Revenue Estimates and Analysis

OVERVIEW

The FY24 Recommended Budget is supported by $4.28 billion in total revenue, which is an increase of $273.7 million, or 6.8%, from budgeted FY23 revenue. The FY24 Recommended budget includes $4.24 billion in recurring revenue and $40.0 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.

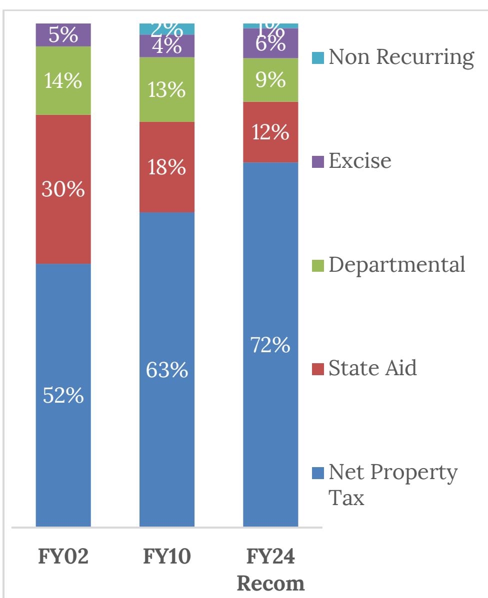

Figure 1 – Categories of Recurring Revenue, FY02, FY10, and FY24

This shift was exacerbated by the COVID-19 pandemic, and the resulting economic recession dealt a severe setback to Departmental and Excise revenue. For FY24, both Excises and Departmental revenue are budgeted above pre-pandemic levels.

Property tax accounts for roughly half of the year-over-year net revenue increase in FY24. Excises and Departmental Revenue explain an additional 44% of the increase.

The National Economy

The national and Massachusetts economies are of great importance to the City's well-being. Consequently the fortunes of the City are tied to economic and policy decisions made outside of its borders. After three years, the national emergency relating to the COVID-19 pandemic is sun setting in May 2023. As Boston was significantly impacted by the pandemic and the resulting economic downturn, the City responded to the unfolding crisis by prioritizing the programs and services that kept Bostonians safe and moving forward.

Prior to the COVID-19 pandemic, the nation's economy was on a 10 year long growth period bookended by the Great Recession. During this time annual growth in the U.S. Gross Domestic Product (GDP) averaged 2.3% from 2010 to 2019 (Figure 2). In 2020, the sudden suspension of travel, closure of businesses, and shock in supply chains caused GDP to contract by 2.8%.

As the federal government stepped in to support the economy, economic fortunes rebounded. The national economy adapted to maintain commerce while mitigating the negative economic effects of the pandemic. In 2021 GDP grew by 5.9% and followed with 2.2% growth in 2022.

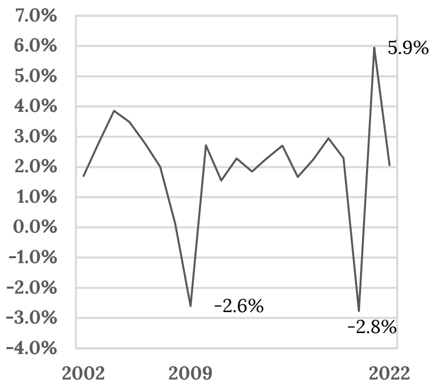

Figure 2 – Real U.S. Gross Domestic Product Growth, Chained 2012 Dollars 2002-2022 (FRED Economic Data)

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. By 2022, the unemployment rate reached pre-pandemic levels at 3.6%. This swift recovery contrasts the gradual decline in the unemployment rate following the Great Recession.

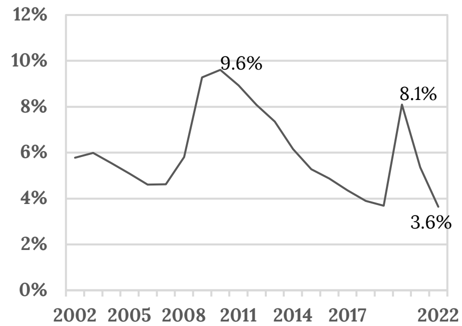

Figure 3 – Civilian Unemployment Rate, Seasonally Adjusted, 2002-2022 (FRED Economic Data)

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. As of 2022, the labor force participation rate is still lower than pre-pandemic levels.

