

Executive Summary

INTRODUCTION

Built on a stable financial position, Boston's \$4.28 billion FY24 Operating Budget and \$4.2 billion FY24-FY28 Capital Plan invests in our families, our future, and our city. For City government, a municipal budget is a public reflection of its core principles. For a city resident, a municipal budget is often the unnoticed foundation for a strong neighborhood. Our ability to sustain and grow these investments stems from the strong financing position of our government. Our AAA bond rating supports our ability to invest in schools, parks, and streets. We are also seeing local revenues rebound as we recover from the COVID-19 pandemic, and our property values remain strong with new growth enabling additional new investment.

In total, the FY24 Operating Budget proposes a year-over-year increase of \$276.9 million or 6.9% over FY23. With ongoing project-based support provided through the American Rescue Plan Act (ARPA), Boston will not only grow its operating budget to provide the core city services our residents need and deserve, it will utilize its significant federal resources to make constructive change over the upcoming years. Boston entered the pandemic as one of the best prepared local governments in the country. Unlike many cities that are using the vast majority of their federal ARPA resources to replace lost revenue to maintain basic services, Boston could afford to make targeted investments to proactively address the impacts of the pandemic. Boston's economic strength manifests itself in its triple-A credit rating.

Thanks to continued strength in local property tax revenue and a rebound of local receipts particularly with excises for hotel occupancy and meals, the FY24 Operating Budget includes \$4.28 billion in spending, a year-over-year increase of \$276.9 million or 6.9% over FY23.

As noted the American Rescue Plan Act (ARPA) continues to provide hundreds of millions in federal funding to the City, the Boston Public Schools, and other local organizations. The City's ARPA allocation that exceeds \$550 million, of which \$95 million is earmarked for revenue replacement over FY22 and FY23 to help support the City's annual operating budget.

The guiding principles for the use of Boston's ARPA funds include:

- Once-in-a-generation opportunities for transformative investments.
- Jumpstarting solutions to long-term challenges and making some big bets on Boston, while recognizing that we have to tackle the ongoing COVID-19 pandemic at the same time.
- Focusing on cross-departmental ideas that address equity, climate justice, jobs, and health.
- Leveraging additional public and private resources and prioritize financial sustainability beyond ARPA.

To date \$551.7 million has been appropriated to continue the response to the COVID-19 pandemic and to help drive an equitable recovery for all Boston residents. \$7 million has been set aside in reserve for future use.

- \$362.2 million appropriated for Transformative Investments (July 2022)
- \$81.5 million appropriated for Emergency Relief Package (July 2021)
- \$55 million appropriated for FY22 Revenue Replacement (July 2021)
- \$40 million Revenue Replacement appropriated for FY23 (June 2022)
- \$8 million Fare Free Bus Expansion appropriated (Nov. 2021)
- \$5 million appropriated for Small Business Fund 2.0 Expansion (Jan. 2022)

This fiscally responsible budget will also fully fund long-term liabilities, like pensions and debt service, enabling investment in our City’s largest Capital Plan in history. The plan touches all neighborhoods and supports capital projects, including schools and libraries, and programs, such as Vision Zero transportation efforts and street tree plantings.

The proposed FY24 operating budget for Boston Public Schools (BPS) is an increase of \$66.3 million will go into schools and classrooms to bridge gaps in opportunity and achievement, and make significant strides in supporting the social-emotional wellbeing of our students.

The robust \$4.2 billion FY24-28 Capital Plan proposes to invest heavily in revitalizing the shared neighborhood spaces, which Boston’s residents grew to love even more during the pandemic. This year’s capital plan increases in overall size and will serve as a catalyst for the local economy. The capital plan serves the dual purposes of creating and preserving vital City assets but also stimulating the local economy.

