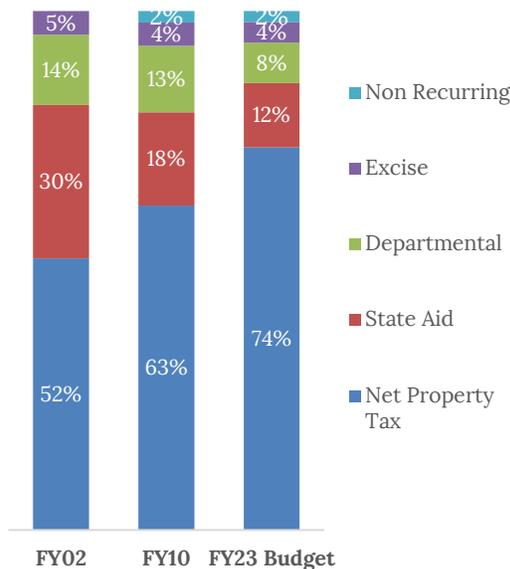


# Revenue Estimates and Analysis

## OVERVIEW

The FY23 Recommended Budget is supported by \$3.99 billion in total revenue, an increase of \$216 million, or 5.7%, from budgeted FY22 revenue. The FY23 Recommended budget includes \$3.91 billion in recurring revenue and \$80.0 million in non-recurring revenue.

The City’s revenue budget can be divided into five categories: Property Tax, State Aid, Departmental, Excise and Non-Recurring revenue. Over the past two decades, the City’s revenue structure has shifted significantly towards a growing reliance on property tax, as illustrated in Figure 1, while State Aid has decreased as a share of the budget.



**Figure 1 – Categories of Recurring Revenue, FY02, FY10, and FY23**

In addition, the COVID-19 pandemic and the resulting economic recession dealt a severe setback to Departmental and Excise revenue that will take time to reverse.

Property tax accounts for more than two-thirds of the year-over-year net revenue increase in FY23. Meanwhile, Excises are responsible for a fifth of the increase and State Aid for a little less than a tenth.

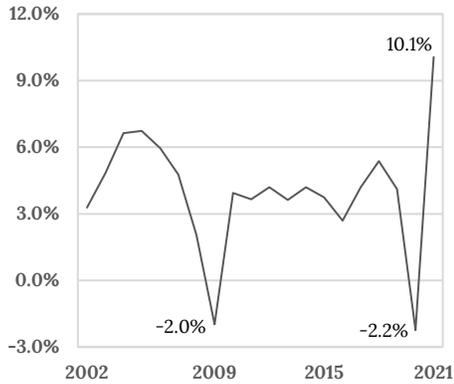
## The National Economy

The State and national economies are of great importance to the City’s well-being. The COVID-19 pandemic required public health interventions that created economic disruptions across the world. As Boston was significantly impacted by the pandemic and the resulting economic downturn, the City responded to the unfolding crisis, prioritizing the programs and services that kept Bostonians safe and moving forward.

Prior to the COVID-19 pandemic, the Great Recession was the last period of general economic decline, lasting between December 2007 and June 2009. Due to the bursting of the housing bubble in the U.S., consumer spending was cut significantly and business investments dried up. Job loss was at its greatest since the Great Depression.

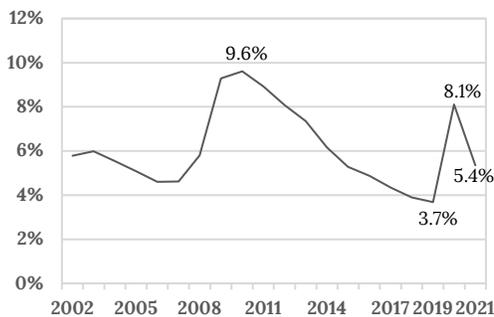
The nation’s economic recovery lasted for over 10 years, ending with the COVID-19 crisis. Annual growth in the U.S. Gross Domestic Product (GDP) averaged 4.0% from 2010 to 2019 (Figure 2). In 2020, Real GDP contracted by 2.2%, as the COVID-19 pandemic had devastating effects on the

stock market and the U.S. and World economies.



**Figure 2 – Real Gross Domestic Product Growth, Current Dollars, 2002-2021 (FRED Economic Data)**

Prior to March 2020, the civilian unemployment rate in the U.S. had steadily decreased since the end of the Great Recession: the unemployment rate was 3.5% in February 2020. The global pandemic caused many companies, institutions, and government entities to lay off or furlough large shares of their employees. In April 2020, the national unemployment rate reached 14.7% and it has been slowly decreasing since. The annual unemployment rate was 8.1% in 2020, falling further to 5.4% in 2021.

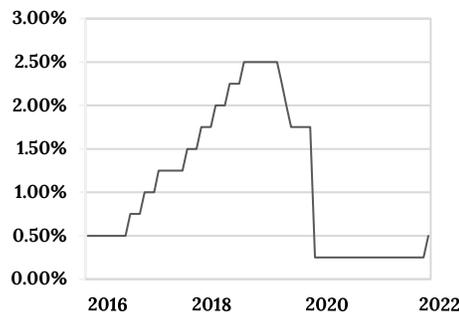


**Figure 3 – Civilian Unemployment Rate, Seasonally Adjusted, 2002-2021 (FRED Economic Data)**

The unemployment rate captures people without a job, available to work and actively searching for work, out of the entire labor

force – unemployed and employed combined. Those who are not actively looking for a job are not counted. The COVID-19 pandemic created additional obstacles for workers, causing them to delay returning to work out of fear of contracting the virus, as well as forcing many parents, more commonly mothers, to adjust their employment in order to take care for their children due to closed or remote schools and childcare. While conditions have improved, the long-term effects on workers, and female workers in particular, are still uncertain.