The speed and magnitude of recovery efforts were effective in quickly turning around the economy. In all, the federal government appropriated more than $4 trillion dollars in aid to individuals, businesses, and local governments. These cash infusions spurred demand for goods and services which, combined with global supply chain challenges, drove up prices. Prior to the pandemic, annual price increases from inflation as measured by the Personal Consumption Expenditures Index, PCE, averaged below two percent. Between 2021 and 2022, inflation increased by 6.3

percent, more than three times the pre-pandemic average.

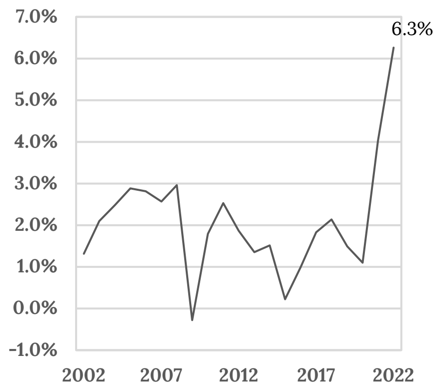

Figure 4 – Annual Change in Personal Consumption Expenditures Index, Chained 2012 Dollars
2002-2022 (FRED Economic Data)

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 the Federal Reserve began increasing the target rate for the first time since 2007, an indication of confidence in the economy. After some adjustments in 2019, the Federal Reserve slashed rates back to the 0% - 0.25% range to spur investment during the pandemic.

Given the rapid ascent of the PCE index in 2021, the Federal Reserve increased interest rates with the intention of cooling demand and moderating price increases. Starting in March 2022 and continuing into 2023, the Federal Reserve raised interest rates from the 0% to 0.25% target to 4.75% to 5%. Only in early 2023 has inflation showed signs of slowing off its historically high pace in 2022.

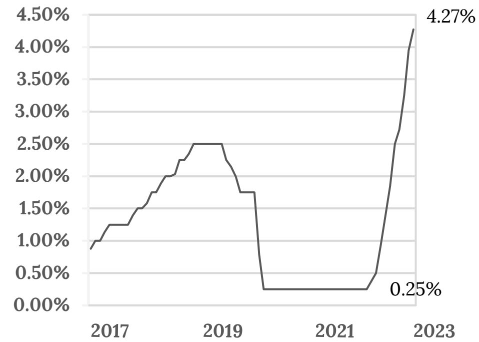

Figure 5 - Federal Funds Target Rate March 2017- January 2023 (FRED Economic Data, Monthly, End of Period)

The State and City Economies

Massachusetts' real GDP decreased by 2.8% in 2020 and rebounded in 2021 with annual growth of 6.6%. During the Great Recession, Massachusetts' real GDP declined by 1.9%.

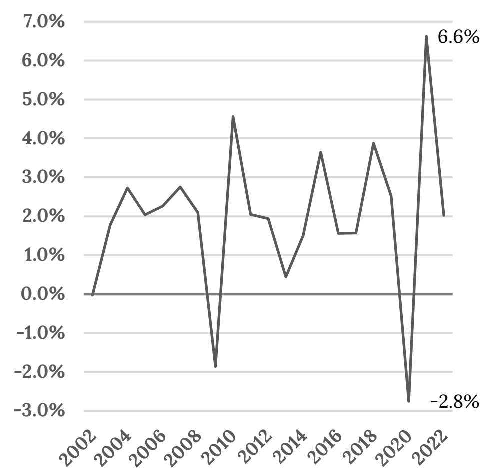

Figure 6 - Real Massachusetts Gross Domestic Product Growth, Chained 2012 Dollars
2002-2022 (FRED Economic Data)

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 3.3% by December 2022. Boston's unemployment rate peaked at 16.1% in June 2020, fell to 7.6% in December 2020, and registered at 2.9% in December 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. By FY18 the fund again exceeded $2 billion. 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 revenue collections have brought the balance to a historical high point, $6.9 billion, at FY22's close.

State revenue collections for fiscal year 2022 totaled in excess of $6.9 billion, or 20.5%, above benchmark expectations. This surplus triggered a clause in the Massachusetts General Laws to refund a portion of the excess. As a result, the state returned nearly $3 billion to taxpayers via refunds.

