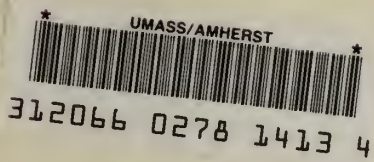


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**BOSTON'S FISCAL FUTURE:
PROGNOSIS AND POLICY OPTIONS FOR
1984 to 1986**

by

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Prepared for the John W. McCormack
Institute of Public Affairs

October 1983

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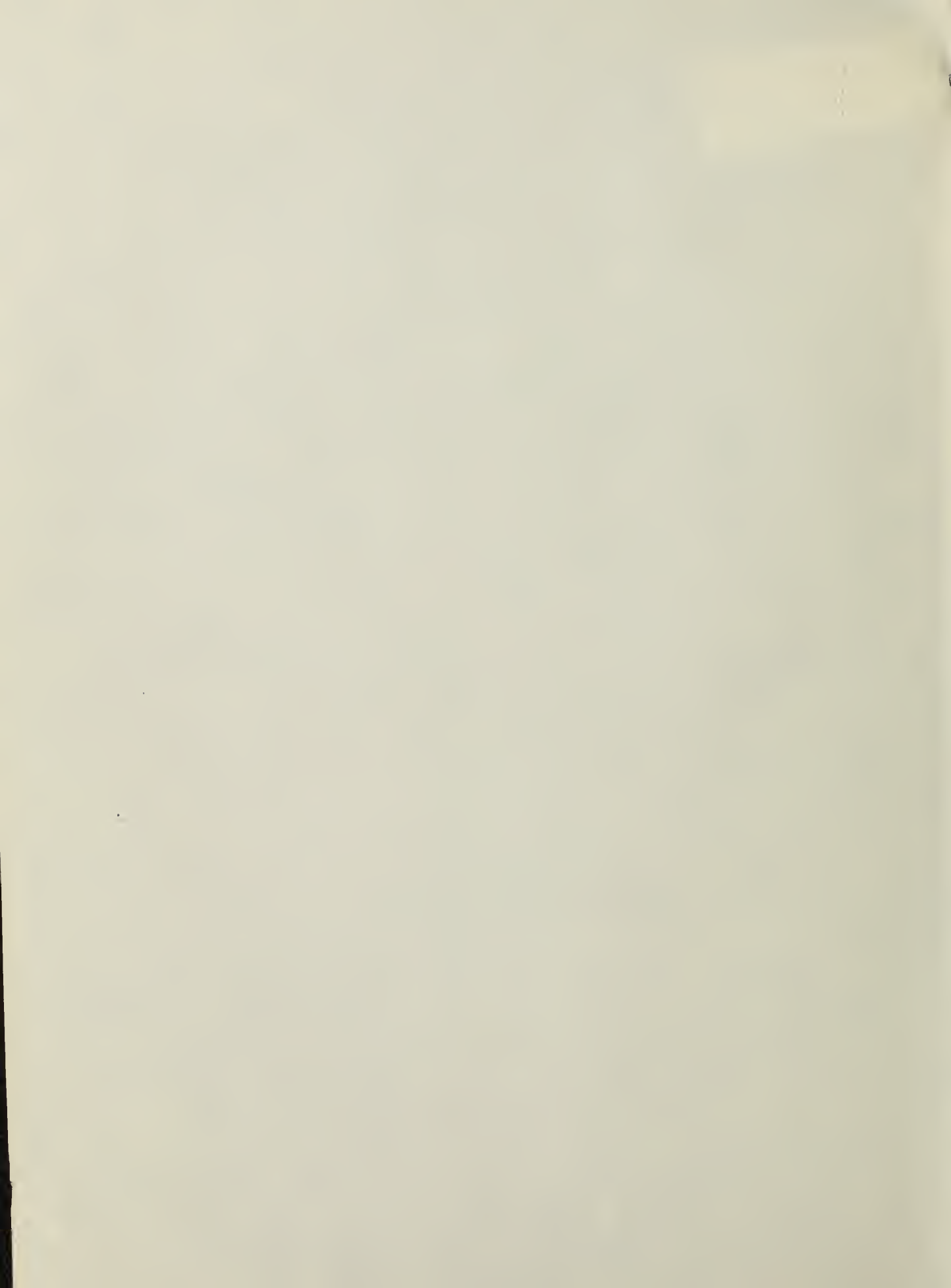
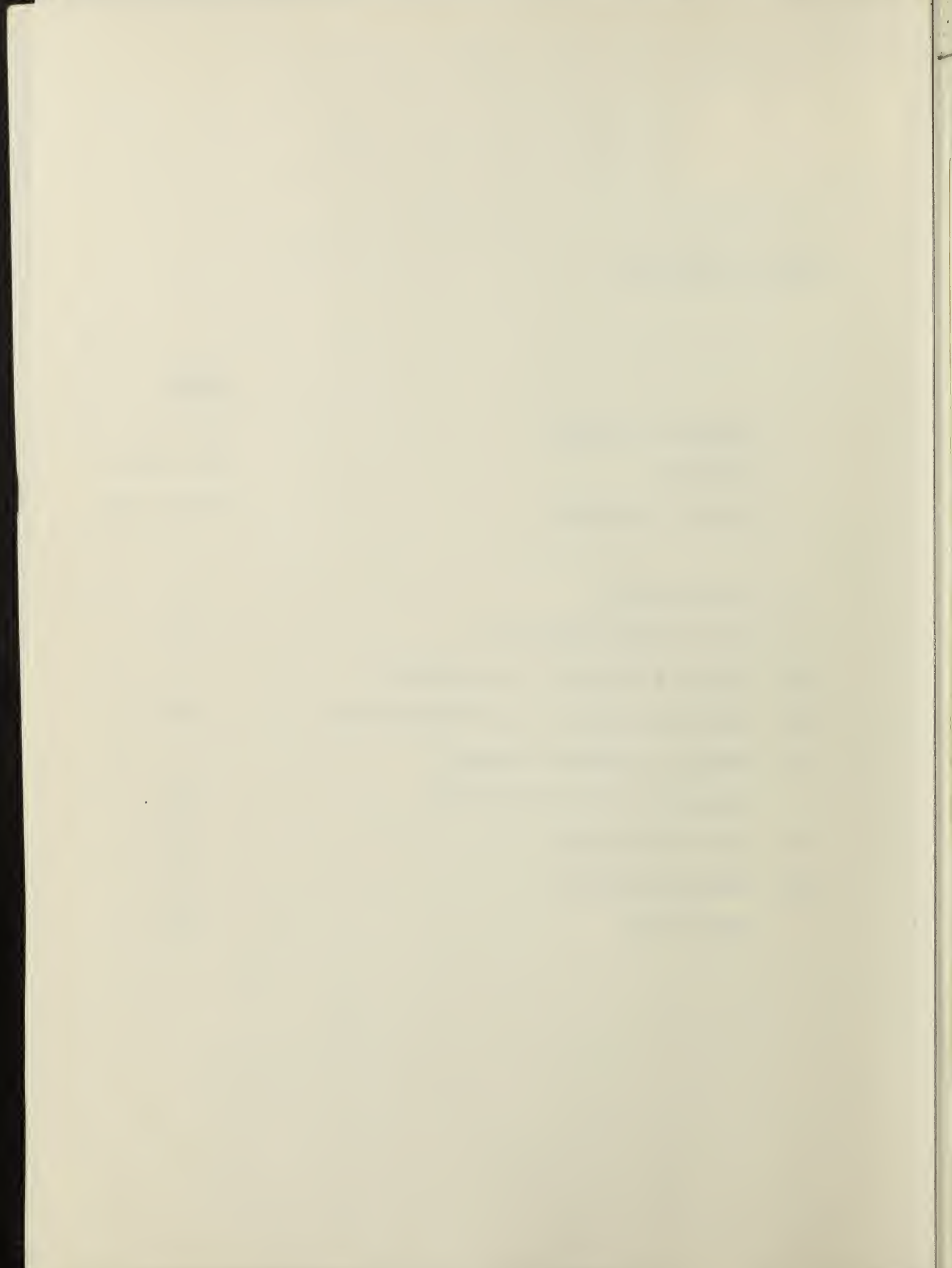


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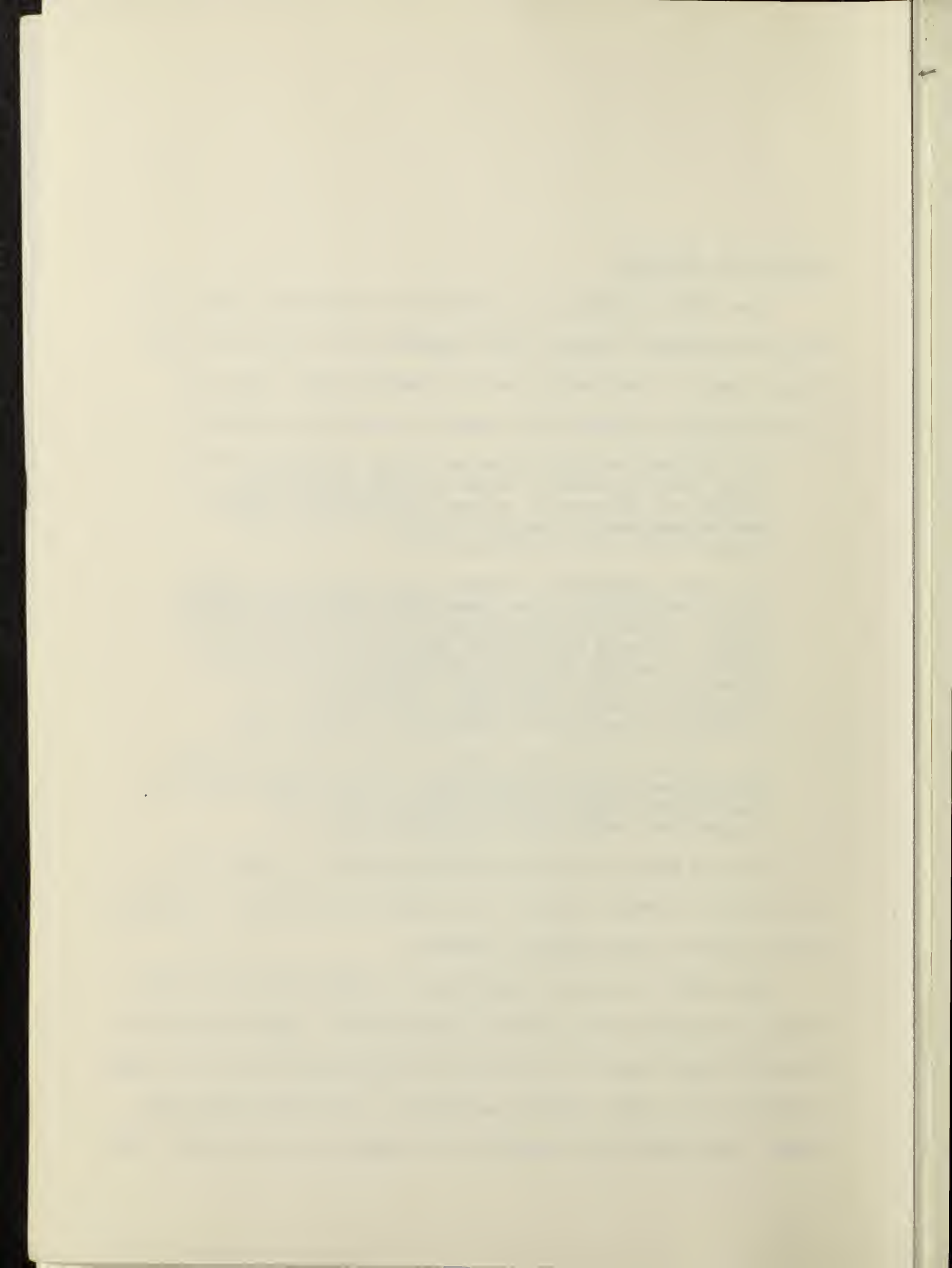
EXECUTIVE SUMMARY

The City of Boston is averting a potential gap of \$83 million between revenues and expenditures during the 1984 fiscal year by extensive use of the following list of non-recurring revenues for normal operating purposes:

1. An unallocated balance of \$17 million in the 1982 overlay deficit (tax refunds originally raised as amounts in excess of overlay reserves and subsequently charged to the Funding Loan authorized by the Legislature).
2. The unexpended balance (as of June 30, 1983) of \$34 million in the Disproportionate Assessment Fund, consisting of proceeds from the sale of the Hynes Veterans Auditorium and from Funding Loan bonds in excess of reimbursements to the City's General Fund for prior tax refunds of disproportionate assessment liabilities (for illegal valuations on commercial properties).
3. Proceeds from the sale of four surplus garage facilities owned by the City that are in excess of debt service paid and outstanding on such properties, estimated at \$32 million.

Use of these one-time revenue sources is akin to selling the "family jewels" in order to maintain a lifestyle that current income cannot sustain.

The 1984 tax rate computation is also being balanced without providing for the anticipated full cost during the current fiscal year of collective bargaining salary and wage increases for City, County and School employees currently under negotiation and expected to require up to another \$25



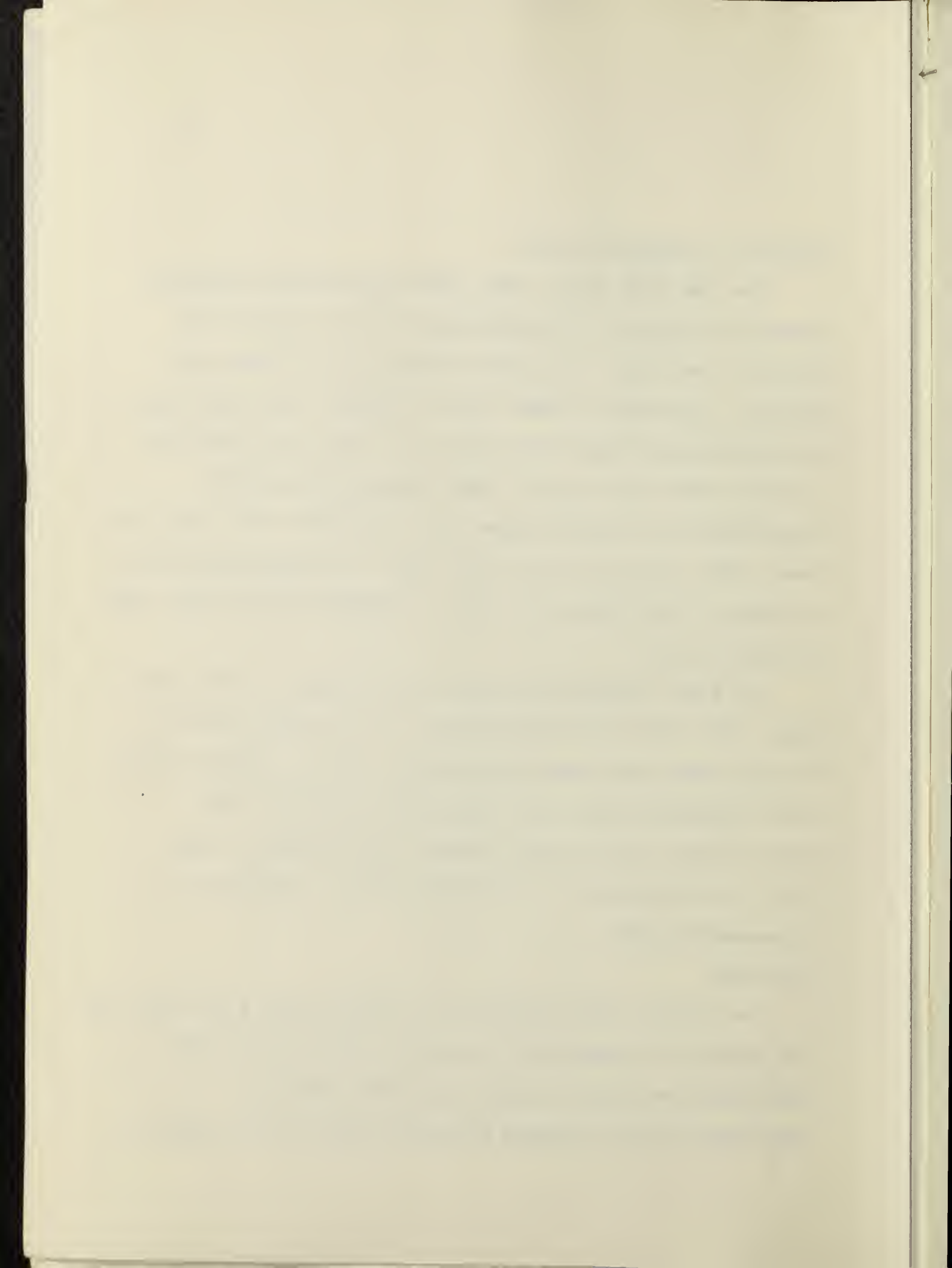
million in appropriations.

For the 1985 fiscal year, the gap between estimated operating revenues and expenditures will be about \$48 million; for 1986, the projected gap will be about \$34 million. In each of these years, however, the underlying assumptions are that Boston will not incur net operating deficits from prior years, that assessed valuations generated by new construction will increase at the rate of about \$600 million per year and that the Commonwealth will continue to fund local aid with increments of at least \$160 million a year.

To avert prospective operating deficits in the near term, City officials should resort to Self-Help options, choices over which they have primary decision-making power, while State-Help options, requiring legislative and Gubernatorial initiatives can help resolve some of the City's more systemic or structural fiscal problems, as recommended below:

Self-Help

1. To prevent the balancing of a single year's tax rate at the expense of subsequent tax rates, the incoming City Administration should prepare and make public a comprehensive and balanced financial plan for the 1984 to



1986 fiscal years updating the original estimates for fiscal 1984, to reflect changes necessary to cover any incipient operating deficit, and calculating the expenditure and revenue estimates for the 1985 and 1986 fiscal years on realistic assumptions.

Expenditure estimates should include adequate appropriations for employee benefits and court judgements and claims, thereby ending past year practices of under-appropriating the requirements for these items. Estimates of local receipts should be based on actual collections from these sources, except where the evidence clearly supports any deviations from such prudent policy.

2. All or most of the personnel costs for collective bargaining settlements affecting expenditure requirements for both the 1984 and 1985 fiscal years should be financed from savings generated from payroll reductions and from unencumbered appropriation balances of prior years.

Personnel vacancies in non-critical positions should be left unfilled and payroll attrition should be fostered by adopting retirement incentives, productivity enhancement mechanisms and alternative service delivery systems that will help shrink the City's work force, reduce the cost and improve the effectiveness of City services.

3. The new City Administration should adopt firm policies and schedules for retention and/or disposition of the \$20 million in appropriation reserves so that this set-aside is used for its essential purpose of averting potential appropriation and/or revenue deficiencies.

4. Excess proceeds from the sale of City assets should no longer be used as revenues for current operations, but should go into a stabilization fund for financing such capital outlays as automotive equipment and other equipment with relatively rapid depreciation, sidewalk and street reconstruction and deferred building maintenance and repair, all of which are regularly recurring capital requirements, thereby avoiding the high interest costs incurred for bond issues.

State-Help

1. The Legislature should authorize regionwide taxes to replace local property tax financing of transit services throughout the state, in all metropolitan areas including the Boston area. (For Boston, this would relieve the property tax levy of about \$40 million a year.)

2. The Legislature should authorize the Commonwealth to integrate county correctional institutions into the statewide correctional system, at an estimated state cost of

[The text on this page is extremely faint and illegible. It appears to be a list or a series of entries, possibly containing names and dates, but the specific details cannot be discerned.]

\$40 million a year, providing about \$14 million a year in property tax relief to the City of Boston.

3. If the Legislature is willing to enact only part of the above package of recommendations, it should substitute a limited set of local excise tax options that any city or town could adopt, options that would have minimum adverse impact on local economies such as a parking excise tax and dedication of the hotel/motel room occupancy tax to local government.

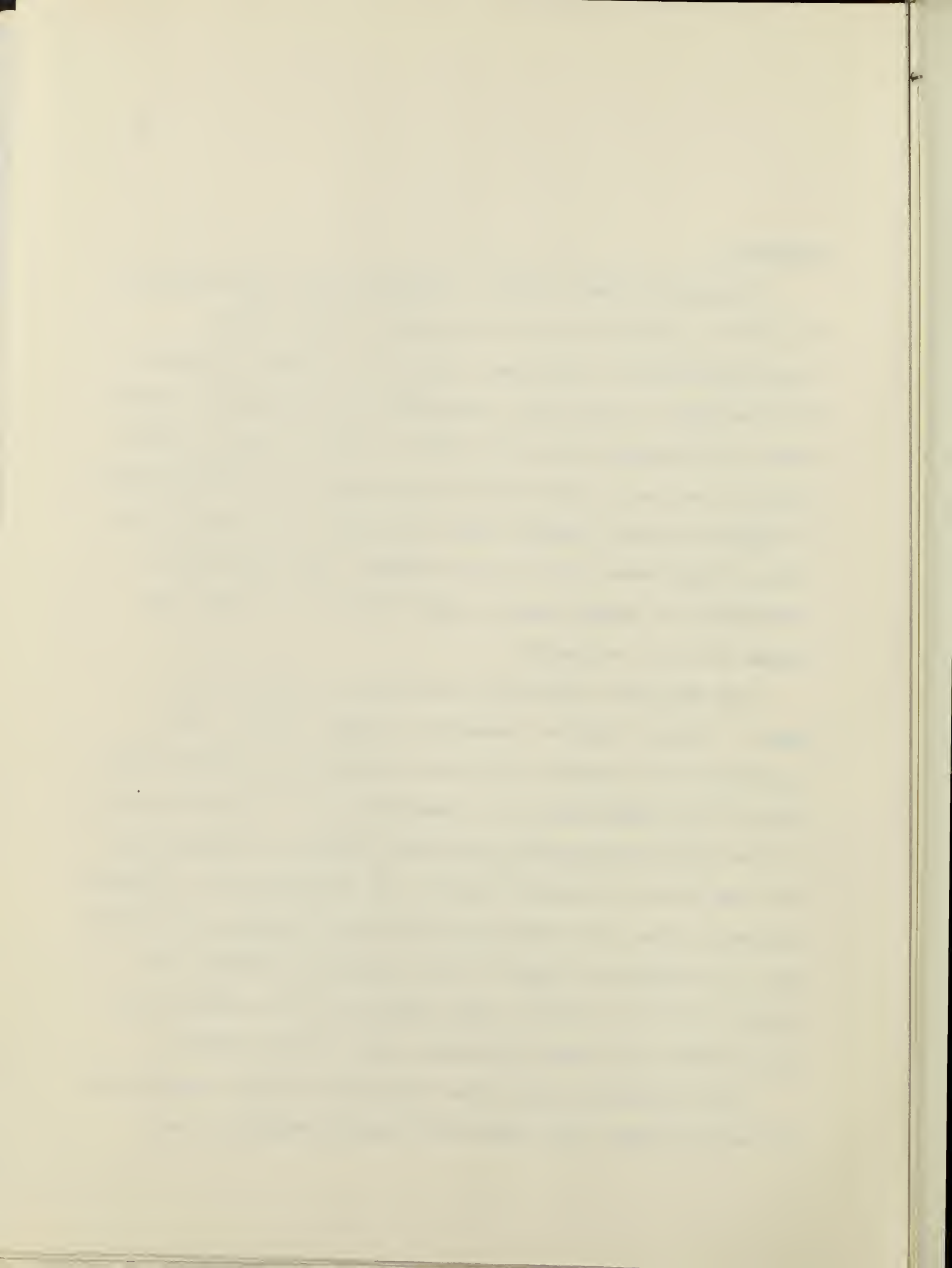
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FOREWORD

"Boston's Fiscal Future: Prognosis and Policy Options for 1984 to 1986" is the first product of the newly established John W. McCormack Institute of Public Affairs. The Institute is named for the Speaker of the United States House of Representatives from 1962 to 1971. Born in South Boston less than a mile from the University of Massachusetts at Boston's Harbor Campus, John McCormack lived much of his life in Dorchester, home of the Campus, and represented Massachusetts' Ninth Congressional District in which the campus lies for 43 years.

The McCormack Institute has several complementary goals. Through applied research in public policy, the Institute will marshal University resources to address the needs of the Commonwealth of Massachusetts. By instituting a wide-ranging educational outreach program in cooperation with the John F. Kennedy Library, the Institute will promote informed debate and encourage active participation in public life. By serving as home to the University's Master of Science in Public Affairs, the Institute will recruit and train leaders for both the public and private sectors.

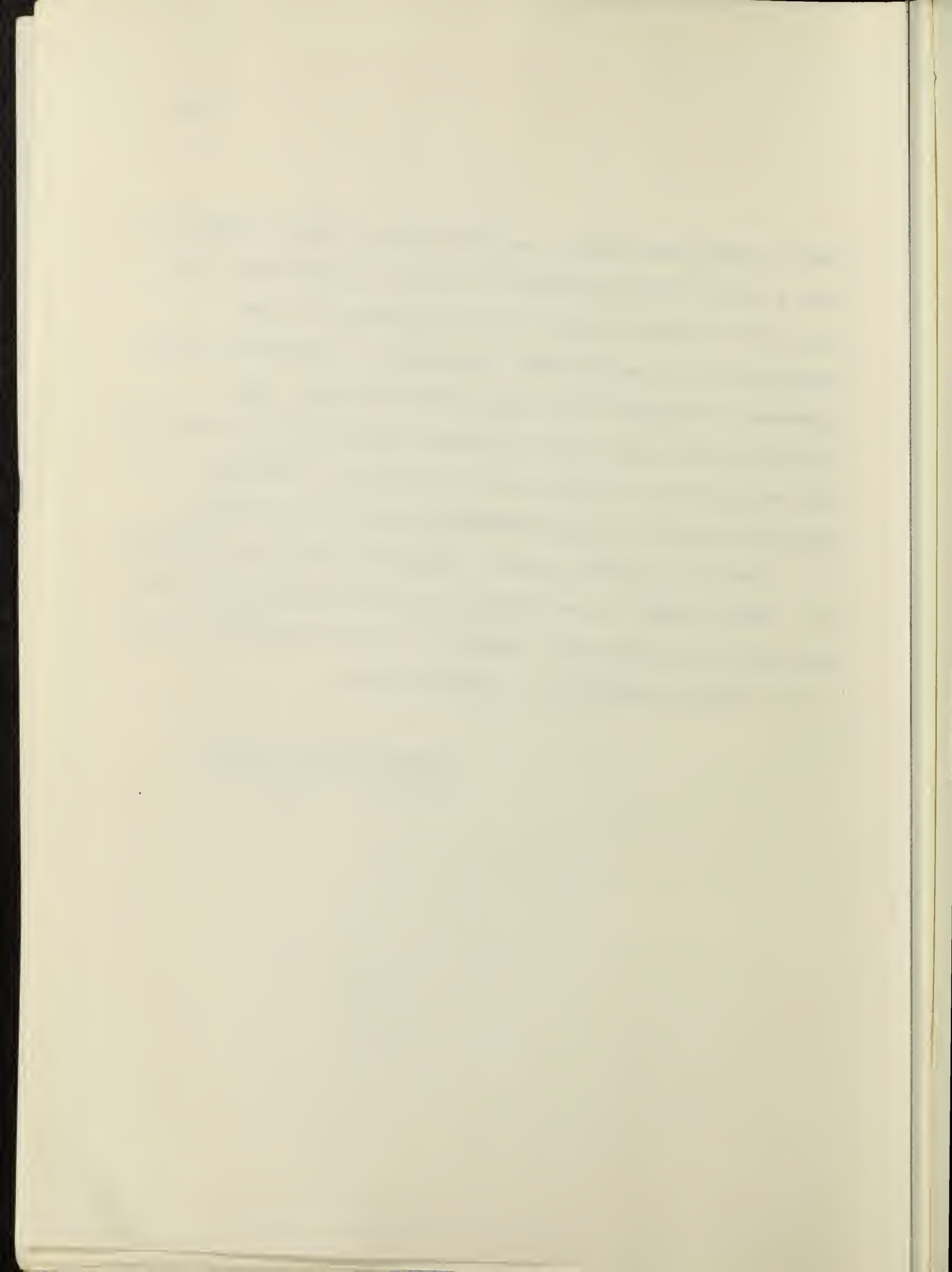
The Institute builds upon resources already existing on the Boston Campus. The Center for Survey Research, the



Boston Urban Observatory, and the Policy Studies Center all have proven, highly successful records in providing timely analysis on public policy issues of concern to the Commonwealth. The McCormack Institute is intended to draw together, coordinate and expand these efforts. The Institute will also join University resources with those of its neighbors on Columbia Point, the John F. Kennedy Memorial Library and the Massachusetts State Archives.

"Boston's Fiscal Future: Prognosis and Policy Options for 1984 to 1986" is an example of the kind of product the McCormack Institute will continue to make available to the policy making community in Massachusetts.

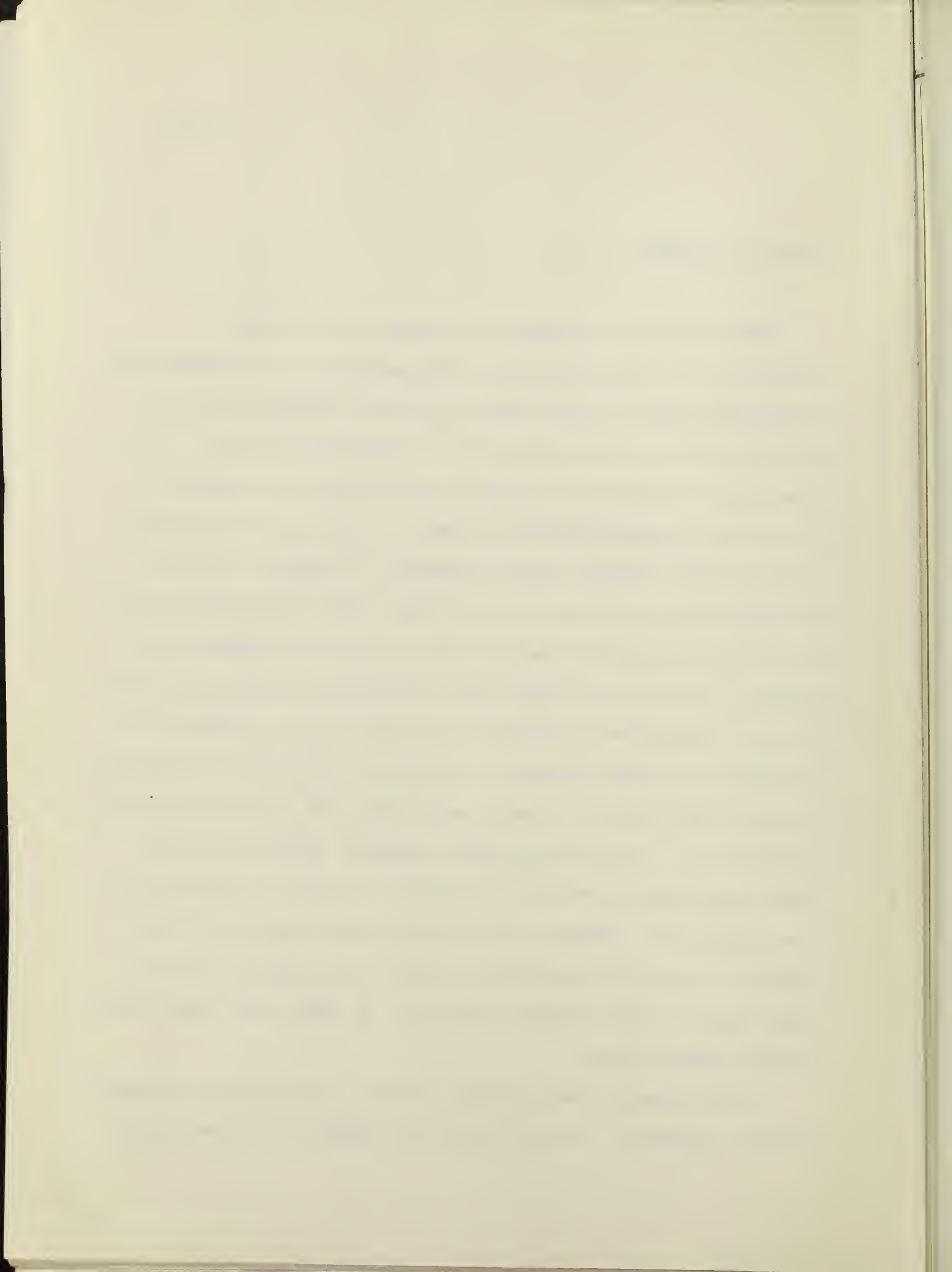
Edmund Beard, Director
McCormack Institute



AUTHOR'S PREFACE

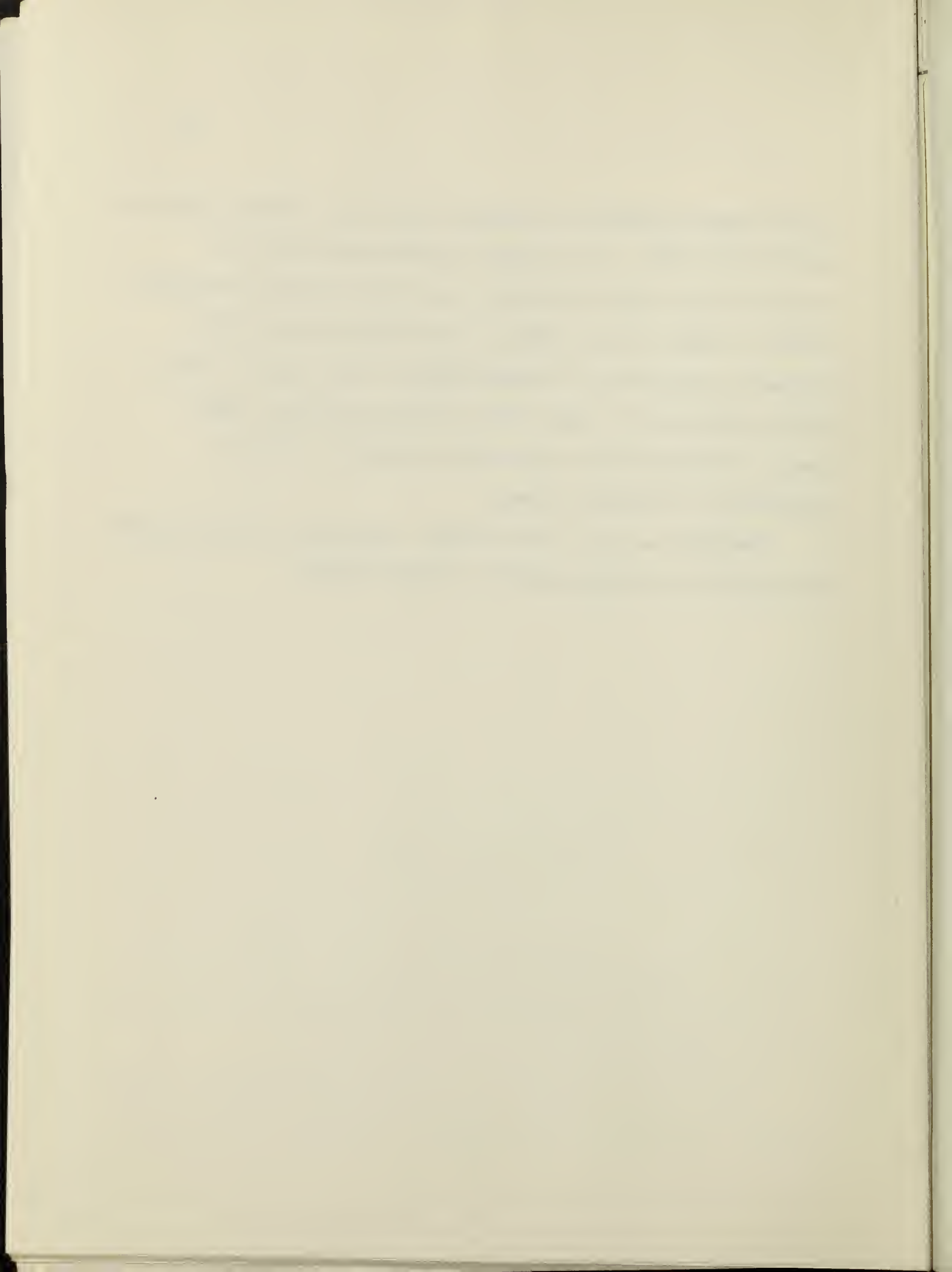
The authors are indebted to Robert A. Corrigan, Chancellor of the University of Massachusetts at Boston, for suggesting this critical area of policy analysis and for providing the back-up required to complete our task. Chancellor Corrigan had been an interested participant in the Boston Workshop Series of 1982 - 1983, a collaborative effort of the Greater Boston Chamber of Commerce, Boston Private Industry Council, Joint Center for Urban Studies of M.I.T. and Harvard University and the Boston Neighborhood Network, and had come away from its deliberations convinced that an independently derived, reliable set of numbers and alternative prescriptions for resolving the City's immediate and near term fiscal dilemma would serve at least two useful purposes: (1) Helping to focus campaign debates of this year's municipal elections on salient issues of budget and tax policy; (2) Helping the newly-elected Mayor and City Council formulate comprehensive plans for coming to grips with high-priority fiscal problems. We hope this paper will achieve these goals.