The Federal Funds rate is the interest rate at which depository institutions trade federal funds with each other, with the target rate representing the upper limit of the projected range. In December 2015 Federal Reserve began increasing the target rate for the first time since 2007, an indication of confidence in the economy. Rates climbed until August 2019, whereupon the Federal Reserve started to decrease its target rate gradually, reaching a range of 0% to 0.25% in March 2020. A low rate encourages people to invest their money and stimulate the economy, however keeping rates low for extended periods increases the risk for higher inflation.



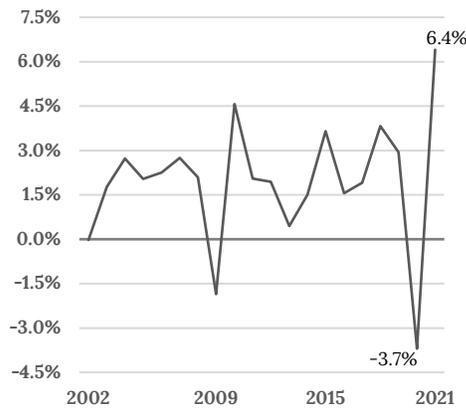
**Figure 4 – Federal Funds Target Rate March 2016- March 2022 (FRED Economic Data, Monthly, End of Period)**

Indeed, inflation has become a major concern for policymakers during the recovery from the pandemic, with rising

prices for basic goods such as groceries and gas posing challenges to households. Quarter-to-quarter growth in the Personal Consumption Expenditures Price Index averaged 1.5% for the first three quarters of 2021. The third quarter of 2021 registered fully 5.5% higher than the third quarter of 2022. The Federal Reserve is now planning a series of rate hikes intended, in part, to fight inflation. The first of these occurred in March 2022 with the target range being raised to 0.25% to 0.5%.

### The State and City Economies

Massachusetts' real GDP decreased by 3.7% in 2020 and rebounded in 2021 with annual growth of 6.4%. During the Great Recession, the lowest GDP growth was 0.8% in 2009.



**Figure 5 - Real Massachusetts Gross Product Growth, Current dollars 2002-2021**

Prior to the COVID-19 pandemic, the unemployment rate had been decreasing for both Massachusetts and Boston, with both hovering around 3% in 2019. However, the prolonged shutdown in Massachusetts due to the spread of the virus in the state caused the state unemployment rate to reach 17.1% in April 2020, or 594 thousand unemployed residents, the highest rate in the country. In May, the rate began dropping, reaching 6.0% in June 2021, or 225 thousand unemployed residents, and falling still further to 4.8% by January 2022.

Boston's unemployment rate peaked at 16.1% in June 2020, fell to 7.6% in December 2020, and registered at 4.4% in January 2022. See the Boston's People & Economy section of Volume I for more details 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 in the past two decades it has been declining as a share of revenue. 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

After the economic downturn in June 2009, the State faced several years of ups and downs in managing their structural balance. While State revenue growth, especially income tax, rebounded considerably, large variances in quarterly and yearly revenue collections 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 \$2.1 billion. The State drew down the balance considerably by the close of FY10 to a low of approximately \$670 million before revenues began to increase again in FY11-FY12 and the fund stabilized between FY14 and FY17. The Commonwealth may have been expected to access the fund during the COVID-19 crisis, but a massive infusion of over \$50 billion in federal relief and healthy capital gains tax inflows to the fund have led to its highest ever balance, \$4.6 billion, as of June 30, 2021.

State revenue collections for fiscal year 2021 totaled in excess of \$5 billion above

benchmark expectations. On January 14, 2022, as part of the FY23 Consensus Revenue process, the FY23 projection was set at \$36.92 billion, a 2.7% increase over the adjusted fiscal 2022 revenue projection of \$35.95 billion.

### **The FY23 State Budget**

The City's FY23 state aid budget is based on the Governor's proposed budget for FY23, as the state budget will not be finalized and signed into law prior to the release of the City's budget.

For more details, see *State Aid and Assessments* under the *Revenue Estimates* section below.

## **REVENUE ESTIMATES**

### **The Property Tax**

The property tax levy has always been the City's largest and most dependable source of revenue. In FY22, the net property tax levy (levy less a reserve for abatements) totals \$2.79 billion, providing 74.0% of the City's revenue. In FY23, the net property tax levy is estimated to total \$2.94 billion and account for 73.8% of budgeted revenues.

Boston's economy was surging prior to the COVID-19 pandemic and property values in Boston have continued to rise steadily. In FY21, property values increased by \$14.5 billion or 82.1%, and in FY21, property values increased by an additional \$7.2 billion or 3.8%, currently totaling \$197.8 billion. The City is mindful of potential effects of COVID-19 on property values and continues to monitor its impacts.

Proposition 2 ½ has been the overwhelming factor affecting the City's property tax levy since being passed in 1980 by the State Legislature. 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 (referred to as the *levy ceiling*). It also limits the increase in the total property tax levy to no more than 2.5% over the prior year's

total levy (referred as the *levy limit*), with certain provisions for new construction. This means that while the property values have grown 124% in the past 10 years, property tax revenue has grown by 77% 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 \$70.6 million in FY23.

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 same.

Despite these constraints, the City is committed to keeping residential property tax bills down to retain more low and middle-income homeowners in the city. Policies the City has pursued are demonstrating success, as the average owner-occupied single-family tax bill in Boston is 30% below the FY22 statewide average. In 2016, the City advocated for a change in State law that increased the residential exemption limit, a reduction in real estate taxes for homeowners who occupy their property as their principal residence, from 30% to 35% of the average assessed value of all Class One residential properties. The City Council, with the approval of the Mayor, once again chose the maximum exemption allowed by law – 35% for the FY22 Tax Rate. The FY22 residential exemption amount increased by \$152 over last year's amount.