In January, 2023, as part of the FY24 Consensus Revenue process, the FY24 projection was set at $40.41 billion, a 1.6% increase over the adjusted fiscal 2023 revenue projection.

The FY24 State Budget

The City's FY24 state aid budget is based on the Governor's proposed budget for FY24. At the time the City approved its budget, the state budget had not yet been finalized and signed into law.

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

THE GENERAL FUND

The City's entire $4.28 billion budget is funded through the general fund. All revenues discussed below are deposited into the City's general fund and are reflected on a fiscal year basis July 1 through June 30.

REVENUE ESTIMATES

The Property Tax

The property tax levy has always been the City's largest and most dependable source of revenue. In FY23, the net property tax levy (levy less a reserve for abatements) totaled $2.96 billion, providing 74.0% of the City's revenue. In FY24, the net property tax levy is estimated to total $3.10 billion and account for 72.4% of budgeted revenues.

Boston's economy performed well prior to the COVID-19 pandemic and property values in Boston have appreciated in value steadily. Despite the economic shock of the pandemic, property values increased at rates similar to the pre-pandemic period. Between FY20 and FY22 property values increased by $21.7 billion, or 12.3%. In FY23 values increased by an additional $7.2 billion, or 7.3%, currently totaling $212.2 billion.

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 113% in the past 10 years, property tax revenue has grown by 70% 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 $74.8 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 either to override or to exclude debt from the levy limitations.

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 19% below the FY23 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 FY23 Tax Rate. The FY23 residential exemption amount increased by $151 over the prior year's amount, saving eligible taxpayers up to $3,456 on their property tax bills.

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 several fiscal years. In FY24, the City is conservatively budgeting new growth due to economic uncertainty related to price inflation and high interest rates.

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.

New growth is projected to total $60.0 million in FY24. Property tax growth from new growth has exceeded growth from the allowable 2.5% increase in 14 of the last 20 years. However, as was evident during the Great 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.

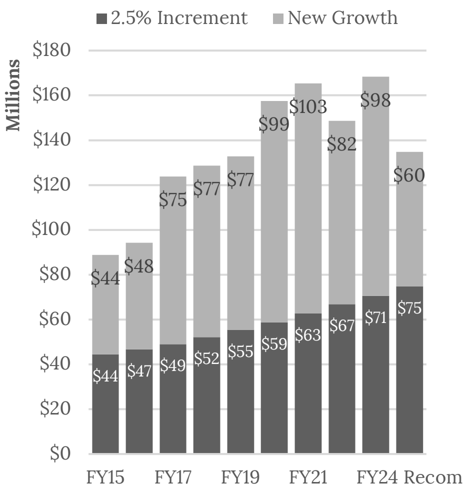

Figure 7 – Property Tax Levy Increase by Type (in millions), FY15-FY24

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 FY11. Rates increased following the Great Recession (FY08-FY13), when values decreased significantly due to the sudden collapse the housing market in late 2007. 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.

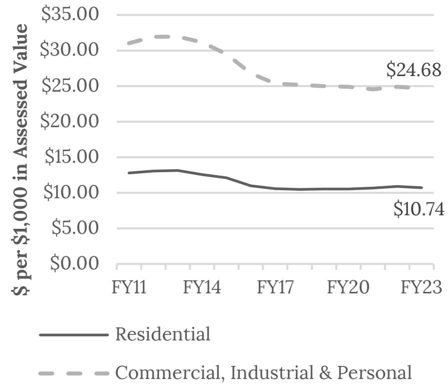

Figure 8 - Property Tax Rates FY11-FY23

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 11.2% in the fourth quarter of 2022. This is a 0.5% increase from the same period in 2021, and 83% higher than pre-pandemic rates. In the South Boston Waterfront and Downtown, the rates were 8.4% and 13.3% respectively.

While commercial properties have seen a relative lag in demand, residential properties have appreciated and rents have increased. The citywide median single-family home price was $761,000 in 2022, up 3.7% from 2021, and 90% from a decade earlier. After remaining relatively flat between 2020 and 2021, citywide apartment rents increased 14.2% to $2,895 in 2022.

