

Executive Summary

INTRODUCTION

The Fiscal Year 2021 (FY21) Operating Budget and FY21-25 Capital Plan comes at a time of great local, national and international economic turbulence, brought on by the Coronavirus pandemic, a global public health crisis. The City's primary daily focus continues to be on responding to the immediate needs of our residents and businesses affected by COVID-19. But at the same time, fiscal planning is vital to our continued ability to function effectively through this crisis and beyond it. The FY21 Budget is a fiscally responsible budget that will ensure we are prepared for economic uncertainties, while maintaining a well-resourced City Government that is prepared to respond to the needs of our residents.

Boston is exceptionally well prepared for this uncertainty. For the last six years, the City has achieved Triple A bond ratings and the City was recently recognized as one of the best prepared cities in the country for a recession. The City has seen consistent revenue growth from a variety of sources for the past decade, driven by a strong local economy. The City has a track record of strong fiscal management and significant reserves that will allow us to effectively manage through turbulence in the broader economy.

The \$3.65 billion FY21 Operating Budget begins to account for the economic fallout from this pandemic and the City will continue to monitor the impacts as they unfold over the coming months. The FY21 Operating Budget proposes a modest year-over-year increase of \$154 Million or 4.4% over FY20. This level of investment is based

on a stable property tax base that has proven resilient, even in times of a faltering economy. In this year of especially limited new resources, the City is prioritizing fulfilling long-term liabilities and making targeted new investments in programs and services that make the biggest impact on residents, including Public Education, Housing and Public Health.

The City is also proposing a robust \$3.0 billion FY21-25 Capital Plan in order to maintain and build the City's inventory of roads, bridges, schools and parks. The Capital Plan invests in projects in every neighborhood consistent with the strategic master plans that have been developed with the community, under the Imagine Boston 2030 umbrella. This plan ensures the municipal, civic and open space assets that residents cherish in their neighborhoods remain active and vibrant parts of the community.

This year's Capital plan includes funding for new schools and upgrading existing school facilities through the BuildBPS plan; transformative transportation projects like new bridges, roads, bus and bike lanes; major park upgrades in neighborhoods throughout the City; new civic places like City Hall Plaza and new community centers; and dedicating over 10% of new city funding toward climate resilient projects.

While the Coronavirus pandemic has led to macroeconomic uncertainty, Boston's revenue continues to demonstrate resilience. The near-term public health measures will have an effect on residents and businesses and some local revenue streams, but Boston's broader economic

outlook remains stable. While we continue to monitor the unfolding effects of Coronavirus, Boston is still a thriving City-adding new people, jobs and development at an extraordinary rate. Boston is a beacon for new residents, with the population up 12% since 2010, the City makes up 17% of the jobs in Massachusetts, up 21% since 2010 and per capita personal income is up 18% in real terms since 2012. The City has 21 in-patient hospitals and was ranked first or second among most NIH funding of any city for the past 25 years. Boston is home to corporate headquarters old and new and the City continues to compete to be the home base of some of the nation's most storied and most innovative corporations.

Revenue, especially property taxes, continues to be a source of strength for Boston moving forward. Over the past six years revenue is up nearly 31%, mostly driven by local revenue sources. Funding support from the Commonwealth and the Federal government has fallen considerably during that time. But there is a reason for optimism. This past fall, the State passed a generational and transformative piece of education finance reform legislation, the Student Opportunity Act. The law when fully implemented will provide new funding back to the City, reversing over two decades of declining state support. The City does project a continued decline in Federal government resources, but will continue to monitor new federal legislation that may bring additional resources back to Boston.

As global markets react to economic disruption and cities across the country are facing budget cuts and layoffs, Boston is prioritizing maintaining the City's fiscal strength and standing. Full funding of our long-term liabilities, like pensions and debt service, demonstrates the City's seriousness in ensuring the fiscal health of Boston. In addition, fully funding debt service is the key to ensuring a robust and impactful Capital Plan. This will allow the City to continue to invest heavily in capital

projects in every neighborhood in the City, including new schools, libraries, parks, roads and bridges.

The FY21 Operating Budget and FY21-25 Capital Plan reflects a commitment to growing opportunity, increasing equity, and moving Boston forward despite the new reality of a post COVID-19 world. The City will continue to monitor the economic impact for Boston and is ready to make adjustments as more information becomes available in the coming months.

REVENUE

Boston's expanding economy is generating growing revenue to support investments in city neighborhoods. Property tax revenue remains the primary driver of year-over-year revenue growth, mostly thanks to strong new growth estimates. Local receipts, such as fines, fees and excise tax, are expected to decrease as a result of the short and long term effects of the coronavirus pandemic. The City projects new State Aid based on the Governor's Budget released in January, but expects revisions based on the House and Senate budgets expected to emerge this spring.