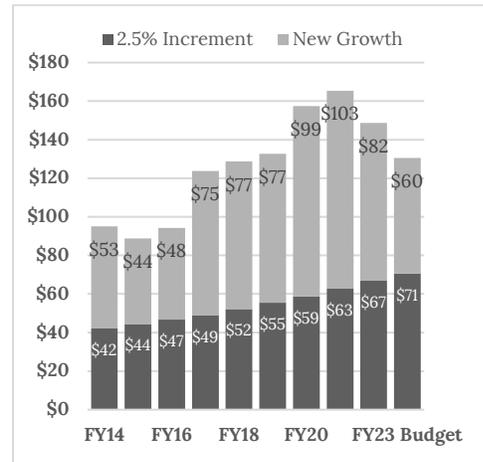
During these same years, the levy has also been positively impacted by taxable new value, or "new growth". New growth can arise from both real and personal property and is outside of the Proposition 2 ½ cap. Thanks to efforts to attract business development and grow its housing stock, Boston experienced unprecedented new growth in property tax revenue over the

past four fiscal years. In FY23, the City expects new growth to decrease due to economic uncertainty and the lagged effects of the pandemic, including a two-month pause in non-essential construction in the spring of 2020.

During the past half dozen 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 BPDA, the estimated revenue from building permit fees during FY20 indicated the potential for \$8.2 billion in construction activity compared to an estimate of \$7.4 billion in FY19.

New growth is projected to total \$60.0 million in FY23. Property tax growth from new growth has exceeded growth from the allowable 2.5% increase in 15 of the last 21 years. However, as was evident during the last recession, new growth revenue is volatile and depends on the development cycle and the local, state and national economies. See Figure 6 for Property Tax growth in the past 10 years.

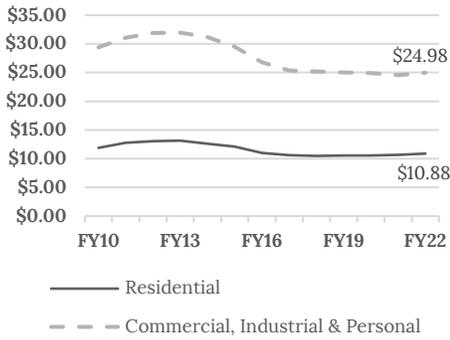
It is important for the financial health of the City that the property tax levy continues to grow, combined with diversification of the City's revenue sources. Efforts continue to reduce reliance on the property tax through increasing existing or establishing new local revenue sources.



**Figure 6 – Property Tax Levy Increase by Type (in millions), FY14–FY23**

The percentage of the total tax levy borne by residential taxpayers has averaged around 39% since FY05 and is now 41.7%. The amount and value of residential and commercial properties determine the ratio between the different categories.

Classifying properties in the residential, commercial and industrial categories reduces the residential tax rate, the rate per \$1,000 of property value, to the lowest level allowed by law. Without it, residential taxpayers would see their property taxed at a much higher rate. Figure 7 shows the two tax rates – for residential properties and for commercial, industrial and personal properties – since FY09. Rates increased following the Great Recession (FY08–FY13), when values decreased significantly due to the burst of the housing bubble. Starting in FY14, rates decreased for multiples years thanks to the acceleration of development and the recovery of the economy. Since FY18, rates have moved within a narrow range.



**Figure 7 - Property Tax Rates  
FY10-FY22**

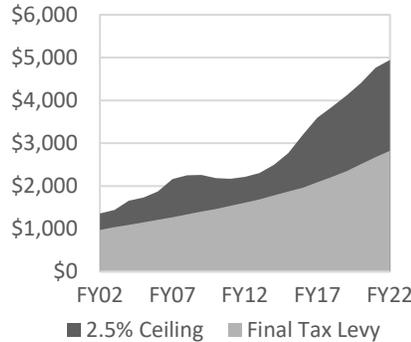
With many workers working from home and a slowdown in the economy, office vacancy rates, an indicator of commercial real estate value, have increased since 2019, with some neighborhoods faring worse than others. According to Jones Lang LaSalle data, the commercial office vacancy rate for Boston as a whole was 13.7% in the third quarter of FY21. In the South Boston Waterfront and Downtown, the rates are 13.5% and 14.6% respectively.

The citywide median single-family home price was \$745,000 in 2021. Vacancy rates in residential buildings with five or more units increased during the pandemic. For the city as a whole, multifamily residential vacancy rates increased from 5.0% in 2019 to 9.2% in 2020. In 2021, the vacancy rates fell to 4.3%.

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 further limit the City's capacity to increase the annual levy and raise the needed revenue to support the City's budget.

However, due to years of strong new growth increases, the City has significant

space between its FY22 net effective tax rate of 1.4% and the tax levy ceiling of 2.5% of total assessed values. If the real estate market were to depreciate, having a tax levy significantly lower than the levy ceiling would insulate revenues from an immediate shock. Nevertheless, if values were depressed long enough, future growth of the property tax would be impaired. The darker area in Figure 8 shows the difference, or gap, between the tax levy and ceiling.



**Figure 8 - Property Tax Levy and Levy Ceiling (in millions), FY02-FY22**

### State Aid and Assessments

State aid refers primarily to distributions from the State to municipalities for Chapter 70 education aid, unrestricted general government aid, and charter school tuition reimbursement, along with other relatively small State programs such as library aid. State aid, as it is used here, excludes any grants to or offsets for direct expenditures by City departments.