This year’s capital plan continues to pay particular attention to equity and focus on investments in the City’s inventory of roads, bridges, schools and parks in the neediest parts of the City. The Capital Plan invests in projects in every neighborhood consistent

with the strategic master plans that have been developed with the community. This ensures that the municipal, civic and open space assets, which residents cherish in their neighborhoods, remain active and vibrant parts of the community.

The FY24-FY28 Capital Plan also includes funding for new schools and upgrading existing schools; transformative mobility projects like new bridges, roads, bus and bike lanes; major park upgrades in neighborhoods throughout the city; new civic places like City Hall Plaza and new community centers; and dedicating significant new City funding toward climate resilient projects.

For more information on the City’s FY24 Operating Budget and FY24-28 Capital Plan, please visit:

<https://www.boston.gov/finance/fiscal-year-2024>.

For more information on the City’s ARPA spending, visit:

<https://www.boston.gov/departments/mayors-office/equitable-recovery-people-boston>

PUBLIC ENGAGEMENT

Public engagement for the FY24 budget began in the Fall of 2022 in order to be prepared for the budget development cycle which runs from December through June. The cross-department effort involved public meetings, educational videos, slide decks, and meeting recordings that now live on Boston.gov.

The second year of the Moving Through the Budget (MTTB) pilot, organized by the Mayor’s Office of New Urban Mechanics (MONUM), brought residents to day-long workshops in East Boston and Jamaica Plain, in both English and Spanish. Workshops involved physical stretching exercises, public engagement discussions, civic engagement role-playing, and a presentation on the budget process. More

information can be found at:

<https://www.boston.gov/departments/new-urban-mechanics/moving-through-budget>

Videos in both English and Spanish were created to help constituents understand the different ways they can participate in the budget process, testify at a budget hearing, and review the budget online. The MONUM developed video series can be found here:

<https://www.boston.gov/departments/new-urban-mechanics/moving-through-budget>

In addition to MONUM's pilot, OBM partnered with several city departments to deliver an educational workshop series in the Fall of 2022. The series included seven hour-long workshops, either in-person or virtual, and discussed the budget timeline and how residents can get involved. Interpretation in ASL and many spoken languages was available. To see recordings and review materials in 12 languages, see this page:

<https://www.boston.gov/departments/budget/how-budget-works>

As a result of Ballot Question 1 passing in the fall of 2021, the City has created a new Office of Participatory Budgeting (OPB). This new office is funded in the Finance cabinet and is charged with creating an equitable decision-making process in which all Bostonians may participate in the budget process by Fiscal Year 2024. The ordinance officially creating the office was adopted in February 2023 and an executive director was hired in June 2023. For additional information on this Office, see the Appropriations section in Chapter 2 Operating Budget. By the end of FY24, the office will support public engagement with a central budget and manage the process for projects selected through a binding process open to all residents.

NEW CITY COUNCIL BUDGET APPROVAL POWERS

In November 2021 Boston voters approved Ballot Question 1, a City Charter change, which amended the City of Boston's existing budgetary process from the City Council having power to adopt or reject a budget or reduce a specific item in a budget to the Mayor and the City Council holding budgetary powers together, with the City Council now able to modify and amend appropriation orders as long as the changes do not exceed the total amount of the Mayor's proposal.

The FY24 operating budget was the second budget submitted following the change to the City Charter. The City Council undertook a robust hearing process in the weeks following the **April 12, 2023 FY24 operating budget submittal** and the approval process continued as follows;

- **June 14, 2023** - the City Council approved an amended version of the FY24 operating budget
- **June 16, 2023** - the Mayor disapproved the Council's amended version of the FY24 operating budget and returned it to the City Council with additional amendments.
- **June 28, 2023** - the City Council took a set of budget override votes to reverse the Mayor's amendments with only one override vote passing, making a modest reduction to the overall FY24 operating budget returned by the Mayor
- **July 1, 2023** - the FY24 operating budget was in place for the beginning of the fiscal year.