Many friends read an early draft of this paper and made helpful comments. We are especially thankful to Sam Tyler



of the Boston Municipal Research Bureau for sharing with us much of his data. The Bureau's continuing series of reports on the City's finances was particularly invaluable. Others to whom we are indebted are Newell Cook, Lowell Richards, James Carris, Edmund Beard, John Avault, Larry DiCara, Alex Ganz, James Young, Edward Collins, James Vaneko, Richard Syron, Katherine Bradbury, Franklin Patterson, and Robert Palmer.

Needless to say, the opinions, analysis and any errors are solely the responsibility of the authors.



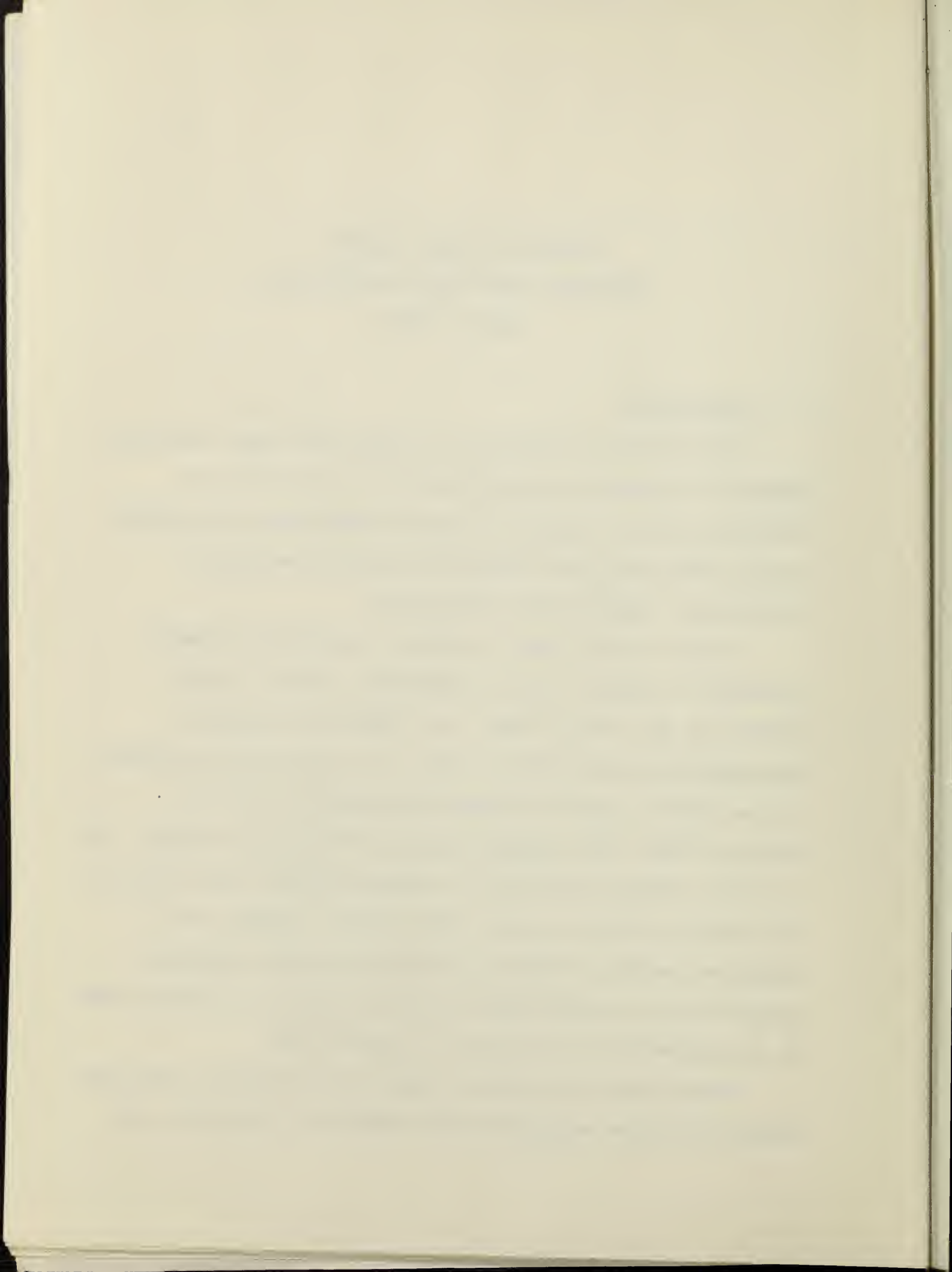
BOSTON'S FISCAL FUTURE:
PROGNOSIS AND POLICY OPTIONS FOR
1984 to 1986

I. INTRODUCTION

The finances of the City of Boston have been variously affected throughout its long history by regional and national economic cycles, by legal constraints and changes in the state-local tax system and by inter-municipal resource and expenditure disparities.

In more recent years, however, a series of tremors converged to propel Boston's seemingly chronic fiscal problem to the crisis stage. As inflation climbed to unprecedented double-digit levels, an overwhelming majority of the state's populace supported specific limits on property taxes, the primary source of municipal revenue. As a result, Boston was forced to reduce property tax levies by \$144 million during the two year period, 1982-83. To complicate matters federal assistance has been sharply reduced from an annual peak of \$133.5 million in fiscal 1981 to an estimated \$71.6 million in fiscal 1983.

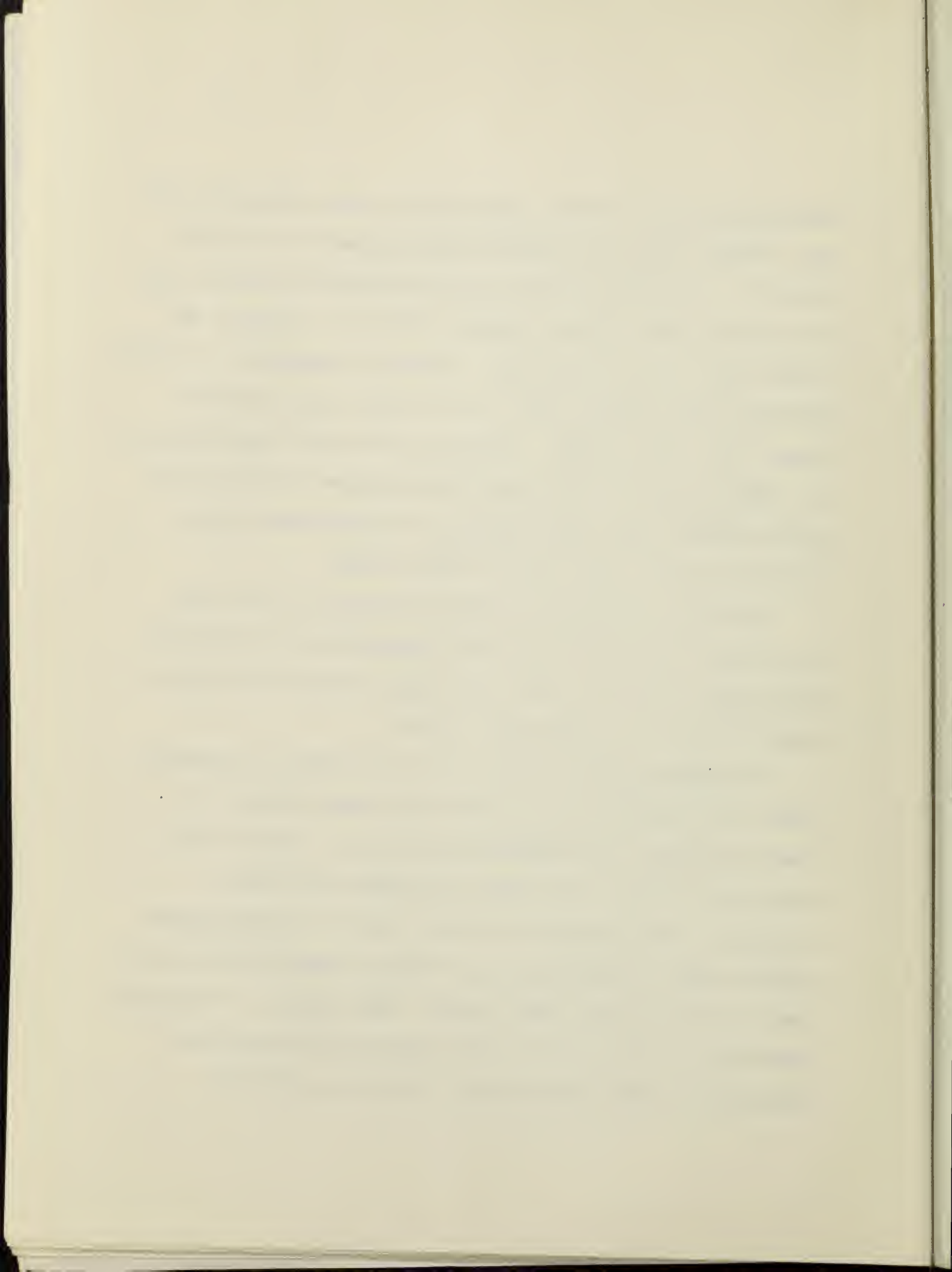
These factors followed a State court order in 1979 that disproportionate assessments of commercial properties were



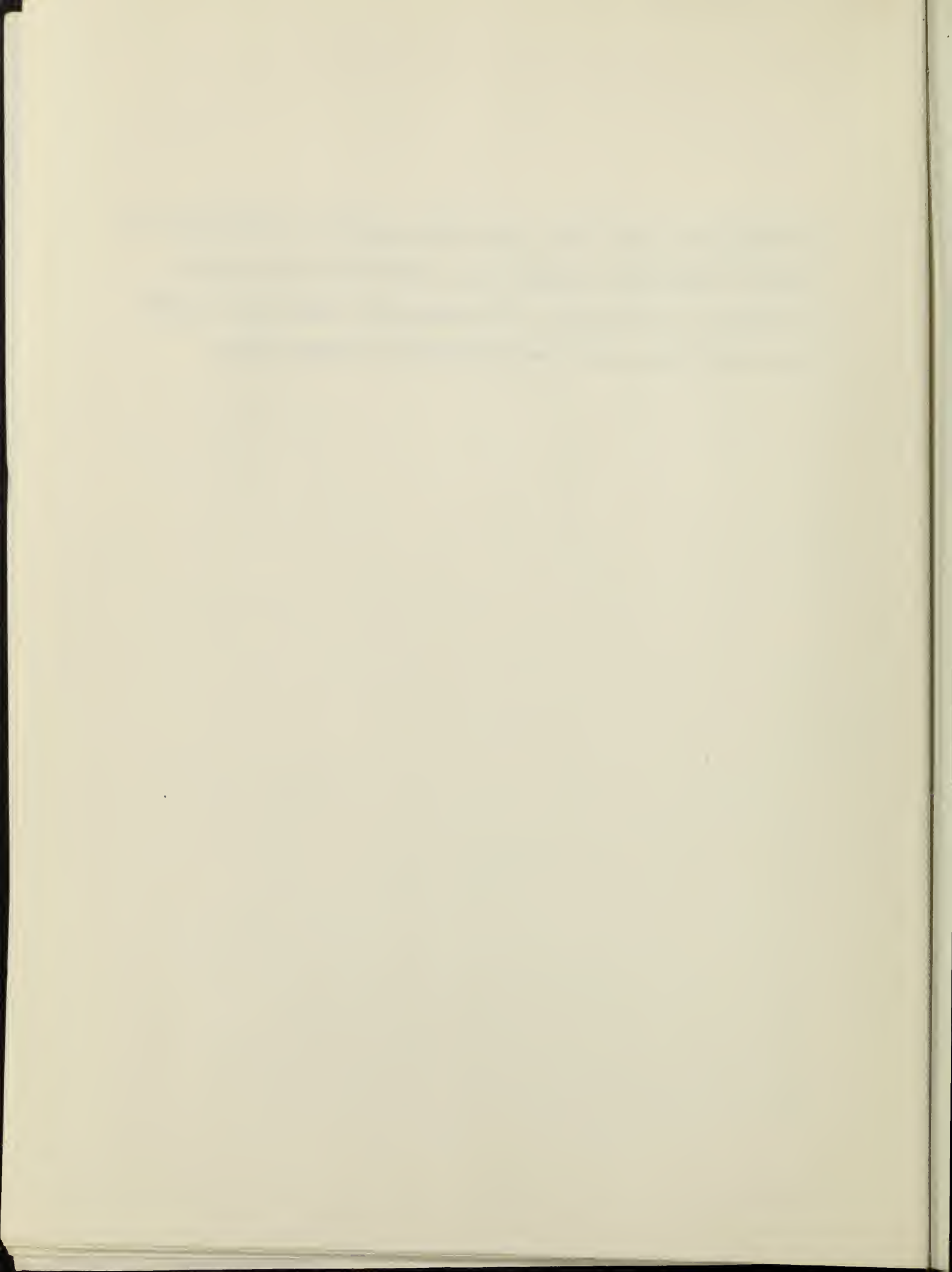
unconstitutional, thereby generating a City obligation for tax refunds that was originally calculated at over \$140 million. To cover this extraordinary fiscal liability and to cope with the initial cutbacks under the property tax limits, the City went through a period of upheaval in fiscal 1982 until the Funding Loan Act of 1982 (the so-called Tregor Bill) was passed. Passage of this bill provided for the reemployment of many laid-off employees, particularly police officers and fire fighters, and provided calmer waters in fiscal 1983 for the City's ship.

As fiscal 1984 approached, the respite of 1983 was short-lived and new storm clouds appeared on the horizon. Would Boston face lay-offs and budget crises once again in fiscal 1984 and in subsequent years?

The Administration that will take office in January, 1984 must contend with more than the above synopsis of fiscal problems and compensating factors. Fiscal 1984 decisions, those already made and those to be made throughout the remainder of 1984, will to a considerable extent shape the spending and resource requirements of the next two subsequent fiscal years. This report is designed, therefore, to identify the key revenue and expenditure variables for the fiscal years, 1984-86, projecting



estimates for each major tax rate component on the basis of clearly delineated assumptions, indicating the revenue shortfalls for each year, and outlining available options for closing the predicted expenditure-revenue gaps.

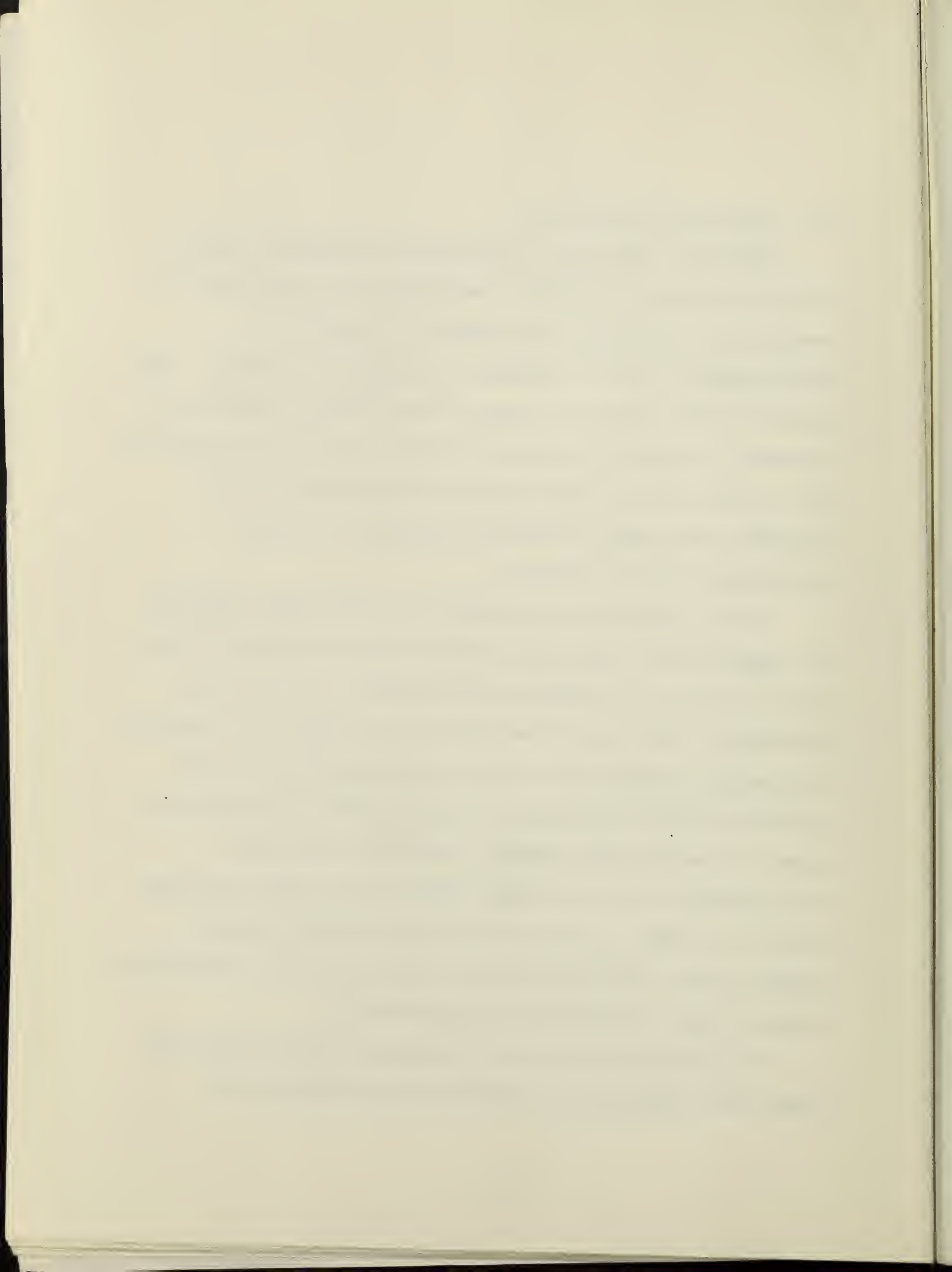


II. THE MUNICIPAL EQUATION

Municipal government has become exceedingly complex. Although municipal financial management has also grown in complexity, one simple rule prevails: budgeted appropriations must be limited to estimated revenues. This maxim has been dubbed by some as the "Municipal Equation". Moreover, a logical extension of this governing principle is that unless actual expenditures are balanced by actual receipts, the resulting operating deficit creates deep-seated fiscal problems.

On the appropriations side of the Municipal Equation are departmental operating and maintenance budgets, (City, County, Health and Hospitals and School), a schedule of relatively fixed costs (debt service requirements, employee retirement contributions, prior year appropriation and revenue deficits and deficits for property tax refunds in excess of established overlay reserves) and state assessments for the municipal share of the MBTA operating deficit and debt service, Metropolitan Parks District expenditures, and miscellaneous assessments for a variety of smaller state and metropolitan purposes.

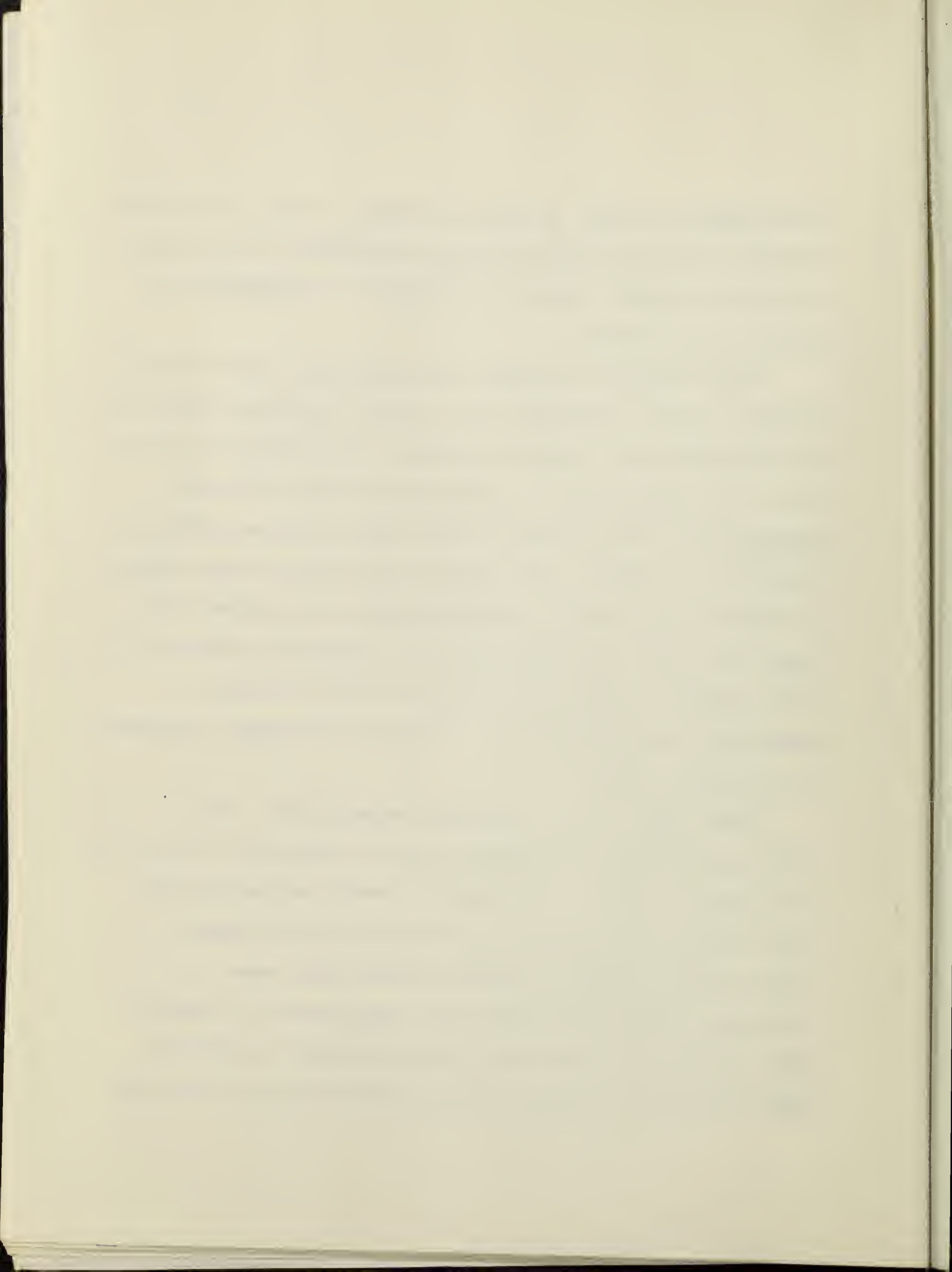
The revenue side of the Municipal Equation includes such major components as state aid distributions and



reimbursements, local receipts (licenses, fines and service charges), federal revenue sharing allocations, in lieu tax payments, interest earnings on temporary investments and property tax revenues.

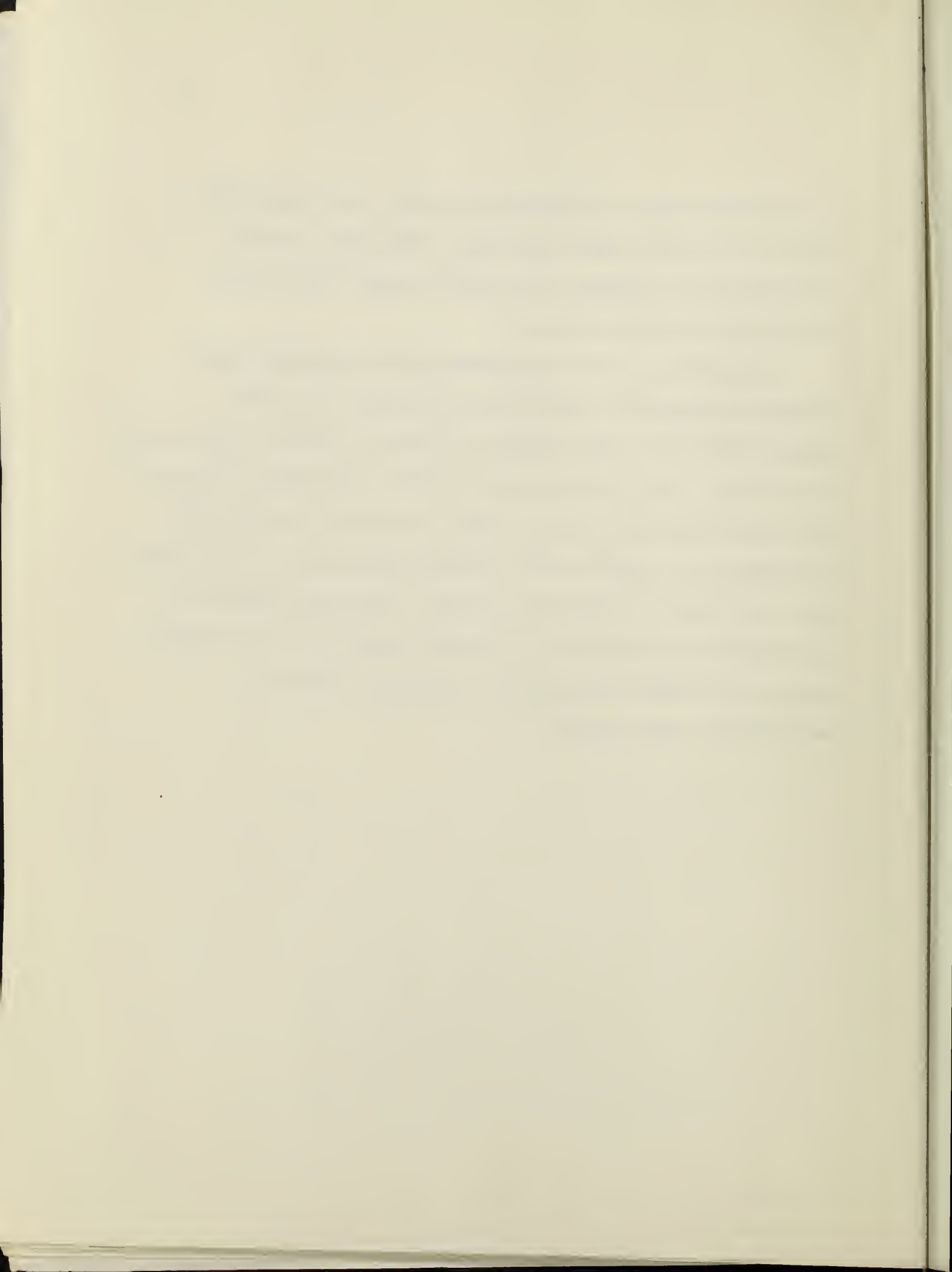
While the basic concept of the Municipal Equation has remained largely unchanged, its internal workings have been turned upside down with the enactment of Proposition 2 1/2. Prior to Proposition 2 1/2, elected municipal officials appropriated funds for all of the items on the expenditure side of the equation. Thus they would establish the levels of expenditures for the forthcoming year for police, fire, school and other local operating and maintenance needs and local assessors would add the fixed costs and state assessments as enumerated by the State Department of Revenue in the Cherry Sheets.

After totaling all estimated expenditures, local officials balanced the equation with an equivalent amount of anticipated revenue. The amount of money estimated from local sources was based by law on prior year's actual receipts while federal revenue sharing funds were entitlement estimates of the U.S. Department of Treasury. Once the amount of state aid was revealed in the Cherry Sheet, municipal assessors figured the net amount that had



to be raised from the property tax levy, the balancing factor in the Municipal Equation. The major revenue component--the property tax--was the last item to be calculated by local assessors.

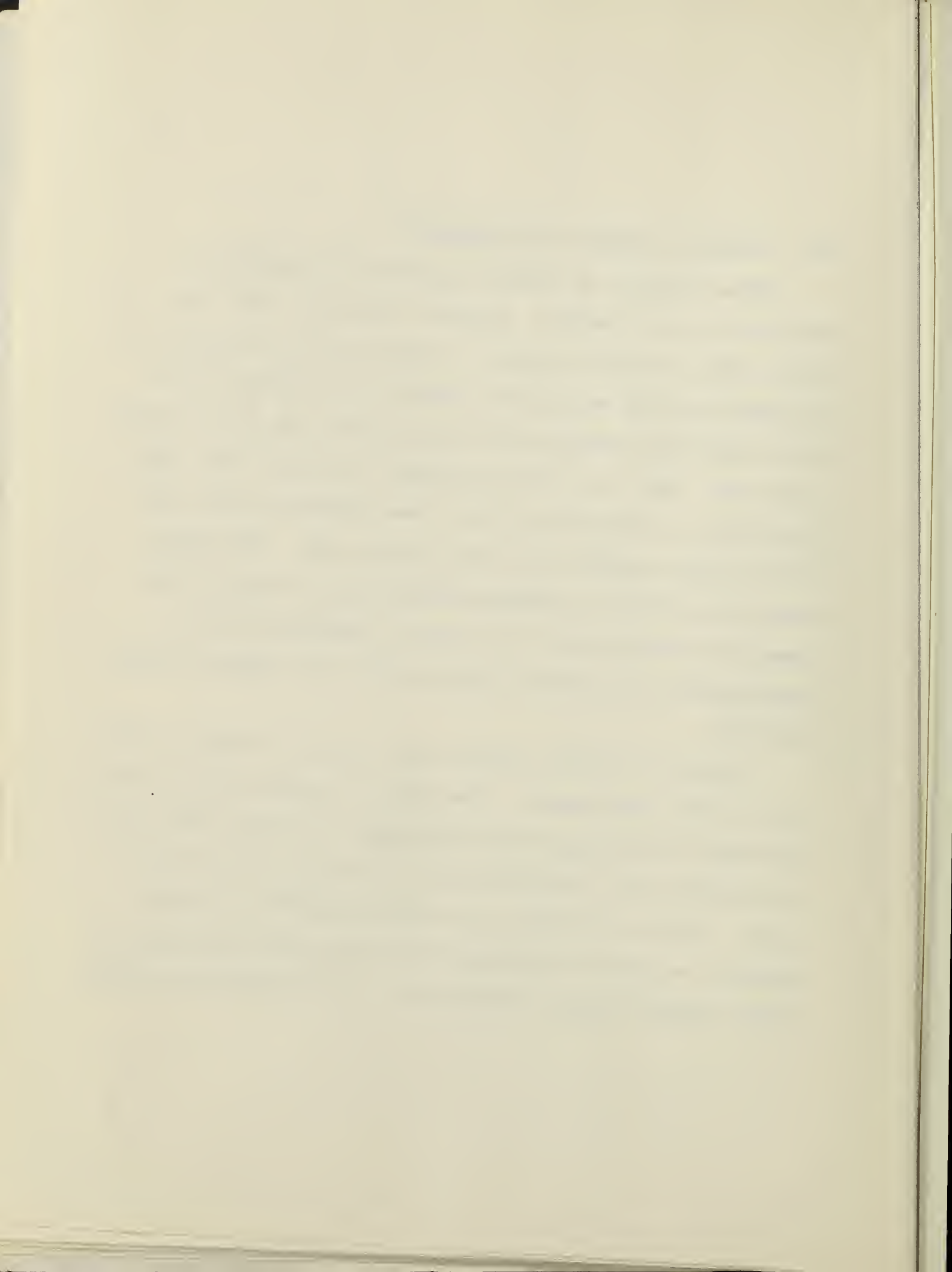
Proposition 2 1/2 terminated the open-ended budget balancing mechanism historically available to local decision-makers. The property tax levy is restricted by the Proposition 2 1/2 law in annual amount and growth potential, and local elected officials must, in effect, reverse the procedure for balancing the Municipal Equation. The first and most important question now is: How much revenue is available for spending? If planned appropriations exceed revenue, the equation must be bridged by reducing expenditure requirements.



III. BOSTON'S PROPERTY TAX REVENUES

Three-quarters of Boston's operating revenues are derived from two sources: property taxes and state aid. In fiscal 1984 we estimate that, if non-recurring revenues are excluded from the calculation, Boston will receive 39% of total operating revenues from the property tax and 36% from state aid. This is in sharp contrast to fiscal 1981 (the year prior to Proposition 2 1/2) when property taxes were 59% of total revenues and state aid was 23%. Obviously, these major shifts in revenue proportions are due to the impacts of Proposition 2 1/2 and the response of the Commonwealth--an important theme which will receive further analysis.

Boston can expect property tax revenue to equal 2 1/2% of its total assessments. The City's current building boom provides the substance for additional tax growth which will be important for financing some of the City's increasing costs. Before analyzing all revenue sources in detail, however, we need to understand more fully the relationships among property taxes, Proposition 2 1/2 and economic growth.



ECONOMIC DEVELOPMENT AND BOSTON'S PROPERTY TAX LEVY

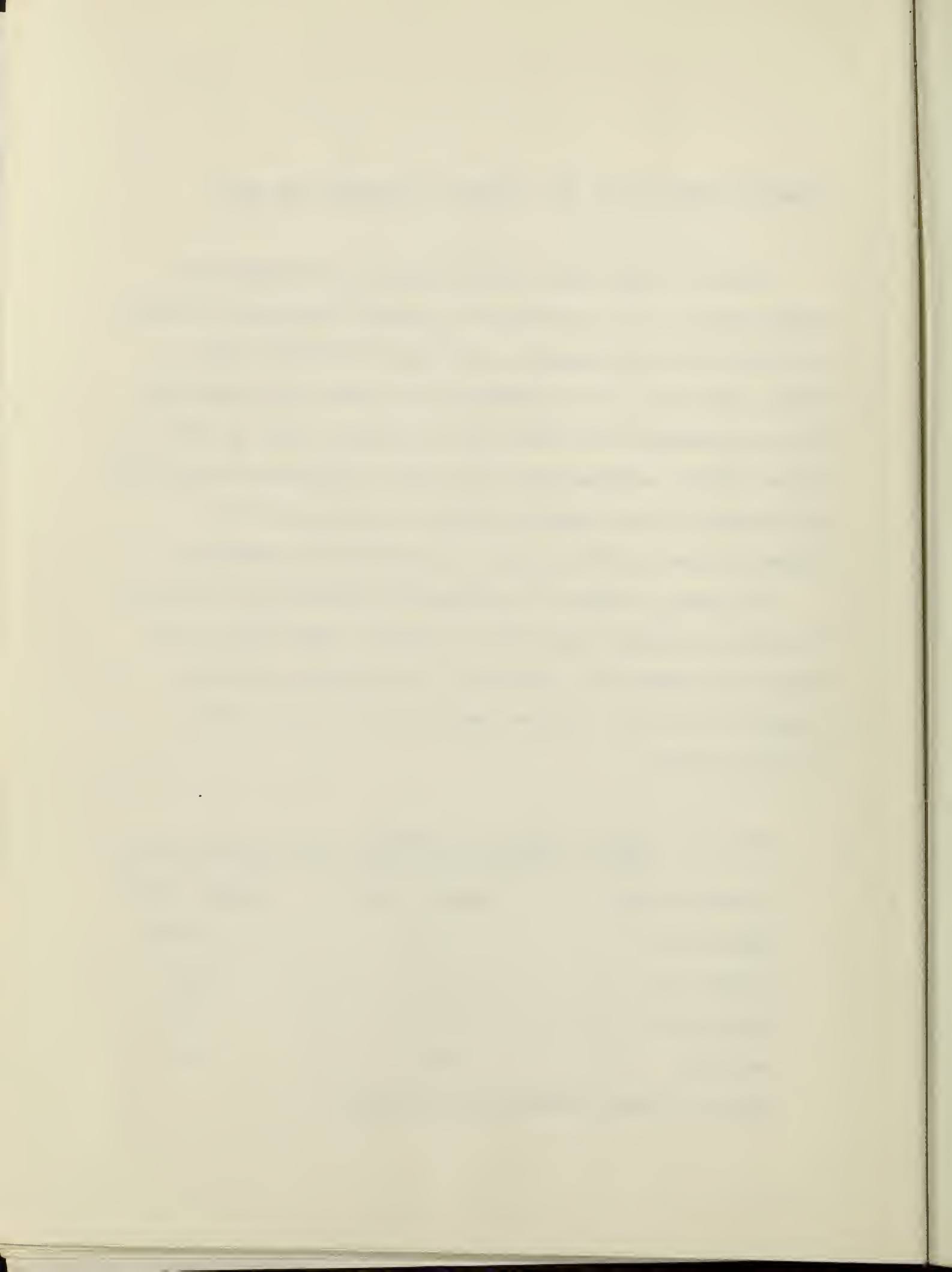
Over the three-year period since the enactment of Proposition 2 1/2, the level of property taxation in Boston has declined significantly. Estimates indicate that in fiscal 1984, the City's effective tax rate will have been cut by at least half--from 5.18% in fiscal 1981 to 2.5% in fiscal 1984! Accompanying the overall reduction in property tax burden is the dramatic decline in the portion of property taxes paid by owners of residential property.