State aid in FY23 is based on the Governor's proposed budget for FY23, as the state budget is still being developed at the time the City's budget is released.

The City received General Fund gross State aid totaling \$458.8 million in FY20 and \$468.8 in FY21. The City is projected to receive \$478.9 million in State aid in FY22 and has budgeted \$495.2 million for FY23.

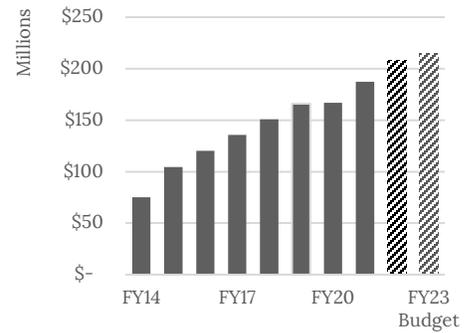
Municipal Charges, also known as State assessments, are charged by the State to

municipalities for items such as charter school tuition and MBTA service. State aid distributions are reduced by the amount of assessments charged to a municipality. The City paid \$295.9 million in FY20 and \$316.4 million in FY23. The City has budgeted to pay \$351.2 million in assessments in FY22 and is budgeting \$367.0 million in FY23.

In 1993, the State began an effort to increase and equalize funding for local education. The Chapter 70 education aid formula, derived from that effort, establishes a foundation budget, or a minimum level of education spending in each school district, which the State and the district then fund with the district's local contribution and the State Chapter 70 education aid. The City received Chapter 70 education aid from the State totaling \$221.9 million in FY20 and \$221.8 million in FY21. The City expects to receive \$223.7 million from the State in FY22 and budgeted \$225.5 for FY23.

Boston is assessed by the Commonwealth to fund charter schools on a per-pupil basis. This assessment rapidly increased following enactment of the 2010 Achievement Gap legislation that expanded the number of charter school seats. Boston's charter school tuition assessment is budgeted to increase by \$16.3 million, or 6.5%, over the FY22 budget, as 11,063 Boston students are projected to attend a state charter school in FY23.

Boston has seen its charter school costs rise dramatically in the past 10 years – 199% or \$178.3 million between FY13 and the FY23 budgets. As seen in Figure 9, the net cost of charter schools to the City – charter school tuition less charter school reimbursement – has been increasing over time as well. The City is projecting a \$207.7 million net impact in FY22 and \$214.9 million in FY23.



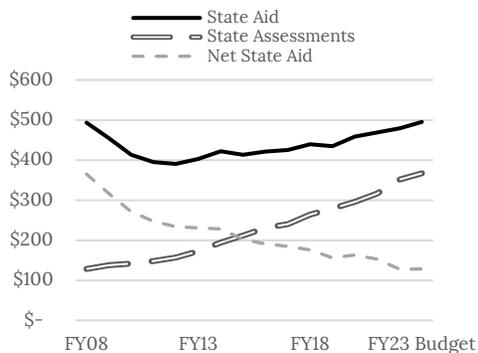
**Figure 9 – Net Charter School Costs, FY14-FY23**

The Student Opportunity Act, passed in 2019, represents a welcome development and includes a commitment to fully fund the City's charter school tuition reimbursement. Full funding is being phased in over three years; for fiscal year 2023 the Commonwealth's benchmark is to fund 90% of charter school tuition reimbursement. As reflected in the FY23 Governor's budget, Boston will receive an increase of a little more than \$9 million in tuition reimbursement relative to its FY22 appropriation for a total of 53.0 million.

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 have 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. For Boston, UGGA revenue totaled \$198.1 million in FY20 and 213.3 million in FY23. The City projects to receive \$208.2 million in FY22 and \$213.8 million in FY23, a 2.7% increase over the FY22 budget.

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY02. The rapid annual increase in the charter school tuition assessment has contributed to this trend. With a small increase in net state aid in the FY23 budget, Boston is \$236.8 million, or 64.9%, below its FY08 level of net state

aid. Net state aid amounted to \$163.0 million in FY20 and decreased to \$152.4 million in FY21. The FY22 projected net state aid totals \$127.7 million, and the FY23 budget assumes a marginal uptick to \$128.2 million, driven by fuller funding of charter school tuition reimbursement. Taking a step back, the long-run loss of resources has put extraordinary pressure on the property tax and other local revenue sources, as well as on levels of expenditures.



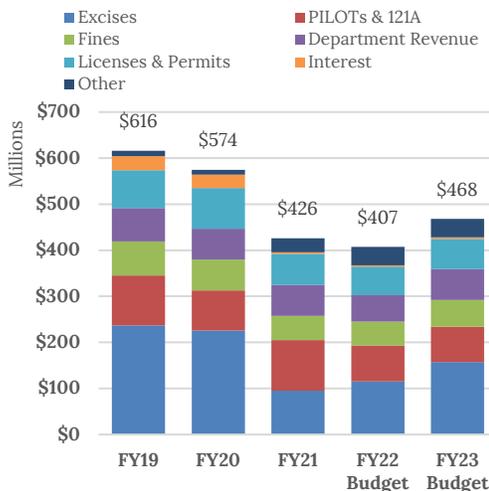
**Figure 10 – State Aid, State Assessments and Net State Aid (in millions), FY08-FY23**

### Local Receipts

The City also collects recurring revenues other than property tax and 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. To forecast these receipts, the City uses analytical trending of historical collections, based on the specific revenue source and the availability of data, and integrates economic data where appropriate.

The City collected \$615.9 million in local receipts revenue in FY19, \$574.4 million in FY20, and \$425.9 million in FY21. The impact of the COVID-19 pandemic is evident in the dramatic \$190 million, or 31%, drop across these years. Exercising caution and in light of some deferred FY20 revenue having inflated FY21 collections, the City budgeted to collect \$407.2 million in FY22.