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

The City's growing revenue budget, growth that persisted even during recent pandemic-impacted years, is a testament to the resilience of Boston's economy and tax base. Property tax continues to drive year-over-year revenue growth through a combination of the allowable 2.5% increase and cautious new growth estimates. Local receipts, such as fines, fees and excise taxes, are expected to build on their strong performance in FY23 that surpassed pre-pandemic levels. The City also expects to receive an increase in State Aid based on the FY24 State budget as submitted by Governor Healey in March 2023 and subsequently modified by the Legislature over the spring.

The FY24 Operating Budget relies on \$4.28 billion in revenue, a \$276.9 million increase over the FY23 budget (6.9%). \$134.7 million is projected to come from property tax growth, state revenue is budgeted to increase by \$5.1 million, and local receipts (including Excises and Departmental revenue) are projected to increase by \$177.1 million. Non-Recurring revenue is decreasing by \$40.0 million, as rebounding local receipts enable the City to eliminate the need for revenue replacement dollars provided by ARPA.

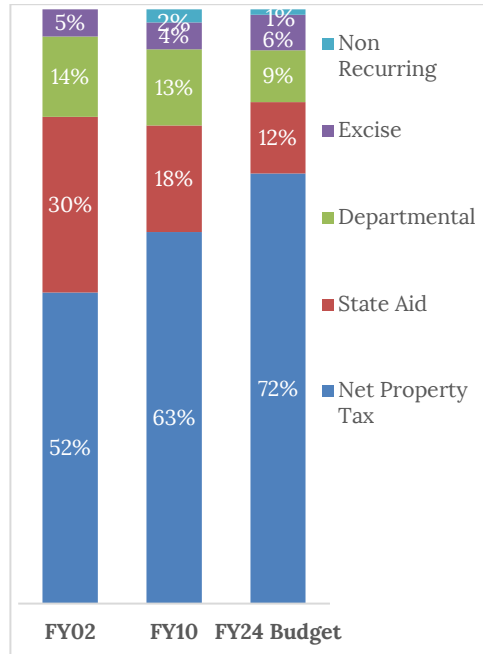


Figure 1 – Share of Revenue by Category FY02, FY10, and FY24

Property Tax

Property tax remains the primary revenue source for all City services and departments, in Massachusetts, Proposition 2 ½ constrains the amount of property tax revenue the City can raise each year from its existing tax base to a 2.5% annual increase. Some of this limitation is eased by new growth (ie. new construction) that is added to the property tax levy outside of the 2.5% increase. Despite the addition of new growth, total property value has grown 130% in the past 10 years while property tax revenue has grown by 80%. The growth in property value is consistent with the City's commitment to new housing construction and the strength of Boston's development climate. Consequently, property tax growth continues to be a point of strength for the City.

In FY24, we expect new growth to be lower than in recent years due to economic uncertainty resulting from increasing interest rates and inflationary pressure on construction and the real estate market. During the past half dozen years, the City

has seen notable construction projects in Boston enter the City's property tax base for commercial, mixed-use and residential properties, most notably in the Seaport District, Dorchester, and the Back Bay. More building activity is forthcoming with 9.1 million square feet of approved or permitted construction projects in 2022.