Any significant decline in property values can present a problem for cities as dependent on the property tax as Boston. In the early 1990's property values decreased in Boston, while 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 FY23 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 below 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 9 shows the difference, or gap, between the tax levy and ceiling.

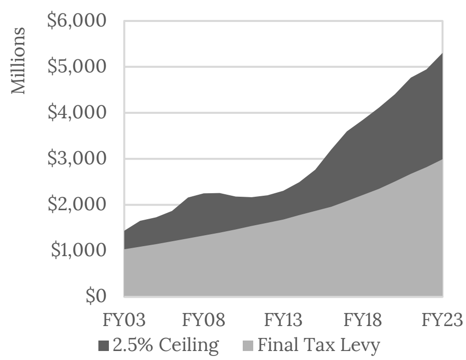

Figure 9 – Property Tax Levy and Levy Ceiling (in millions), FY03-FY23

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 FY24 is based on the Governor's proposed budget. Both the Massachusetts House of Representatives and Senate will weigh in with their own proposals. Due to the timeline of budget negotiations at the state level, it is possible that a state budget will not be finalized by the time the City's budget is approved.

The City received General Fund gross State aid totaling $468.8 million in FY21 and $470.0 in FY22. The City is projected to receive $508.7 million in State aid in FY23 and has budgeted $513.8 million for FY24.

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 $316.4 million in FY21 and $329.7 million in FY22. The City budgeted to pay $364.4 million in assessments in FY23 and is budgeting $382.4 million in FY24.

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. The foundation budget is funded by the district's local contribution and State Chapter 70 education aid. The City received Chapter 70 education aid from the State totaling $221.8 million in FY21 and $223.6 million in FY22. The City expected to receive $227.2 million from the State in FY23 and is budgeting $229.0 for FY24.

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 $15.9 million, or 6.0%, over the FY23 budget, as 10,558 Boston students are projected to attend a state charter school in FY24.

Boston has seen its charter school costs rise dramatically in the past 10 years – 104% or $154.6 million between FY15 and the FY24 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 projected a $207.7 million net cost in FY22 and is projecting a slightly lower $206.6 million net cost in FY23.

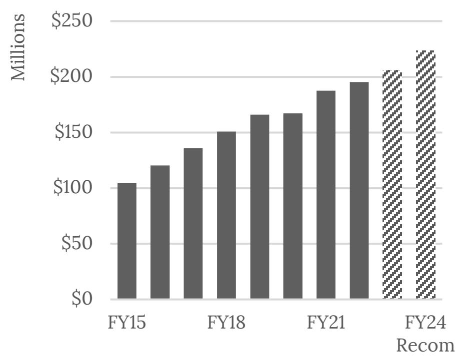

Figure 10 – Net Charter School Costs, FY15-FY24

In recognition of the challenges facing districts with large populations of low income and special needs students, the Student Opportunity Act, passed in 2019, reformed school finance to unlock more resources for these districts. This legislation 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 2024 the Commonwealth's benchmark is to fund 100% of charter school tuition reimbursement. The City anticipates that this commitment will be met or exceeded, with a total tuition reimbursement of $56.8 million in FY24, an increase of $34.2 million prior to the Student Opportunity Act.

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 $213.3 million in FY21 and $208.3 million in FY22.

The City was projected to receive $219.5 million in FY223 and expects $223.9 million in FY24, a 2.0% increase over the FY23 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. Despite a substantial increase in net state aid in the FY23 budget, the erosion of net state aid is anticipated to continue in FY24. Boston projects to be $233.7 million, or 64.0%, below its FY08 level of net state aid. Net state aid amounted to $152.4 million in FY21 and decreased to $140.3 million in FY22. The FY23 projected net state aid totaled $144.3 million, and the FY24 budget assumes a decline to $131.4 million, driven by increases in the charter school tuition assessment. Though increases in gross state aid are welcomed, the amount has not kept pace with growth in assessments. The loss of hundreds of millions of dollars over the past two decades has put extraordinary pressure on property tax and local revenue sources, as well as on expenditures.