Local receipts are expected to build on signs of economic recovery, with the City budgeting \$467.8 million in FY23. However, caution continues to be necessary given uncertainty around viral variants, geopolitical events, and macroeconomic pressures.



**Figure 11 – Recurring Local Receipts by Type FY19-FY23**

### Excise Taxes

There are eight excise taxes. Listed below are the main ones.

The local room occupancy excise was increased in FY20 from 6% to 6.5%, and is levied on both hotels and short-term rental units. In addition to the local tax, the State collects a 5.7% excise tax and a 2.75% fee, transferred to the State’s convention center fund, for a total tax from all sources of 14.95%. Local room occupancy excise revenue totaled \$100.6 million in FY19 and \$99.3 million in FY20 before falling to \$15.6 million in FY21 as COVID-19 devastated the travel and hospitality sector.

The FY22 budget assumed a slow return to normal business would result in \$32.0 million in room occupancy excise. The FY23 projection of \$54.0 million anticipates further improvement but does not depend on visitor volume reaching pre-pandemic levels.

The Commonwealth imposes an *excise in lieu of property tax on motor vehicles*, the proceeds of which are collected by the municipality in which 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 \$66.0 million in FY19, \$62.8 million in FY20, and \$54.2 million in FY21. For motor vehicle excise revenue, the City budgeted \$50.0 million in FY22 and is budgeting \$54.3 million in FY23. Since the tax lags the sale of the vehicle, this revenue estimate is generated based on projections of current year tax collections on motor vehicle sales in the state, as well as trend analyses.

Beginning in 2009, the State granted municipalities a new *local option tax on restaurant meals*. The City collected \$33.0 million in FY19, \$28.9 million in FY20, and \$14.2 million in FY21. The decrease in collection is attributed to the state's stay-at-home advisory, lost income, and concern over the safety of dining in restaurants. The City budgeted \$17.5 million in FY22 and increased its projection to \$25.0 million in FY23, expecting restaurants to benefit from ongoing economic recovery and successful public health measures.

The *excise on the sale of jet fuel* is 5% of the average sales price of the previous quarter, but no less than five cents per gallon. Increases in flights arriving and departing Logan International Airport led to increased jet fuel excise revenue in recent years, mitigated by constant changes in prices. Jet fuel excise revenue totaled \$34.5 million in FY19, \$32.5 million in FY20, and \$8.5 million in FY22. The City budgeted \$12.0 million in FY22 and is budgeting \$20.0 million in FY23. The total number of flights to and from Logan decreased by 52% and total passengers decreased 70% in 2020.

Numbers in 2021 were still off 2019 levels but showed substantial gains.

The 2017 state legislation that established the framework for cannabis sales included a 3% local tax option layered on top of the 6.25% sales tax and a 10.75% state marijuana excise. The City receives quarterly payments for the local option *marijuana excise* equivalent to 3% of cannabis sales by operations located in Boston. Under City ordinance, the first \$1 million of marijuana excise the City received was transferred to the Cannabis Equity Fund to assist equity applicants and one-sixth of subsequent revenue will be transferred until 2024. In FY23 the City is budgeting \$1.25 million in General Fund marijuana excise revenue, a small increase from the \$1.0 million budgeted in FY22.

The *vehicle rental surcharge* is a revenue-sharing arrangement with the State. Under this arrangement, all vehicle rental contracts originating in the City are subject to a \$10 surcharge. The City receives \$1 of this surcharge. Revenue from this source was \$1.6 million in FY19 and FY20 and \$574 thousand in FY21. In FY22, the budget was reduced to \$600 thousand due to decreased traveler volume. A modest increase to \$750 thousand is budgeted in FY23.

### **Fines**

In FY21, the City issued roughly 900,000 parking tickets, 166 thousand or 16% less than in FY20. The FY21 collection rate remained over 90%. 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, 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 fines revenue of \$70.1 million in FY19. In FY20, issuance and collection were affected by COVID-19, starting in March 2020, as many businesses were closed throughout the City and traffic into the City was reduced. Parking fines revenue collection decreased to \$62.7 million in FY20 and fell further in FY21 to \$48.5 million. As the pace at which trips into Boston will rebound is uncertain, parking fines are budgeted at \$48.5 million in FY22 and \$54 million in FY23.

### **Interest on Investments**

The City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Investment income totaled \$30.4 million in FY19, \$29.5 million in FY20, and \$3.6 million in FY21.

The City budgeted interest income at \$2.8 million in FY22 and \$3.0 million in FY23. The City's investments are sensitive to the Federal Funds rate, so the very low range in which the Federal Reserve has maintained the rate has depressed income. Since rates are beginning to climb, some growth may be expected.

### **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 41% 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 generates more revenue than what was previously collected, while providing some equity across paying institutions. New agreements under this framework were adopted in FY12, and that year included 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 \$54.0 million in FY19, \$44.9 million in FY20, and \$63.1 million in FY21. Due to the COVID-19 impact on universities, hospitals and cultural institutions, revenue collection was decreased from this source in FY20 and late payments for amounts requested in FY20 boosted FY21. The FY22 budget includes \$49.6 million in PILOTs revenue and the FY23 budget includes \$51.1 million.

### **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 payment in-lieu-of-tax is \$10 per \$1,000 of the current cash value of property plus 5% of gross income. In FY19, FY20, and FY21, the City received Chapter 121A section 10 distributions of \$19.7 million, \$13.9 million, and \$21.4 million, respectively, with the latter year consisting of some FY20 payments pushed into FY21 due to administrative delays on the state level. Chapter 121A section 10 revenues are projected at \$11 million in FY22 and \$10

million in FY23, as timing of these payments is inconsistent and agreements expire.