As shown in Table I, residential property now accounts for 30% of property tax bills in Boston, down from 37.5%. Owners of commercial, industrial and personal property (mostly utilities) pay the remaining 70% of the City's property taxes.

Table I: Boston's Tax Bill Shares:
Before & After Revaluation and Classification

| PROPERTY CLASS | BEFORE (1982) | AFTER (1983) |
|----------------|---------------|--------------|
| Residential | 37.5% | 30.5% |
| Commercial | 37.5 | 43.5 |
| Industrial | 11.0 | 7.7 |
| Personal | 14.0 | 18.2 |

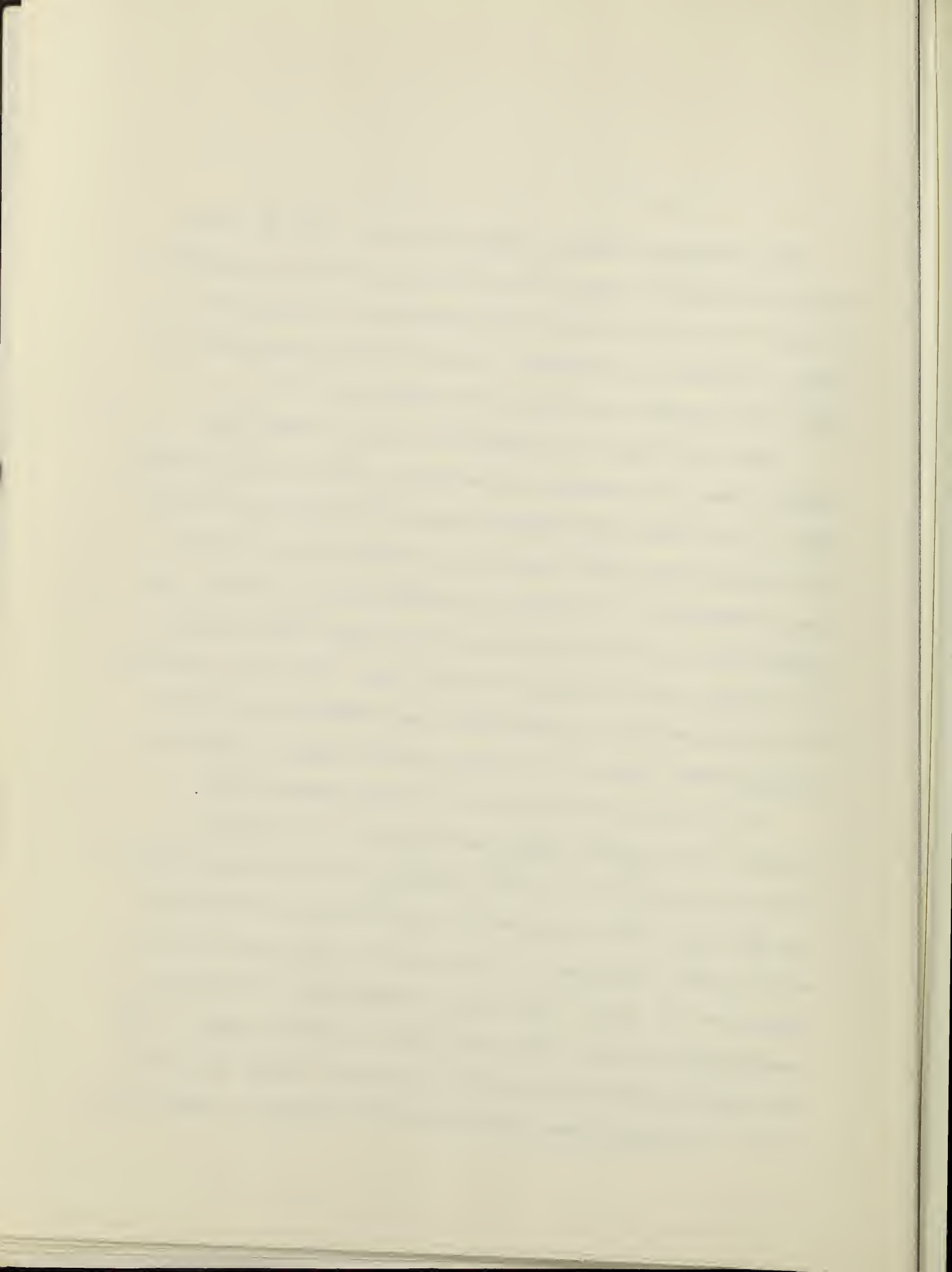
Source: Boston Assessing Department



With business property responsible for \$.70 of every dollar of property taxes, the key fiscal issue to consider is what will be the effects and benefits of current and future economic development. To clarify this question, we must first review the rules of Proposition 2 1/2.

The basic tenet of Proposition 2 1/2 is that the overall level of taxation not exceed a 2 1/2% effective tax rate. For fiscal 1983 Boston raised \$374 million in taxes on a property tax base certified at \$12.2 billion by the State Department of Revenue--an effective rate of 3%. To comply with the 2 1/2% limitation in fiscal 1984, Boston will either have to reduce the tax levy, raise the tax base (i.e. assessments) or undertake some combination of both alternatives. Below is a review of the options for 1984.

If the tax base could not be raised above \$12.2 billion, the tax levy would have to be cut to \$317.9 million, a reduction of \$56.5 million. On the other hand, if the tax base were increased to \$14.96 billion, the levy could remain unchanged at \$374 million, yielding a 2 1/2% effective tax rate. Most astute observers of the City's development trends, while cognizant of the hot pace of new and rehabilitated construction in Boston, doubt that the City's valuations have grown by \$2.76 billion in value in a



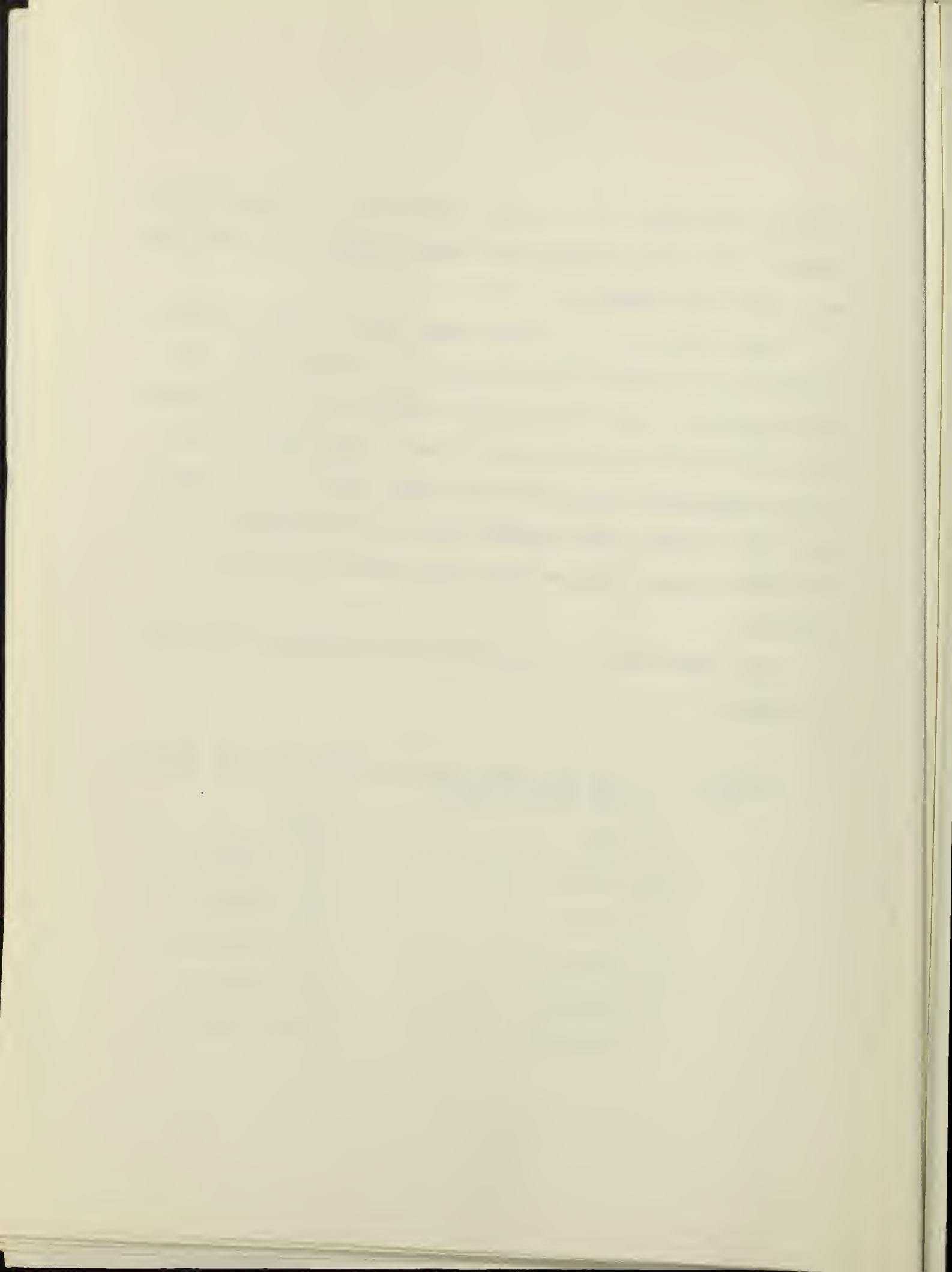
single year! Hence, it is more realistic to estimate that in fiscal 1984, the tax base will rise somewhat while the levy will also fall somewhat.

City officials had stated their hope in early Spring of achieving a tax base of \$14 billion for fiscal 1984. If this occurred, the levy could be \$350 million, a decline of only \$24 million over the prior year. According to more recent estimates contained in the City Official Statement (p. 19), however, the property tax levy is expected to be \$330-345 million, figured on a tax base of \$13.2-13.8 billion.

Tax base/tax levy alternatives for FY84 are presented in Table II.

Table II: Tax Base/Levy Alternatives: City of Boston
1984 Fiscal Year

| TAX BASE | LEVY |
|--------------|---------------|
| \$15 billion | \$374 million |
| 14 billion | 350 million |
| 13.5 billion | 337.5 million |
| 13.0 billion | 325 million |
| 12.5 billion | 312.5 million |



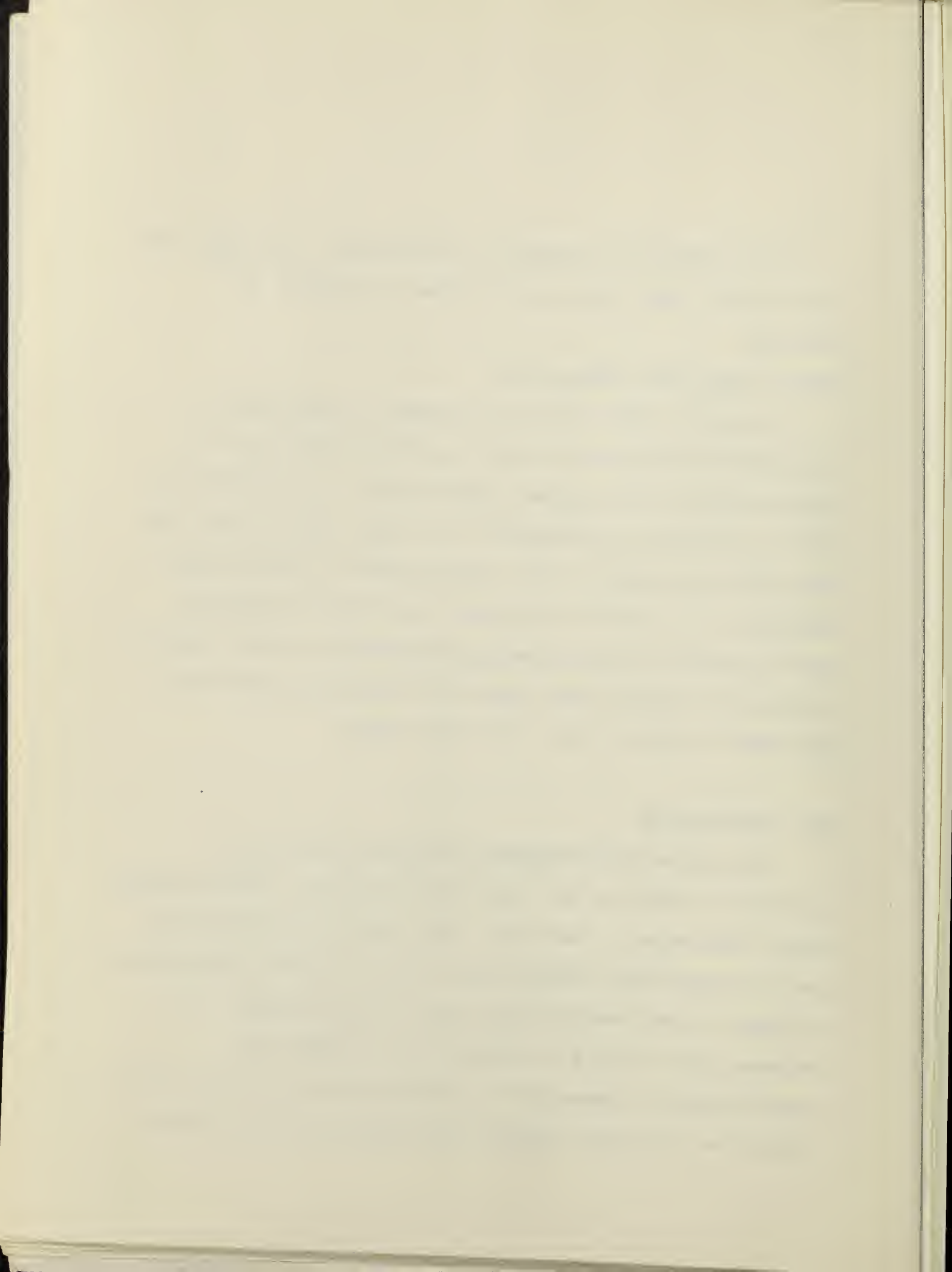
The arithmetic in Table II is obvious: the higher the tax base for 1984, the less the loss in property tax revenues!

MARKET VALUES FOR FISCAL 1984

For fiscal 1984 the City Assessor is planning to increase the valuations of most existing properties to maintain parity with market appreciation. In addition to such an increase in the general tax base, the Assessor can also add valuations for new construction to the tax base. Although we do not have available the figures presently being reviewed by the Assessing Department, we were able to collect and analyze data useful for projecting the City's tax base for each of the next three years.

NEW CONSTRUCTION

The Boston Redevelopment Authority maintains a cumulative record of all new construction and rehabilitation being undertaken in the City. This file is maintained by year of completion and by type of use. Its data includes an estimate of the construction costs of the projects. We reviewed this listing to identify all taxable new construction by commercial or residential use and by year of completion. We also adjusted the construction cost data



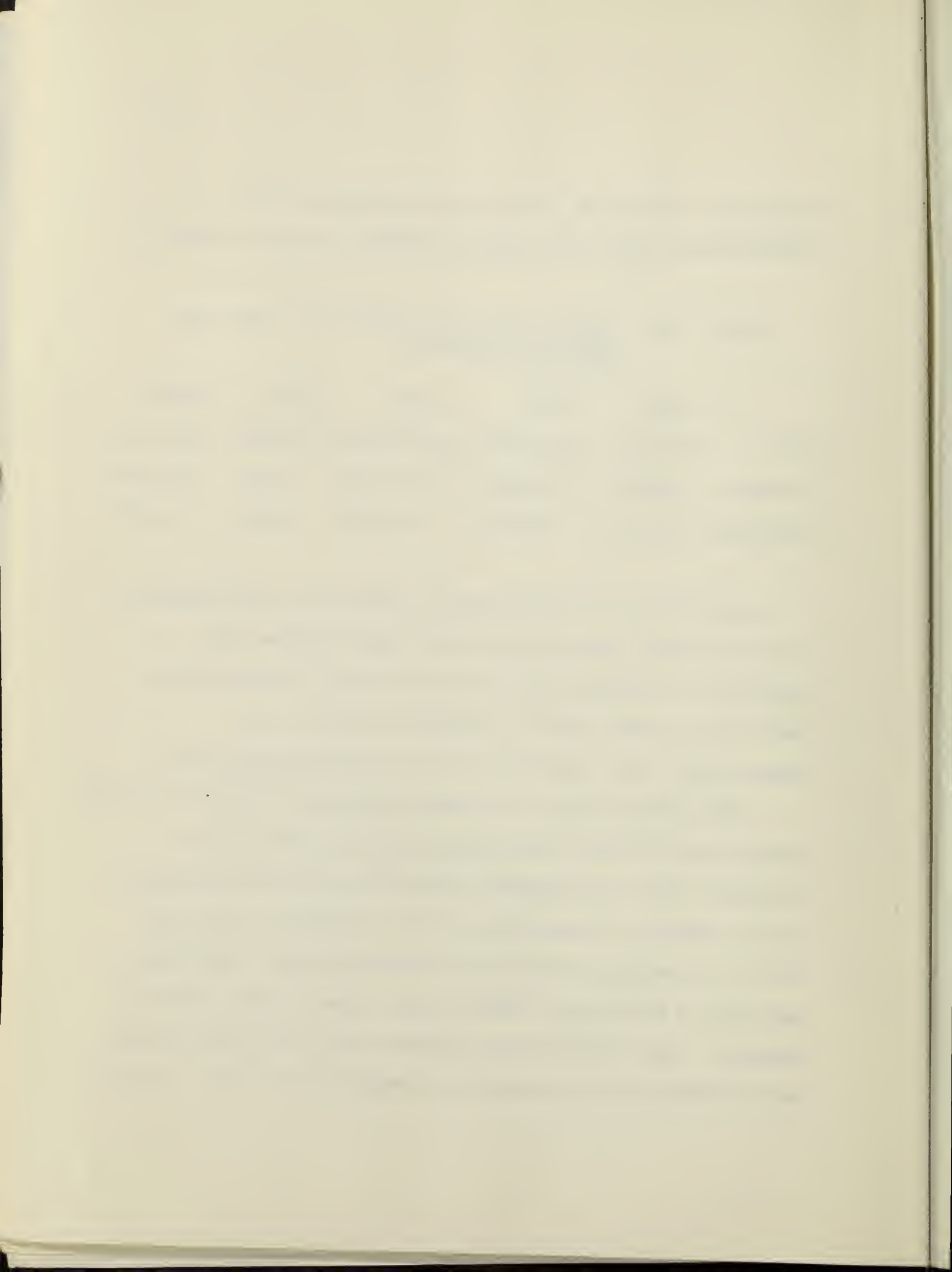
upward by a factor of 1.66 on the assumption that construction costs were only 60 percent of market value.

Table III: Market Value of Property by Class and Year of Completion
(x\$1000)

| | 1982 | 1983 | 1984 | 1985 | 1986 |
|-------------|-----------|-----------|-------------|----------|-----------|
| Total | \$345,186 | \$398,607 | \$1,137,002 | \$80,982 | \$275,261 |
| Business | 290,755 | 352,791 | 1,048,813 | 31,390 | 248,701 |
| Residential | 54,431 | 45,816 | 88,189 | 49,592 | 26,560 |

According to the estimates in Table III, \$345 million of market value construction and rehabilitation was completed in calendar 1982; \$398 million will have been completed in 1983 and \$1.1 billion in 1984, with substantially lower amounts in the two subsequent years.

While these figures represent projects completed in the calendar year cited, for property tax purposes it is perfectly legal and expected that during the construction period, partial assessments will be recorded on the tax rolls. For example, the three largest projects currently underway in Boston are Copley Place, Dewey Square, and 53 Exchange. BRA calculations indicate that both Dewey Square and 53 Exchange are planned for completion in 1984. As for

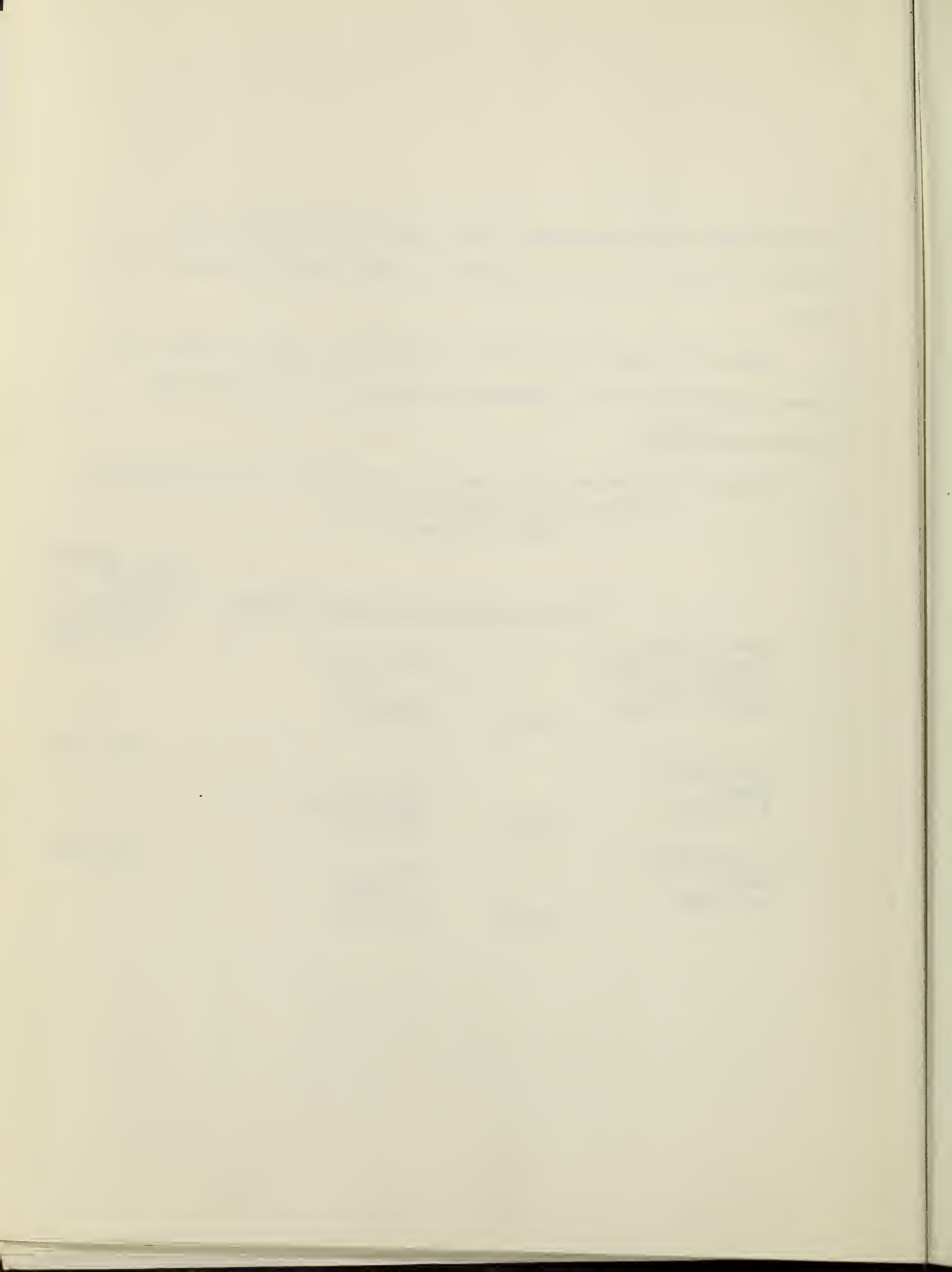


Copley Place it is expected that 29% of the project (in terms of value) will be completed in 1983 and the balance in 1984.

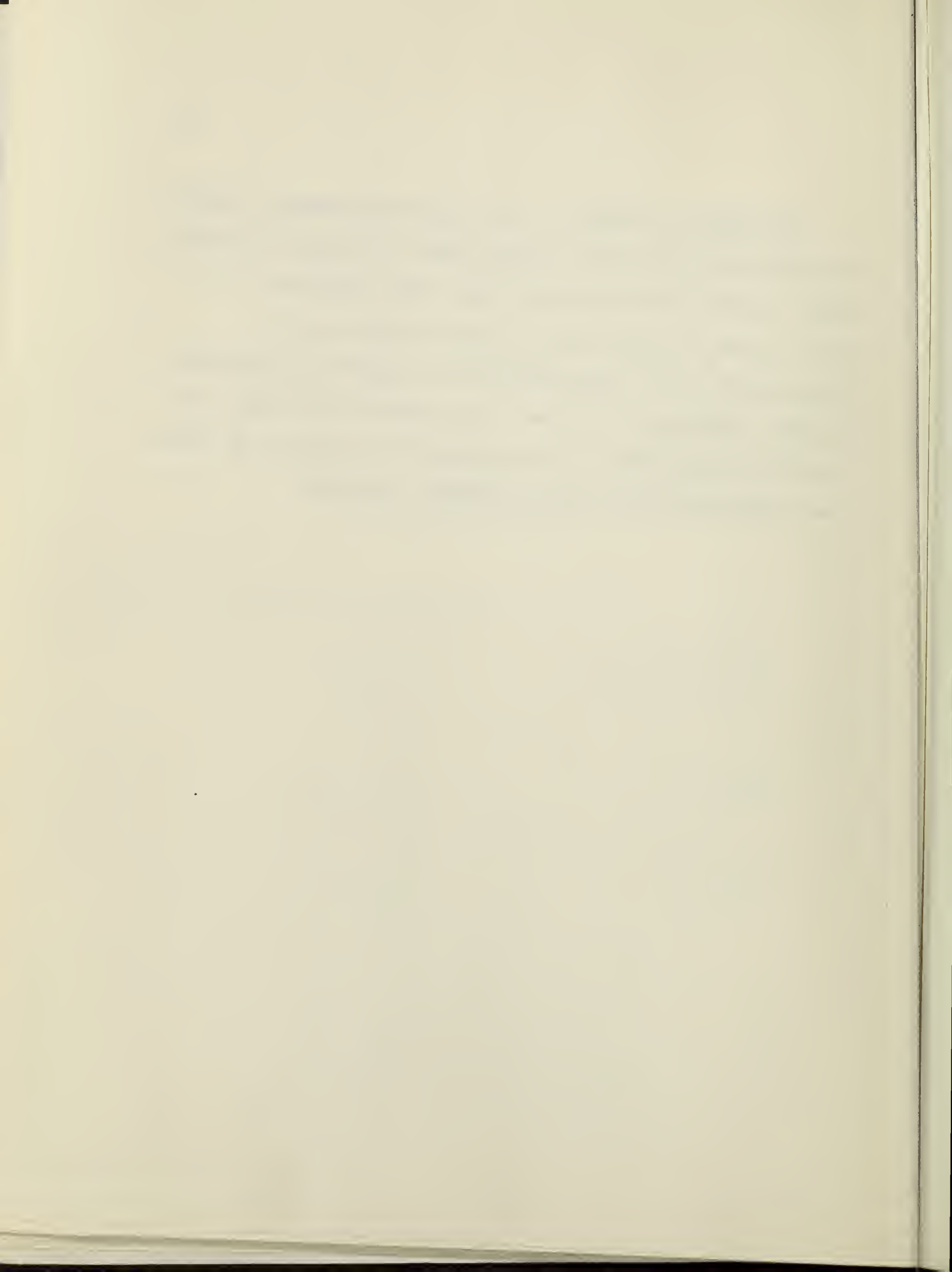
Table IV shows the current assessment (1983) on each of these projects and our estimate of market value as of the completion dates.

Table IV: Current Assessments and Market Value Estimates
for Selected Developments,
City of Boston

| | <u>Fiscal 1983 Assessment(x\$1000)</u> | <u>Total Market Value (x\$1000)</u> |
|-----------------|--|---|
| Copley Place | | \$482,638 |
| Land/air rights | \$No Value | |
| Westin Hotel | 5,308 | |
| Marriott Hotel | 31,333 | |
| Total | <u>\$36,641</u> | |
| Dewey Square | | 190,126 |
| Land | \$10,120 | |
| Building | No value | |
| Total | <u>\$10,120</u> | |
| 53 Exchange | | 178,450 |
| Land | \$11,233 | |
| Building | 1,248 | |
| Total | <u>\$12,481</u> | |



According to Table IV, all three developments reflect some assessed values for fiscal 1983, but these are only a small fraction of the market value upon completion. In fiscal 1984, the City will be able to increase the assessments on all three projects by substantial amounts. The key question, of course, is by how much the City can increase assessments on these projects as well as on other new construction and on the existing tax base.



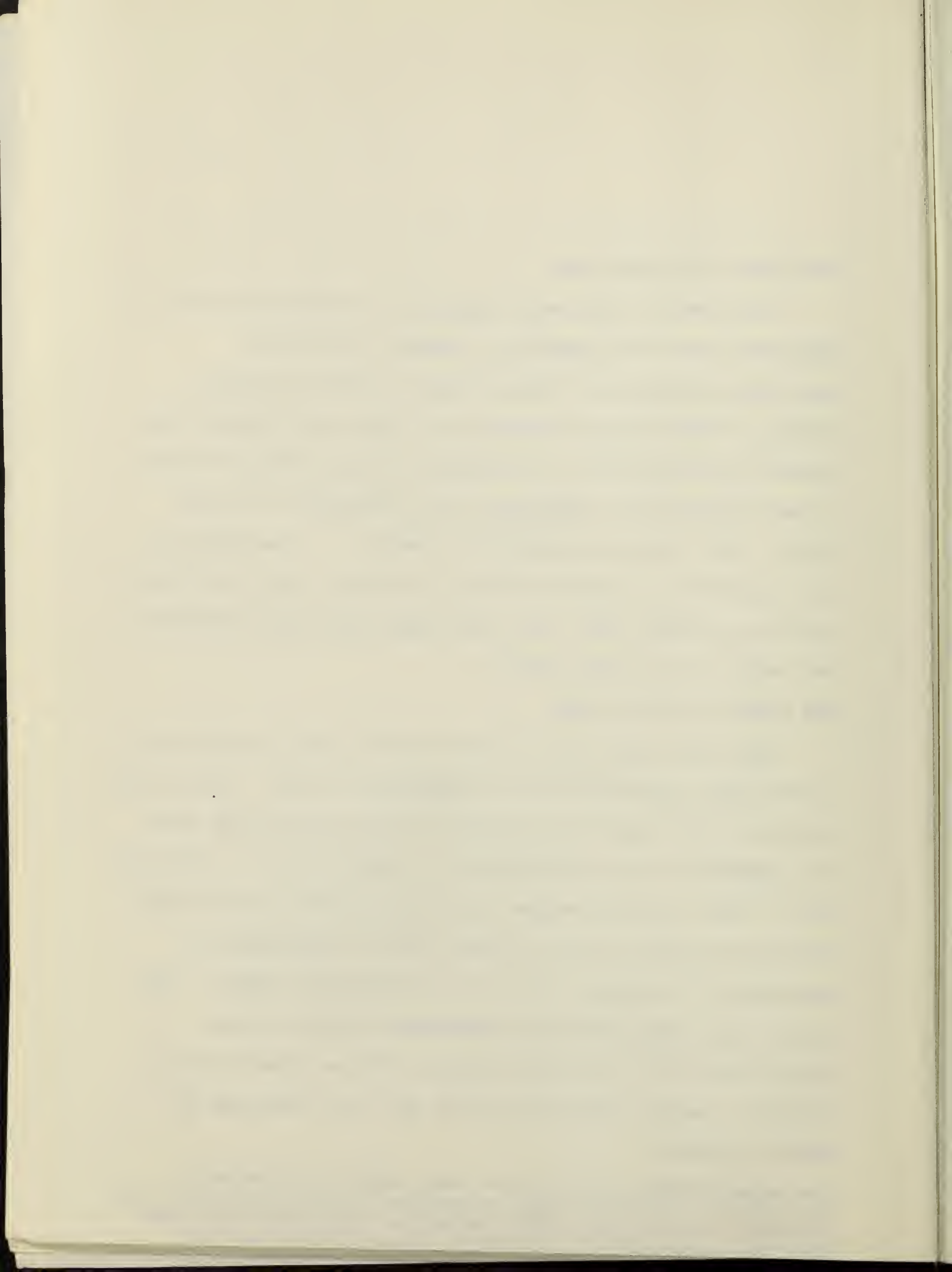
THE FISCAL 1984 TAX BASE

The answer to the above question is difficult until all applicable data are compiled. However, we think a reasonable estimate of market value for 1984 is \$13.4 billion. This estimate assumes the City will increase the current tax base by 5%, on average, and that \$632.6 million in new construction assessments will be added to the tax rolls. The data are presented in Table V. A tax base of \$13.4 billion will allow the City to raise a levy of \$335.5 million in fiscal 1984, and will bring the City's effective tax rate to the 2 1/2% limit.*

THE FISCAL 1985 TAX BASE

Beginning with fiscal 1985, the City will be under the 2 1/2% levy cap provisions of Proposition 2 1/2. Under this limitation the tax levy increase on the existing tax base (as opposed to new construction) is restricted to 2 1/2% per year. Thus, we would expect the fiscal 1984 levy of \$335.5 million to rise by 2.5% in fiscal 1985, reflecting the increase of a similar 2.5% in the existing tax base. This higher levy supplemented by assessments based on new construction will bring the fiscal 1985 tax base to \$14.4 billion, thereby generating a tax levy for that year of \$359.2 million.

*In establishing the 1984 tax rate, Boston's Assessing Department increased total valuations to \$13.3 billion; the property tax levy was \$333.3 million. Our conclusion was that the closeness of the City's final figures and our



With a new administration entering City Hall in 1984, and given our knowledge of the management and systemic problems in the Assessing Department, we assume that for fiscal 1985 the City will not adjust the base assessments, and add only valuations for new construction.

Table V: Tax Levy and Tax Base: Fiscal 1984-86
City of Boston

| FISCAL YEAR | INITIAL TAX BASE | NEW CONSTRUCTION | TOTAL TAX BASE | TAX LEVY | EFFECTIVE TAX RATE |
|-------------|------------------|------------------|----------------|----------|--------------------|
| 1983 | \$12.177b | \$ --- | \$12.177b | \$374.6m | 3.07% |
| 1984 | 12.786 | 632.6m | 13.331* | 333.3* | 2.5 |
| 1985 | 13.754 | 613.6 | 14.367 | 359.2 | 2.5 |
| 1986 | 15.085 | 601.1 | 15.687 | 385.4 | 2.467 |

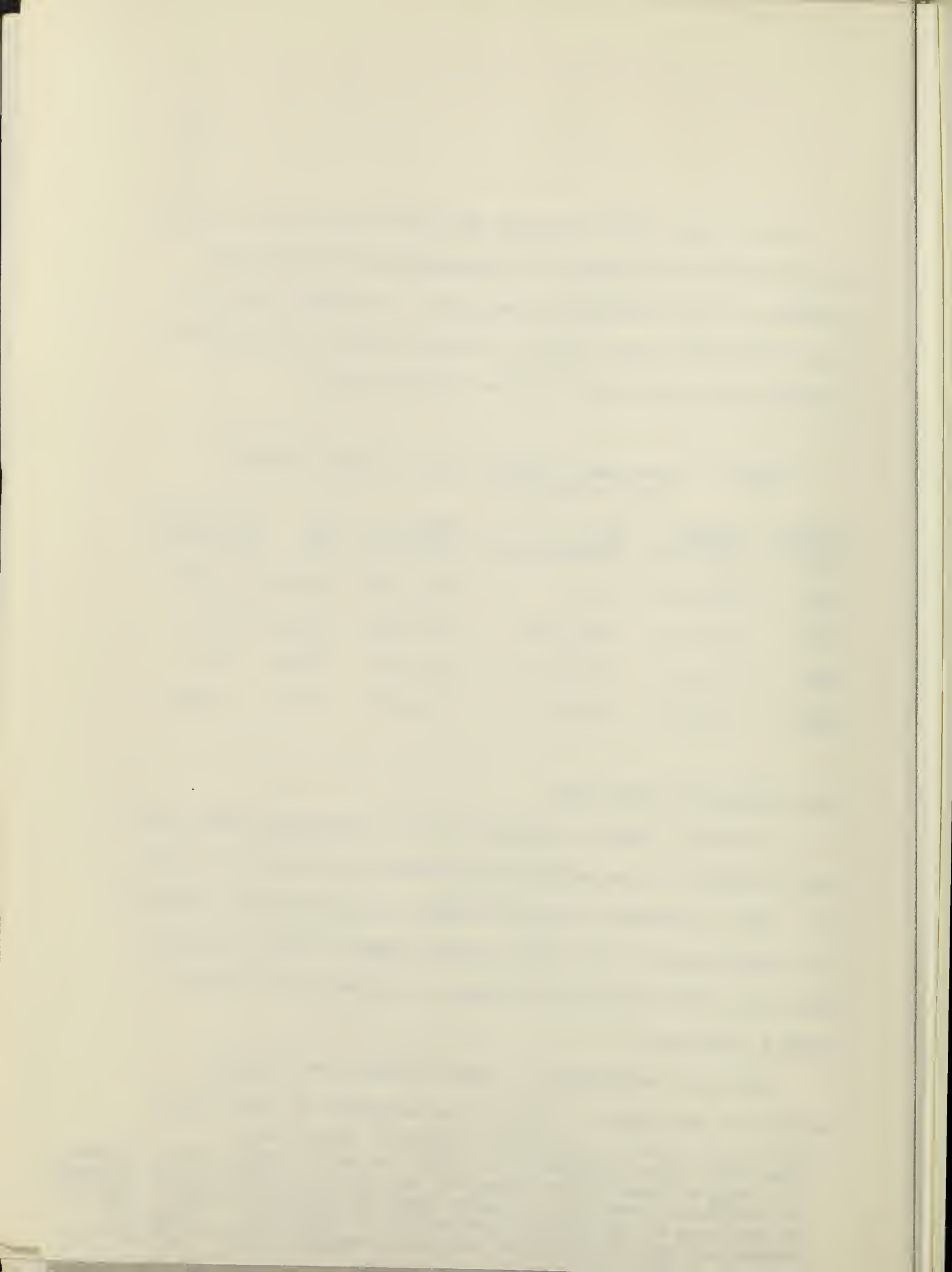
THE FISCAL 1986 TAX BASE

In fiscal 1986 we assume that the Assessing Department will be able to increase the existing tax base by at least 5%. This estimated increase added to the expected volume of new construction will bring the tax base to \$15.7 billion and will allow the City to adopt a tax levy for 1986 of \$385.4 million.**

Notably, beginning in fiscal 1986, the average effective tax rate in the City is expected to fall below

*Official figures of Boston Assessing Department.