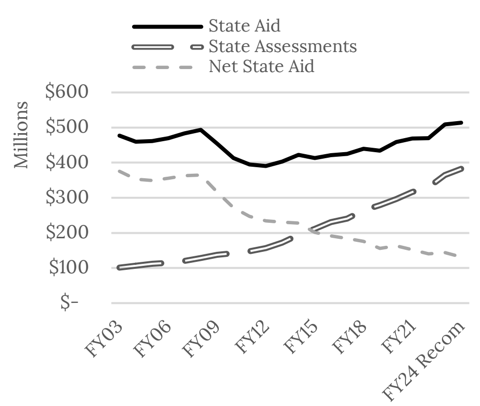

Figure 11 – State Aid, State Assessments and Net State Aid (in millions), FY03-FY24

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 $425.9 million in local receipts revenue in FY21 and $549.1 million in FY22, a $123.2 million improvement. With the lingering effects of the COVID-19 pandemic, the city budgeted $451.0 million in FY23.

In FY24, local receipts are expected to build on strong collections experienced midway through FY23, with the City budgeting $624.9 million. However, caution is still necessary given uncertainty around macroeconomic pressures, supply chain concerns, and geopolitical events.

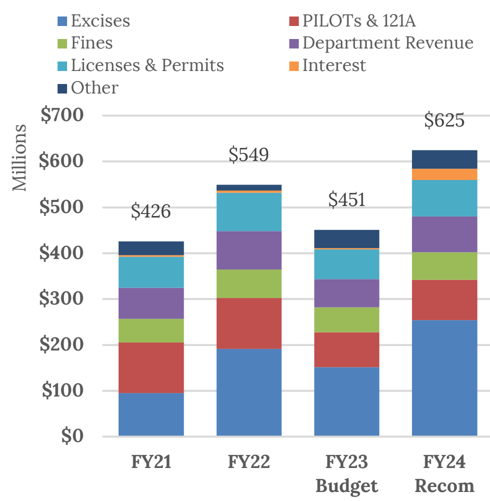

Figure 12 – Recurring Local Receipts by Type, FY21-FY24

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%. Short term rentals like Airbnb or Vrbo also pay an additional 3% fee unrelated to the local room occupancy excise. Local room occupancy excise revenue totaled $15.6 million in FY21 before recovering strongly to $75.5 million in FY22.

The FY23 budget assumed a slow return to normal business would result in $54.0 million in room occupancy excise. The FY24 projection of $124.5 million anticipates further improvement above pre-pandemic collections. This is supported by a swift recovery in room occupancy rates and nightly rates experienced in 2023.

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 $54.2 million in FY21 and $60.8 million in FY22. For motor vehicle excise revenue, the City budgeted $53.6 million in FY23 and is budgeting $54.1 million in FY24. 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 $14.2 million in FY21 and $29.4 million in FY22. Meals excise revenue more than doubled between FY21 and FY22 as economic restrictions on in-person dining were relaxed. The City budgeted $22.0 million in FY23 and increased its projection to $35.0

million in FY24, expecting restaurants to benefit from ongoing economic recovery.

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 $8.5 million in FY21, and $22.8 million in FY22. The City budgeted $19.0 million in FY23 and is budgeting $36.0 million in FY24. The total number of flights to and from Logan decreased by 52% and total passengers decreased 70% in 2020; however, these figures have steadily increased since. As of 2022 passengers were still 15% below and flights were 11% below pre-pandemic levels. Despite flight volumes lagging behind 2019 levels, jet fuel prices are near recent historical highs due to demand and supply shocks in global market.

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 $1.0 million in General Fund marijuana excise revenue, flat with the $1.0 million budgeted in FY22. As the market matures the City is budgeting $2.15 million in FY24.

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 $574,000 in FY21 and $873,000 in FY22. In FY23 the City budgeted $750,000 and anticipates revenues to improve to $1 million in FY24.

Fines

In FY22, the City issued more than one million parking tickets, up more than 180,000 from FY21. The City maintains a high collection rate on issued tickets by implementing a variety of tactics. 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. With the modest rebound of commuting and leisure and business visitors, parking fine revenue grew to $57.3 million in FY22. As commuting patterns are yet to reach pre-pandemic volumes the City is budgeting $50.8 million in FY23 and $55.8 million in FY24 for parking fines revenue.

