to \$191.0 million in FY16 and \$184.5 million in FY17. FY18 budgeted net State aid totals \$176.1 million and the FY19 budget assumes a reduction to \$157.6 million. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources as well as levels of expenditures.

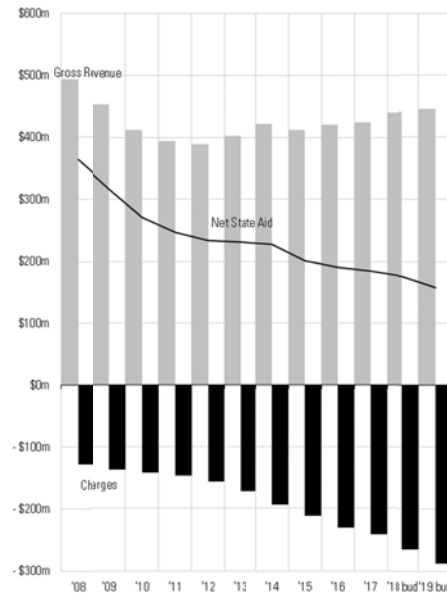


Figure 8 – Net State Aid
FY08-FY19

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. Boston's charter school tuition assessment is projected to increase by \$20.5 million, or 11.8%, over the FY18 budget, as 11,084 students are projected to attend a Commonwealth Charter School in FY19. Boston has seen its charter school costs rise dramatically since the enactment of the 2010 Achievement Gap Legislation (184% or \$126 million between 2011 and 2019).

Unfortunately, the Commonwealth has not fulfilled its obligation under the 2010 law to fund charter school tuition reimbursement, totaling a projected \$100 million in lost revenue for Boston from FY15 to FY19. 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 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 FY16 the cost was \$120.3 million and in FY17, \$135.7 million. In FY18 the City has budgeted a \$150.7 million net impact, and in FY19, \$172.9 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.

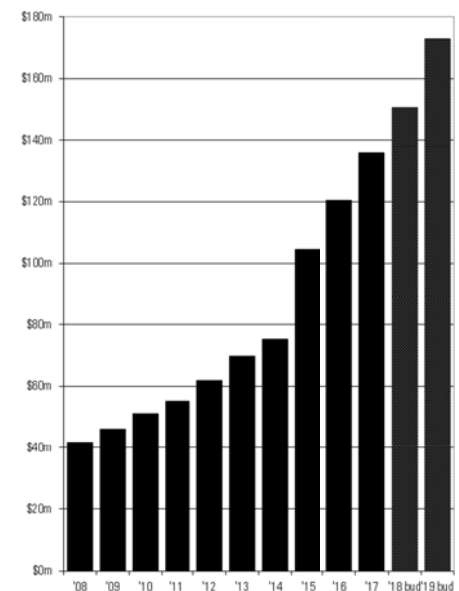
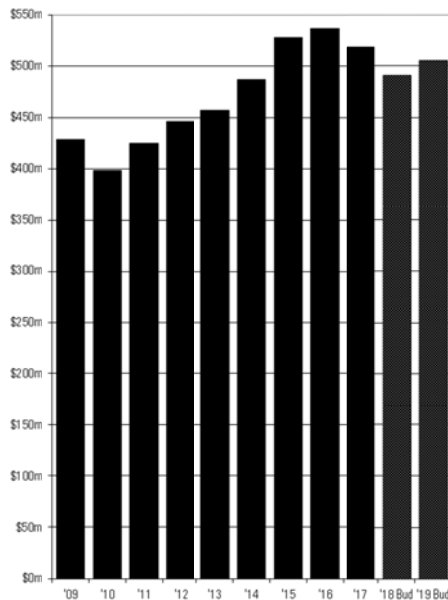


Figure 9 – Net Charter School Costs
FY08-FY18

Local Receipts

The City annually collects a significant amount of recurring revenues other than property tax or State aid. In sum, the City collected \$536.4 million in FY16 and \$518.5 million in FY17 from these sources. The City expects to exceed the mid-year budget estimate of \$491.1 million in

FY18 and collect \$505.6 million in FY19 (Figure 10).