**According to the calculation for 1986, the tax increment for new construction will be based on the classified tax rate times the value of commercial or residential property. We assume from our figures in Table V, that 90% of the value of the new construction will be commercial. We further assume that the classified tax rate for commercial property for 1985 will be \$22.00. To those interested, the authors will explain the calculations



2.5%. This reflects the relative lag in the growth of the tax levy in contrast to the faster growing existing tax base. If there are no changes in the laws of Proposition 2 1/2, or if no local referenda allowing accelerated levy growth are approved, the effective tax rate in Boston will begin a long and gradual decline in fiscal 1986.



IV ESTIMATED REVENUES AND EXPENDITURES

This section presents the key numbers and assumptions underlying our pronostications on both the revenue and expenditure side; the next section presents the analysis. (The details are presented in Table VI.) For fiscal 1981 to 1983, actual estimates are employed while for fiscal years 1984 to 1986 projected estimates are employed.

THE REVENUE SUMMARY

1. Tax Levy

For fiscal 1984 the property tax levy estimate of \$333.3 million is based on the assumption that the City's value of real and personal property will show an increase over the prior year of \$1.241 billion because of market appreciation and new growth in offices, hotels and condominiums, bringing Boston's total value to \$13.331 billion. It is further estimated that tax base growth will continue into 1985 (\$14.367 billion) and 1986 (\$15.687 billion), yielding \$359.2 million and \$385.4 million in property taxes, respectively.

2. State Aid

Governor Dukakis is committed to sharing 40% of the annual growth in broad based taxes with the state's municipalities. We assume that state taxes will increase by

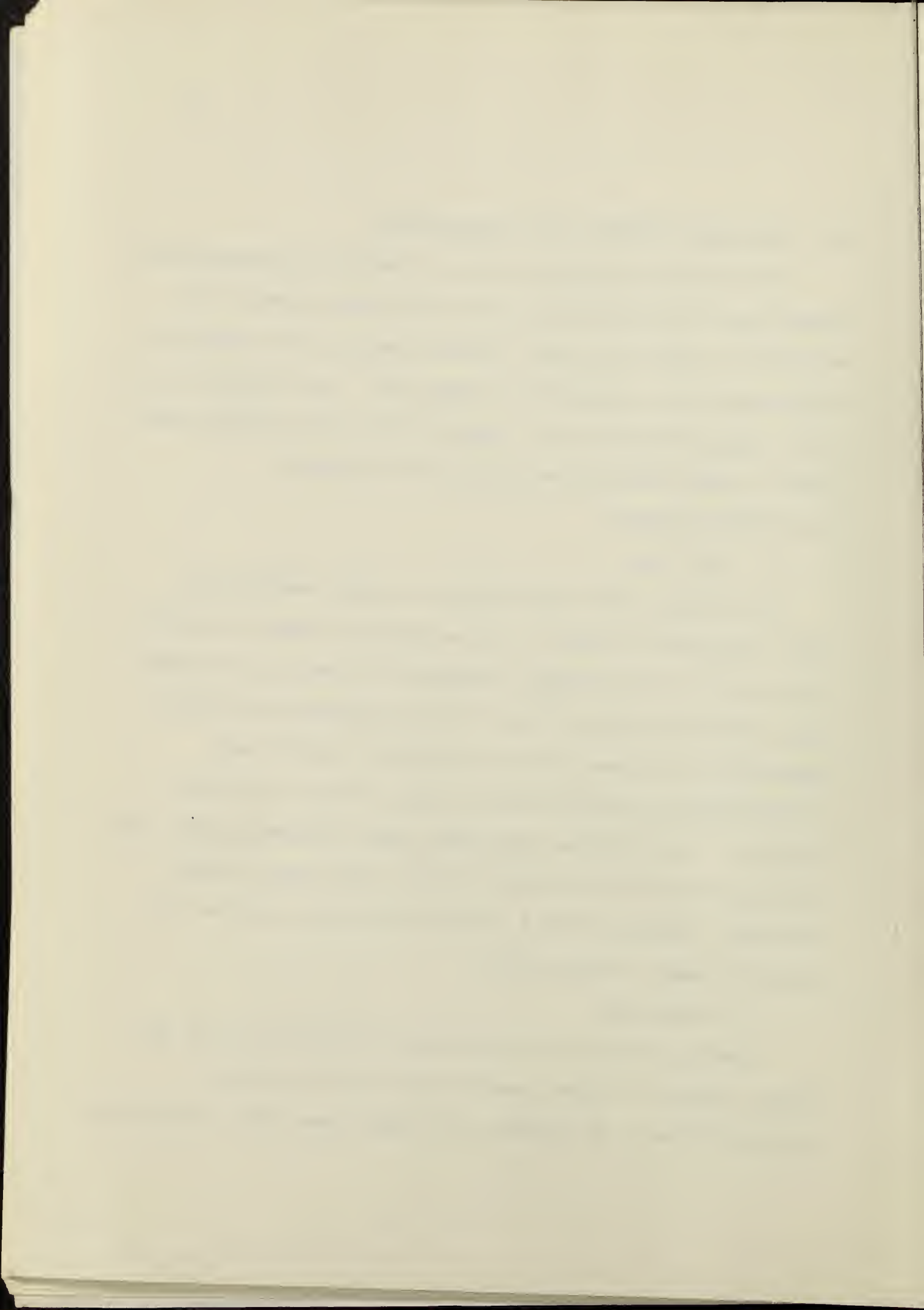
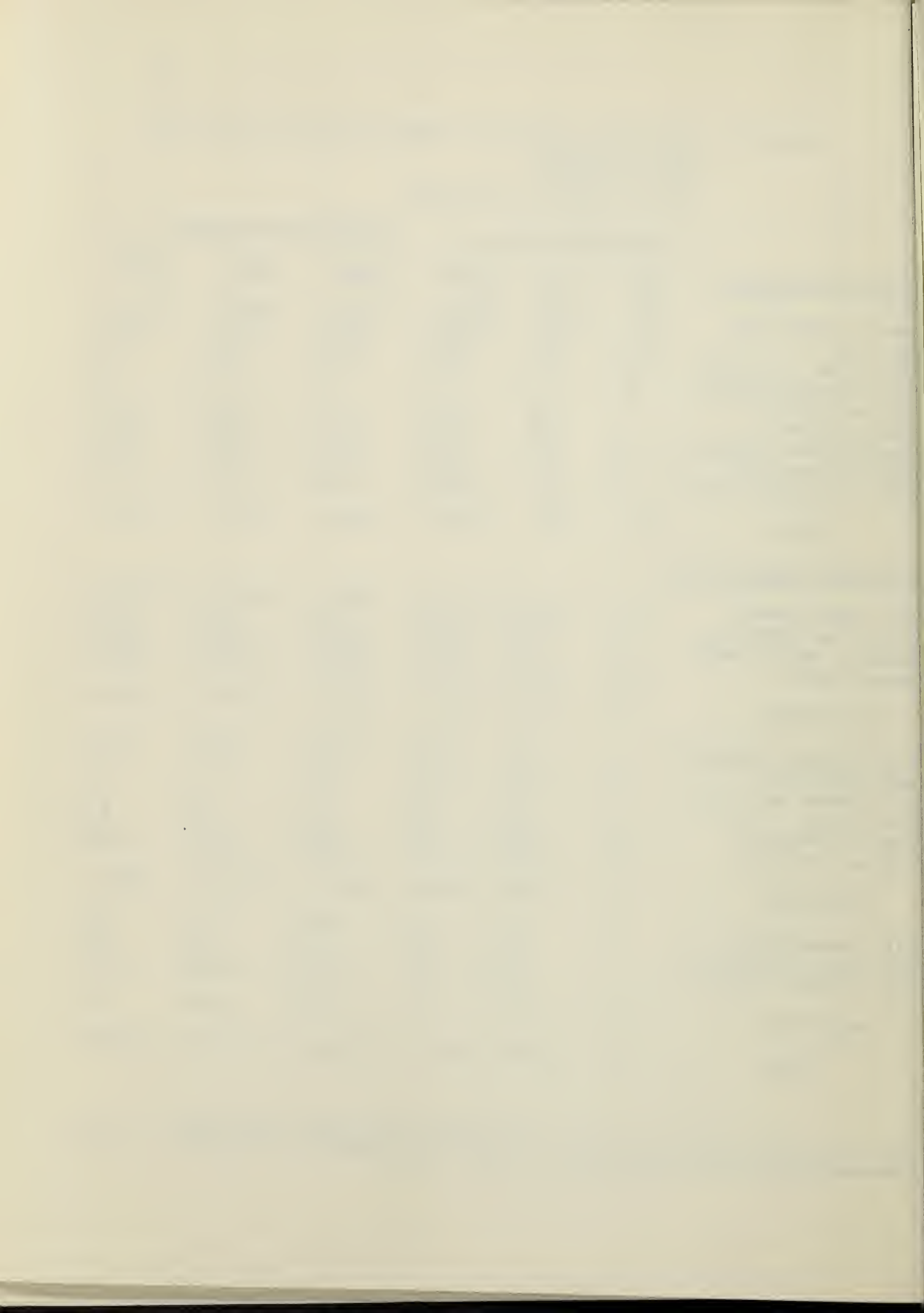


Table VI Estimated Operating Revenues and Expenditures
City of Boston
FY 1981-1986
(in millions of dollars)

| | <u>Actual Estimate</u> | | | <u>Projected Estimate</u> | | |
|-------------------------------|------------------------|----------------|----------------|---------------------------|----------------|-----------------|
| | <u>1981</u> | <u>1982</u> | <u>1983*</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> |
| <u>Estimated Revenues</u> | | | | | | |
| Property Tax Levy | \$519 | \$441 | \$374.6 | \$333.3 | \$359.2 | \$385.4 |
| State Aid | 200 | 224 | 278.1 | 302.7 | 333.1 | 363.5 |
| Federal Rev. Sharing | 22 | 22 | 18.9 | 19.0 | 19.0 | 19.2 |
| Motor Vehicle Excise | 15 | 5 | 7.5 | 7.5 | 8.0 | 8.5 |
| Fire Service Fee | -- | -- | -- | -- | -- | -- |
| Parking Fines | 7 | 14 | 25.0 | 27.5 | 28.6 | 29.7 |
| Departmental Receipts | 40 | 45 | 57.9 | 55.0 | 57.2 | 59.5 |
| Hospital Receipts | 75 | 87 | 96.5 | 107.5 | 115.0 | 123.0 |
| Other Available Funds | -- | -- | 24.0 | 5.0 | 5.0 | 5.0 |
| TOTAL | \$878 | \$838 | \$882.5 | \$857.5 | \$925.1 | \$993.8 |
| <u>Estimated Expenditures</u> | | | | | | |
| City Departments | \$269 | \$194.0 | \$293.0 | \$296.4 | \$325.9 | \$342.2 |
| County Departments | 14 | 11.3 | 17.0 | 17.8 | 19.2 | 20.2 |
| Health & Hosp. Dept. | 91 | 92.0 | 109.0 | 108.1 | 119.3 | 125.3 |
| School Dept. | 217 | 210.5 | 228.0 | 229.7 | 242.6 | 254.7 |
| Sub-TOTAL | 519 | 507.8 | 647.0 | \$652.0 | \$707.0 | \$742.4 |
| Contributory Pensions | 76 | 83.4 | 84.0 | 102.5 | 112.7 | 124.0 |
| Debt Service | 90 | 85.1 | 74.5 | 77.0 | 76.0 | 31.5 |
| Prior-Year Deficits | 25 | 31.5 | 42.0 | 37.0 | -- | -- |
| Tax Title | 1 | 1.2 | 2.0 | 1.0 | 1.0 | 1.0 |
| Overlay Deficit | 23 | 55.2 | 2.0 | 5.0 | 8.0 | 8.0 |
| Current Overlay | 25 | 24.0 | 19.0 | 18.8 | 20.1 | 21.2 |
| Sub-TOTAL | 240 | 280.4 | 223.5 | \$241.3 | \$222.8 | \$240.7 |
| MBTA Assessment | 41 | 43.5 | 39.8 | 40.8 | 41.8 | 42.8 |
| MDC Parks Assessment | 4 | 4.2 | 4.7 | 4.3 | 4.4 | 4.5 |
| Misc. State Assess. | 2 | 2.1 | 2.5 | 2.4 | 2.5 | 2.6 |
| Sub-TOTAL | 47 | 49.8 | 47.0 | 47.5 | 48.7 | 49.9 |
| TOTAL | \$878 | \$838.0 | \$917.5 | \$940.8 | \$973.5 | \$1028.0 |

*Revision of figures originally included in proforma Tax Rate Recapitulation Form submitted to State Department of Revenue, 6/3/83.



about \$400 million a year, providing \$160 million each year for the cities and towns. We further assume that Boston will continue to receive about 19% of total state aid. However, it should be recognized that this assumption will require new local aid formulas recognizing Boston's unique position among all cities and towns. Boston's share of the lottery formula is 13% and its share of Chapter 70 distributions is 11%. If state aid formulas are not revised and Boston's proportion of state aid is reduced to 13% of the statewide total, state aid for 1985 and 1986 would be lower by \$9 to \$10 million each year.

3. Federal Revenue Sharing

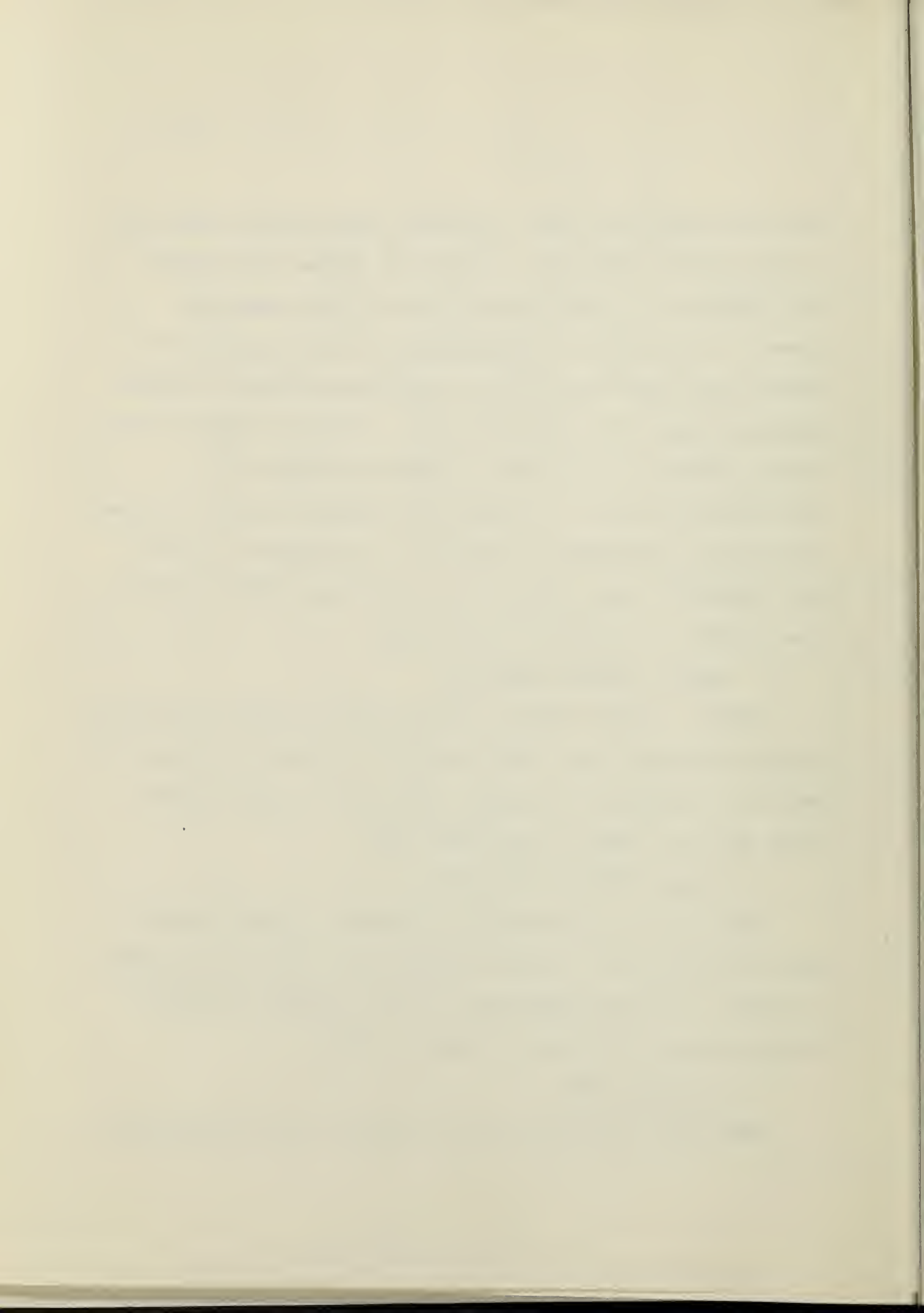
Federal revenue sharing allocations to Boston have been slightly reduced since 1982 because of the City's population decline. We expect the annual distribution over the next three years to remain relatively flat.

4. Motor Vehicle Excise Tax

The City will experience some growth in this revenue source as new motor vehicles replace older vehicles garaged in Boston. We are projecting a modest increase of half a million dollars per year in 1985 and 1986.

5. Parking Fines

With the introduction of the Parking Violations Bureau



and more aggressive enforcement of parking ticket collections, the City has increased its yield from parking fines by four-fold. We estimate less explosive future growth of this revenue source at 4% per year.

6. Departmental Receipts

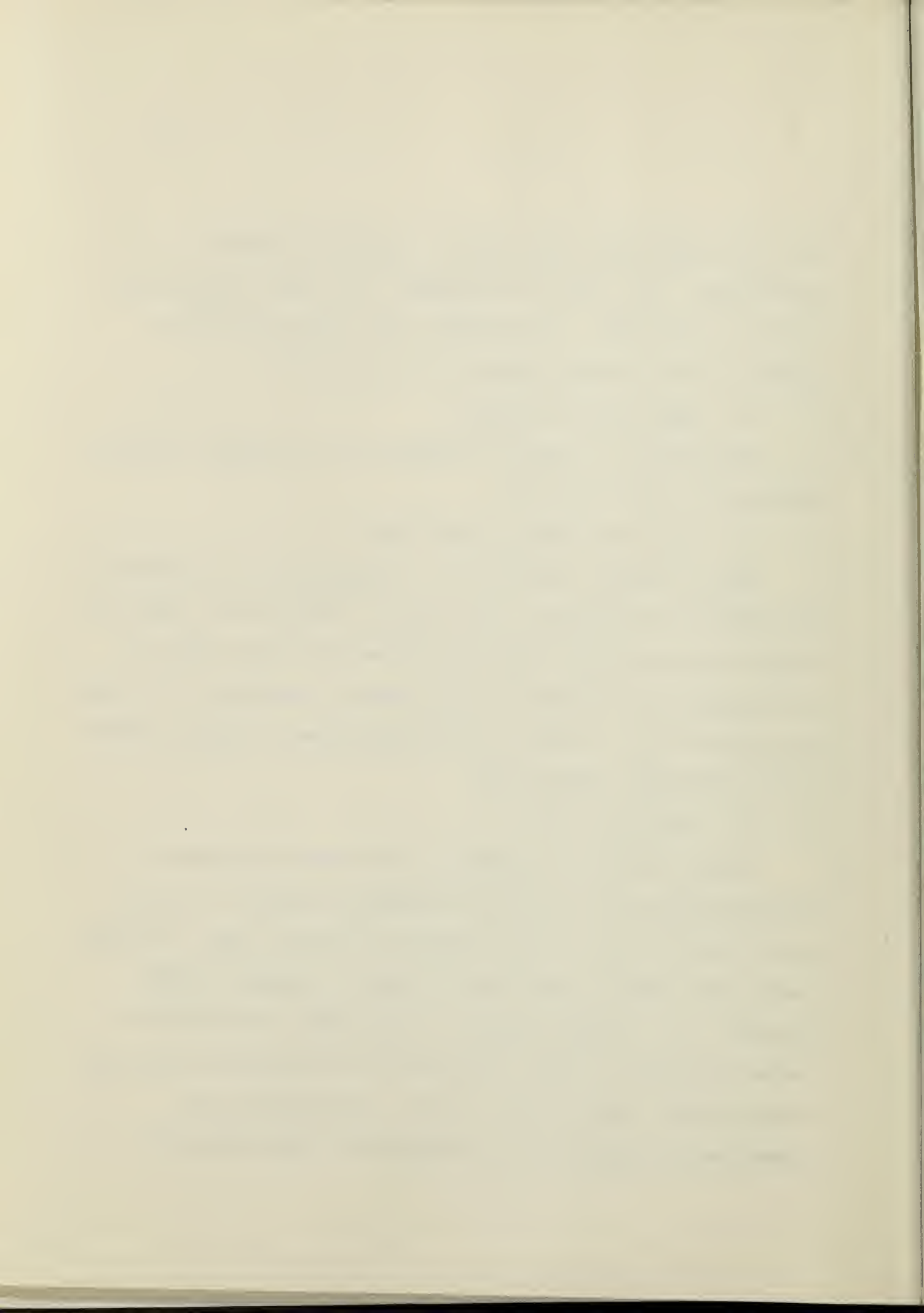
We estimate an annual increase of 4% in these revenues during the 1985-86 period.

7. Health and Hospital Receipts

Since hospital receipts are established by the State's Rate Setting Commission, prior actual receipts for 1983 are used as the basis for the 1984 estimate and the 1985 and 1986 projections reflect average annual increases of 7% over the prior year, in view of new reimbursement formulas under cost containment legislation.

8. Available Funds

These are funds available from unspent departmental appropriations (so-called unencumbered balances) of prior years and from unallocated balances of prior years in fixed cost items, such as the overlay deficit account or debt service. For example, Table VI shows that \$24 million in "other available funds" was used as an estimated revenue for fiscal 1983. Most of this was an accumulation of unencumbered appropriation balances for 1982 and prior



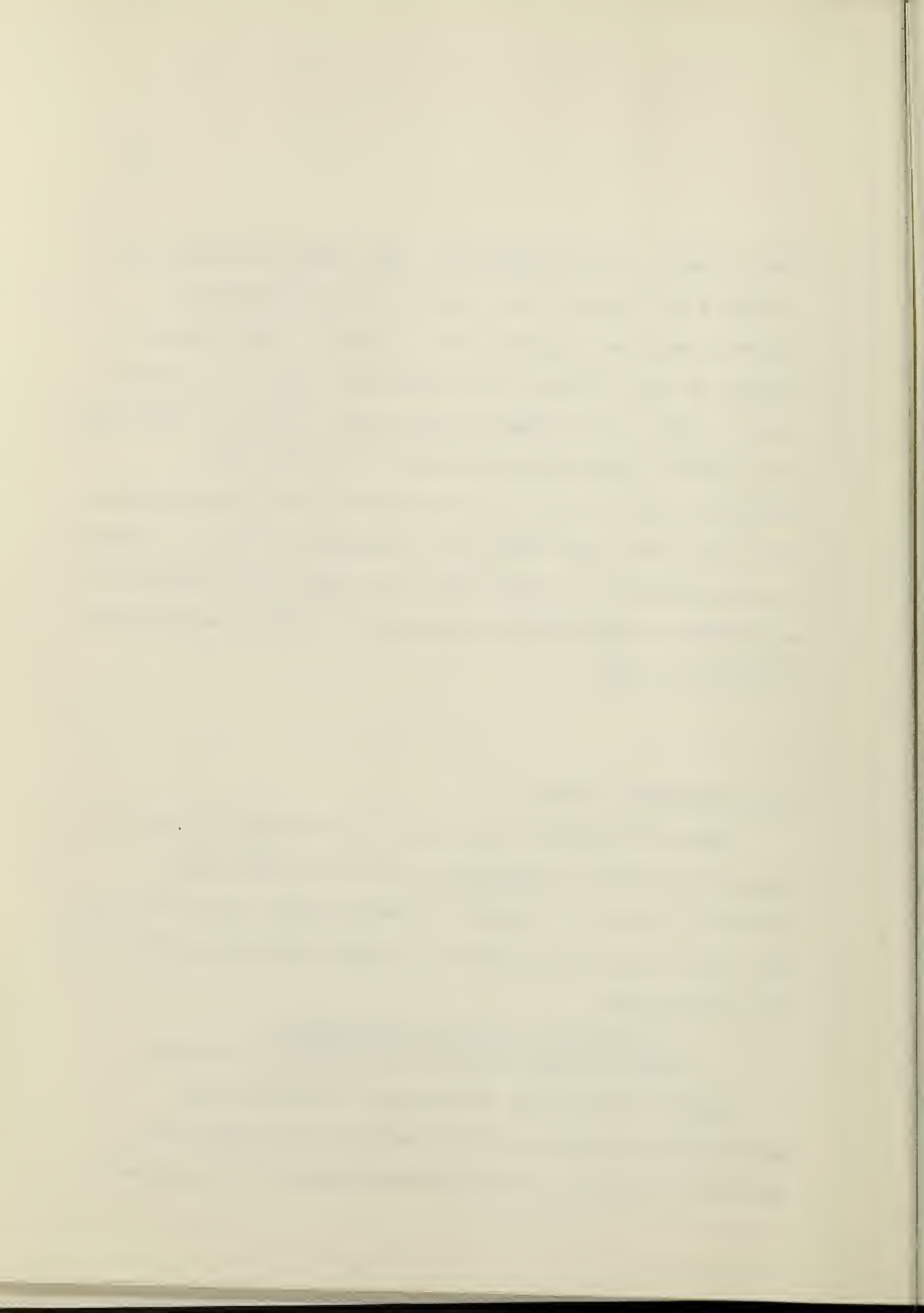
fiscal years. As of August 30, 1983, these balances had reached \$25.7 million as a result of cancellation of unneeded reserves compared with a negative appropriation balance of \$8.5 million as of June 23rd when unliquidated reserved for encumbrances totaled \$48.8 million. Since the City Auditor tightened up policies on establishing encumbrance reserves for carry-over of 1983 appropriations into 1984 and a more effective encumbrance system is likely to be maintained, we anticipate far lower accumulations of unencumbered appropriation balances in 1984-86 estimated at \$5 million a year.

THE EXPENDITURE SUMMARY

Table VI presents the detail for the major items of Boston's estimated expenditures in each fiscal year, 1981-86. Below is a summary of anticipated trends over the next three years with emphasis on the assumptions underlying the projections.

1. Departmental Operation/Maintenance
(City, County, Health and Hospitals, School)

Appropriations for departmental operation and maintenance in fiscal 1984 are expected to total \$652 million, an increase of only seven-tenths of one percent

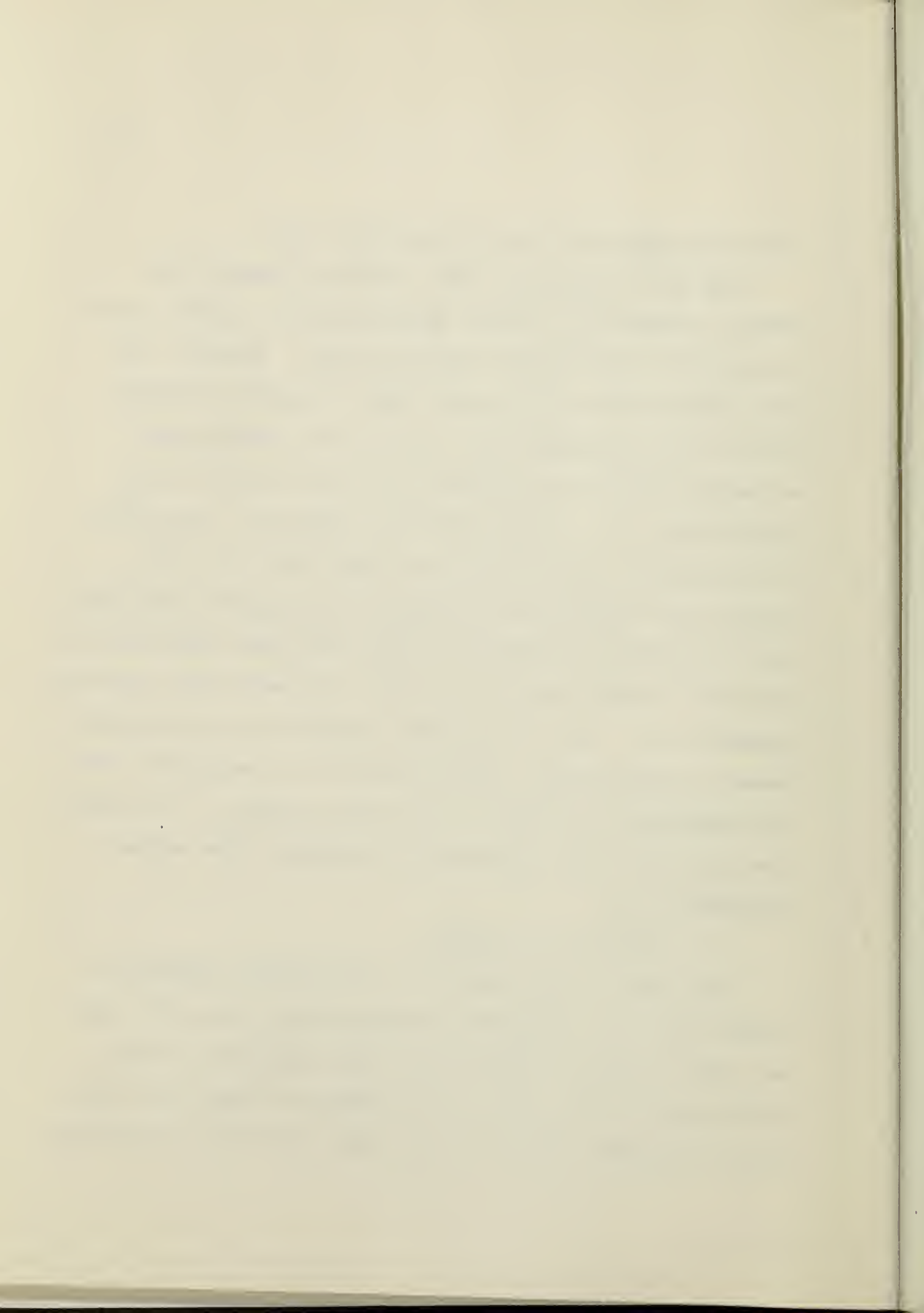


over total appropriations for the prior year.

The 1984 figures for City, County and Health and Hospital Departments include appropriations already enacted and approved supplementary appropriations. However, the 1984 estimates do not cover the cost of salary increases likely to be negotiated over the next few months under collective bargaining agreements with the several unions representing City, County and School Department employees. In calculating the estimates for fiscal 1985, the 1984 figures were adjusted to include the anticipated annualized cost of collective bargaining salary increases negotiated in the prior fiscal year and to further increase these modified numbers by 5%. The 5% adjustment is based on the projected impact on departmental appropriations of an estimated index for government purchases of goods and services. For fiscal 1986 the prior year appropriation estimates also reflect increases of 5%.

2. Contributory Pensions

The City's requirements for contributory pensions in fiscal 1984 will increase by about 22% over the prior year, but this was due to deferral of a 10% increase in fiscal 1983 over the prior year at the request of state officials. Thus we estimate that for fiscal 1985 and 1986, contributory



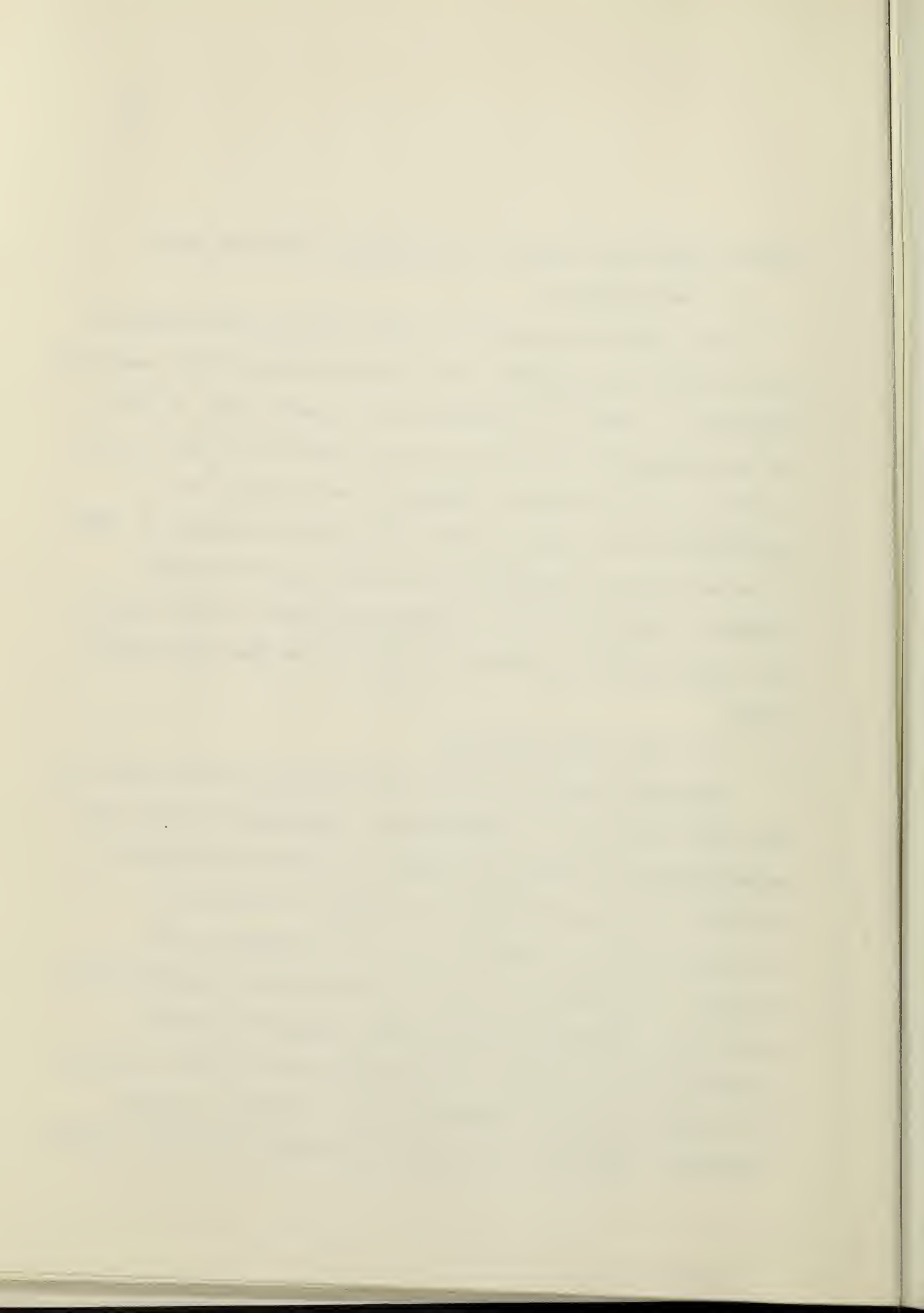
pension costs will grow by an average of 10% per year.