Interest on Investments

The City's level of investment income is a function of prevailing short-term interest rates and daily cash balances. Therefore these revenues are highly sensitive to rate actions by the Federal Reserve. With target rates near 0% in during the pandemic, revenues were $3.6 million in FY21 and $4.4 million in FY22. The FY23 budget assumed similar revenues, $3.0 million. Following the steep increases in interests in late 2022 and early 2023, the City is budgeting $24 million in investment interest revenue in FY24.

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 30-40% of the PILOT revenue the City receives annually, with miscellaneous institutional PILOTs making up the remaining 60-70%.

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 change has generated 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 $44.9 million in FY20, $63.1 million in FY21 and $56.6 million in FY22. Due to the COVID-19 impact on universities, hospitals and cultural institutions, revenue collection from this source decreased in FY20 and late payments for amounts requested in FY20 boosted FY21. The FY23 budget includes $51.1 million in PILOTs revenue and the FY24 budget includes $52.0 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 FY20 FY21, and FY22, the City received Chapter 121A section 10 distributions of $13.9 million, $21.4 million, and $19.1 million, respectively, with FY21 collections consisting of some FY20 payments pushed into FY21 due to administrative delays at the State level. Chapter 121A section 10 revenues were projected at $10 million in FY23 and $15 million in FY24.

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 $18.8 million in FY20, $15.2 million in FY21, and $23.0 million in FY22. The City budgeted section 6A collections at $9.0 million in FY23 and expects $11.5 million in FY24. When Chapter 121A agreements expire and the properties transition back to regular property taxes, these payments 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 FY24 budget to better maximize local revenue options and optimize collections across its more than three dozen miscellaneous department revenue accounts.

The largest revenue source in this category is Street Occupancy permits, which averaged $11.9 million in annual collections between FY21 and FY22, roughly 15% of all miscellaneous department revenue. Street Occupancy Permits were budgeted at $10.0 million in FY23 and are budgeted at $15.7 million in FY24.

In FY21 and FY22 miscellaneous department revenues totaled $67.5 million and $83.6 million respectively. Overall miscellaneous department revenue is budgeted at $61.3 million in FY23 and $78.5 million. The increase in FY24 includes a new parking facility operator contract for the Lafayette Garage which went into effect in late 2022.

Licenses and Permits

This category is dominated by *building permits revenue*, from which the City received $48.7 million and $64.1 million in FY20 and FY21 respectively. Building permits revenue dropped to $48.7 million in FY21 due to the effects of COVID-19 on construction starts. In FY23 this source was budgeted at $48.0 million and will be increased to $63.0 million in FY24.

The second largest Licenses and Permits revenue is the *cable television license fee*, from which the City received $5.8 million in FY21, $5.7 million in FY22. A declining base of cable subscribers explains the decrease over time. Revenue from cable television was conservatively budgeted at $4.0 million in FY23 and FY24.

Alcoholic beverage licensing is the only other revenue source in this category that regularly exceeds $4 million in annual revenue. This revenue source has been consistent even during the pandemic with $4.3 million in collections in FY21 and $4.6 million in FY22. Alcoholic beverage licenses are budgeted at $4.4 million in FY23 and FY24.

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 $10.3 million in such penalties and interest in FY21 and $12.8 million in FY22. The City budgeted this revenue source at $8.9 million in FY23 and $10 million in FY24.

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 transfers of $30 million from the Parking Meter Fund and $950,000 from the Cemetery Trust Fund to the General Fund in FY23 and FY24.

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 FY24 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. This same amount was budgeted in FY22 and is being designated for the same purpose in FY23 and FY24.

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

American Rescue Plan Act

In response to decreased local receipts following the onset of the COVID-19 pandemic, the City utilized $95 million in federal aid to reduce the shortfall. These funds were part of the State and Local Fiscal Recovery Funds (SLFRF) program provided by the 2021 American Rescue Plan Act. The funds were split across two years, $55 million in FY22 and $40 million in FY23. Fiscal year 2024 marks a turning point in the city’s recovery as no SLFRF funds are budgeted for use.

In the immediate aftermath of the COVID-19 pandemic, local revenues fell by $190 million, or 31% from FY19 levels. With the ongoing economic uncertainty, SLFRF aid bolstered these accounts. The addition of SLFRF allowed FY22 local receipts to approach pre-pandemic levels. Local receipts accounts in FY24 are anticipated to exceed pre-pandemic levels without SLFRF assistance.