**Figure 10 – Recurring Local Receipts
(non property tax/state aid)**

FY10-FY19

FY12 forward includes all hotel tax

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 \$67.6 million in FY16 and \$52.1 million in FY17. The City budgeted \$52.0 million in FY18 and FY19 for motor vehicle excise revenue. Since the excise tax lags the sale of the vehicle, this revenue estimate is generated based on state

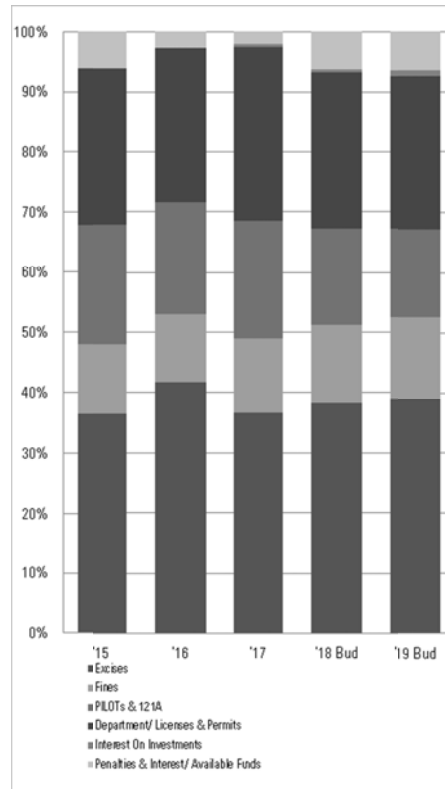
projections of current year tax collections on motor vehicle sales in the Commonwealth.

The Commonwealth granted municipalities a new local option tax on restaurant meals beginning October 1, 2009. The City adopted this tax and collected \$28.0 million in FY16 and \$29.2 million in FY17. The City expects to exceed the \$26.0 million budgeted in FY18 due to strong economic performance. The City budgeted \$29.0 million in FY19 for meals excise revenue. This revenue is correlated to a growing economy and 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 \$89.1 million in FY16 and \$91.3 million in FY17. The City expects to exceed the \$88.1 million budgeted in FY18 due to very strong hotel bookings. The FY19 budget estimates an increase to \$92.0 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 \$1.6 million in FY16 and FY17. The City budgeted \$1.5 million in FY18 and FY19 for vehicle rental surcharge revenue.



**Figure 11 – Recurring Local Receipts
Non property tax/state aid
FY10-FY19**

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 excise revenue totaled \$36.8 million in FY16, due to a late payment from FY15, and \$15.9 million in FY17. The City budgeted \$18.0 million in FY17 and FY18 as fuel prices are expected to continue to increase. Estimates incorporate fuel price forecasts from the Energy Information Administration (EIA) and air traffic volume from Logan International Airport.

In 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 and FY19 budget estimate \$2.0 million in revenue from the per ride assessment.

Parking Fines

Building on his commitment to create a safer, more equitable transportation future for Boston, Mayor Walsh will invest \$5 million aimed at upgrading transportation infrastructure to benefit all modes of travel. The investments will contribute to the ongoing implementation of the 58 projects and policies identified in Go Boston 2030, the City of Boston's long term transportation plan unveiled in 2017.

These investments are funded through a strategic set of increases to its current parking fine structure, designed to reduce congestion and emissions, increase cleanliness, and improve the parking experience. The updated parking fine structure, last revised in 2008, is expected to produce positive outcomes by influencing driver behavior and reducing congestion in high traffic areas.

Data collected from the City of Boston's recently completed Performance Parking Pilot showed that driver behavior can be changed as a result of adjusting metered parking rates. Both the Back Bay and Seaport neighborhoods, for example, experienced an increase in adherence to Resident Parking Only regulations. In accordance with these results, it is the City's expectation that raising fines will discourage violations and improve compliance.

In FY17, the City issued over 1.3 million parking tickets and has maintained a 91% 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 \$57.8 million in FY16 and \$60.5 million in FY17. Parking fine revenue is budgeted at \$61.3 million in FY18 and \$66.3 million in FY19.

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. Investment income totaled \$184.3 thousand in FY16 and \$2.3 million in FY17. The increase in Interest on Investments was a result of the movement of significant assets out of non-interest bearing accounts associated with compensating balance agreements between the City and its primary bank and into interest-bearing accounts. Additionally, in March 2018, the Federal Reserve increased its key interest rate from 1.5% to 1.75%, the highest level since 2008. An additional two to three rate hikes could be expected in 2018. The City projects interest income will exceed the \$2 million budgeted in FY18. Revenue from Interest on Investments is estimated to increase to \$5 million in FY19.

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 35% of the PILOT revenue the City receives annually.

In April 2010, the City 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 was the first year after that phase-in period.

Payments in lieu of taxes totaled \$51.2 million in FY16 and \$53.6 million in FY17. The City expects this revenue source to exceed the \$45.0 million budgeted for FY18 and estimates \$46.0 million in FY19.

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 FY16 and FY17, the City received Chapter 121A, section 10 distributions of \$10.4 million and \$18.9 million, respectively. Chapter 121A section 10 revenues are budgeted at \$10.5 million in FY18 and FY19.

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 \$29.7 million in FY16 and \$22.1 million in FY17. The City expects Section 6A collections to decrease to \$15.0 million in FY18 and \$11.0 million in FY19. The estimated decrease in these accounts 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.