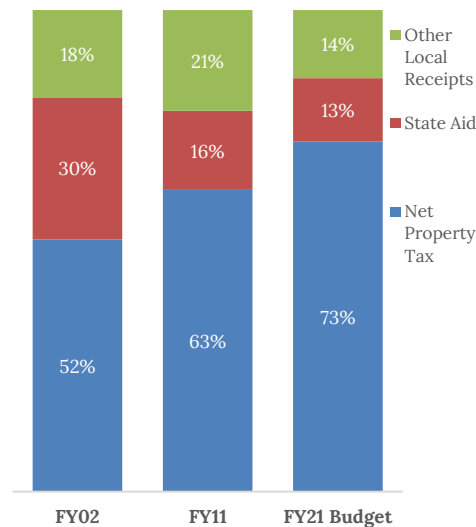


Figure 1 - Categories of Recurring Revenue FY02, FY11 and FY21

The FY21 Operating Budget relies on \$3.65 billion in revenue, a \$154.0 million increase over the FY20 budget (4.4%). \$161.0 million is projected to come from property tax growth and State revenue is budgeted to grow by \$9.4 million. Other Local Receipts are projected to decrease by \$16.5 million.

Property Tax

While property tax remains the primary revenue source for all City services and departments, in Massachusetts, Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base to a 2.5% annual increase. So while total property value has grown 76% since FY14, property tax revenue has grown by 41%. However, Proposition 2 ½ also allows the addition of new growth (e.g. new construction) to the City's property tax levy. Due to the Mayor's commitment to new housing construction and the strength of Boston's development climate, property tax growth continues to be a point of strength for the City.

In FY21, we expect new growth to remain strong, though likely not to exceed experiences in FY17 through FY20. During the past four years, the City saw notable construction projects in Boston enter the City property tax base for commercial, mixed-use and residential properties, most notably in the Seaport District, Dorchester, and the Back Bay. According to the Boston Planning and Development Agency, the estimated revenue from building permit fees during FY19 indicated the potential for \$7.2 billion in construction activity compared to an estimate of \$5.5 billion for FY18.

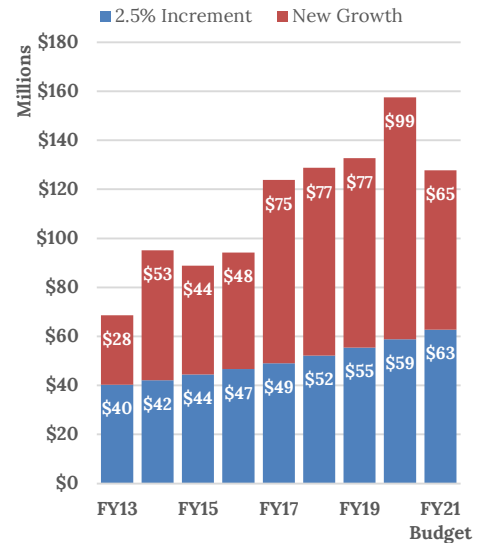


Figure 2 - Property Tax Levy Increase by Type, FY13 - FY21

Despite the need to maintain and grow property tax revenue, 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 are 37.9% below the statewide average. Thanks to Mayor Walsh's advocacy to increase the residential exemption limit to 35% of the average assessed value of all class one residential properties, the City Council, with the approval of the Mayor, once again was able to allow the maximum exemption permitted by law. The FY20 residential exemption amount increased by \$161 over the FY19 exemption and has saved residents over \$29 million annually since it was increased to 35%.

State Aid

In 2002, State Aid comprised 30% percent of the City's annual budget and helped the City maintain a sustainable balance between local revenue and other resources. In the following decades the State pulled back from its investment and FY21 State Aid is projected to be 13% of the City's budget. This divestment by the State has largely been driven by stagnant increases in K-12

Education (Chapter 70) and uncapped, unrelenting increases in State assessments.

For the past five years, Mayor Walsh, BPS teachers, staff, parents and students from around Boston and the state have been advocating on behalf of education finance reform that updates State funding formulas to better reflect the needs of students and a 21st century classroom. The City has consistently advocated that any education finance bill must direct new resources back to districts that educate the highest needs students in the state, like Boston.

The Student Opportunity Act represents a fundamental change in trajectory of State funding for Boston’s schools and students. The bill will roll out in different phases over the next seven years as the Legislature funds it during their annual budget process. When fully implemented, the bill will ensure that Boston benefits in two main ways: a dramatic increase to Boston’s Chapter 70 funding and a commitment to fully fund the City’s charter school tuition reimbursement.