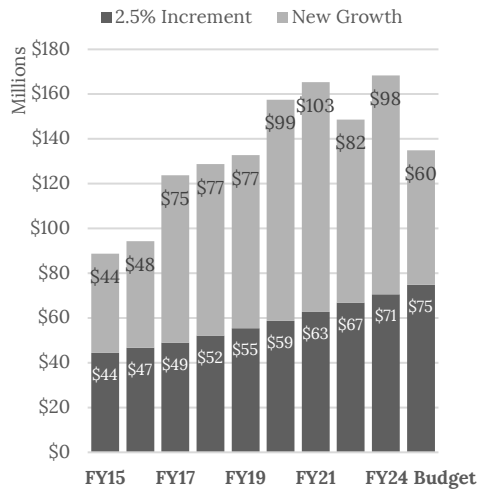


Figure 2 - Property Tax Levy Increase by Type (in millions), FY15 - FY24

Despite the need to maintain and grow property tax revenue, the City is committed to keeping residential property tax bills affordable to retain more low and middle income homeowners in the City. Policies we have pursued are demonstrating success, as residential taxes are more than 19% lower than the statewide average. Thanks to advocacy to increase the residential exemption limit to 35% of the average assessed value of all class one residential properties, the City Council, with the approval of Mayor Wu, once again was able to allow the maximum exemption permitted by law. For FY23 the residential exemption amount increased by \$151 over the FY22 exemption, saving eligible taxpayers up to \$3,456 on their property tax bills.

State Aid

In 2002, State Aid comprised 30% percent of the City's annual budget and helped the City maintain a sustainable balance between local revenue and other resources. In the following decades the State investment in its municipalities remained mostly flat, and in FY24 State Aid is projected to be 12.1% of the City's budget. This divestment by the State has largely been driven by stagnation in K-12 Education (Chapter 70) funding and Unrestricted General Government Aid (UGGA).

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 multiple years; for FY24 the Commonwealth's benchmark is to fund 100% of charter school tuition reimbursement. Across all General Fund sources, the City expects to receive \$5 million more in State Aid relative to its FY23 appropriation.

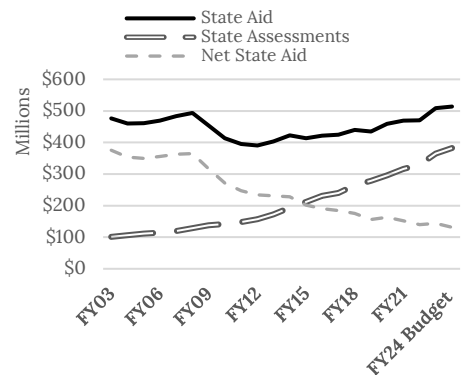


Figure 3 - State Aid, State Assessments and Net State Aid (in millions), FY03-FY24

Net state aid, which is gross state aid revenue less state assessments, has been trending down steeply since FY08. Net State aid is anticipated to decline substantially by \$12.9 million in FY24 over the FY23 appropriation. This decrease is driven primarily by a \$16 million increase in

the charter school tuition assessment. Boston's net state aid remains \$233.7 million, or 64%, below its FY08 level of net state aid. The FY24 projected net state aid totals \$131.4 million based on state budget negotiations at the time the City budget was finalized. Despite the annual increases in aid revenue, the gradual erosion of net aid has put extraordinary pressure on the property tax and other local revenue sources, as well as on levels of expenditures.

Local Receipts

Local receipts or revenue the City is able to generate locally, include items like excise taxes, fees, fines, and permits. This vital revenue source generally follows the City's overall economic health and was greatly impacted by the coronavirus pandemic and economic fallout, dropping \$190 million, or nearly a third, between FY19 and FY21. In FY24 local receipts are projected to increase by \$177.1 million, or 39%, over the FY23 budget, building on improved collections in FY23 and anticipating continued economic recovery.

In FY24, local receipts are budgeted to exceed their pre-pandemic totals. Local receipts are budgeted to total \$628.1 million, \$12.2 million, or 2%, increase over FY19 levels. While the strong performance of local receipts represents an achievement in recovery efforts, caution is still necessary. Price inflation has been coupled with high inflation rates that can weaken the overall economy. Further, geopolitical events continue to disrupt supply chains and add to inflationary pressures. The City is monitoring the series increases to the Federal Reserve Federal Funds target given the implications for national and local economic activity, as well as income derived from City investments.

Constrained by broader economic forces and limited revenue tools, the City aims to build on revenue maximization efforts from prior years. This includes a new contract to

enhance expenditure tracking and maximize eligible reimbursements.