3. Debt Service

The projected estimates for debt service are based on the following assumptions: (a) the \$30 million bond issue of September 1, 1983 at an average net interest cost of 10%; (b) an anticipated bond issue of \$30 million in the Spring of 1984 at an average net interest cost of 10%; (c) an anticipated bond issue of \$60 million in the Spring of 1985 at an average net interest cost of 9%; and (d) higher interest charges on tax anticipation notes in 1984, which will decline to \$3 million in each of the next two fiscal years.

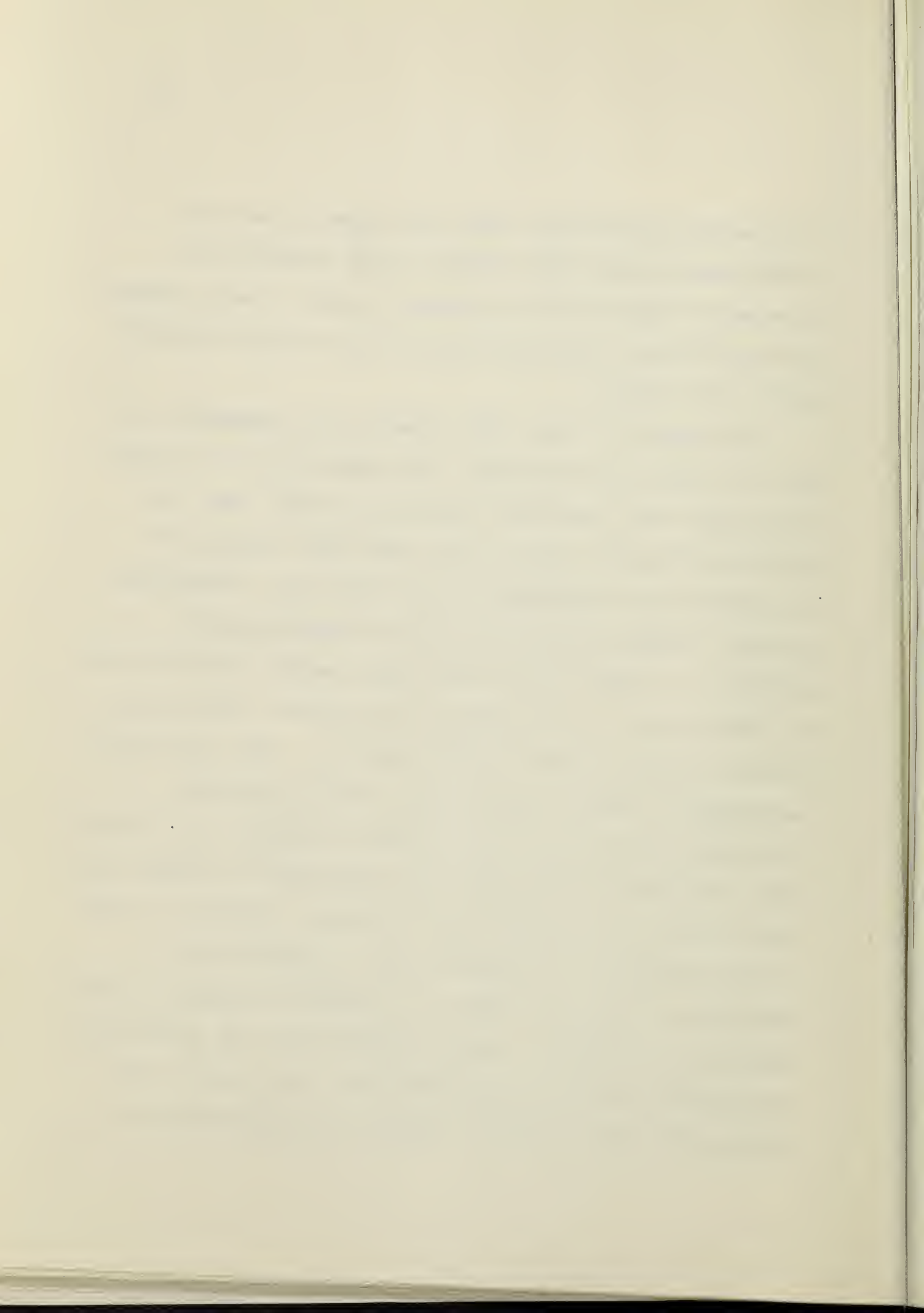
4. Prior Year Deficits

Revised figures on prior year deficits to be raised in the 1984 tax rate--for departmental spending in excess of appropriations, operating revenue shortfalls and overlay deficits covering property tax refunds in excess of available overlay reserves--are now estimated at \$37 million. Calculation of this net deficiency includes \$16.3 million for appropriation deficits (expenditures and encumbrances in excess of appropriations) and \$37.3 million for revenue deficits (expenditures in excess of actual revenues). However, the overall deficiency of \$53.6 million



in revenues and available funds over expenditures and encumbrances is partially offset by the allocation of unencumbered appropriation balances of prior years, thereby reducing the net operating deficit to be raised in fiscal 1984 to \$37 million.

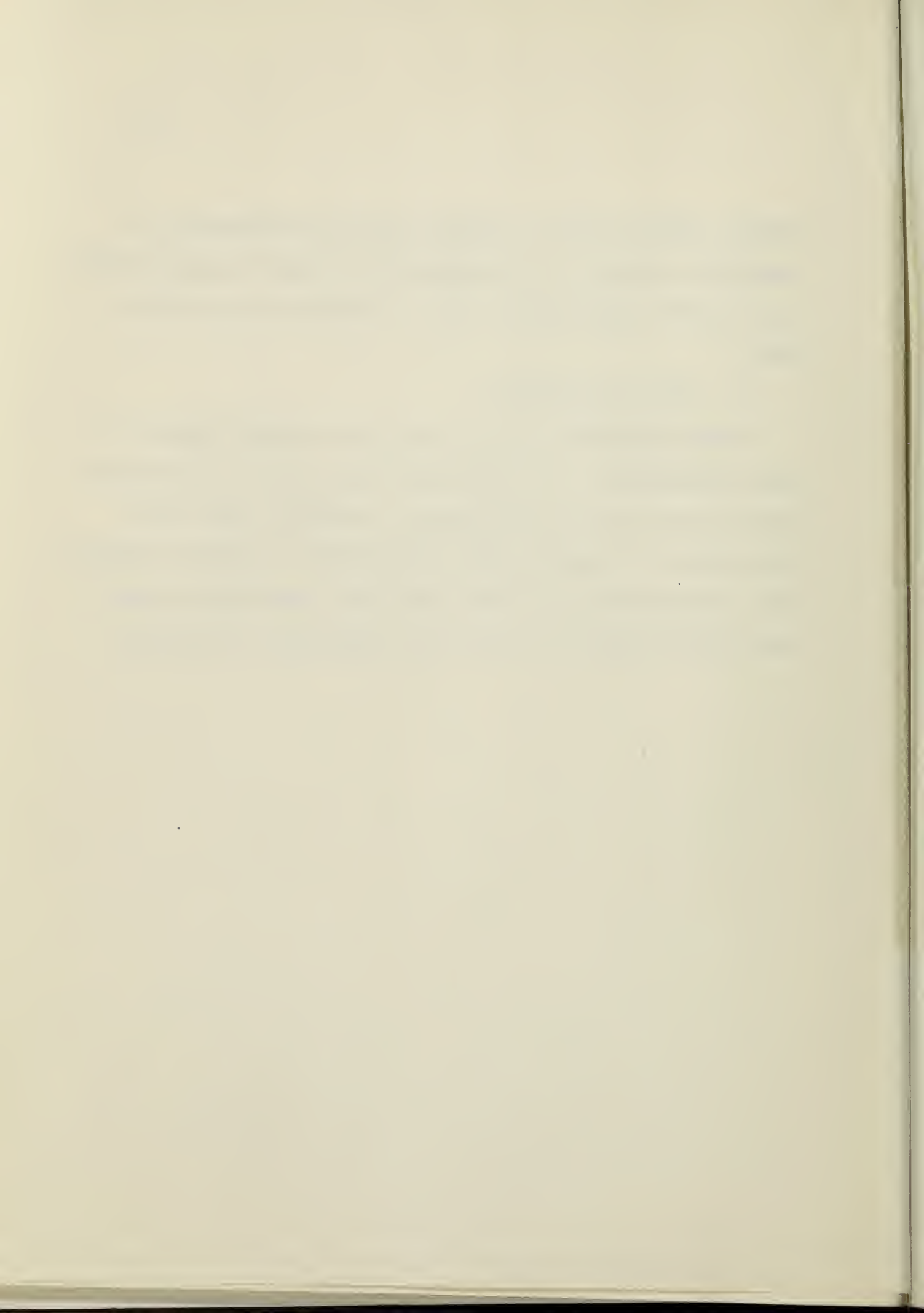
For fiscal 1985 and 1986, however, our assumption is that the financial mechanisms inaugurated under the Tregor legislation will have been institutionalized, that more effective internal controls will have been installed in accordance with recommendations of the City's independent auditors, thereby ending the cycle of appropriation deficits. In addition we assume that revenue estimates will be realistic and in accordance with statutory requirements, thereby averting future revenue deficits. Thus the deficit estimates for 1984-86 include only overlay deficits, estimated at \$5 million for 1984 and \$8 million for 1985 and 1986, reflecting anticipated large abatements on appeal from public utility assessments and the higher proportion of the overlay absorbed by so-called clause exemptions for abatements to certain classes of taxpayers (elderly, widows, veterans and indigent). With completion of the revaluation establishing realistic assessments and provisions of the Funding Loan Act designed to reduce the accumulation of



overlay deficits due to disproportionate assessments of commercial property, our assumption is that overlay deficits will not be a significant issue in the next three fiscal years.

5. State Assessments

Since Proposition 2 1/2 limits the annual increase in state assessments to 2 1/2% of the prior year's assessment, this was used as the guideline for estimating MBTA, MDC Parks and miscellaneous state assessments in fiscal 1985 and 1986. Assessments for fiscal 1984 were specified in this year's Cherry Sheet from the State Department of Revenue.



V BOSTON'S MISMATCH BETWEEN EXPENDITURES AND REVENUES

Our summary calculations for Boston's estimated expenditures are reproduced in Table VII along with our operating revenue estimates for each of the next three fiscal years. For fiscal 1984, a potential operating gap of \$83 million is averted through the extensive use of one time, non-recurring revenues and unused funds in the 1982 overlay deficit account for achieving tax rate balance and for reducing the prior year deficit to be raised in 1984. However, the 1984 figures exclude the cost of negotiated collective bargaining increases that could exceed \$25 million on an annualized basis. For the 1985 fiscal year the gap between operating revenues and expenditures is estimated at about \$48 million; for fiscal 1986, the projected gap will be about \$34 million.

For fiscal 1985 and 1986, our figures assume that Boston will not incur similar prior-year deficits that must be raised in these years. If the next Administration fails to curb, and finally end, prospective overruns of appropriations and shortfalls of revenues, however, a fiscal 1984 deficit will occur that will have to be raised in fiscal 1985, thereby exacerbating the operating gap projection.

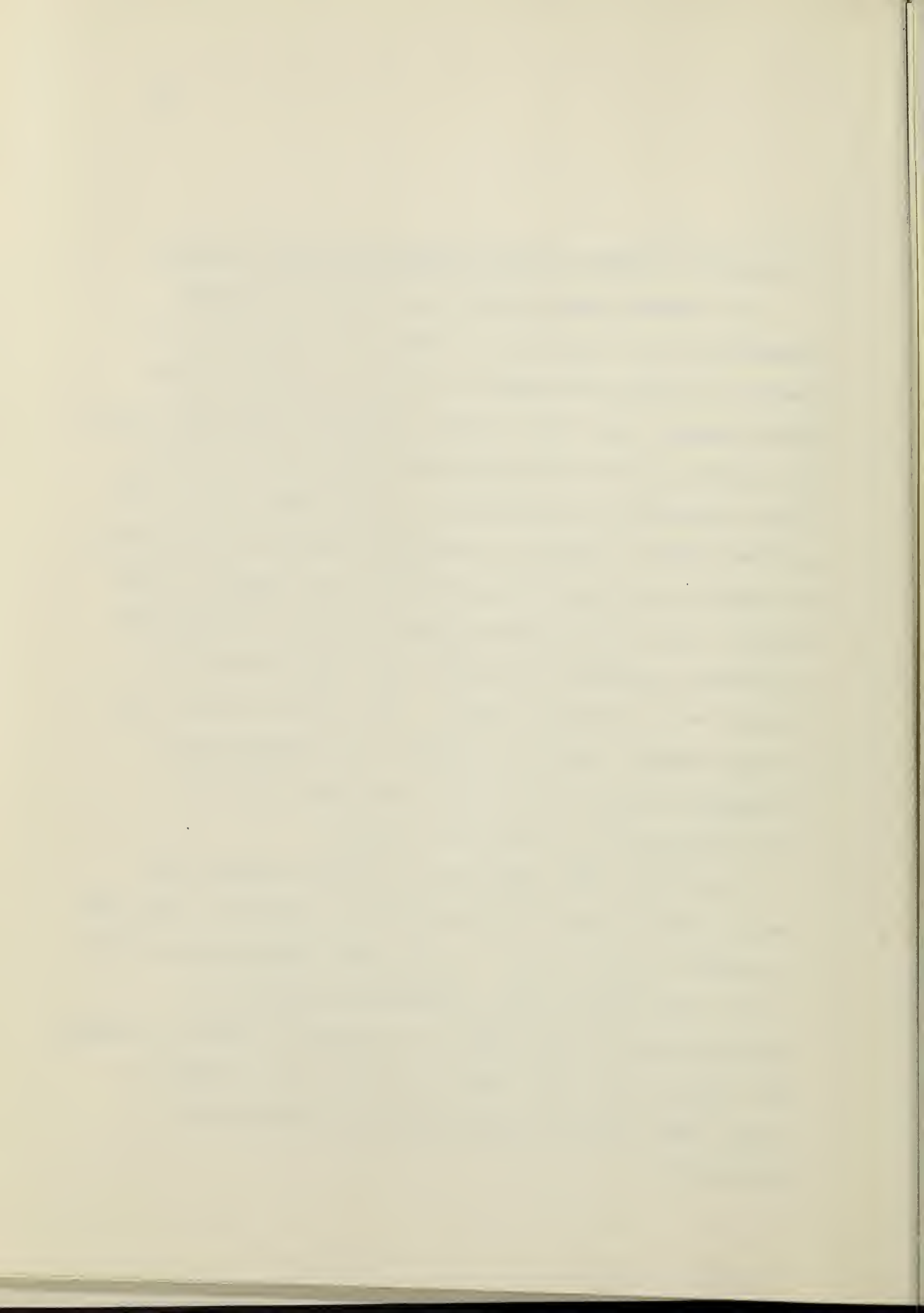
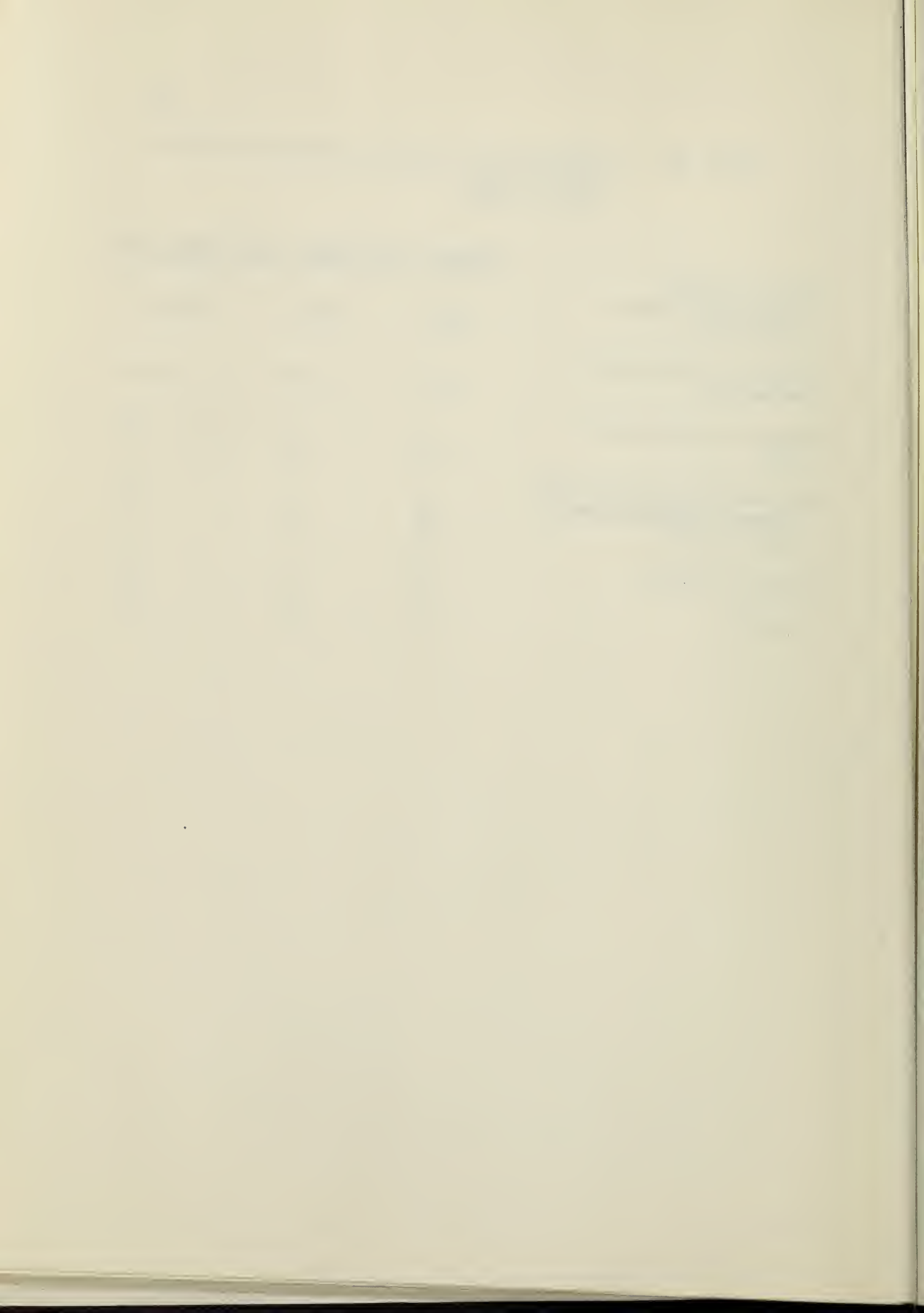
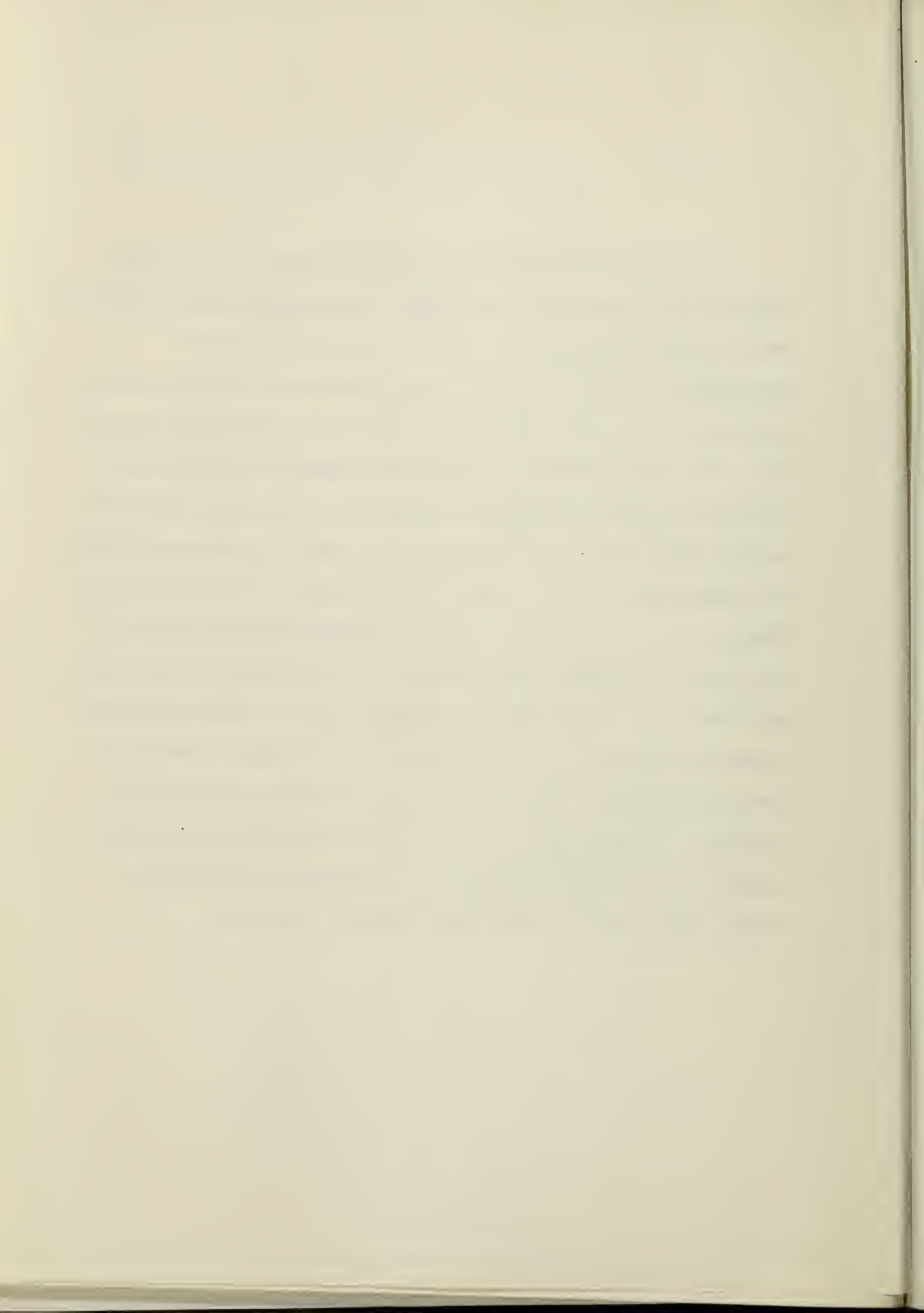


Table VII Estimates of Potential Operating Gaps
1984 to 1986
(in millions)

| | <u>Fiscal '84</u> | <u>Fiscal '85</u> | <u>Fiscal '86</u> |
|--|-------------------|-------------------|-------------------|
| To be raised (Estimated Appropriations) | \$941 | \$973 | \$1,028 |
| Estimated Operating Revenues | 858 | 925 | 994 |
| Potential Operating Gap | 83 | 48 | 34 |
| Non-Recurring Revenues: | | | |
| Tregor Reimbursements | 17 | -- | -- |
| DAF Surplus | 34 | -- | -- |
| Sale of Assets | 32 | -- | -- |
| Deficit | -- | 48 | 34 |



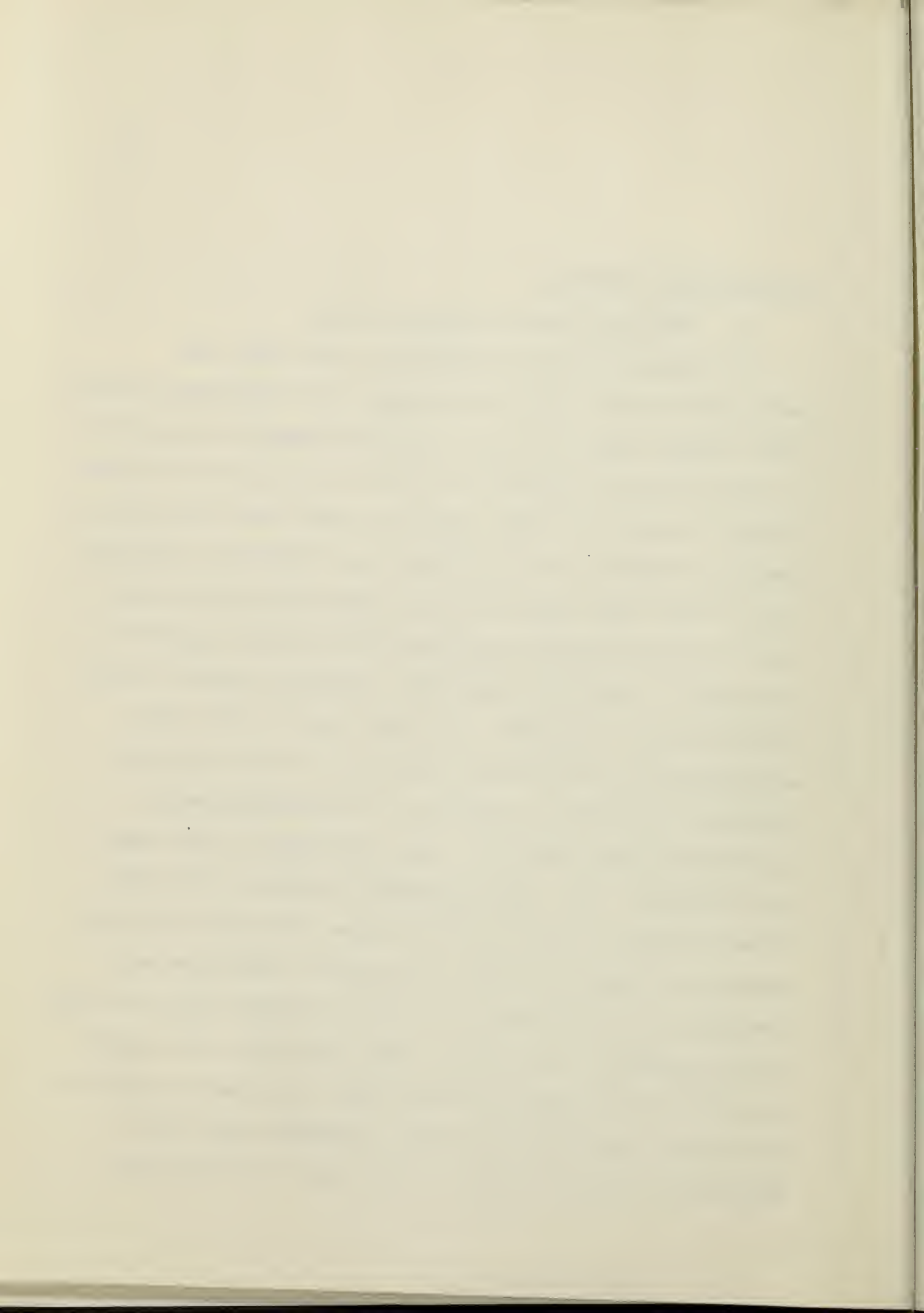
Although sizable annual operating gaps loom on the horizon for fiscal 1985 and 1986, the prospects for covering the potential deficit in 1984 are quite favorable. Available to the City are several non-recurring sources of revenue: 1) the surplus in the Disproportionate Assessment Fund, 2) reimbursement of the City's General Fund for tax refunds in disproportionate assessment cases that could be legally charged to the Funding Loan, and 3) excess proceeds from the sale of City assets. Funds from these sources are adequate to cover the incipient operating gap for 1984 if the salary increases anticipated from collective bargaining negotiations are excluded. However, use of these one-time revenue sources are akin to selling the "family jewels" in order to maintain a lifestyle that current income cannot sustain. At some point in time the day of reckoning will arrive and prospective expenditure-revenue gaps can no longer be filled by "one shot" revenue devices.



NON-RECURRING REVENUES

1. Disproportionate Assessment Fund

The Disproportionate Assessment Fund (DAF) was established by the City in accordance with provisions of the 1982 Funding Loan Act. This authorized Boston to borrow up to \$45 million to finance a portion of the City's so-called "Tregor" liability. This liability arose from a decision of the State Supreme Court in "Tregor vs. Assessors of Boston" (1979) which held that the City's assessing practices had led to disproportionate assessments on certain properties, principally commercial properties, thereby violating state constitutional standards. Proceeds from the bond sale, supplemented by proceeds from the sale of Hynes Veterans Auditorium (convention facility) to the Massachusetts Convention Center Authority, were deposited in this Fund. As of June 30, 1983, any unexpended balances in the Fund after the City's General Fund had been reimbursed for prior payments of disproportionate assessment liabilities were available for use by the City without appropriation for debt service payments in the next fiscal year under the Funding Loan and for debt service on any other City incurred debt in such year. The Disproportionate Assessment Board has determined that the surplus in the Fund is \$34 million.



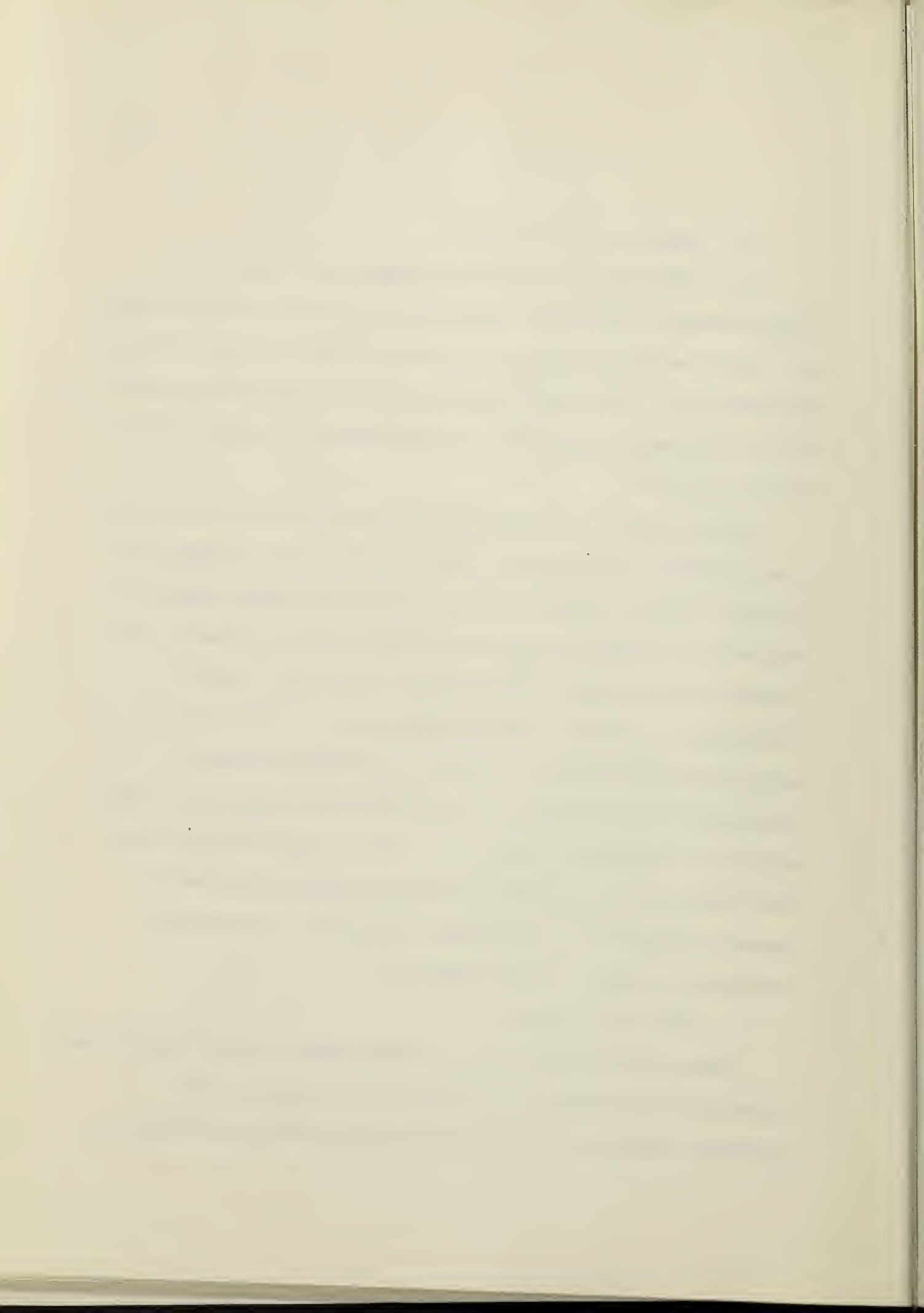
2. Tregor Reimbursements

City officials currently estimate that aggregate disbursements for Tregor liabilities will total \$95 million for the five years ending with fiscal 1984. (City Official Statement, P. 20) This compares with an original estimate of tax abatement liability recorded as of June 30, 1982 at \$143.4 million.

Reimbursements of the City's General Fund from Tregor loan proceeds, estimated at \$17 million, are designed to recover 1980-81 school deficits caused by court mandated payment of executed collective bargaining agreements and raised in the fiscal 1982 property tax levy. Funds available for Tregor reimbursements are in the form of unallocated balances in the overlay deficit account established in the 1982 tax rate that was originally \$55.2 million. In effect, therefore, most of the Funding Loan bond issue is being used in 1984 to cover prior-year operating deficits, reflecting a one-time practice of borrowing to meet current expenses.

3. Sale of Assets

Other provisions of the Funding Act of 1982 liberalized existing law governing the disposal of surplus City property, including off-street parking structures owned by



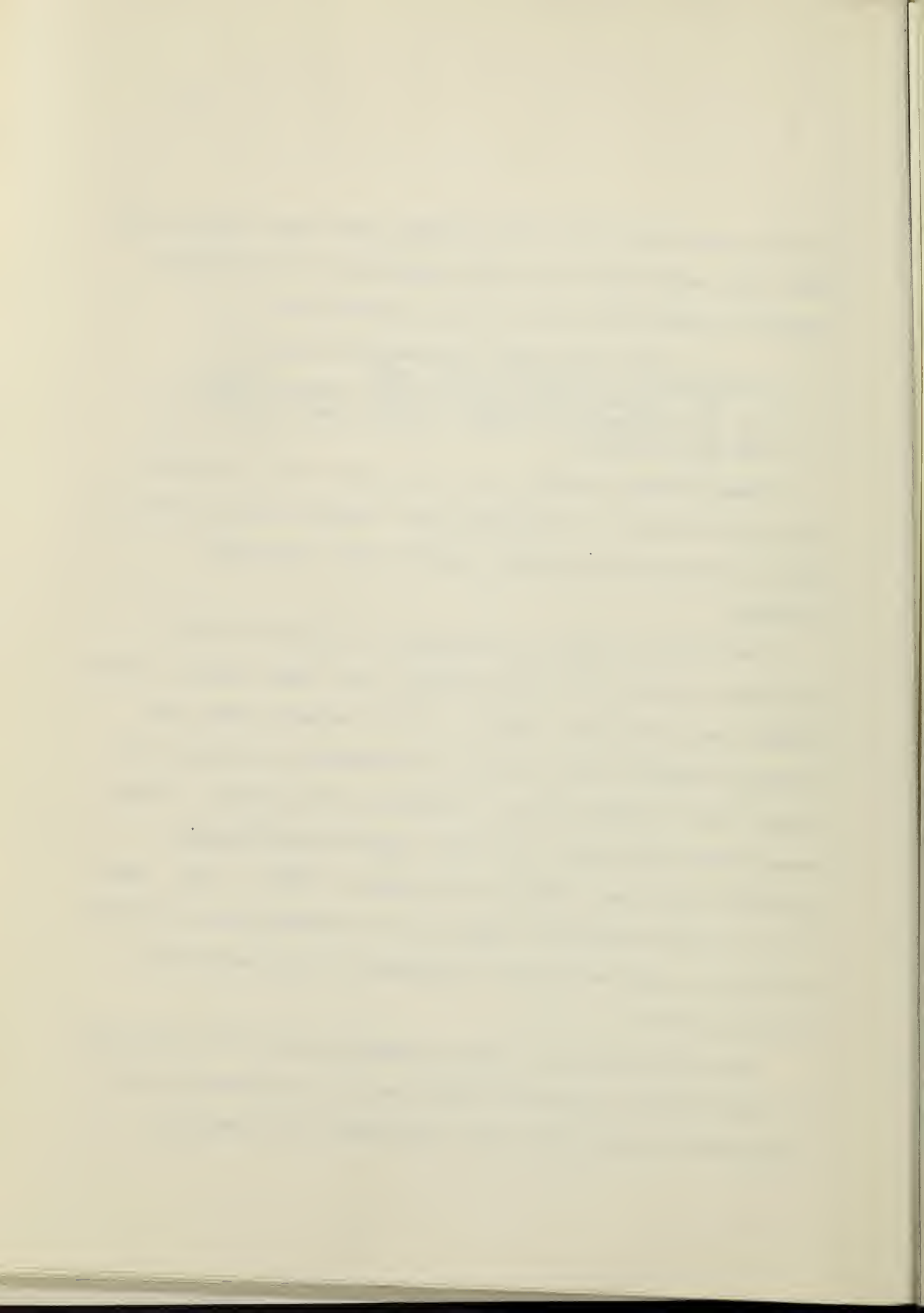
the City, and the use of the proceeds from such disposition. Funds from such sales are to be deposited in the Surplus Property Disposition Fund and are available to:

- a. Cover all debt and interest paid and outstanding on such property, and
- b. Be credited to the City's General Fund for all proceeds in excess of such debt service on the sold property.