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY02. With a decrease in net state aid in the FY21 budget, Boston is \$222.4 million, or 60.9%, below its FY08 level of net state aid of \$365.1 million. FY20 projected net state aid to total \$153.6 million, and the FY21 budget assumes an additional reduction to \$142.7 million. This loss of resources has put extraordinary pressure on the property tax and other local revenue sources, as well as on levels of expenditures.

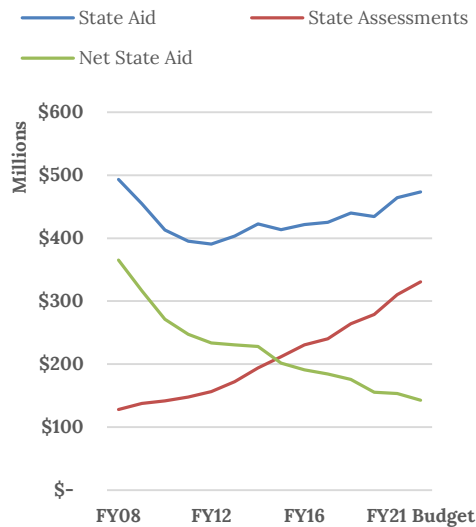


Figure 3 - State Aid, State Assessments and Net State Aid (in millions), FY08-FY21

Local Receipts

Local receipts or revenue the City is able to generate locally, include items like excise taxes, fees, fines, and permits. This vital revenue source generally follows the City’s overall economic health and because of the coronavirus pandemic and economic fallout is projected to decrease by \$16.5 million or 3.1% in FY21. The effects of the coronavirus pandemic are not fully known and are likely to significantly affect the collection of these sources. This category also represents the City’s limited opportunity to pursue new and expanded revenue streams and target that revenue towards important new projects.

As the City enters the unknown territory of an economic recession due to a global pandemic, extra precaution was used in projecting these receipts’ budgets. Excise taxes, such as Room Occupancy, Meals and Aircraft Fuel tax, are closely linked to the economy, and are likely to decrease in FY21. In addition, recent decreases of the Federal Reserve Federal Funds target range are likely to severely impact the City’s interest on investments revenue.

With limited revenue tools, and a developing economic environment, the City is continuing to strive to maximize local revenue. In FY21, the entire Administration & Finance Cabinet will continue to work with departments citywide to review collections, understand revenue drivers, and maximize revenue recovery efforts.

EXPENDITURES

Overall FY21 expenditures are increasing by \$154 million or 4.4% over the FY20 budget, for a total of \$3.65 billion. The FY21 spending growth falls within the City's expected revenue growth that allows for both a balanced and sustainable budget but also innovative and impactful investments. Funding for city services, like streets, parks, public health and public safety will grow by \$10.5 million, including targeted investments in programs and services that make the biggest impact on residents including Housing and Public Health, and Education funding, will increase by \$97.5 million over FY20. Reserves for unsettled collective bargaining will decrease \$2.6 million over FY20 and other fixed costs like pensions, debt service and state assessments make up the remaining growth of \$48.6 million.

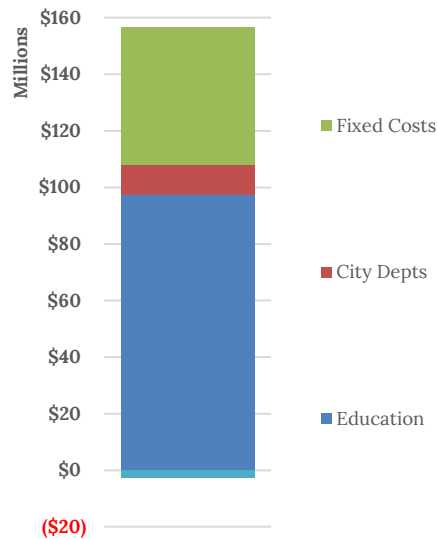


Figure 4 - Budgetary Growth by Category

Education

Boston Public Schools with a \$1.258 billion appropriation is increasing by \$80.1 million over the FY20 appropriation. Boston's total investment in education, including BPS and the City's Charter School Assessment, is growing by \$97 million (7.0%) over FY20.

In his 2020 State of the City address, Mayor Walsh announced a historic commitment of \$100 million over three years for direct classroom funding in the Boston Public Schools over and above standard cost increases. In FY21 alone, \$36 million in funding for new investments will be added to the BPS budget, with another \$44 million in cost increases for operations. This single-year increase of \$80 million will bring the total increase in the BPS budget since Mayor Walsh took office to over \$320 million.