As local receipts are one area where the City can pursue new and expanded revenue streams, the City will also continue to study opportunities to raise revenue in a thoughtful, equitable, and sustainable manner.

Non-Recurring Revenue

Unlike the two previous fiscal years, FY24 does not include American Rescue Plan Act of 2021 (ARPA) funding to replace revenue lost as a result of the COVID-19 pandemic. Boston is fortunate to be in a position where the recovery of local revenue sources has eliminated the necessity for federal aid to fill budgetary gaps. As the deadline to expend ARPA funds nears, forgoing ARPA utilization for revenue replacement has allowed the City to implement additional supports and critical services to better address the needs of its residents.

EXPENDITURES

Overall FY24 operating budget expenditures are increasing by \$276.9 million or 6.9% over FY23, for a total of \$4.28 billion. The FY24 spending growth falls within the City's projected revenue growth and continues core services and allows for strategic investments. The combined appropriations for City Departments, the Public Health Commission (PHC) and the School Department (BPS), and non-departmental appropriations as shown in the FY24 Budget Summary have increased by 6.2% from FY23.

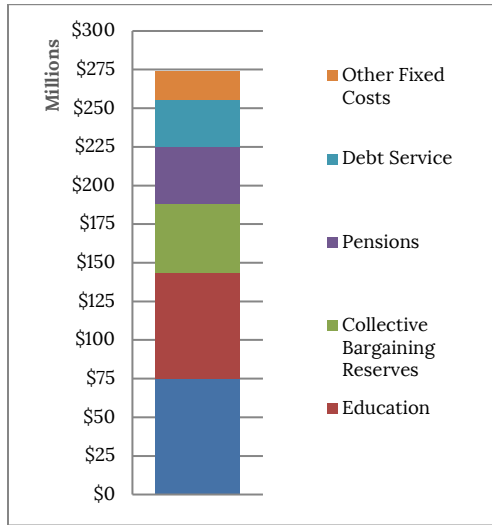


Figure 4 - Budgetary Growth by Category

City Appropriations

City Services such as Police, Fire, Public Works, Housing, and other central funds are projected to increase by a total of \$68.9 million or 4.6%.

The largest area of growth in the operating budget for City Appropriations is in the Streets Cabinet, which is growing by \$13.8 million or 7.8% with inflationary cost growth along with expansion for waste management including curbside composting, recycling and traditional residential disposal along with strategic investments for green infrastructure and mobility and mobility mode shift efforts.

The Human Services Cabinet is growing by \$13.6 million or 14.9% with new investments to support the continued expansion of quality pre-kindergarten and community safety and youth violence partnerships within the Boston Housing Authority. The cabinet will expand family friendly youth development programs like swim lessons, expanded library hours on weekends with and expansion to multi-lingual library services and new programming for older adults.

The remaining 16 City Cabinets in the City Appropriations grouping are growing by \$41.6 million or 3.4% and are described in addition detail in the Appropriations

section of the Operating Budget Chapter. The priorities established for every City Cabinet and Department include:

- Making Boston First for Families
- Supporting a Green & Growing City
- Ensuring Public Health & Public Safety
- Closing the Racial Wealth Gap
- Delivering Exceptional City Services

The City believes its employees are its greatest resource for providing excellent city services. Fair wages are an important component to support the City's greatest resource. The City continues to negotiate successor agreements for the outstanding contracts. The FY24 budget includes an \$81 million reserve for collective bargaining. As contracts are settled, the funding, with the approval of the Boston City Council and the Mayor, will be moved from the reserve to the individual departmental budgets where the wages will be paid.

Public Health

The Public Health Commission (PHC) budget is growing by \$11.9 million (10%) in FY24. The budget includes a \$3.3 million investment to keep critical low threshold housing sites open through the fiscal year and staff for EMS to maintain response times. Unlike other city departments, the PHC budget contains health insurance and pension.