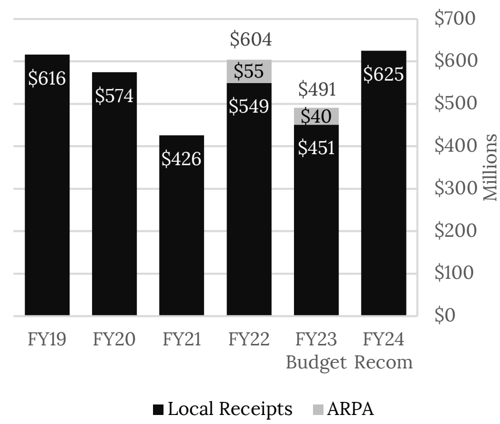

Figure 13 –Local Receipts and ARPA Revenue Replacement (in millions), FY19-FY23

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

Revenue Detail

	FY21 Actual	FY22 Actual	FY23 Budget	FY24 Budget
Property Tax	2,680,021,726	2,826,969,330	2,993,144,086	3,127,972,688
40116 Property Tax Overlay	-3,735,387	-33,174,590	-29,845,007	-30,000,000
Subtotal	2,676,286,339	2,793,794,740	2,963,299,079	3,097,972,688
EXCISES				
Motor Vehicle Excise	54,183,557	60,802,975	53,575,000	54,090,000
40129 Room Occupancy Excise	15,562,667	75,470,253	54,000,000	124,500,000
40130 Aircraft Fuel Excise	8,474,178	22,848,966	19,000,000	36,000,000
40140 Condominium Conversion Excise	838,000	644,500	550,000	600,000
40162 Short Term Rental	339,780	551,532	400,000	530,000
40601 Meals Excise Tax	14,202,801	29,409,214	22,000,000	35,000,000
40602 Marijuana Excise	0	1,013,109	1,000,000	2,150,000
40603 Community Host Agreements	754,410	0	0	0
41113 Vehicle Rental Surcharge	573,998	872,872	750,000	1,000,000
Boat Excise	419	30	0	30,000
Subtotal	94,929,808	191,613,451	151,275,000	253,900,000
FINES				
Total Parking Fines	48,539,636	57,381,087	50,820,000	55,860,000
45104 Code Enforcement - Trash	1,432,906	1,569,454	1,100,000	1,200,000
Other Fines	2,180,018	2,817,511	2,250,000	2,940,000
Subtotal	52,152,560	61,768,052	54,170,000	60,000,000
Interest On Investments				
47151 Interest On Investments	3,614,562	4,429,142	3,000,000	24,000,000
Subtotal	3,614,562	4,429,142	3,000,000	24,000,000
PILOTs				
40167 PILOTs	42,699,107	35,953,890	30,000,000	31,850,000
40168 Other PILOTs	172,251	116,676	150,000	150,000
40169 Massport/DOT	20,241,837	20,538,256	20,949,021	20,000,000
Subtotal	63,113,195	56,608,822	51,099,021	52,000,000
URBAN REDEVLOPMENT CHAPTER 121A				
40230 121B Section 16	9,926,609	11,747,609	6,000,000	9,000,000
40231 121A Section 6A	15,209,648	22,994,536	9,000,000	11,500,000
40232 121C	424,547	485,196	400,000	500,000
41013 Chapter 121A Section 10	21,409,759	19,083,349	10,000,000	15,000,000
Subtotal	46,970,562	54,310,690	25,400,000	36,000,000