City Services

City Services such as Police, Fire, Public Works, Housing, Public Health, and other central funds are projected to have a net increase of \$10.5 million this includes new investments in programs and services that make the biggest impact on residents, including Housing and Public Health.

In his 2020 State of the City address, Mayor Walsh pledged to dedicate \$500 million over the next five years to create thousands of homes across Boston affordable to households with low and middle incomes. The FY21 budget includes new operating investments to create affordable homeownership opportunities, preserve and generate affordable rental opportunities, and advance structural change.

The Boston Public Health Commission's FY21 budget will increase by 9.7%, with investments targeting important areas of the City's public health system as they carry out their critical work on COVID-19, as well as support for Emergency Medical Services

(EMS) and substance use disorder services. Unlike most City departments, BPHC's appropriation includes health insurance, pension and other post-employment benefits (OPEB).

Fixed Costs

City continues to prioritize fulfilling long-term commitments. This budget will continue to fund the City's fixed costs for next year, including pensions, debt service and non-charter school state assessments, and it maintains the City's level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 32% of the City's revenue growth but maintaining this funding commitment is critical to maintaining Boston's AAA bond rating and securing the long term fiscal health of the City.

Boston's current pension schedule is based on an actuarial valuation as of January 1, 2018. Boston's pension liability is 76.92% funded and will be fully funded by 2025. Boston will need to establish a new pension schedule for FY22 during FY21. Although the schedule will be based on asset valuations as of January 1, 2020 prior to the major economic and market disruptions brought on by the coronavirus, the City will consider the current market impact to the pension fund and will need to address it in the next pension schedule.

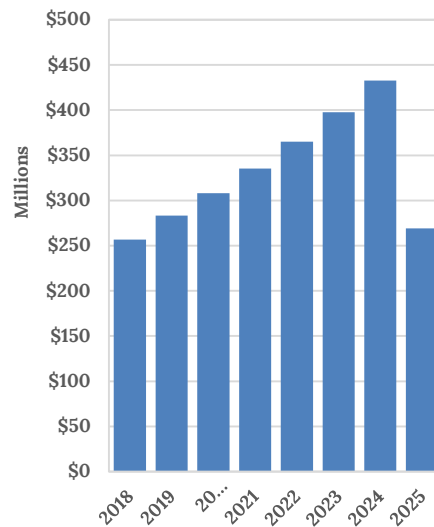


Figure 5 - Pension Funding Schedule

FY21-25 CAPITAL PLAN

Mayor Walsh's \$3.0 billion FY21-25 Capital Plan will make critical investments in the City's infrastructure in every Boston neighborhood, guided by Imagine Boston 2030 and the schools, streets, arts, climate and resilience plans under its umbrella. In order to address the City's investment aspirations, Mayor Walsh has increased planned borrowing by 24.9% over last year's plan,, committed new TNC-related resources, and utilized the Parking Meter Fund.

This year, under the Imagine Boston 2030 umbrella, the City is investing in the core goals of BuildBPS, Go Boston 2030, Boston Creates, and Climate Ready Boston. An estimated 90% of the investment in the FY21-25 capital plan is aligned with the City-wide planning efforts:

- Mayor Walsh committed \$1 billion over ten years to bring Boston's school buildings into the 21st century, and this capital plan supports that investment with funding for 21st century classrooms, MSBA Accelerated Repair Program partnerships, completion of projects in the pipeline, school kitchen renovations that support the delivery of fresh, nutritious food, and

reserves for future projects identified by BuildBPS community engagement.

- Boston, in collaboration with State and Federal partners, will invest \$1.13 billion implementing the core initiatives outlined in Go Boston 2030: streets that are safer for all users of City roads and sidewalks, particularly pedestrians and cyclists; travel that is more reliable and predictable; and quality transportation choices that improve access to interconnect neighborhoods for all modes of travel.
- Through the use of Winthrop Square proceeds, City capital dollars, and leveraging external funds, Mayor Walsh plans to carry out early actions to implement Imagine Boston 2030's Open Space goals, including investing in Franklin Park as a keystone park, completing the Emerald Necklace, reimagining Moakley Park and restoring the Boston Common to its full vibrancy.
- Boston will prepare for climate change by investing at least 10% of new City capital dollars in projects that promote climate resilience. Climate action planning will continue along with the implementation of flood protection solutions identified by the Climate Ready Boston initiative.
- In partnership with the Boston Housing Authority, the City will make new investments in public infrastructure supporting the development of affordable housing.
- Boston will utilize Long Island as a key component in providing recovery services. To support that goal, the City will move forward with the construction of a new bridge to Long Island and plan for

new recovery services to be offered on the Island.