Miscellaneous Department Revenue

With such limited revenue tools, the City is continuing an initiative in the FY19 budget to better maximize the local revenue tools. The FY19 budget includes an additional \$1.3 million identified in departmental revenues. In FY19, the Administration and Finance cabinet will continue a citywide review of collections. 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 \$8.2 million in FY16 and \$9.2 million in FY15. Municipal Medicaid reimbursement is expected to reach budget of \$7.25 million in FY18 and increase to \$7.5 million in FY19.

Licenses and Permits

This category is dominated by building permit revenue, from which the City received \$52.3 million and \$62.0 million in FY16 and FY17 respectively. Building permit revenue is expected to exceed the \$46.1 million budgeted in FY18, and is estimated at \$45.0 million in FY19. 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 \$7.1 million in FY16 and \$7.3 million in FY15. The City has budgeted \$6.5 million in FY18 and FY19.

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 \$4.5 million FY18 and \$4.6 million in FY19.

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 \$14.5 million in such penalties and interest in FY16 and \$10.8 million in FY17. Actual penalty and interest collections for FY18 will exceed the budget of \$7.5 million and are projected to be \$9.0 million in FY19.

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 did not transfer any funds to the General Fund in FY16 or FY17. The City expects to transfer \$22.5 million from the parking meter fund to the General Fund in FY18 and FY19. The City also plans to transfer \$950,000 from the cemetery trust fund to the General Fund in FY18 and in FY19.

(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. No funds are included in the FY19 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 FY16 and FY17 budget did not use any fund balance, but instead used recurring revenue to support the appropriation for Other Post-employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY18 and FY19 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)

CITY OF BOSTON

Revenue Detail

	<i>FY16 Actual</i>	<i>FY17 Actual</i>	<i>FY18 Approp</i>	<i>FY19 Recom</i>
Property Tax	1,963,090,945	2,092,135,890	2,216,490,728	2,327,015,871
40116 Property Tax Overlay	-38,045,747	-38,739,551	-30,603,943	-23,039,761
<i>Subtotal</i>	1,925,045,199	2,053,396,339	2,185,886,785	2,303,976,110
<i>EXCISES</i>				
Motor Vehicle Excise	67,646,832	52,060,958	52,000,000	52,000,000
40129 Room Occupancy Excise	89,102,297	91,306,495	88,050,982	92,000,000
40130 Aircraft Fuel Excise	36,806,170	15,863,978	18,000,000	18,000,000
40140 Condominium Conversion Excise	646,000	509,500	500,000	500,000
40601 Meals Excise Tax	27,967,166	29,165,069	26,000,000	29,000,000
40602 Marijuana Excise	0	0	0	2,250,000
41122 TNC Assessment	0	0	2,000,000	2,000,000
41113 Vehicle Rental Surcharge	1,617,402	1,581,295	1,500,000	1,500,000
Boat Excise	38,923	61,878	40,000	40,000
<i>Subtotal</i>	223,824,790	190,549,174	188,090,982	197,290,000
<i>FINES</i>				
Total Parking Fines	57,763,621	60,472,254	61,295,000	66,295,000
45104 Code Enforcement - Trash	1,220,564	1,010,867	1,000,000	1,000,000
Other Fines	2,067,425	1,771,555	1,555,751	1,788,000
<i>Subtotal</i>	61,051,609	63,254,676	63,850,751	69,083,000
<i>47151 Interest On Investments</i>				
40169 Massport/DOT	184,305	2,329,247	2,000,000	5,000,000
40167 PILOTS	18,829,960	18,492,560	18,862,417	19,239,665
40167 PILOTS	31,265,462	33,368,626	25,635,603	26,276,493
40168 Other PILOTS	1,104,965	1,708,347	500,000	500,000
<i>Subtotal</i>	51,200,387	53,569,533	44,998,020	46,016,158
<i>URBAN REDEVELOPMENT CHAPTER 121A</i>				
121B Section 16	8,005,061	6,464,353	8,000,000	6,000,000
121A Section 6A	29,685,848	22,098,042	15,000,000	11,000,000
41013 Chapter 121A Section 10	10,421,981	18,949,160	10,500,000	10,500,000
<i>Subtotal</i>	48,112,891	47,511,555	33,500,000	27,500,000
<i>MISC DEPARTMENT REVENUE</i>				
43105 Registry Division Fees	1,528,751	1,526,897	1,525,000	1,525,000
43109 Liens	680,675	687,025	625,000	625,000
43120 City Clerk Fees	636,147	546,636	550,000	600,000
43137 Municipal Medicaid Reimbursement	8,171,549	9,161,841	7,250,000	7,500,000
43138 Medicare Part D	5,111,138	5,910,260	4,300,000	4,100,000
43202 Police Services	416,086	768,643	500,000	550,000
43211 Fire Services	5,649,952	6,461,167	6,500,000	6,500,000
43301 Parking Facilities	1,284,656	2,268,483	1,900,000	2,088,282
43311 PWD - Street Occupancy	5,500,190	6,021,666	8,500,000	8,500,000
43320 Other Departmental Rents	1,837,195	1,862,580	1,754,000	2,010,000
43425 St. Furniture Prgm Fixed Fees	1,500,000	1,500,000	1,500,000	1,500,000
43426 St. Furniture Prgm Ad. Fees	1,492,392	1,339,554	1,100,000	1,100,000
43796 DOIT E-Rate	--	1,391,760	800,000	800,000
43797 Fiber Optic Access Fees	318,296	62,255	60,000	60,000
44002 Tuition & Transportation	1,272,879	1,151,325	1,100,000	1,100,000
47119 Affirmative Recovery Unit	393,348	112,781	100,000	100,000
47131 Pensions & Annuities	4,385,556	4,403,746	4,570,000	4,800,000
47132 Indirect Costs Reimbursement	661,500	477,381	500,000	500,000
47133 3rd Party Fringe	--	0	471,462	400,000
47155 Prior Years Reimbursements	4,622,549	2,964,290	--	500,000
48000 Detail Admin Fee	4,640,055	4,637,238	4,600,000	4,600,000
Other Misc Department Revenue	12,986,549	13,109,645	12,491,106	12,567,710
<i>Subtotal</i>	63,089,464	66,365,174	60,696,568	62,025,992