In addition to the Section 10 payments collected by the State, 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 \$24.6 million in FY19, \$18.8 million in FY20, and \$15.2 million in FY21. The City is budgeting section 6A collections at \$11.0 million in FY22 and \$9.0 million in FY23. As Chapter 121A agreements expire and the properties transition back to regular property taxes, these payments will decrease, while contributing to the new growth portion of the property tax levy.

#### **Miscellaneous Department Revenue**

With revenue tools limited by local tax authority in Massachusetts, the City is continuing in the FY23 budget to better maximize local revenue options. In FY23, the Administration and Finance cabinet will continue a citywide review of collections, as well as address past due bills to recover additional revenue.

The largest revenue source in this category is Street Occupancy permits, which averaged \$10.1 million in annual collections between FY19 and FY21. Street Occupancy Permits are budgeted at \$9.5 million in FY22 and \$10.0 million in FY23.

Overall FY23 miscellaneous department revenue is projected to increase \$10.2 million, or 18%, over FY22. One driver is Parking Facilities, where the City will no longer be making debt service payments on Lafayette Garage in FY23 and is pursuing a new operating model. These changes are expected to push net revenue 50% or more above the garage's typical annual take of \$2.5-\$3 million.

#### **Licenses and Permits**

This category is dominated by *building permits revenue*, from which the City received \$61.8 million and \$69.6 million in FY19 and FY20, respectively. Building permits revenue dropped to \$48.7 million in FY21 due to the effects of COVID-19 on construction starts. In FY22 this source is budgeted at \$45.0 million in FY21 and will be increased to \$48.0 million in FY23.

The second largest Licenses and Permits revenue is the *cable television license fee*, from which the City received \$6.5 million in FY19, \$6.3 million in FY20, and \$5.8 million in FY21. A declining base of cable subscribers explains the decrease over time. Revenue from cable television is budgeted at \$5.2 million in FY22 and \$4.6 million in FY23.

*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 in FY22 and FY23.

#### **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 \$11.4 million in such penalties and interest in FY19, \$10.1 million in FY20, and \$10.3 million in FY21. The City is budgeting this revenue source at \$9 million in both FY22 and FY23.

#### **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 budgets each year are parking meter revenues to support the Transportation Department, and cemetery trust monies that 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 typically builds up a balance in both 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 \$20 million from the Parking Meter Fund to the General Fund in FY21 after not making any funds transfers in FY19 or FY20. The City has budgeted to transfer \$30 million from the Parking Meter Fund and \$950,000 from the Cemetery Trust Fund to the General Fund in both FY22 and FY23.

See the *Financial Management* section of Volume I for details.

**Non-Recurring Revenue**

**Surplus Property**

The surplus property disposition fund contains 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 FY23 budget from this revenue source.

**Budgetary Fund Balance**

Budgetary Fund Balance can be appropriated for use during the fiscal year after certification by the Department of Revenue (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 that the City can responsibly appropriate for spending.

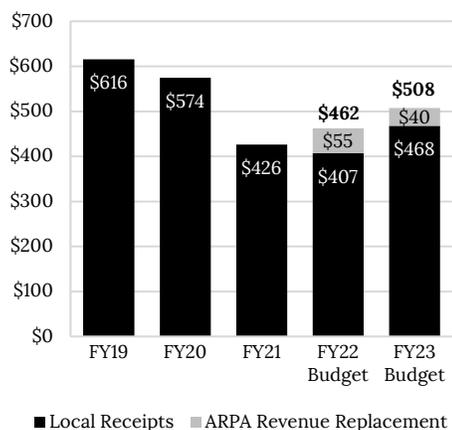
In FY21 \$40.0 million in Budgetary Fund balance was dedicated to supporting the appropriation for Other Post-Employment Benefits (OPEB), the liability associated with retiree health insurance costs. The FY22 and FY23 budgets likewise assume the use of \$40.0 million to support OPEB.

See the *Financial Management* section of Volume I for more details on this revenue source.

**American Rescue Plan Act**

The FY23 budget includes \$40 million from the City’s American Rescue Plan Act of 2021 (ARPA) State and Local Fiscal Recovery Funds (SLFRF) award for the purpose of replacing revenue lost as a result of the COVID-19 public health emergency. This is one allowable use of ARPA funds, which by law are to be used by December 31, 2024.

The \$40 million budgeted for FY23 is a step down from the \$55 million budgeted in FY22 to replace lost revenue. Gradual recovery of local receipts revenue should enable lower reliance on federal funding in FY23 and FY24. However, as Figure 12 shows, even with the addition of ARPA revenue replacement funding, local receipts are projected to remain significantly below FY19 levels.



**Figure 12 –Local Receipts and ARPA Revenue Replacement (in millions), FY19-FY23**

See the *Operating* section of Volume I  
(*External Funds* subsection) for more details  
on the City's programming of federal relief  
funding.