These excess amounts are "to be used only to service the cost of debt as it becomes due", the practical effect of which is to make such funds available for operating purposes.

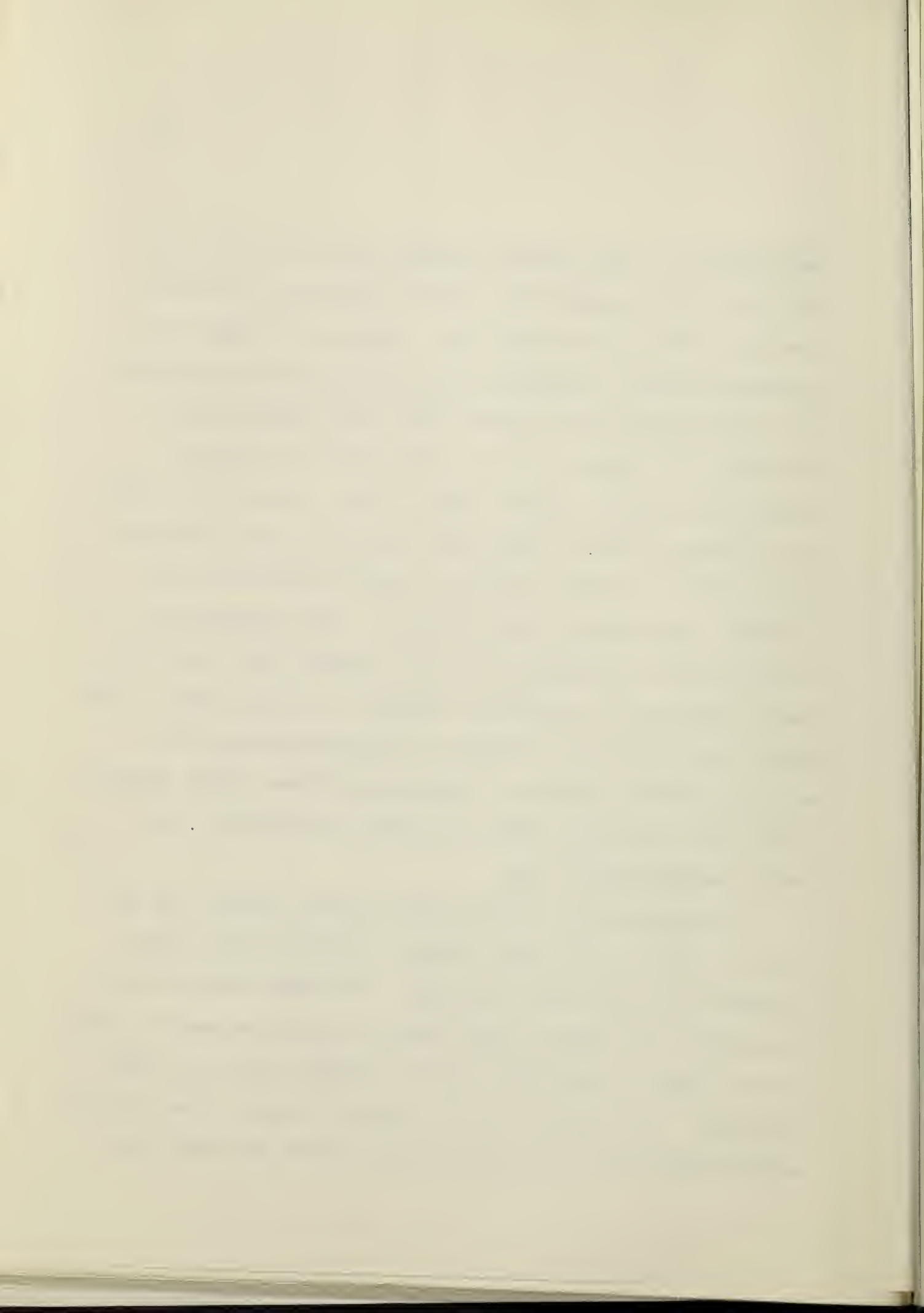
The City has begun proceedings to dispose of four municipal garages--Fort Hill Square, St. James Avenue, Kilby Street, and Government Center. It is expected that the revenues derived from the sale of these four parcels will range from a total of \$36.9 million to \$59 million. "The amounts may vary given the final approved development programs and final offers to the City." (BRA, P. 11). The Mayor recently announced approval of a sales price of \$20.5 million for the development proposal for the Government Center garage.

The first claim on these proceeds is the \$17.5 million in incurred and outstanding debt service on these garages, which must be allocated under existing law to capital



improvements. This leaves a balance of \$19.4 million to \$41.5 million available for credit to the City's General Fund for debt service reduction. However, the Mayor has announced plans to allocate \$15-34 million for an addition and rehabilitation of the two Latin High schools and "a minimum of \$5 million will be dedicated to the Boston Housing Development Trust." (BRA, P.11). If the Mayor did not allocate funds to these two capital purposes, between \$19.4 million and \$41.5 million would be available for bridging the potential 1984 deficit. (This assumes, of course, that the proceeds from the "garage sale" will be fully available as estimated revenues in fiscal 1984.) The Mayor has tentatively decided to allocate between \$15 million and \$20 million to operating purposes (debt service reduction) for fiscal 1984 as compared with double the amount authorized by law.

One alternative that the Mayor might consider is to borrow funds for the Latin schools instead of using the proceeds from the sale of garages. The debt service would be eligible for state reimbursement ranging between 75% and 90% and free up the funds from the assets sales for other purposes. (On September 28th, the City Council gave initial authorization for a \$35 million bond issue for Latin High



Schools addition and renovation.)

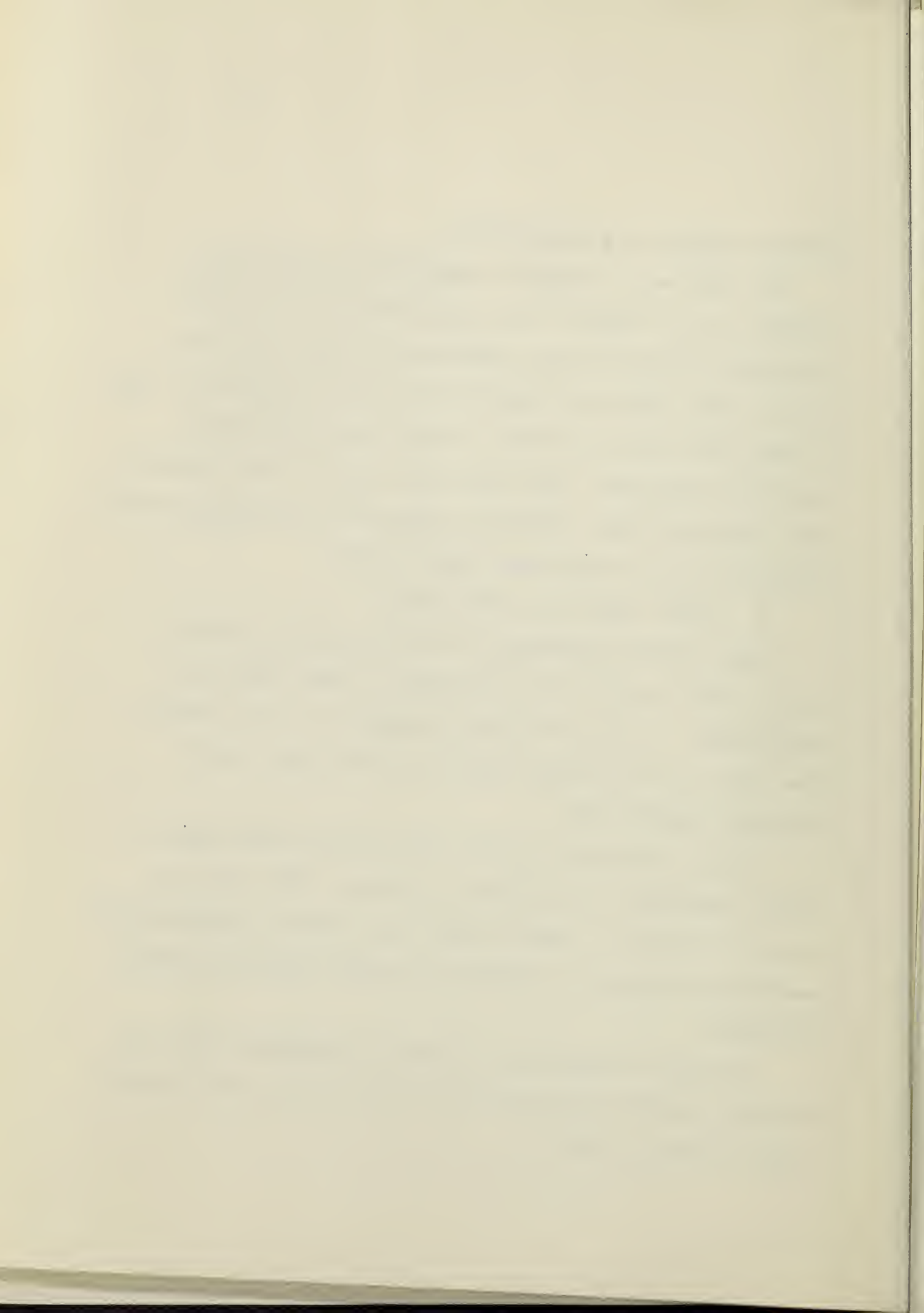
The City will be able to reallocate to operating purposes, as it sees fit, an accumulation of so called unencumbered appropriation balances from 1982 and prior fiscal years, currently estimated at over \$25 million. Most of this will likely be used to reduce the fiscal 1983 operating deficiency, the remainder going to 1983 deferred wage increases under collective bargaining arrangements with the Boston Police Patrolman's Association.

4. Fiscal 1985 and 1986 Deficits

The relative dimensions of the operating gaps for fiscal 1985 and 1986 are predicated on three important assumptions. If any of these assumptions do not prevail, the size of the operating deficit in each year could increase considerably.

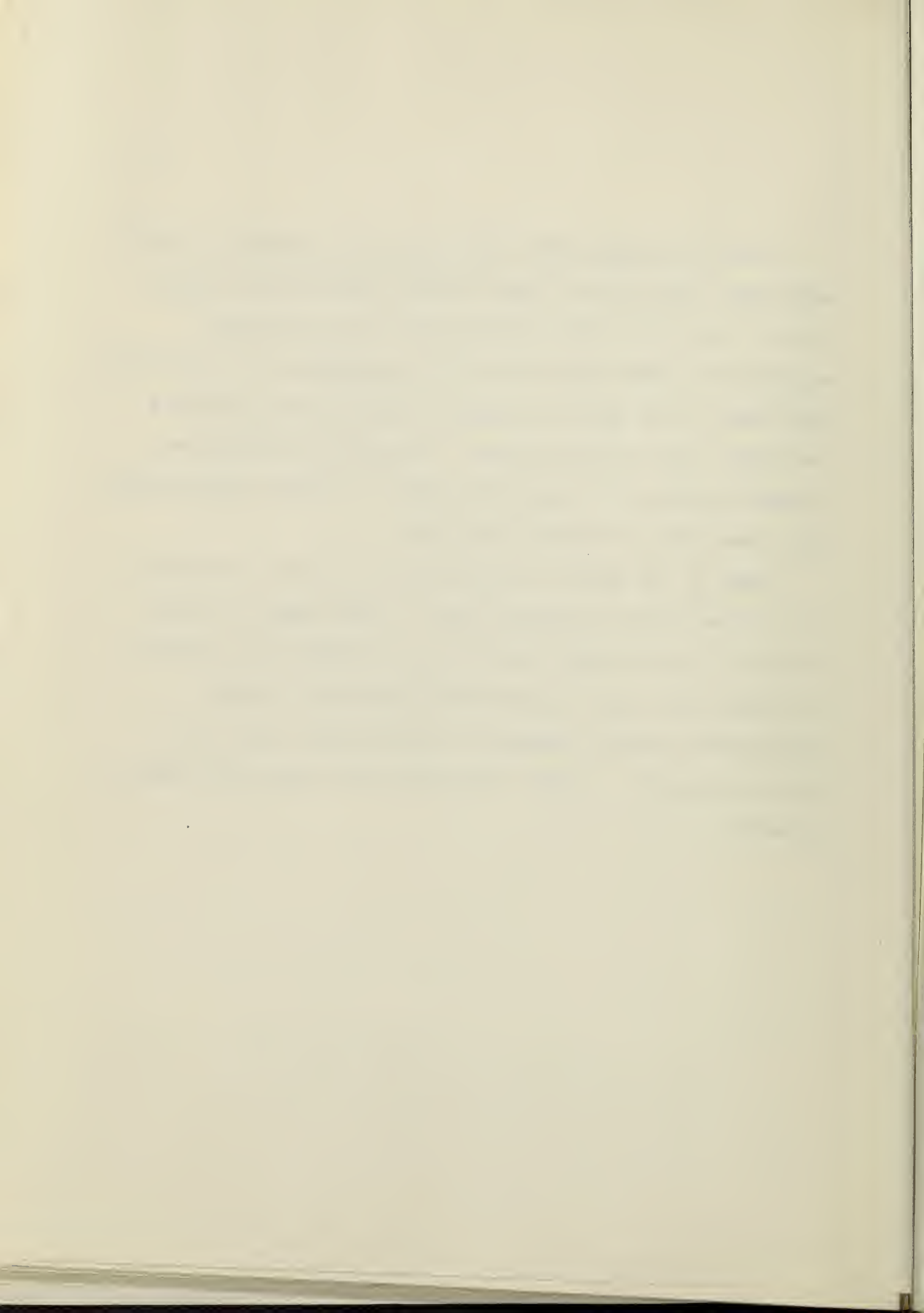
First, we assume the City will maintain the kind of fiscal management discipline in 1984 and 1985 that will require agencies to spend within the limits of appropriated amounts and financial officers to adopt realistic revenue estimates.

Second, we assume that economic development and the derived assessed valuations will grow at the rate of about \$600 million per year.



Third, we assume that the state will continue to fund additional local aid at least at the \$160 million annual level. There are some rumblings that such continued expansion of local aid will not be acceptable to legislators next year in the face of competing demands for available resources. On the other hand, a recovering economy may increase state tax collections beyond original expectations. This issue bears constant attention.

Even if the points of optimism are correct, the City still faces annual operating gaps in the range of \$34-48 million. How can these deficits be avoided? The choices are budget cuts and increased efficiencies, service eliminations and/or transfers to the state, and/or new revenue sources. In the next section we review the menu of options.

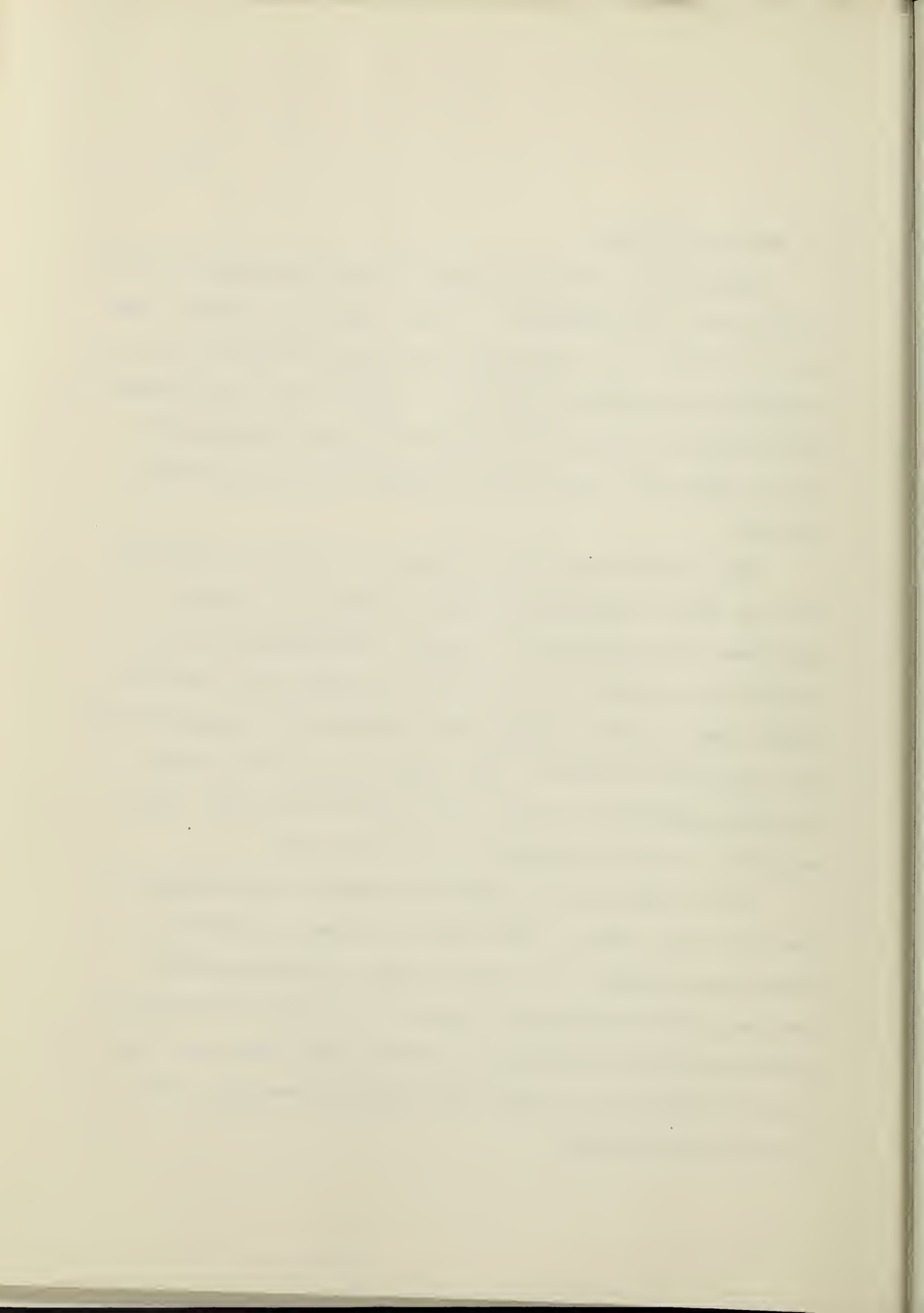


VI MENU OF OPTIONS

The menu of options available to City officials can be divided into two categories. First, there are options over which elected City officials have primary control, which we categorize as Self-Help options. Second, there are options which require legislative and Gubernatorial initiatives and/or approvals, which can be categorized as State-Help options.

Most of the Self-Help options can be used in the near term to avert operating deficits. Except for cutting services and expenditures, however, these options do not address the systemic or structural problems that result in annual gaps between steady state revenues and appropriations for the City of Boston. More importantly, each of the Self-Help options are one-time choices which will, once executed, not be available for recurring use.

On the other hand, State-Help options will respond to the built-in, longer range fiscal problems of the City. These alternatives can provide growth oriented revenue sources which not only will assist in easing the potential operating deficit problems of future years, but also have enough elasticity to make revenue margins available for future program needs.



SELF-HELP OPTIONS

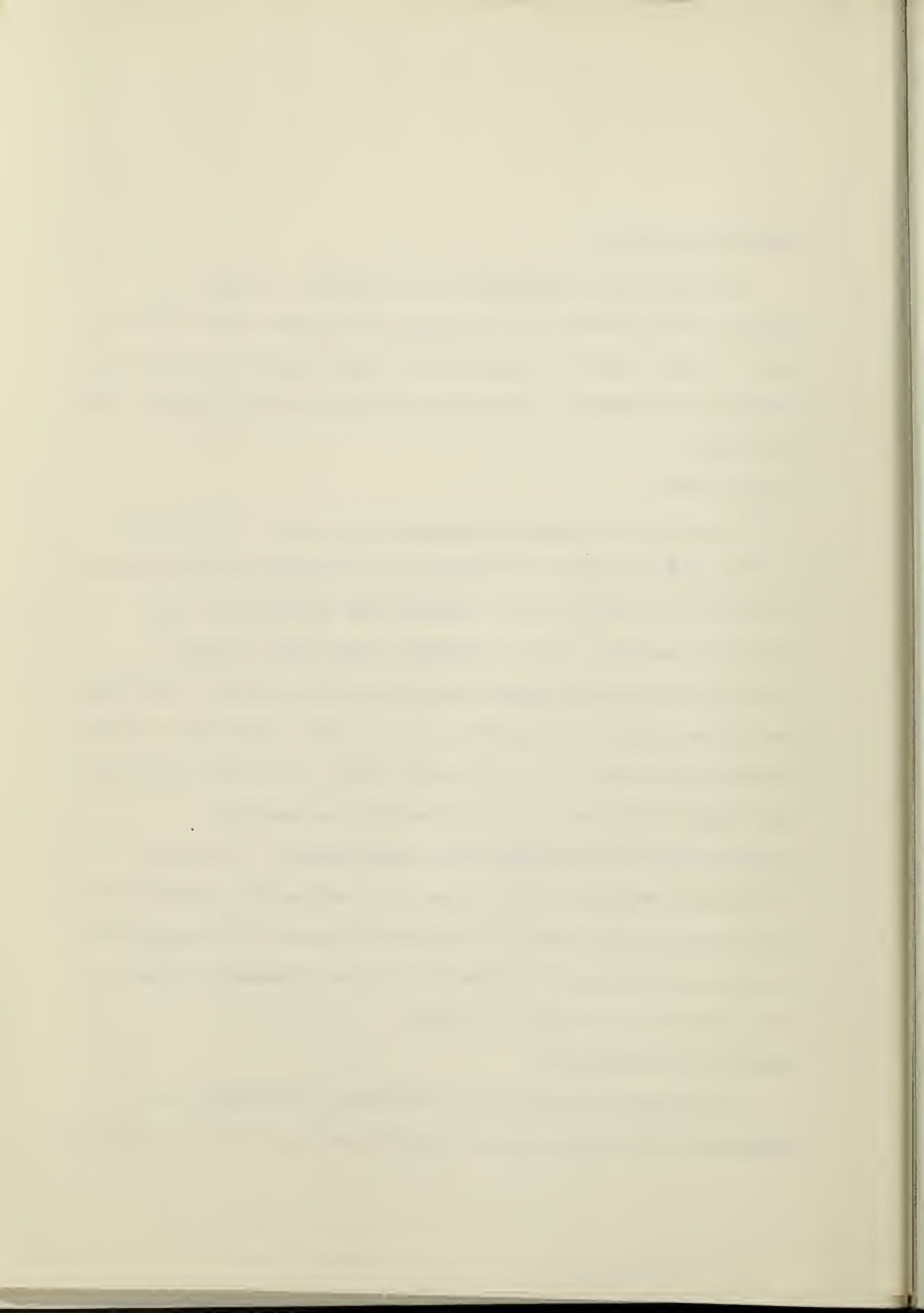
As previously indicated the City has a number of options available to it to assure that there will not be a gap in fiscal 1984. In addition, these options could help close to some degree the projected deficits for fiscal 1985 and 1986.

FISCAL 1984

Our above analysis of expenditures and revenues for fiscal 1984 included an allusion to one-time revenue sources available to the City for closing the expenditure gap. There are several items, however, which bear special scrutiny--collective bargaining and appropriation reserves. How these items are handled will not only effect the overall expenditure level of the City for 1984, but could drive the 1984 budget into an operating deficit unless all appropriations and expenditure requirements, including collective bargaining increases, are adequately provided for from existing and available revenue sources, as required by the State Department of Revenue in the Agreement signed by City officials on June 13, 1983.

COLLECTIVE BARGAINING

About 85% of the City's non-school employees are organized, union employees being represented by 13 different



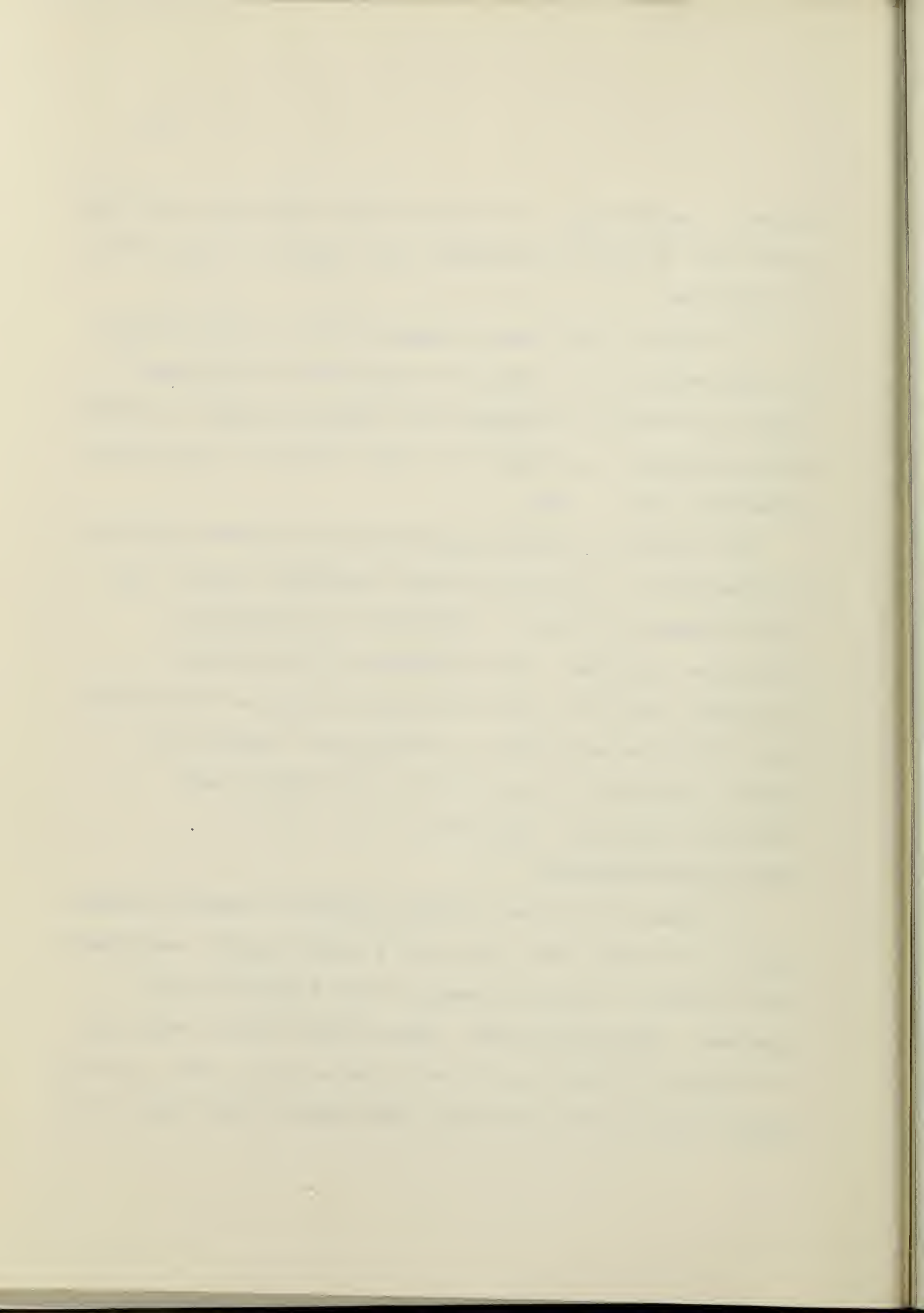
unions. Negotiations are under way with the larger of these unions and the final settlements will impact on fiscal 1984 expenditures.

In addition, the School Committee is, at this writing, in negotiations for a contract retroactive to September 1, 1983 with teaching and supervisory employee groups. Suffolk County employees are negotiating wage levels for the period commencing July 1, 1983.

The outcome of these negotiations will effect the level of expenditures in fiscal 1984 and subsequent years. Our 1984 estimates provided no provision for collective bargaining increases. Some estimates of collective bargaining costs for fiscal 1984 run as high as \$25 million. This sum can be met either by raising new revenues, by running a deficit in fiscal 1984 or by funding wage increases with staff reductions.

APPROPRIATION RESERVES

In order to provide a cushion against a possible budget deficit for fiscal 1984, the City's budget agency has placed \$20 million in a special category called appropriation reserves. Although already appropriated, these funds are to be held in reserve until such time as it is clear to City budget officials that no fiscal 1984 deficit will occur. How



the current Administration and the new Administration administer this reserve will effect the final 1984 numbers. We have included this sum in our appropriation numbers above.

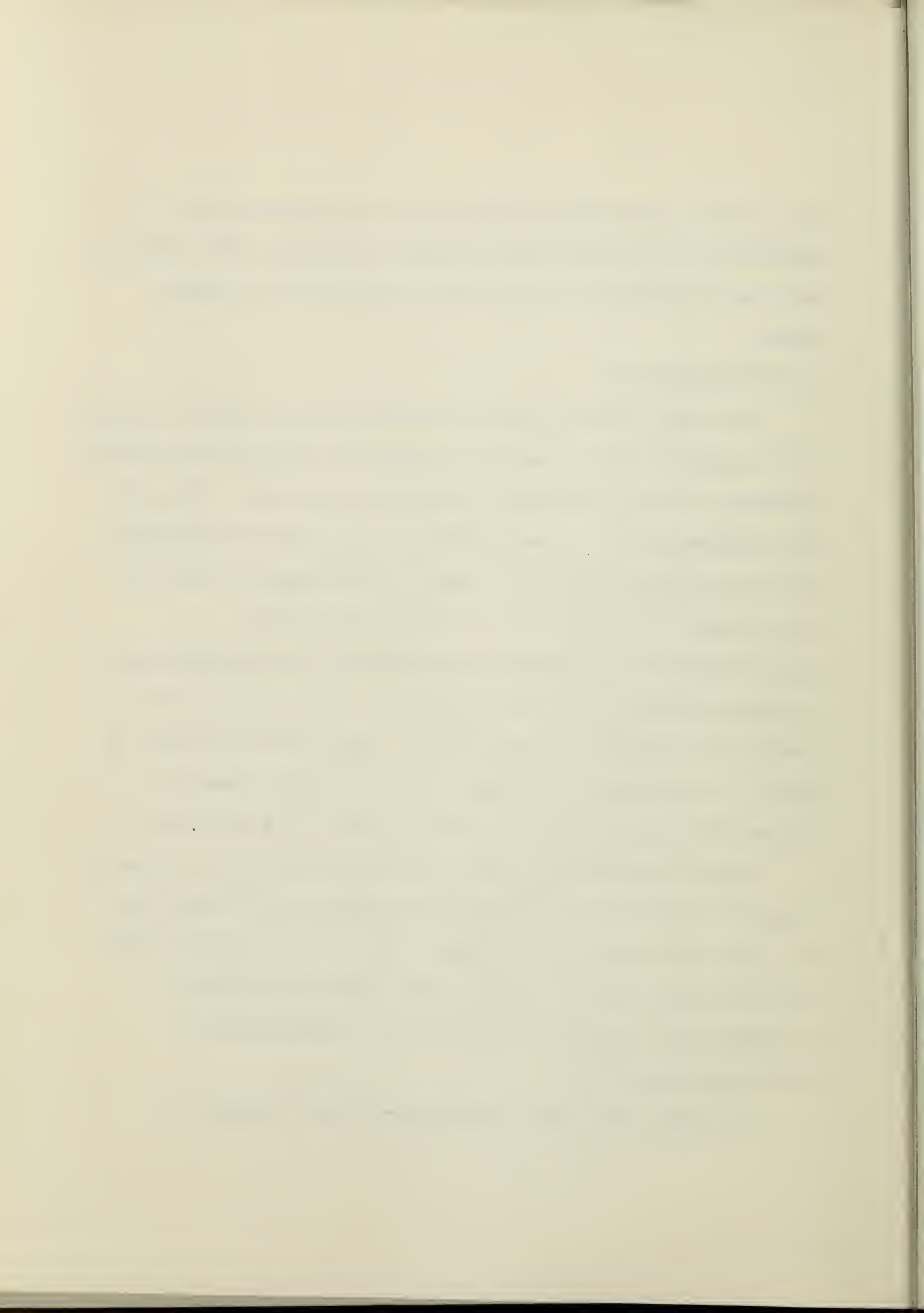
FIRE SERVICES FEE

The 1982 Funding Loan Act authorized the City to charge a fire service fee on certain buildings "which place special burdens on the City's fire protection services". This law was implemented in fiscal 1983, but the City was enjoined from collecting the fee by order of the Superior Court on the grounds that the fee is a tax which is not proportionately assessed and is therefore unconstitutional. (Emerson College vs. City of Boston). The matter is now before the Supreme Judicial Court. The City's position is that if it prevails on appeal, it can collect fees for fiscal 1983 as well as for 1984--a total of \$16 million.

There are some observers who believe that the revised Home Rule petition authorizing an augmented Fire Services Fee still has statutory defects. Thus it is unlikely that the City will prevail in this case. Hence we have not included this revenue estimate in our calculations.

FISCAL 1985 AND 1986

In fiscal 1985 and 1986 the City has a number of

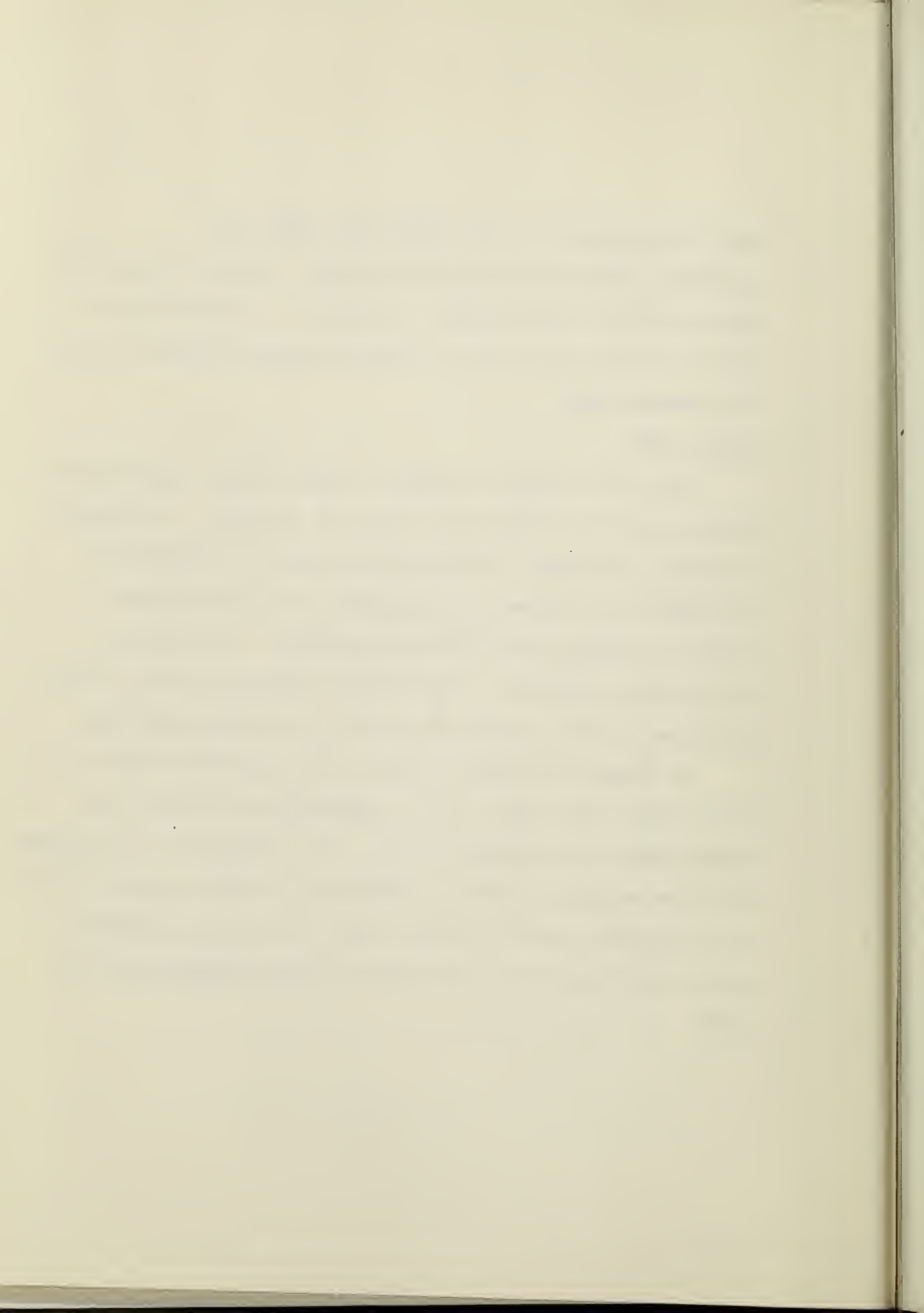


Self-Help options it can employ to reduce the spending-revenue gap identified above. First, it can cut appropriations and services. Second, it can continue to declare surplus and sell available capital assets to plug the revenue gap.