Education

With a record \$1.45 billion appropriation, the Boston Public Schools (BPS) budget is increasing by \$66.3 million over the FY23 appropriation. Due to a projected increase in the City's charter school tuition assessment, Boston's total investment in education is growing by \$82.2 million, or 5.0%, over FY23.

In addition, \$26 million in funding for new investments across six targeted priority areas will increase equity and close opportunity gaps. Substantial federal COVID-19 relief funding will continue to be available to BPS for use in the upcoming

school year, but the district is transitioning nearly \$15 million in costs currently funded through federal relief to the operating budget in FY24 to ensure priority-aligned positions and services will be sustained well into the future.

Fixed Costs

The City is required by binding agreements to meet its long-term financial commitments, such as pensions and debt service. This budget will continue to support the City’s fixed costs for next year, including pensions, debt service and non-charter school state assessments, and maintain the City’s level of reserves to buffer against changes in the larger economic landscape. Fixed cost growth consumes 31.6% of the City’s revenue growth but this funding commitment is critical to maintaining Boston’s AAA bond rating and securing the long-term fiscal health of the City.

Boston’s pension schedule used for the FY24 budget is based on an actuarial valuation as of January 1, 2022. Boston’s pension liability was 82.4% funded and is estimated to be fully funded by 2027.

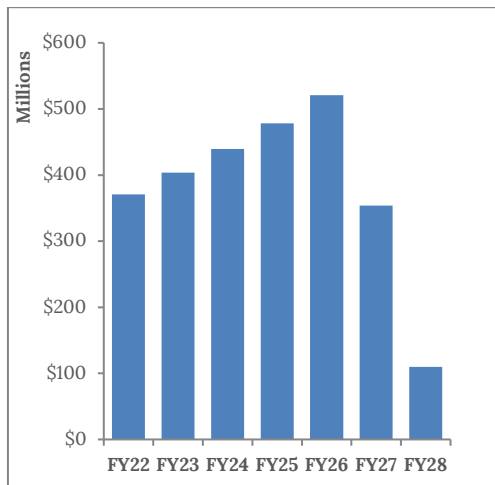


Figure 5 - Pension Funding Schedule

FY24-28 CAPITAL PLAN

The \$4.2 billion FY24-28 Capital Plan makes critical investments in the City’s

infrastructure in every Boston neighborhood: new and renovated schools, streets, arts, climate resilience improvements, green infrastructure, affordable housing, parks, and playgrounds. Taken together, these projects will support Boston’s dynamic economy and improve quality of life for residents by encouraging affordability, increasing access to opportunity, promoting a healthy environment and public realm.

Planned bond issuance is expected to increase 27% over last year’s plan, one-time funding sources are leveraged, and the City continues to collaborate with the Massachusetts School Building Authority on the design and construction of new schools and the repair of existing building systems.

An estimated 90% of the investment in the FY24-28 Capital Plan is aligned with the City’s planning efforts:

- The Capital Plan supports a commitment to invest in a Green New Deal for Boston Public Schools including the construction of new buildings, partnering with the MSBA, reconfiguring and renovating existing buildings, and establishing reserves for future projects identified through strategic planning and community engagement.
- Boston will leverage State and Federal grants, with City capital funds to make streets that are safer and welcoming for all users, travel that is more reliable and predictable, and quality transportation choices that improve access to interconnect our neighborhoods for all modes of travel.
- Boston is preparing for climate change by incorporating green infrastructure into our street, parks, and facility projects, and by continuing to develop and implement plans for coastal and storm water resilience.

- Setting the stage for planning and early action items for the comprehensive, long-term recovery campus on Long Island to tackle the opioid crisis and when fully permitted move forward with the construction of a new bridge to Long Island.
- The Percent for Art Program, demonstrates the City's leadership and commitment to sustainable funding for the arts by setting aside 1% of the City's annual capital borrowing for the commissioning of public art.