CITY OF BOSTON
Revenue Summary

	<i>FY16 Actual</i>	<i>FY17 Actual</i>	<i>FY18 Approp</i>	<i>FY19 Recom</i>
LICENSES & PERMITS				
40211 Building Permits	52,285,385	61,955,337	46,122,743	45,000,000
40213 Weights & Measures	288,766	297,560	288,500	300,000
40215 BTD - Street & Sidewlk Permits	4,033,548	3,650,429	3,500,000	3,500,000
40221 Health Inspections	1,811,191	1,864,231	1,800,000	1,800,000
40222 Alcoholic Beverage Licenses	4,337,107	4,454,978	4,449,463	4,560,000
40224 Entertainment Licenses	1,842,754	1,815,946	1,700,000	1,700,000
40227 Police - Firearm Permits	65,575	19,613	25,000	25,000
40229 Other Business Lic. & Permits	171,810	169,558	170,000	175,000
40235 Cable Television	7,132,311	7,268,766	6,500,000	6,500,000
Other Licenses & Permits	2,473,928	2,596,951	2,500,000	2,700,000
<i>Subtotal</i>	<i>74,442,373</i>	<i>84,093,368</i>	<i>67,055,706</i>	<i>66,260,000</i>
PENALTIES & INTEREST				
40133 Pen & Int - Property Tax	6,012,167	2,569,222	2,500,000	2,500,000
40134 Pen & Int - MV Excise	3,162,688	2,912,743	2,500,000	2,500,000
40136 Pen & Int - Tax Title	5,303,407	5,329,006	2,500,000	4,000,000
Other Penalties & Interest	221	280	5,000	5,000
<i>Subtotal</i>	<i>14,478,482</i>	<i>10,811,251</i>	<i>7,505,000</i>	<i>9,005,000</i>
AVAILABLE FUNDS				
42502 Approp. Cemetery Trust Fund	0	0	950,000	950,000
42503 Approp. Parking Meters	0	0	22,500,000	22,500,000
<i>Subtotal</i>	<i>0</i>	<i>0</i>	<i>23,450,000</i>	<i>23,450,000</i>
STATE AID				
41015 State Owned Land	294,886	291,377	291,100	318,326
41104 Exemptions - Elderly	386,038	769,716	769,716	1,016,542
41114 Veterans Benefits	3,410,101	2,422,826	1,998,514	1,628,119
41118 Unrestricted General Government Aid	174,653,245	182,163,335	189,267,705	195,892,075
41119 Local Share Of Racing Taxes	376,473	348,309	314,391	323,653
41301 School Construction	7,344,337	6,720,152	6,720,147	5,107,351
41305 Charter Tuition Asses. Reimb.	22,514,613	16,089,058	23,154,741	21,327,180
41306 Chapter 70 Education Aid	212,596,335	216,128,435	218,066,495	219,355,735
<i>Subtotal</i>	<i>421,576,028</i>	<i>424,933,208</i>	<i>440,582,809</i>	<i>444,968,981</i>
RECURRING REVENUE TOTAL	2,883,005,529	2,996,813,523	3,117,616,621	3,254,575,241
NON-RECURRING REVENUE				
42501 Approp. Surplus Property Fund	0	0	0	0
42504 Approp. Fund Balance	0	0	40,000,000	40,000,000
GRAND TOTAL	2,883,005,529	2,996,813,523	3,157,616,621	3,294,575,241