BUDGET CUTS

There are areas in Boston's budget where expenditures can be cut with little or no loss of services. A study by Bradbury and Yinger (1983) estimates that productivity increases of 1-2% could be squeezed out of the Boston budget, yielding \$5-10 million annually. In addition, first-hand experience in City Hall corroborates that in one department there is over \$2 million in excess spending.

It should be noted, however, that personnel cuts in Boston City Hall will not, by themselves, wipe out the budget gaps we identified above. For instance, if we assume that the average salary in Boston is \$17,000, a reduction of 1000 personnel would save the City \$17 million annually, which would cover only one-third of the estimated gap for 1985.

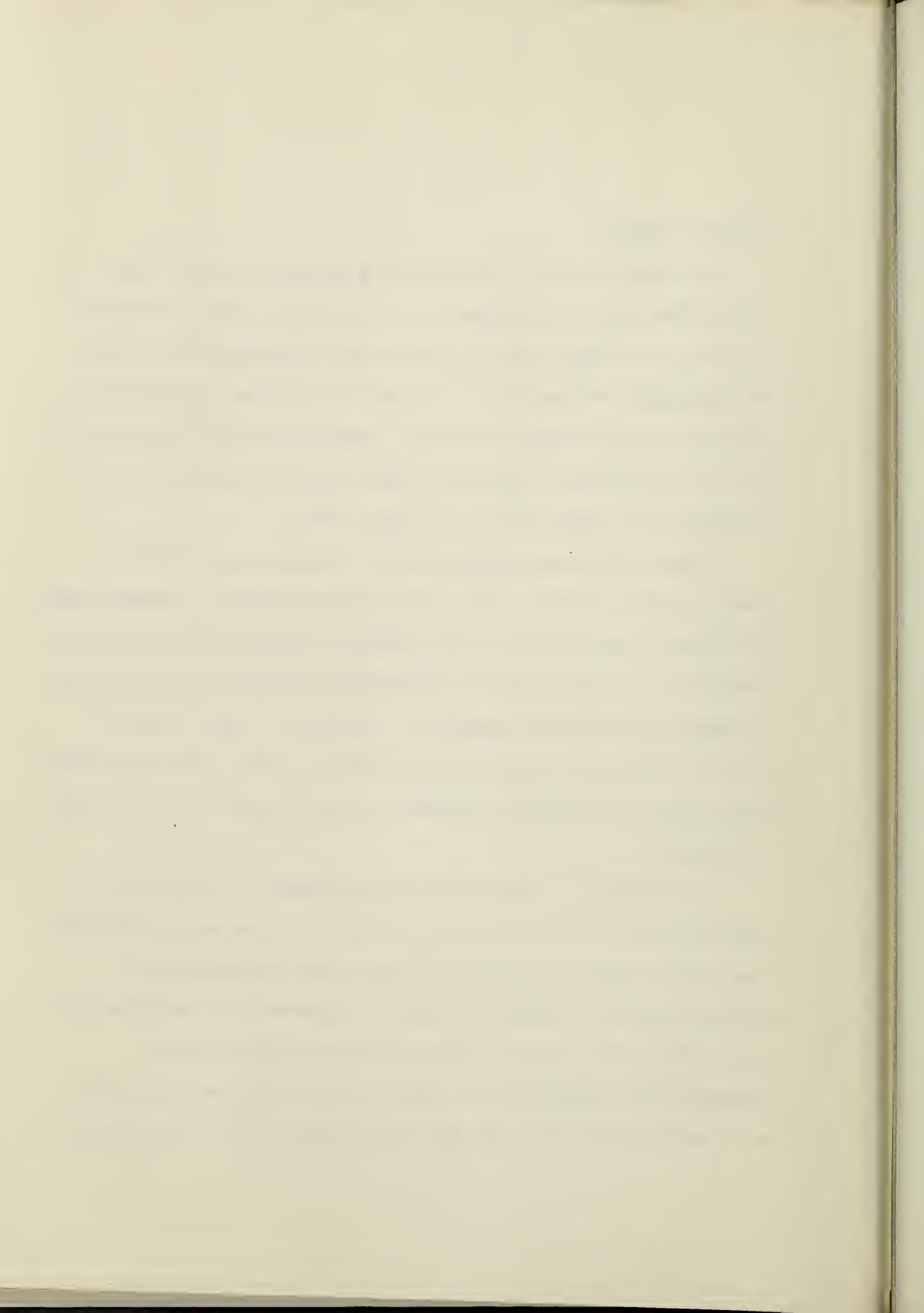


SALE OF ASSETS

In fiscal 1984, the City is planning to sell four City-owned parking garages for an aggregate sum of \$39-59 million. Proceeds from the sale will be applied to debt service paid and payable on these facilities, to some new capital projects and to current operations for fiscal 1984. The City presently estimates that \$15-20 million will be available for operations in fiscal 1984.

There are other assets which the City can sell in fiscal 1985 or 1986 to help close the potential revenue gaps for these years. We do not advocate selling these "family jewels" to pay for current operations (more on this in the recommendation section below). However, a Mayor and/or Council faced with revenue shortfalls of the magnitude shown above may well choose to resort to such sales to fund basic services.

For example, there are three garages in addition to those put up for sale identify that could be sold in future years--the Bedford-Kingston, Post Office Square, and Winthrop Square garages. Table IX presents our estimates of the gross sale value of these garages based on the assumption of \$10,000 per space or about \$28 million, for a net yield to the City of over \$22 million. If the values of

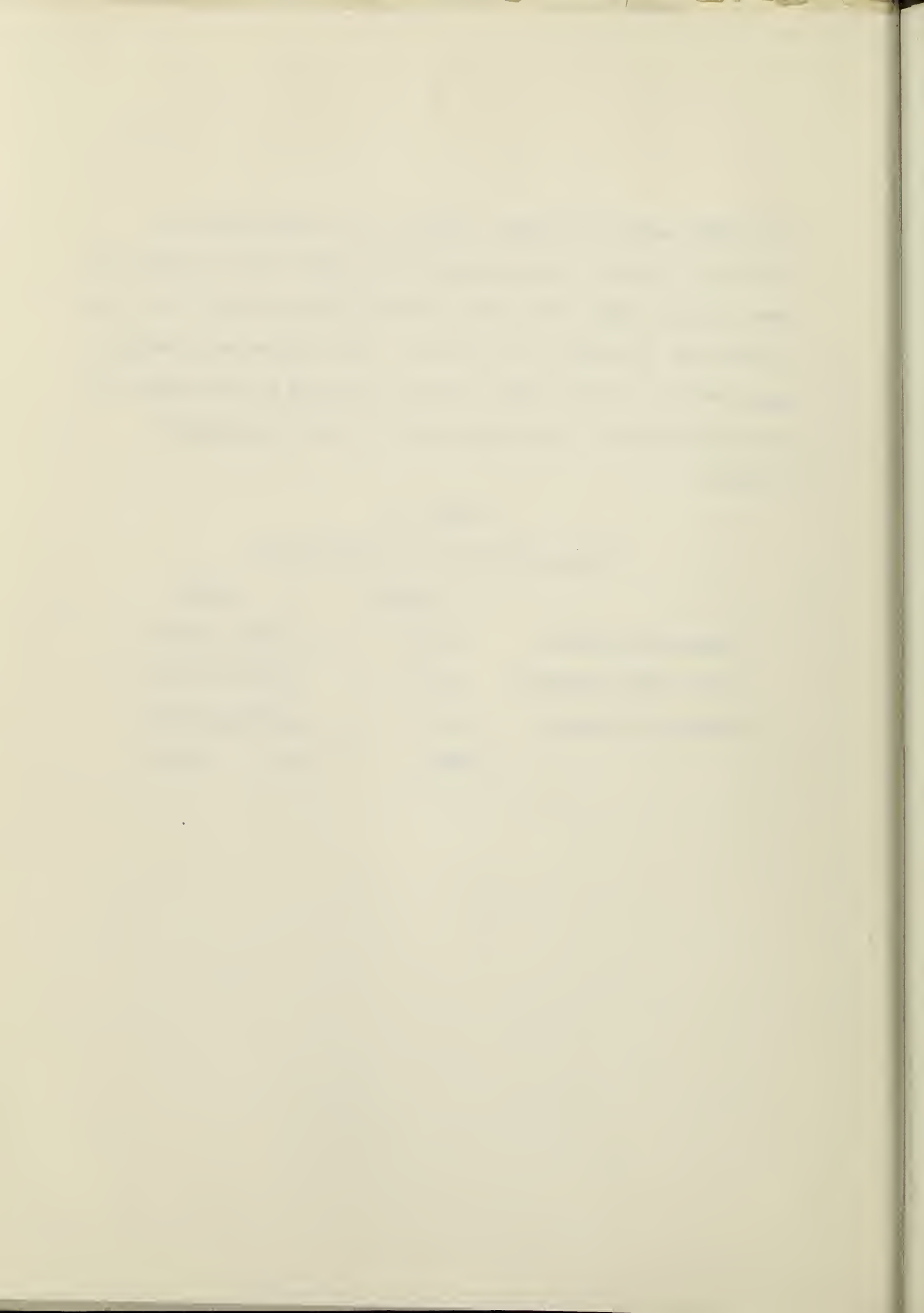


air rights and development options are substituted as criteria of value, the aggregate proceeds from the sale of these garage facilities could exceed \$50 million, for a net to the City of almost \$45 million. (The difference between gross and net is the debt service incurred by the City for these facilities, which sums must be used for capital outlays.)

Table IX

Estimated Value of Assets Sale

| | SPACES | VALUE |
|--------------------|--------|-----------------------|
| Bedford-Kingston | 735 | \$ 7.350 million |
| Post Office Square | 950 | 9.500 million |
| Winthrop Square | 1125 | <u>11.250 million</u> |
| | TOTAL | \$28.1 million |



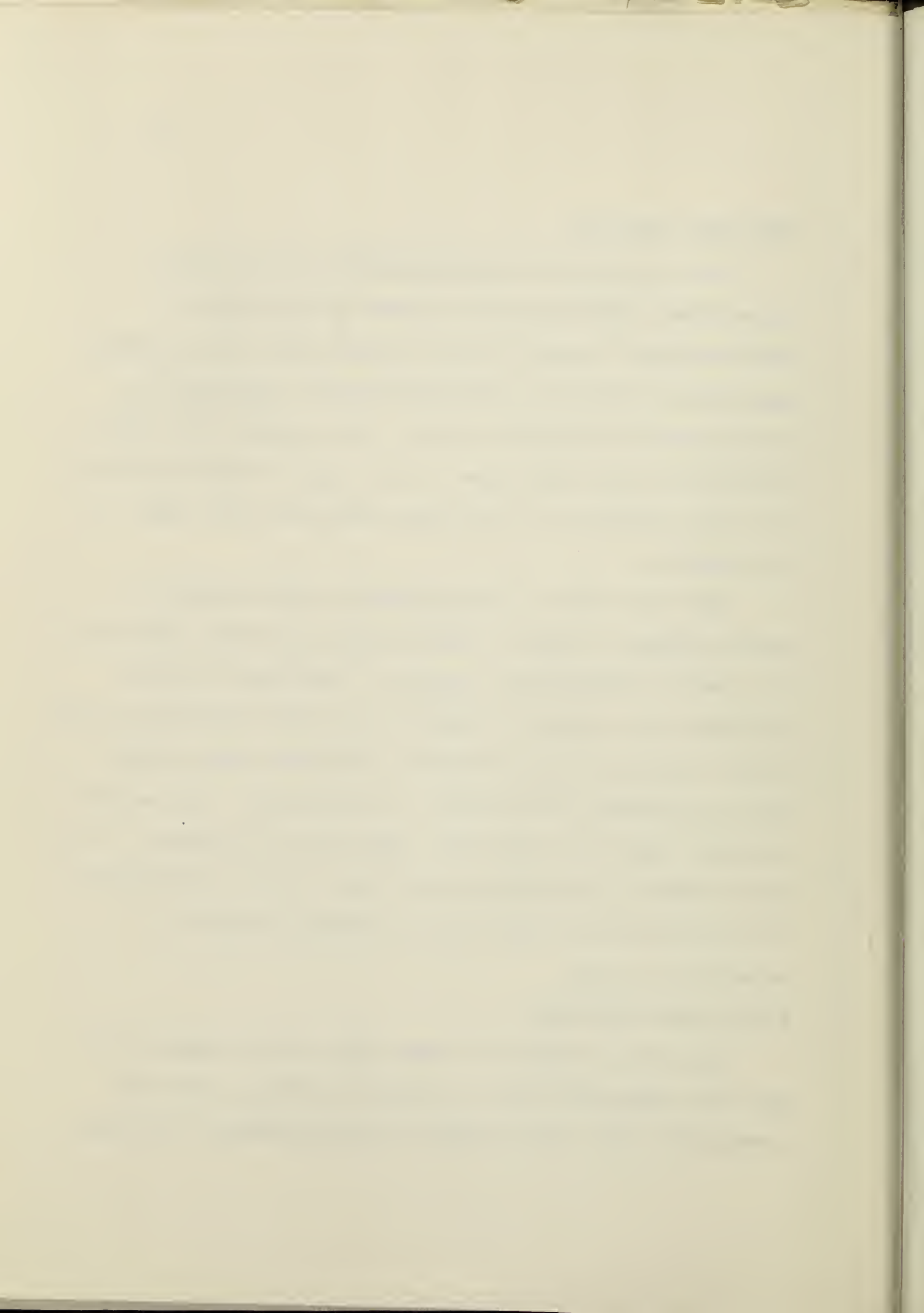
STATE-HELP OPTIONS

Cities and towns of Massachusetts are municipal corporations established by mandate of the State of Massachusetts, and most of the fiscal rules and guidelines applicable to them are promulgated and/or sanctioned by legislative and executive action. For example, the state Constitution gives the power to tax only to the Legislature, which has delegated to cities and towns only the power to tax property.

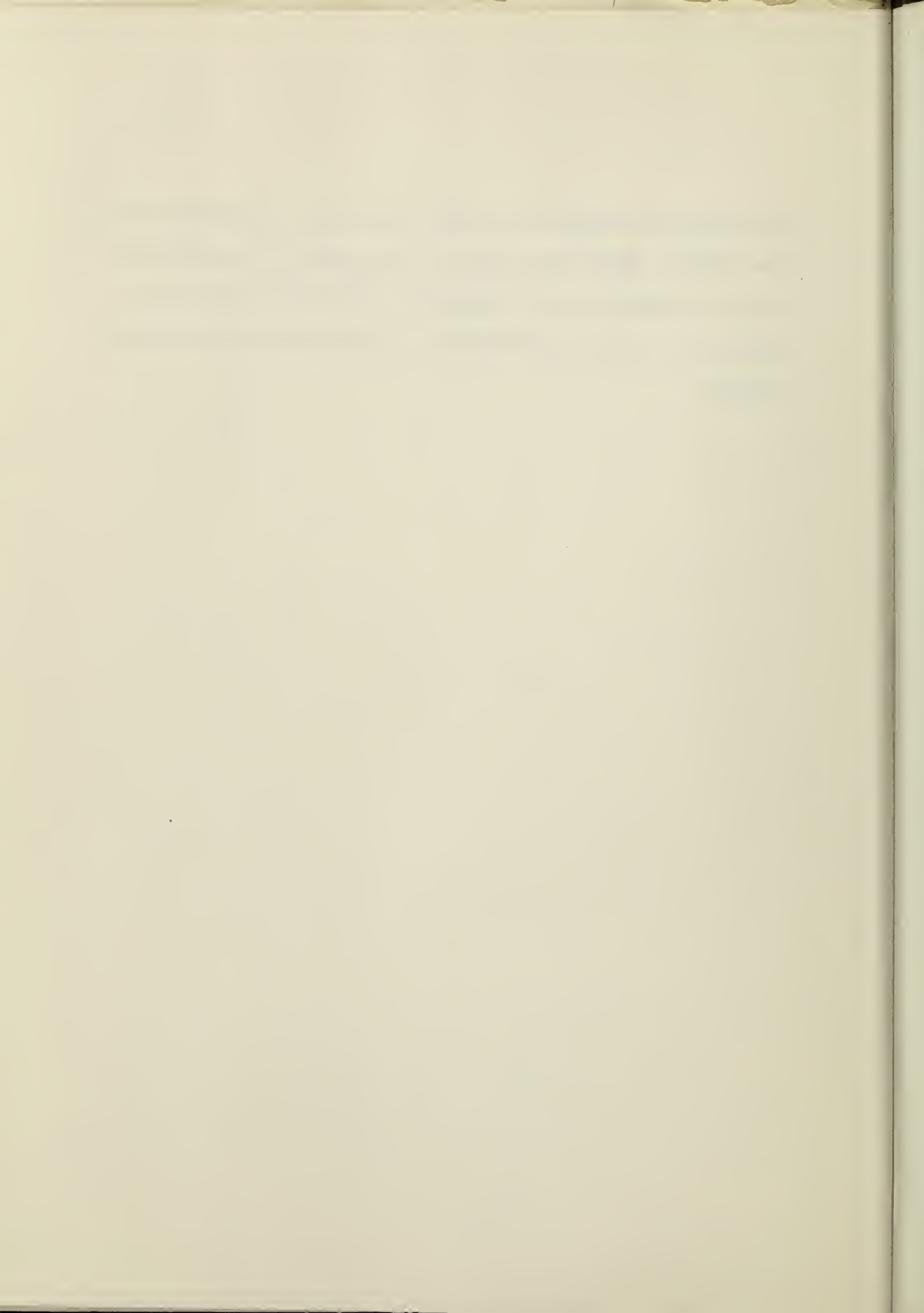
When one looks at the options for state action to assist Boston, as well as other cities and towns, there are two general categories of options. The first is direct financial aid, either by sending more local aid dollars back to the cities and towns and/or by absorbing some current costs of services now paid for by localities. The second category, which has particular application to Boston, is to enact enabling legislation which would allow a municipality to levy some local taxes. We will address these two categories in turn.

STATE COST ABSORPTION

There are a number of items that are now wholly or in part the responsibility of the City of Boston and other communities that could, based on sound economic, financial



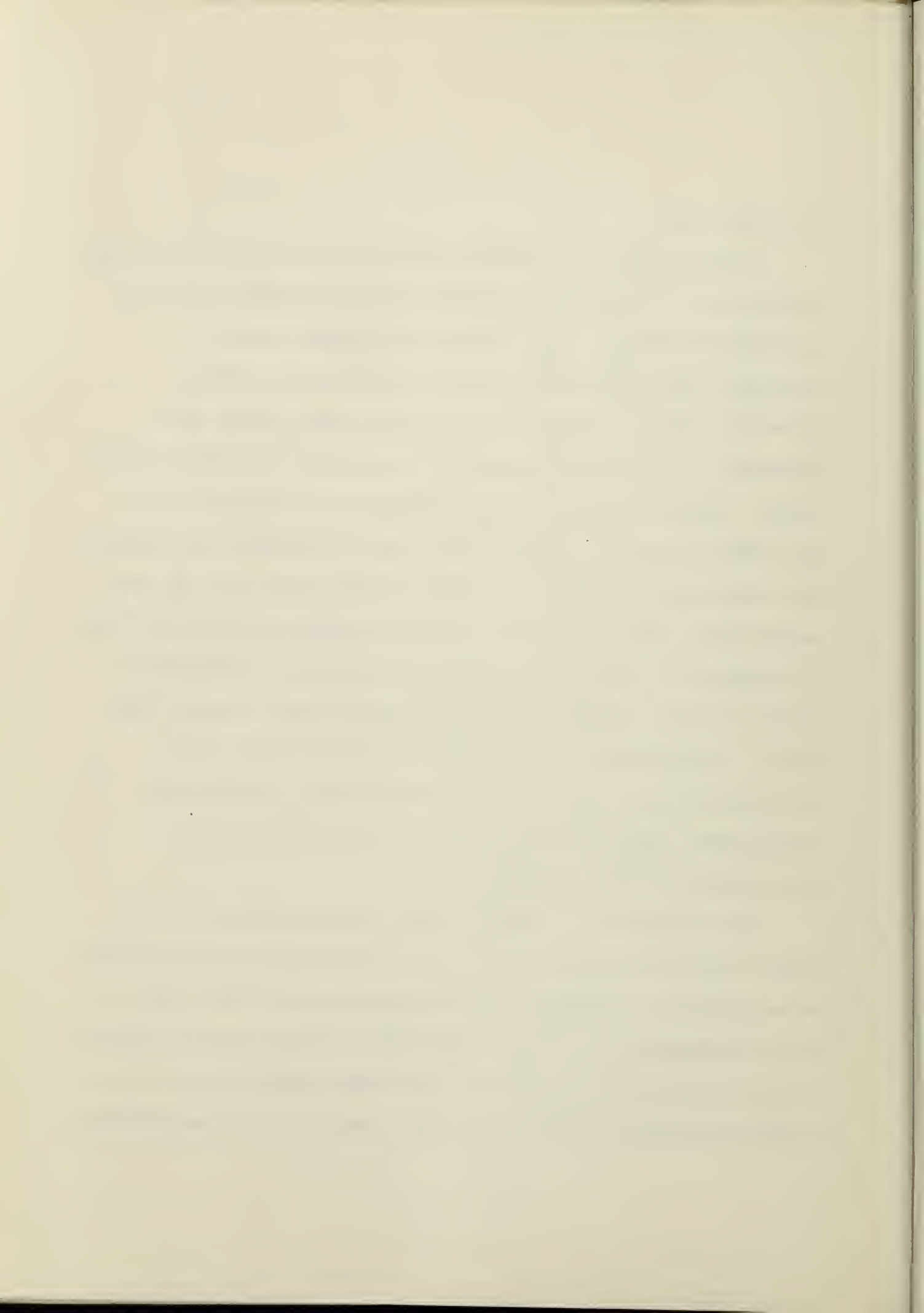
and equity principles, be paid for and/or administered by the State. Those that leap to mind are 1.) cost of the MBTA, 2.) penal costs associated with the county court system, 3.) costs associated with the state-city pension system.



1. MBTA Costs

Boston comprises less than 20% of the metropolitan area population, but pays 42% of the local government share of the MBTA's deficit. The MBTA is a regional transit authority that should be financed regionally, either directly through levies of regionwide taxes other than property, or indirectly by the State from broad-based State taxes. Heavy reliance on the beleaguered property tax in the past to support transit services in metropolitan Boston has been a prime factor in chronic under-financing of the maintenance and modernization of the system. Moreover, the "fairness" of the formula imposing mandatory assessments against local property taxes for metropolitan transit has been a long-standing issue that has exacerbated local reluctance to pay for costs controlled by a relatively independent decision-making body, while pitting one municipality against another.

The entire state benefits from the existence of the MBTA, which is a key factor in the functioning of the Boston area economy, an economy which generates more than half of the Commonwealth's revenue. The whole state depends heavily on the economic well-being of the Boston metropolitan area, and by financing transit services, would only be subsidizing



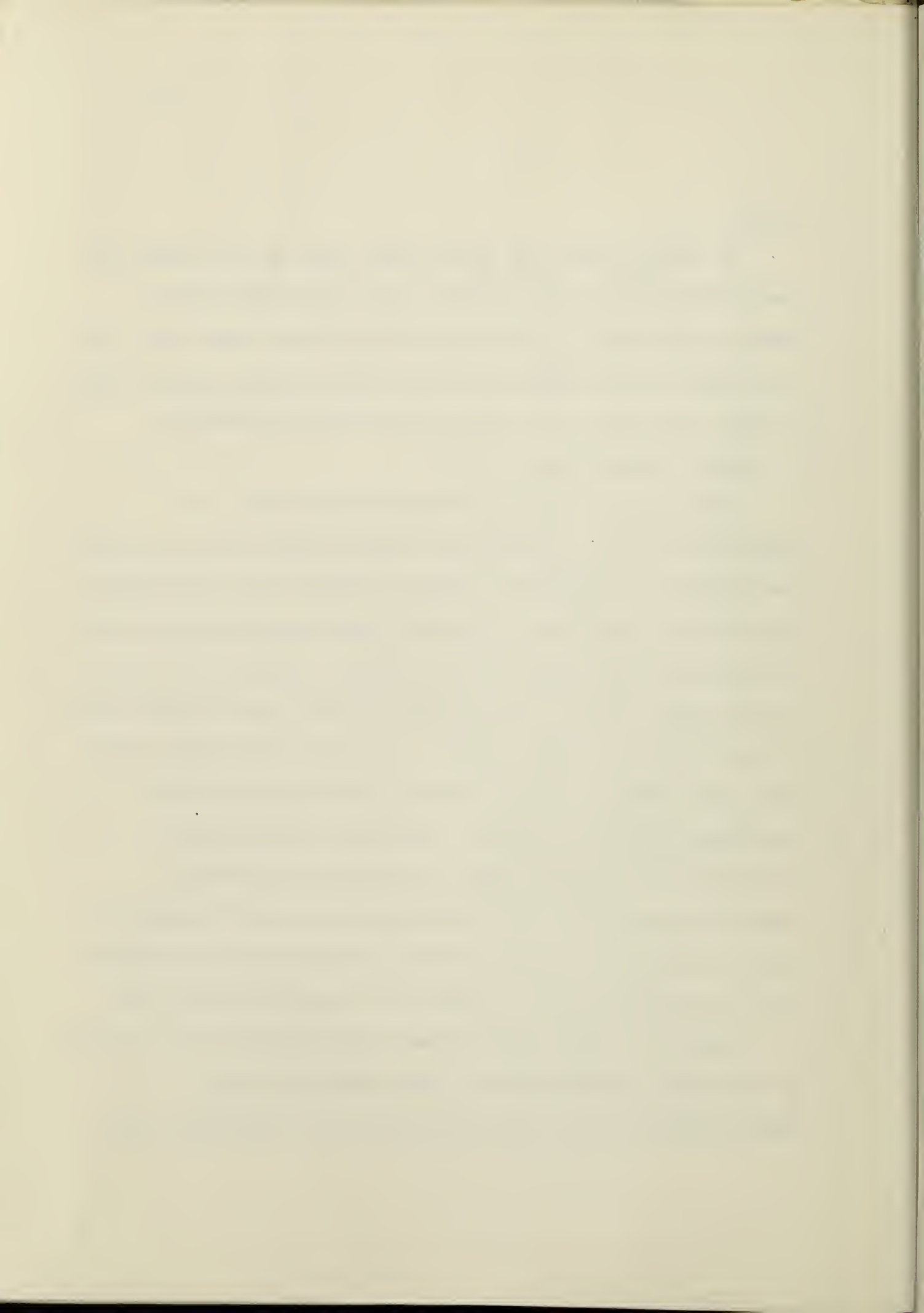
itself.

In fiscal 1984, the cost to the City for its share of the MBTA deficit is \$41 million. If the State were to assume this cost for Boston and other cities and towns that are members of the MBTA district, the projected annual gaps in City revenues would close by at least \$41 million.

2. County Correctional Costs

When the state assumed responsibility for the administration and financing of county court costs in 1979, the take-over legislation did not include the correctional institutions operated by counties under general supervision of the State Department of Corrections. Boston still pays for the total costs of the Charles Street Jail and the House of Corrections on Deer Island. It is estimated that these costs will amount to about \$14 million in fiscal 1984 including employee benefits, retirement benefits and anticipated settlements under collective bargaining. Arguments for shifting the administration and financing of county correctional facilities to the State may be grouped into two categories: 1.) fiscal, 2.) quality of services.

Although county correctional institutions are supported by municipal property taxes, many inmates in such institutions are not county residents who committed their

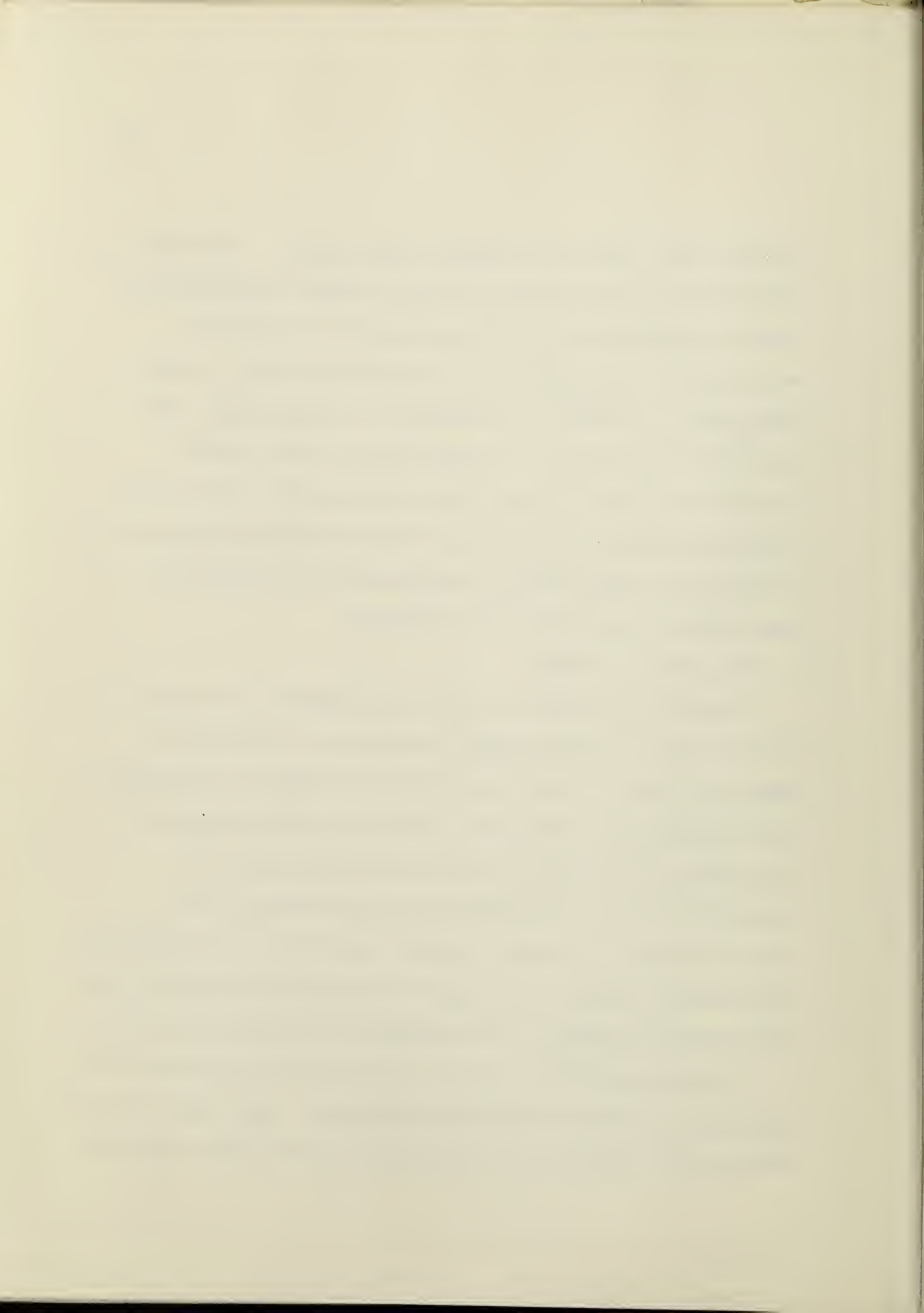


crimes within their own county jurisdiction. Moreover, there are wide variations in wealth among counties which generate disparities in the quality of correctional services--in the adequacy of living facilities, in the separation of inmates by severity of crimes and in the availability and level of rehabilitative activities. Transfer of county correctional services and costs would provide property tax relief and facilitate development of a unified, statewide system incorporating up-to-date and cost-effective correctional treatment.

3. The Pension System

Boston participates in the State-Boston retirement system which provides pension benefits to retired City employees under a state-supervised retirement arrangement. State legislation prescribes the formulas for computing retirement allowances, and periodic enactments of legislation have supplemented such allowances with cost-of-living increases. Recent and future cost-of-living adjustments, however, are the financial obligations of the Commonwealth because of the passage of Proposition 2 1/2.

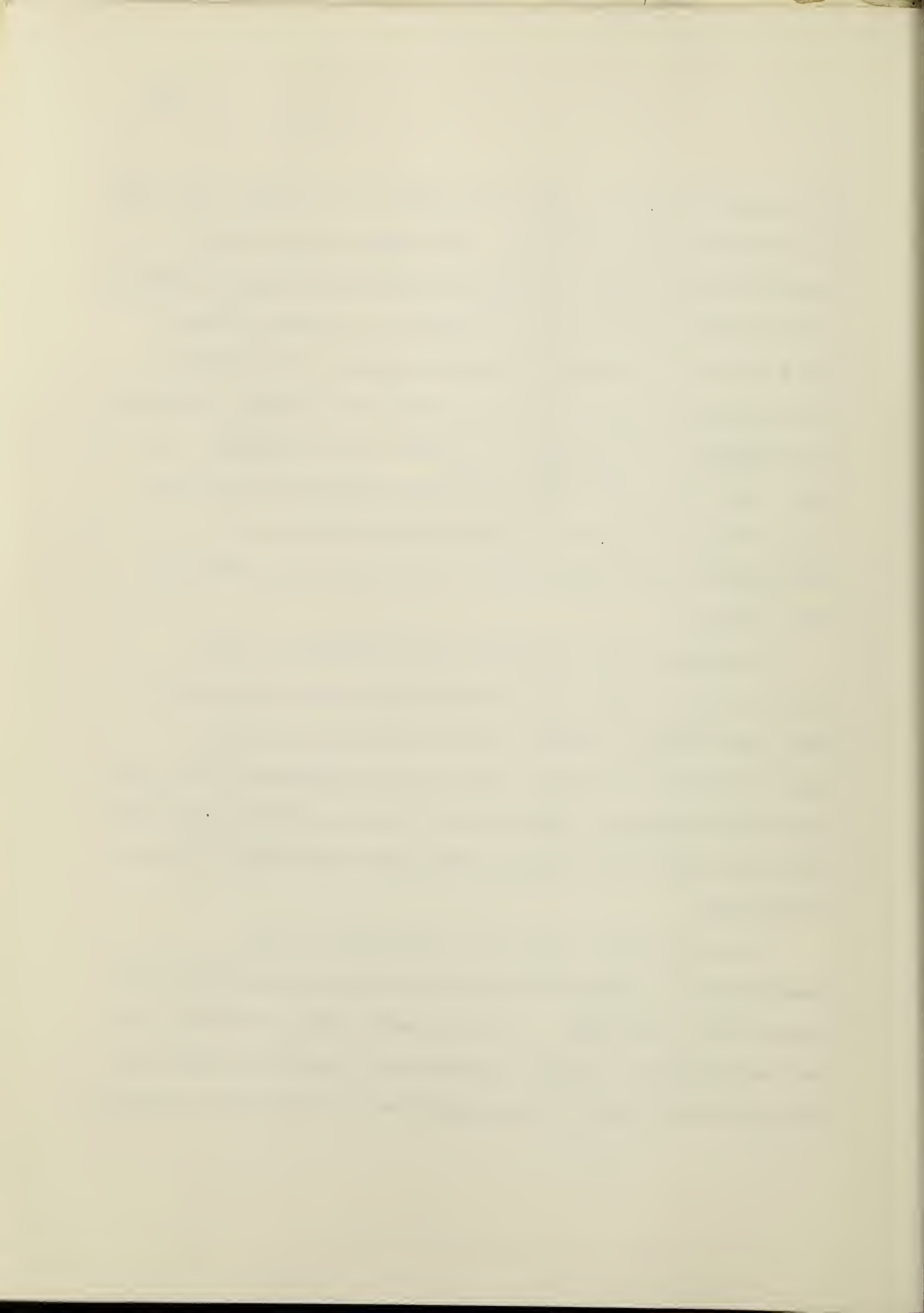
The City pays for its cost of pension liabilities on a pay-as-you-go basis mandated by statute. The annual cost of contributory pensions is established by the State Division



of Insurance and is a legal obligation of the City that must be included in the tax levy. The City is reimbursed annually by the State for that portion of the annual pension contribution paid in the prior year to retired teachers. While there is continuing concern over the net unfunded actuarial liability of over \$1.2 billion, the more immediate significance of this issue is in its rate of growth. In 1979, the total contributory pension contribution of the City was \$61.4 million, of which \$16.3 million was reimbursed by the Commonwealth, for a net City outlay of \$45.1 million.