## Revenue Detail

|   | <b>FY20 Actual</b>   | <b>FY21 Actual</b>   | <b>FY22 Budget</b>   | <b>FY23 Budget</b>   |
|---|----------------------|----------------------|----------------------|----------------------|
| Property Tax                            | 2,514,155,221        | 2,680,021,726        | 2,823,323,376        | 2,953,906,461        |
| 40116 Property Tax Overlay              | -47,323,895          | -3,735,387           | -33,174,590          | -10,000,000          |
| <b>Subtotal</b>                         | <b>2,466,831,326</b> | <b>2,676,286,339</b> | <b>2,790,148,786</b> | <b>2,943,906,461</b> |
| <b>EXCISES</b>                          |                      |                      |                      |                      |
| Motor Vehicle Excise                    | 62,791,517           | 54,183,557           | 50,000,000           | 54,250,000           |
| 40129 Room Occupancy Excise             | 99,258,171           | 15,562,667           | 32,000,000           | 54,000,000           |
| 40130 Aircraft Fuel Excise              | 32,470,675           | 8,474,178            | 12,000,000           | 20,000,000           |
| 40140 Condominium Conversion Excise     | 619,000              | 838,000              | 500,000              | 600,000              |
| 40162 Short Term Rental                 | 260,295              | 339,780              | 500,000              | 500,000              |
| 40601 Meals Excise Tax                  | 28,926,658           | 14,202,801           | 17,500,000           | 25,000,000           |
| 40602 Marijuana Excise                  | 0                    | 0                    | 1,000,000            | 1,250,000            |
| 40603 Community Host Agreements         | 119,870              | 754,410              | 1,000,000            | 1,000,000            |
| 41113 Vehicle Rental Surcharge          | 1,573,276            | 573,998              | 600,000              | 750,000              |
| Boat Excise                             | 6,689                | 419                  | 40,000               | 40,000               |
| <b>Subtotal</b>                         | <b>226,026,152</b>   | <b>94,929,808</b>    | <b>115,140,000</b>   | <b>157,390,000</b>   |
| <b>FINES</b>                            |                      |                      |                      |                      |
| Total Parking Fines                     | 62,681,485           | 48,539,636           | 48,500,000           | 54,000,000           |
| 45104 Code Enforcement - Trash          | 1,310,455            | 1,432,906            | 1,100,000            | 1,300,000            |
| Other Fines                             | 3,385,284            | 2,180,018            | 2,205,000            | 2,655,000            |
| <b>Subtotal</b>                         | <b>67,377,224</b>    | <b>52,152,560</b>    | <b>51,805,000</b>    | <b>57,955,000</b>    |
| <b>Interest On Investments</b>          |                      |                      |                      |                      |
| 47151 Interest On Investments           | 29,472,290           | 3,614,562            | 2,800,000            | 3,000,000            |
| <b>Subtotal</b>                         | <b>29,472,290</b>    | <b>3,614,562</b>     | <b>2,800,000</b>     | <b>3,000,000</b>     |
| <b>PILOTS</b>                           |                      |                      |                      |                      |
| 40167 PILOTS                            | 34,432,514           | 25,173,824           | 29,000,000           | 29,000,000           |
| 40168 Other PILOTS                      | 171,193              | 185,797              | 200,000              | 170,000              |
| 40169 Massport/DOT                      | 19,443,369           | 19,520,739           | 20,078,133           | 20,479,699           |
| <b>Subtotal</b>                         | <b>54,047,076</b>    | <b>44,880,360</b>    | <b>49,278,133</b>    | <b>49,649,699</b>    |
| <b>URBAN REDEVELOPMENT CHAPTER 121A</b> |                      |                      |                      |                      |
| 40230 121B Section 16                   | 8,107,815            | 9,926,609            | 6,000,000            | 6,000,000            |
| 40231 121A Section 6A                   | 18,756,867           | 15,209,648           | 11,000,000           | 9,000,000            |
| 40232 121C                              | 727,794              | 424,547              | 700,000              | 400,000              |
| 41013 Chapter 121A Section 10           | 13,923,319           | 21,409,759           | 11,000,000           | 10,000,000           |
| <b>Subtotal</b>                         | <b>41,515,795</b>    | <b>46,970,562</b>    | <b>28,700,000</b>    | <b>25,400,000</b>    |