	FY21 Actual	FY22 Actual	FY23 Budget	FY24 Budget
MISC DEPARTMENT REVENUE				
43105 Registry Division Fees	1,500,105	1,783,110	1,600,000	1,700,000
43109 Liens	741,925	733,125	600,000	525,000
43120 City Clerk Fees	438,796	600,108	500,000	600,000
43137 Municipal Medicaid Reimbursement	5,978,256	10,909,924	6,000,000	6,607,662
43138 Medicare Part D	5,373,759	1,124,083	1,100,000	1,100,000
43202 Police Services	492,446	904,136	600,000	700,000
43211 Fire Services	6,447,648	6,909,805	6,000,000	6,500,000
43301 Parking Facilities	1,518,060	2,456,442	2,500,000	7,000,000
43311 PWD - Street Occupancy.	9,310,041	14,394,679	10,000,000	15,725,000
43425 St. Furniture Prgm Fixed Fees	0	2,500,000	1,500,000	1,500,000
43426 St. Furniture Prgm Ad. Fees	618,379	943,829	900,000	1,200,000
44002 Tuition & Transportation	2,116,932	2,477,316	1,900,000	2,470,000
47119 Affirmative Recovery Unit	385,566	2,827,428	200,000	200,000
47130 Fringe Retirement	5,832,859	6,324,572	5,767,995	5,800,000
47131 Pensions & Annunities	5,888,496	6,592,675	6,550,000	6,400,000
47132 Indirect Costs Reimbursement	585,266	743,141	500,000	500,000
48000 Detail Admin Fee	3,118,825	3,130,149	3,000,000	3,000,000
Other Misc Department Revenue	17,169,472	18,244,717	12,057,338	16,933,235
Subtotal	67,516,833	83,599,238	61,275,333	78,460,897
LICENSES & PERMITS				
40211 Building Permits	48,742,094	64,075,168	48,000,000	63,000,000
40213 Weights & Measures	282,430	259,375	260,000	260,000
40215 BTD - Street & Sidewlk Permits	3,243,024	2,787,674	2,800,000	1,500,000
40221 Health Inspections	1,539,234	1,656,364	1,540,000	1,540,000
40220 Boat Mooring Permits	0	0	0	0
40222 Alcoholic Beverage Licenses	4,345,737	4,562,672	4,400,000	4,400,000
40223 Marijuana License	17,950	28,646	25,000	50,000
40224 Entertainment Licenses	968,524	1,776,699	1,600,000	1,620,000
40227 Police - Firearm Permits	121,463	61,397	40,000	60,000
40229 Other Business Lic. & Permits	207,714	155,801	150,000	150,000
40235 Cable Television	5,782,664	5,689,843	4,000,000	4,000,000
46001 Dog License	0	250,043	220,000	220,000
Other Licenses & Permits	2,080,900	2,727,995	1,900,000	2,800,000
Subtotal	67,331,734	84,031,677	64,935,000	79,600,000

	FY21 Actual	FY22 Actual	FY23 Budget	FY24 Budget
PENALTIES & INTEREST				
40133 Pen & Int - Property Tax	3,885,316	3,774,741	2,300,000	3,000,000
40134 Pen & Int - MV Excise	3,465,200	3,198,876	2,200,000	3,000,000
40136 Pen & Int - Tax Title	2,969,319	5,776,634	4,400,000	4,000,000
Other Penalties & Interest	0	0	0	0
Subtotal	10,319,835	12,750,251	8,900,000	10,000,000
AVAILABLE FUNDS				
42502 Approp. Cemetery Trust Fund	0	0	950,000	950,000
42503 Approp. Parking Meters	20,000,000	0	30,000,000	30,000,000
Subtotal	20,000,000	0	30,950,000	30,950,000
STATE AID				
41015 State Owned Land	419,294	483,133	620,149	705,484
41104 Exemptions - Elderly	1,093,210	1,094,096	901,095	1,917,277
41114 Veterans Benefits	1,380,992	1,317,927	1,228,230	1,096,325
41118 Unrestricted General Government Aid	213,343,248	208,334,641	219,466,517	223,855,847
41119 Local Share Of Racing Taxes	437,075	430,852	553,000	480,000
41301 School Construction	0	0	0	0
41305 Charter Tuition Asses. Reimb.	30,306,231	34,705,243	58,679,926	56,791,638
41306 Chapter 70 Education Aid	221,839,229	223,624,026	227,236,505	228,968,645
Subtotal	468,819,279	469,989,918	508,685,422	513,815,216
RECURRING REVENUE TOTAL	**3,571,054,706**	**3,812,895,981**	**3,922,988,855**	**4,236,698,801**
NON-RECURRIMG REVENUE				
42501 Approp. Surplus Property Fund	0	0	0	0
42504 Approp. Fund Balance	40,000,000	0	40,000,000	40,000,000
42507 American Recovery Plan	0	55,000,000	40,000,000	0
GRAND TOTAL	**3,611,054,706**	**3,867,895,981**	**4,002,988,855**	**4,276,698,801**

Table 1