|  | <b>FY20 Actual</b> | <b>FY21 Actual</b> | <b>FY22 Budget</b> | <b>FY23 Budget</b> |
|--|--------------------|--------------------|--------------------|--------------------|
| <b>MISC DEPARTMENT REVENUE</b>         |                    |                    |                    |                    |
| 43105 Registry Division Fees           | 1,611,300          | 1,500,105          | 1,600,000          | 1,650,000          |
| 43109 Liens                            | 695,050            | 741,925            | 600,000            | 600,000            |
| 43120 City Clerk Fees                  | 637,908            | 438,796            | 500,000            | 600,000            |
| 43137 Municipal Medicaid Reimbursement | 6,812,508          | 5,978,256          | 5,400,000          | 6,500,000          |
| 43138 Medicare Part D                  | 2,285,931          | 5,373,759          | 2,000,000          | 2,000,000          |
| 43202 Police Services                  | 1,111,110          | 492,446            | 500,000            | 700,000            |
| 43211 Fire Services                    | 5,253,464          | 6,447,648          | 6,000,000          | 6,600,000          |
| 43301 Parking Facilities               | 1,973,799          | 1,518,060          | 750,000            | 4,000,000          |
| 43311 PWD - Street Occupancy.          | 10,104,389         | 9,310,041          | 9,500,000          | 10,000,000         |
| 43425 St. Furniture Prgm Fixed Fees    | 0                  | 0                  | 1,500,000          | 1,500,000          |
| 43426 St. Furniture Prgm Ad. Fees      | 1,069,191          | 618,379            | 500,000            | 900,000            |
| 44002 Tuition & Transportation         | 1,352,738          | 2,116,932          | 1,900,000          | 1,900,000          |
| 47119 Affirmative Recovery Unit        | 247,391            | 385,566            | 200,000            | 200,000            |
| 47130 Fringe Retirement                | 5,652,141          | 5,832,859          | 5,500,000          | 5,767,995          |
| 47131 Pensions & Annuities             | 5,374,001          | 5,888,496          | 5,500,000          | 6,550,000          |
| 47132 Indirect Costs Reimbursement     | 646,390            | 585,266            | 400,000            | 500,000            |
| 48000 Detail Admin Fee                 | 3,647,193          | 3,118,825          | 2,800,000          | 3,100,000          |
| Other Misc Department Revenue          | 18,151,845         | 17,169,472         | 11,648,338         | 13,957,338         |
| <b>Subtotal</b>                        | <b>66,626,348</b>  | <b>67,516,833</b>  | <b>56,798,338</b>  | <b>67,025,333</b>  |
| <b>LICENSES &amp; PERMITS</b>          |                    |                    |                    |                    |
| 40211 Building Permits                 | 69,572,085         | 48,742,094         | 45,000,000         | 48,000,000         |
| 40213 Weights & Measures               | 215,100            | 282,430            | 290,000            | 290,000            |
| 40215 BTD - Street & Sidewlk Permits   | 2,978,604          | 3,243,024          | 2,800,000          | 3,000,000          |
| 40221 Health Inspections               | 1,765,597          | 1,539,234          | 1,530,000          | 1,600,000          |
| 40220 Boat Mooring Permits             | 16,424             | 0                  | 0                  | 0                  |
| 40222 Alcoholic Beverage Licenses      | 4,449,548          | 4,345,737          | 4,500,000          | 4,500,000          |
| 40223 Marijuana License                | 0                  | 17,950             | 10,000             | 25,000             |
| 40224 Entertainment Licenses           | 1,820,938          | 968,524            | 1,000,000          | 1,600,000          |
| 40227 Police - Firearm Permits         | 23,297             | 121,463            | 30,000             | 40,000             |
| 40229 Other Business Lic. & Permits    | 142,169            | 207,714            | 160,000            | 160,000            |
| 40235 Cable Television                 | 6,255,985          | 5,782,664          | 5,200,000          | 4,600,000          |
| 46001 Dog License                      | 0                  | 0                  | 220,000            | 220,000            |
| Other Licenses & Permits               | 2,154,344          | 1,124,081          | 1,680,000          | 1,630,000          |
| <b>Subtotal</b>                        | <b>82,596,465</b>  | <b>88,363,827</b>  | <b>61,960,000</b>  | <b>62,970,000</b>  |

|   | <b>FY20 Actual</b>   | <b>FY21 Actual</b>   | <b>FY22 Budget</b>   | <b>FY22 Budget</b>   |
|---|----------------------|----------------------|----------------------|----------------------|
| <b>PENALTIES &amp; INTEREST</b>           |                      |                      |                      |                      |
| 40133 Pen & Int - Property Tax            | 2,647,983            | 3,885,316            | 2,300,000            | 2,300,000            |
| 40134 Pen & Int - MV Excise               | 3,191,937            | 3,465,200            | 2,200,000            | 2,200,000            |
| 40136 Pen & Int - Tax Title               | 4,266,493            | 2,969,319            | 4,500,000            | 4,500,000            |
| Other Penalties & Interest                | 185                  | 0                    | 0                    | 0                    |
| <b>Subtotal</b>                           | <b>10,106,597</b>    | <b>10,319,835</b>    | <b>9,000,000</b>     | <b>9,000,000</b>     |
| <b>AVAILABLE FUNDS</b>                    |                      |                      |                      |                      |
| 42502 Approp. Cemetery Trust Fund         | 0                    | 0                    | 950,000              | 950,000              |
| 42503 Approp. Parking Meters              | 0                    | 20,000,000           | 30,000,000           | 30,000,000           |
| <b>Subtotal</b>                           | <b>0</b>             | <b>20,000,000</b>    | <b>30,950,000</b>    | <b>30,950,000</b>    |
| <b>STATE AID</b>                          |                      |                      |                      |                      |
| 41015 State Owned Land                    | 408,662              | 419,294              | 483,133              | 482,867              |
| 41104 Exemptions - Elderly                | 1,061,490            | 1,093,210            | 888,238              | 901,095              |
| 41114 Veterans Benefits                   | 1,889,327            | 1,380,992            | 1,296,639            | 1,000,000            |
| 41118 Unrestricted General Government Aid | 198,082,317          | 213,343,248          | 208,222,502          | 213,844,510          |
| 41119 Local Share Of Racing Taxes         | 319,061              | 437,075              | 369,263              | 540,439              |
| 41301 School Construction                 | 2,461,330            | 0                    | 0                    | 0                    |
| 41305 Charter Tuition Asses. Reimb.       | 32,711,889           | 30,306,231           | 43,917,612           | 52,975,806           |
| 41306 Chapter 70 Education Aid            | 221,915,045          | 221,839,229          | 223,736,165          | 225,486,335          |
| <b>Subtotal</b>                           | <b>458,849,121</b>   | <b>468,819,279</b>   | <b>478,913,552</b>   | <b>495,231,052</b>   |
| <b>RECURRING REVENUE TOTAL</b>            | <b>3,500,049,040</b> | <b>3,571,054,706</b> | <b>3,676,275,375</b> | <b>3,906,961,867</b> |
| <b>NON-RECURRING REVENUE</b>              |                      |                      |                      |                      |
| 42501 Approp. Surplus Property Fund       | 0                    | 0                    | 0                    | 0                    |
| 42504 Approp. Fund Balance                | 0                    | 40,000,000           | 40,000,000           | 40,000,000           |
| 42507 American Recovery Plan              | 0                    | 0                    | 55,000,000           | 40,000,000           |
| <b>GRAND TOTAL</b>                        | <b>3,500,049,040</b> | <b>3,611,054,706</b> | <b>3,771,275,375</b> | <b>3,986,961,867</b> |

**Table 1**