In fiscal 1983, the total contribution was \$95.1 million and the City's net contribution was \$75.8 million. Over the five-year period, 1979-83, the City's total contribution has risen by 55%, the net contribution by 68%. Some observers have predicted that future growth rates will accelerate and that this tax rate item has become a fiscal "time-bomb".

It is certainly beyond the resources of the Commonwealth to absorb the pension costs of Boston and all other cities and towns. It would make sense, however, for the Commonwealth to begin reimbursing cities and towns for the incremental cost of local pension contributions, thereby

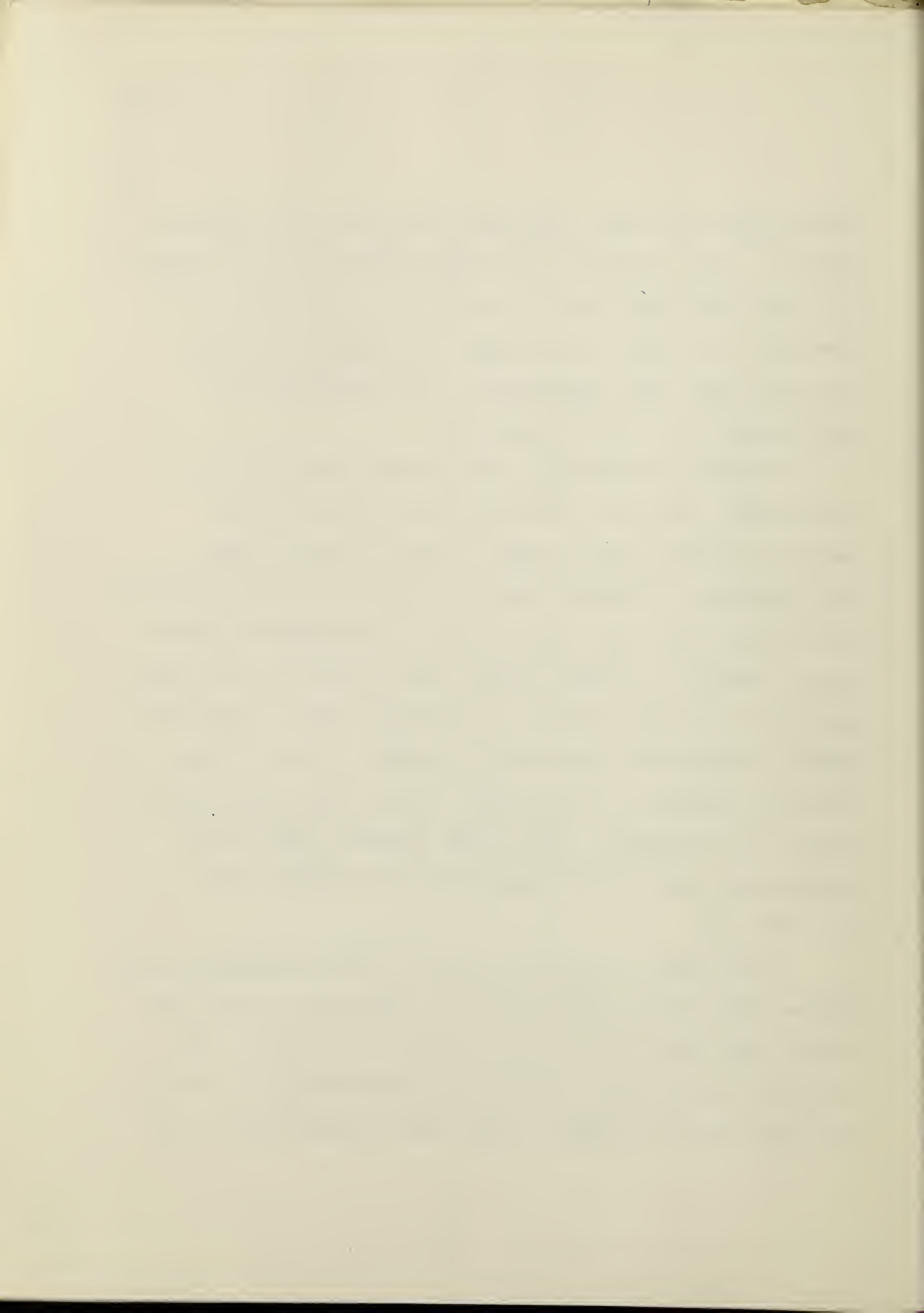


stabilizing the annual municipal outlay for this mandated expense. Such a program could save Boston over \$10 million in fiscal 1985 and over \$20 million in fiscal 1986. The precedent for State reimbursement of incremental pension costs has been long established in the Commonwealth's reimbursement for teacher pensions.

It should be noted that the current State policy of reimbursing cities and towns for the costs of teacher pensions probably discriminates against less affluent municipalities in Massachusetts in favor of communities with relatively higher per capita, family or household incomes. School teachers in Boston account for one-third of all City employees in Boston and only an estimated 20% of the City's pension liabilities are teacher-related. In the richer towns by contrast, over one-half of municipal employees are likely to be teachers, and teacher pension liabilities constitute a much higher proportion than Boston's 20%.

4. State Aid

It has been a recurring claim of City policymakers that Boston deserves and needs additional amounts of State aid. In the last three fiscal years, State aid to Boston has increased by \$110 million thereby compensating for 61% of the City's loss of property taxes under Proposition 2 1/2.



State aid as a percentage of total state appropriations has risen significantly since the passage of Proposition 2 1/2, from 25% to 30%. In addition, Governor Dukakis has committed his administration to share 40% of state revenue growth with the cities and towns. With State revenues increasing annually in the \$400 to \$500 million range, this means \$160 to \$200 million in additional local aid dollars for future years.

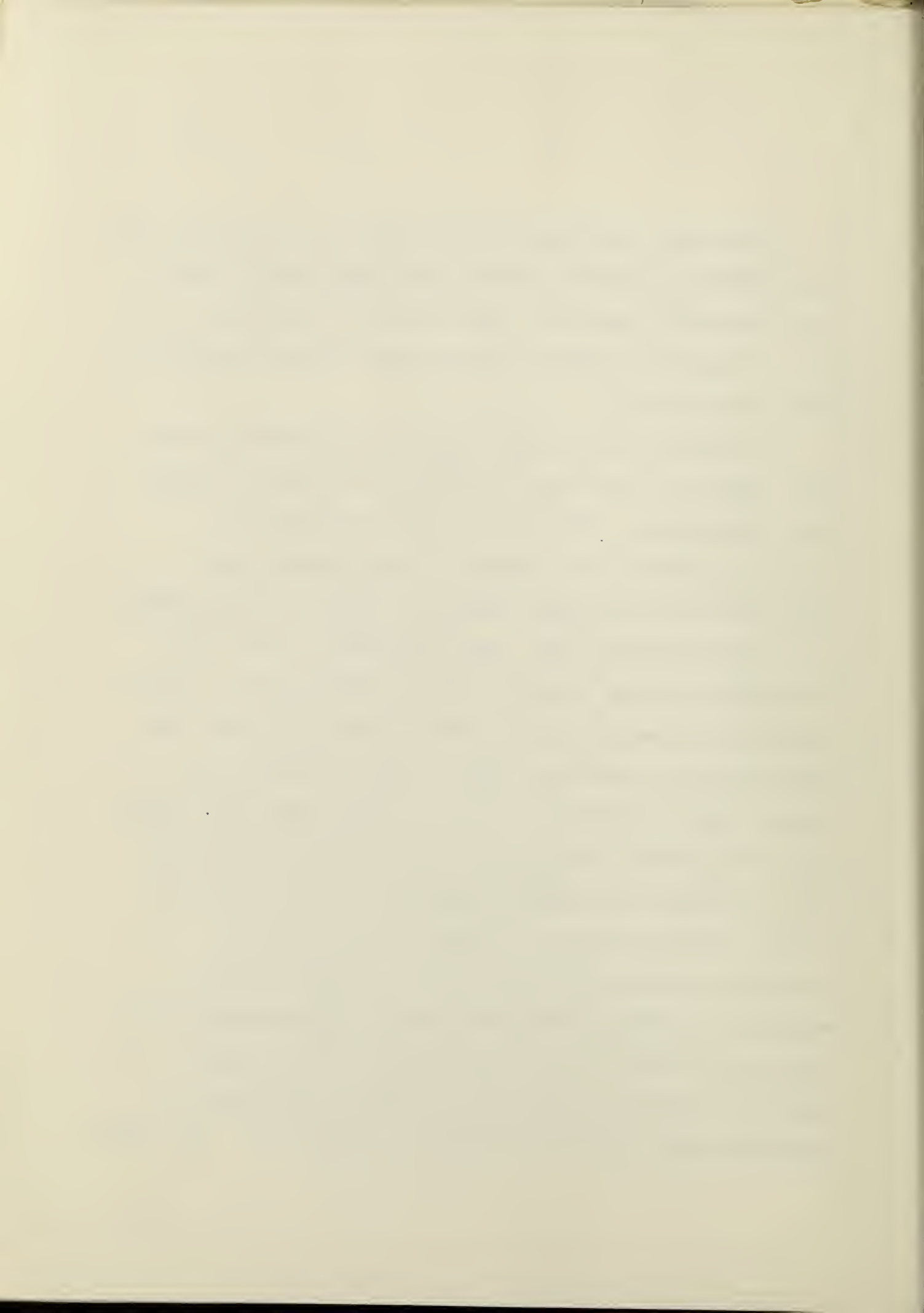
The key question is how such additional dollars will be distributed to the cities and towns and what impact will the distributional mechanisms have on Boston.

Boston, like all cities and towns in Massachusetts, receives state aid in two forms--reimbursements and distributions. Reimbursements for programs such as school building assistance simply repays the municipality for money already spent and at prescribed rates of incentive to encourage the achievement of certain program goals. Distributions, on the other hand, are periodic allocations based on formulas which consider the relative fiscal capacity and fiscal need of municipalities in Massachusetts. When City of Boston officials discuss the issue of additional state aid, their comments focus mainly on distributional aid.



Presently, the Dukakis administration is reviewing the distributional formulas and the prevailing definitions of fiscal need and capacity. The outcome of this review will have a significant effect on the City's future receipts of distributional aid.

In fiscal 1982 and 1983, Boston received 19% of the total amount of state aid distribution in excess of prior year commitments. Under the two major distribution formulas, (School Aid - Chapter 70, and Lottery Aid - Equalized Municipal Grant) Boston's share of the statewide pie is approximately 13%. The difference is due to the deliberate decision of State elected officials in the last two years to skew more aid to those communities that were suffering from relatively large losses of property tax revenue under Proposition 2 1/2. Although the 1985 fiscal year will be the first since fiscal 1982 that Boston will not be reducing its property tax levy, the City needs to protect itself against any erosion of its share of incremental state aid and its overall proportion of aggregate financial assistance from the Commonwealth. As the State's capital city, Boston has 9% of the State's population and 9% of the State's property tax base, but generates about 20% of the state's gross product. The value



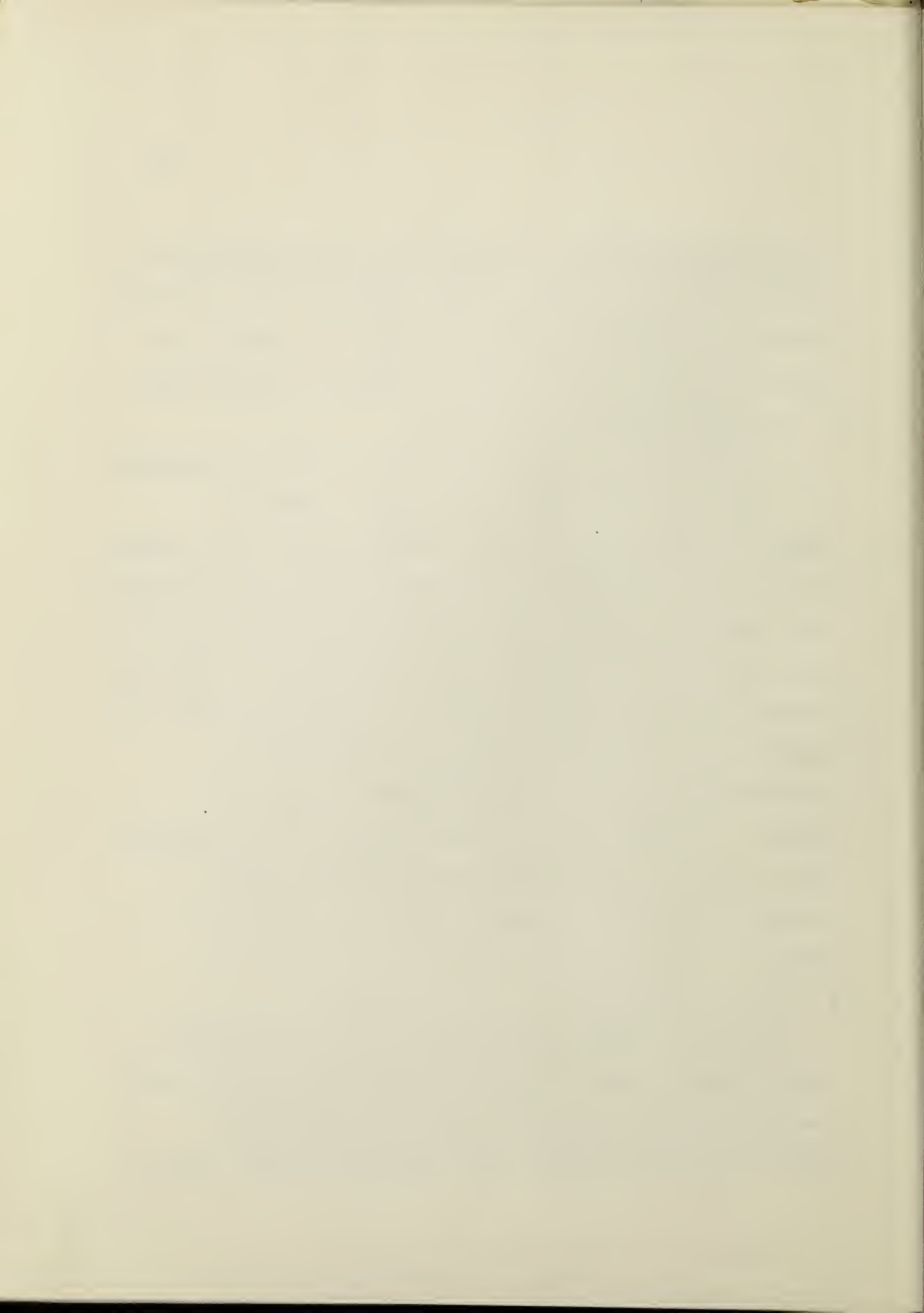
of tax-exempt property in Boston (the Commonwealth is the largest owner of tax-exempt land) reached a total of almost \$11 billion in 1982, of which over half is owned by the State, educational institutions and medical institutions.

5. Local Non-Property Tax Options

For the City of Boston, there are a number of options for local taxes that would not adversely affect its competitive posture and could raise some additional revenue for the City. The options presented below do not include a city income tax because such a tax is not constitutionally permitted. In addition we do not consider a city sales tax because we think that a city sales tax would harm Boston's economy given that Boston represents such a small geographical segment of a densely-populated regional economy. In presenting our list of options, we considered those local tax sources which would not hurt Boston competitively and which would not, in our opinion, have regressive impacts.

6. Parking Excise Tax

Unlike many other large central cities across the country, Boston does not have the ability to levy a tax on the parking fees charged for off-street parking in highly-congested downtown, non-residential areas. Such a



tax was first proposed for Boston in 1977. At that time, the average downtown parking fee was \$2.25 per day! In the past six years, however, excluding the fees charged in municipally-owned garages, this fee has more than tripled. Competitively, such a tax would have little impact on demand for parking space, because of the limited alternatives for the parker. Also, it seems only fair that the City should benefit from the additional garage revenues being generated by more aggressive enforcement of on-street parking regulations.

A parking tax based on a maximum of 20% of the basic charge for parking will annually yield between \$13 to \$15 million for the City.

7. Hotel/Motel Excise Tax

Currently, the State levies a 5.7% room occupancy tax upon the transfer of rooms in hotels and motels throughout the state. Effective August 1, 1982, in accordance with the 1982 Funding Loan Act, the State began to send to Boston that portion of the 5.7% occupancy tax paid in the City on rooms first opened for patronage after August 1, 1981. These funds are being used to help pay the principal and interest costs on "Tregor" indebtedness. When these 10-year bonds are finally liquidated, the dedication and payment of



the hotel/motel excise tax to the City automatically expires (1992). Prior to August 1, 1981, there were almost 7000 hotel/motel rooms in Boston. At a tax rate of 5.7% the revenue yield to the state was estimated at just over \$7 million annually. The number of hotel/motel rooms in Boston are expected to increase each year through fiscal 1986 to reach a total of over 11,000.

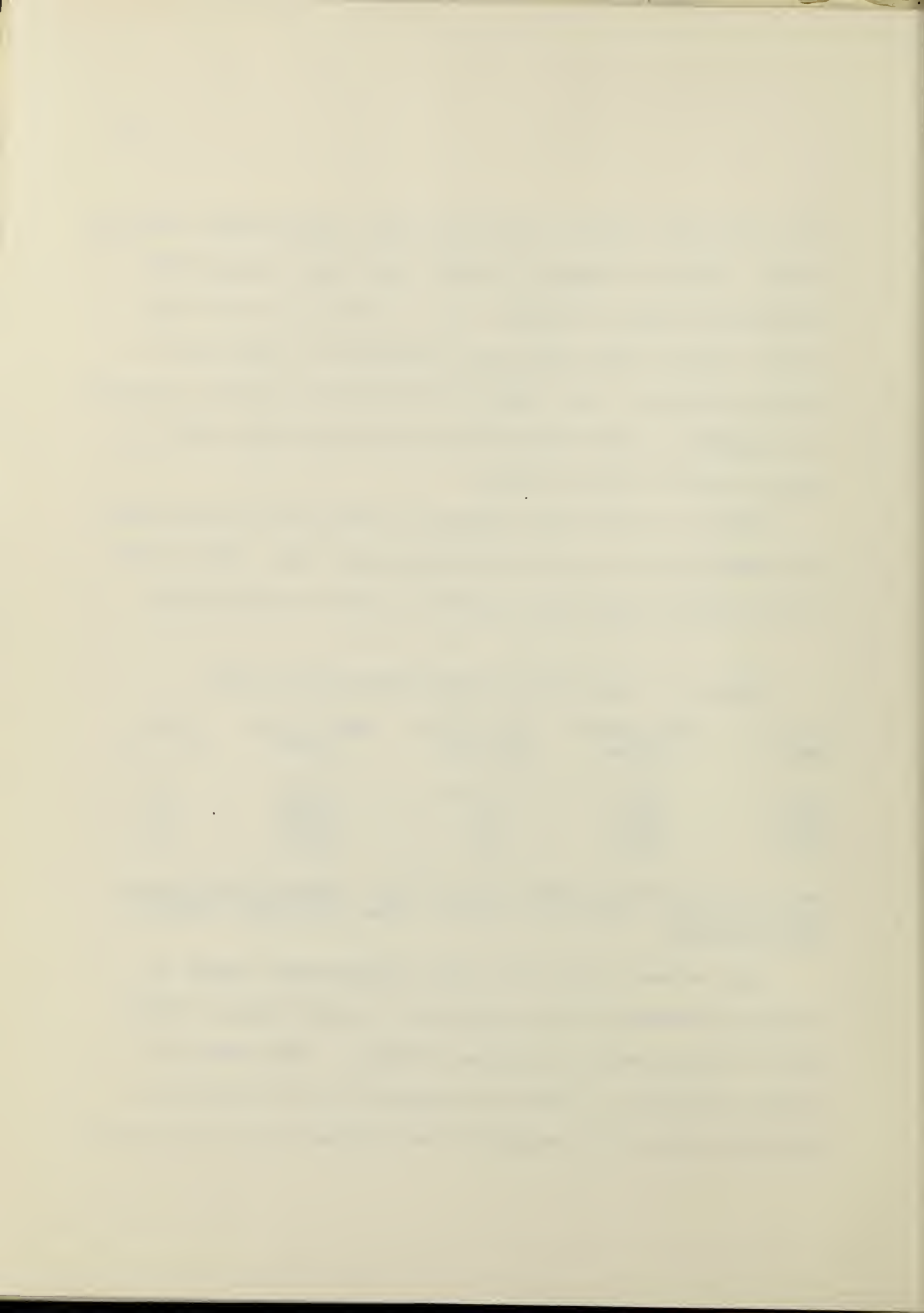
Table X presents the number of rooms and the estimated tax yields based on a 5.7% occupancy tax rate. The yields for the rooms added after August 1, 1981 are also shown.

Table X: Yield From a Hotel/Motel Excise Tax

| Fiscal Year | Base Hotel Rooms | Tax Yield at 5.7% | Additional Rooms | Yield at 5.7% |
|-------------|------------------|-------------------|------------------|---------------|
| 1983 | 7000 | \$7.1 m | 1332 | \$1.4 m |
| 1984 | 7000 | 7.7 | 3281 | 2.8 |
| 1985 | 7000 | 8.5 | 3921 | 4.3 |
| 1986 | 7000 | 9.4 | 4421 | 5.4 |

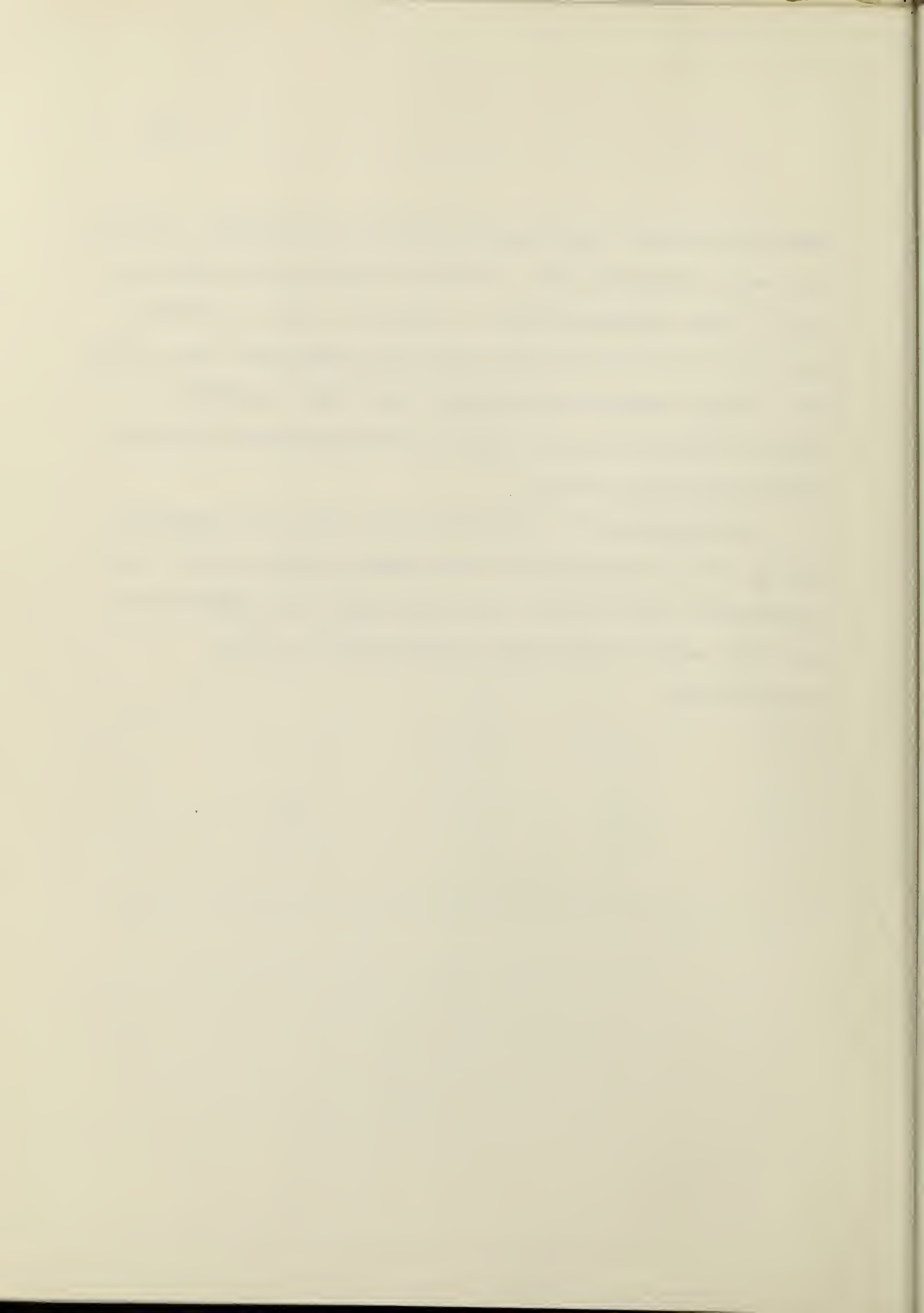
Source: Additional Rooms and Yields. Official Statement City of Boston, January 1, 1983. Base rooms are authors' calculations.

The revenue yield from these "additional rooms" is already dedicated to the retirement of the "Tregor" bonds and to the payments of interest thereon. One possible option available to the City requiring state legislative approval would be to recapture the occupancy tax yield from



base hotel/motel rooms for the City's own treasury. If the City were entitled to the revenues from the 5.7% occupancy tax on rooms existing prior to August 1, 1981 for General Fund purposes plus the tax yield from additional rooms after the "Tregor" bonds were redeemed, the total estimated revenue of \$14.8 million would be of significant financial assistance in the future.

It should also be noted that the 5.7% room occupancy tax is low in comparison to tax rates of other states. At an adjusted level of 8%, the City's yield for fiscal 1985 and 1986 would be \$11.9 million and \$13.2 million respectively.

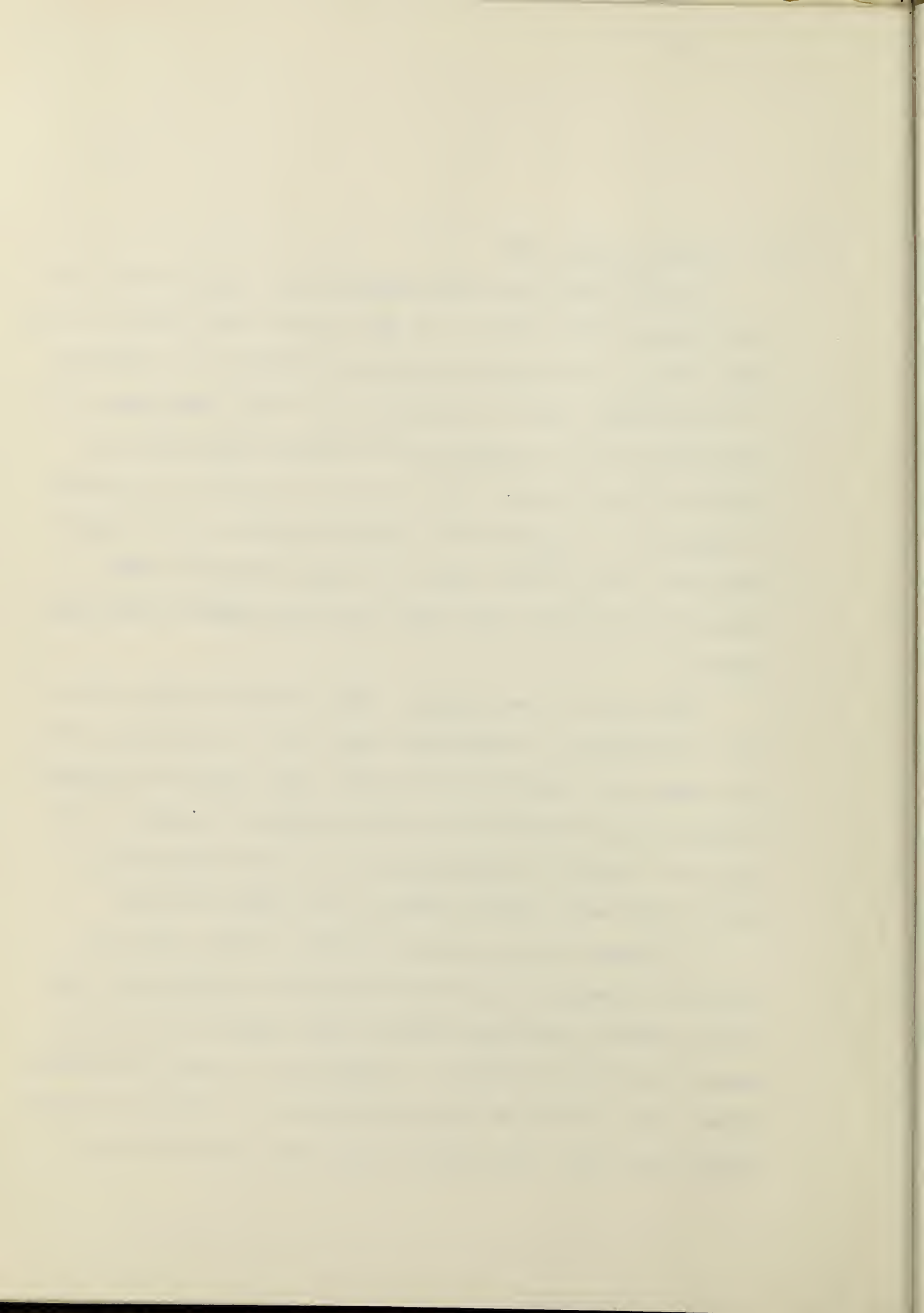


8. Payroll Excise Tax

One tax which has been suggested for Boston and/or for the regional MBTA district to pay for the local share of the MBTA deficit is a payroll excise tax levied on an employer as a percentage levy on the payroll of their employees. It would apply only to employers with annual payrolls over certain dollar amounts and could not be passed on directly to employees. A payroll tax levied in Boston at 1% would yield over \$50 million while a 1% levy within the MBTA district would more than cover the local share of the MBTA deficit.

While one of the authors, when working for the City, was instrumental in advocating this tax, it was always seen as a means of dramatizing the fact that suburban residents occupied over 300,000 of the 550,000 jobs in Boston. The issue was raised to demonstrate one of the reasons why Boston deserved a larger share of the state aid pie.

To impose the tax within the City, there could be negative effects on the City's ability to compete for and retain smaller businesses which could locate just as well beyond the City's borders. In addition, it could adversely affect the location of new manufacturing or industrial jobs within the City, the kinds of jobs which can best help



Boston residents.

Imposing the tax within the MBTA district would certainly lessen our concerns about the City's competitive posture, but would raise similar concerns for those communities located just beyond the borders of the MBTA district. For these reasons, we do not believe that the payroll tax should be pursued as a local tax option for Boston.*

*We do believe, however, that Boston's role as a major employer of the metropolitan area be recognized in the distribution of state aid. See Slavet (1982). Also the payroll tax has merit as a state-wide tax.

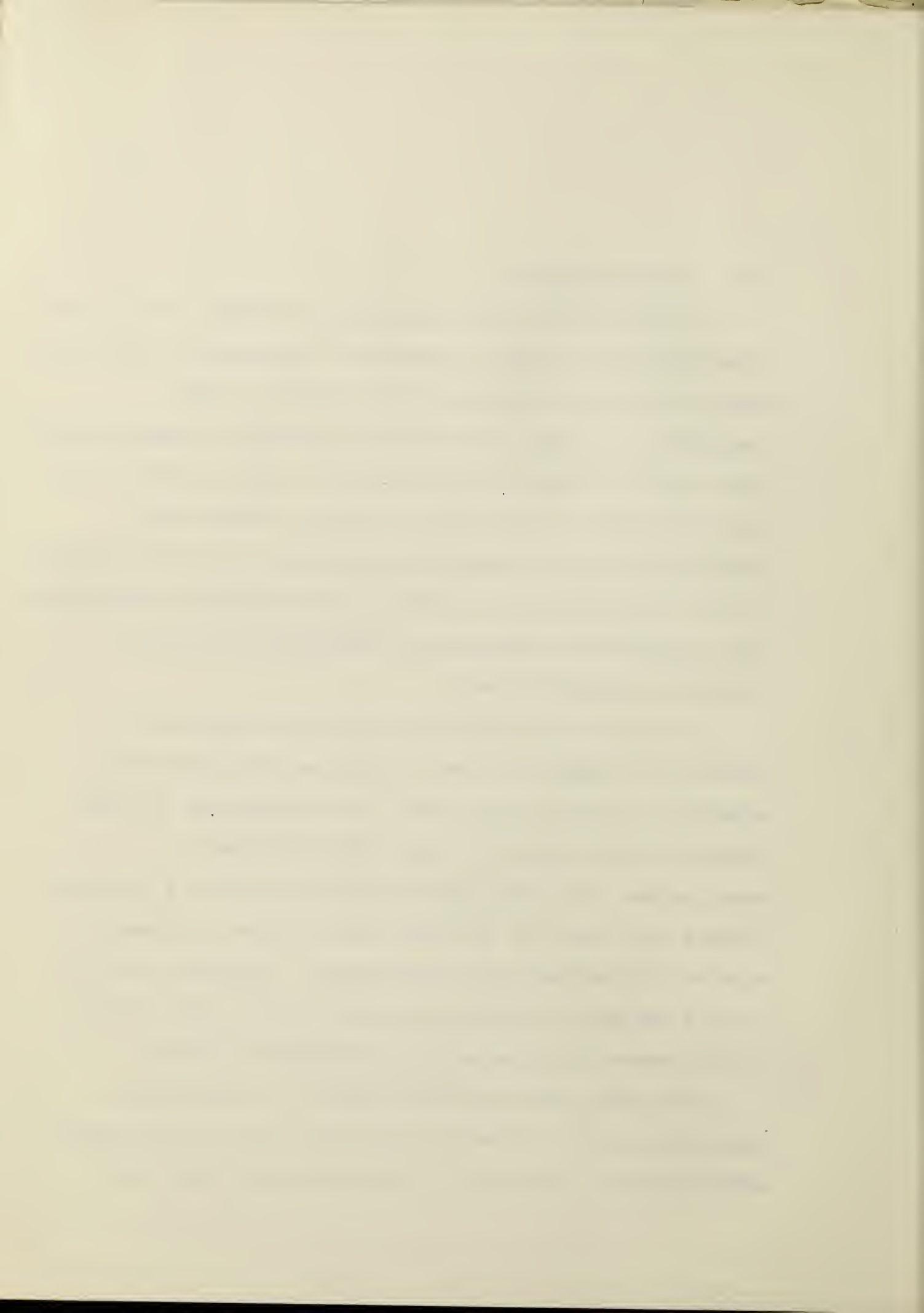


VII. Recommendations

We have shown in this paper that although little or no significant gap between revenues and expenditures exists for fiscal 1984, this occurrence is due solely to the availability of over \$80 million of one-time revenue sources which are not likely to be available in 1985 or 1986. Our prognostication is that the gap between steady-state expenditure needs and operating revenues will be \$48 million in 1985 and \$34 million in 1986. The assumptions underlying this analysis are painstakingly detailed and the key variables are highlighted.

It is our belief that this analysis will generate decisions to change the very results we have estimated, hopefully to the side of lower (or no) deficits, through recognition and action to solve these problems. Nevertheless, the next Administration will face a financial dilemma which must be resolved before bolder programs and service initiatives can be formulated. Although 1984 will bring a new Mayor and Administration to City Hall, fiscal policy issues will dominate the foreseeable future.

The budget plan for 1984 is set. In addition to maintaining and/or adjusting the course set by the current administration, the next City Administration must move



immediately in two areas. First, in order to maximize the potential contribution of economic growth to the tax levy, the next Administration should focus immediately on identifying the detail of such growth and estimating its market value and translation into assessed value. Second, it should inject itself into the widening deliberations on how state aid will be distributed to cities and towns, particularly Boston, for fiscal 1985.

The first item is wholly in the area of self-help, and good staff appointments and quality management can accomplish this task. A fair share of state aid for Boston will depend to a large extent on the City's political ability to make its own case, particularly in what has always been a difficult arena. As mentioned earlier, the City has been receiving about 19% of total state aid distributions in recent years. If nothing is done to revise the distribution formulas, this will fall to approximately 13%; however, the need is to increase the City's share to match its contribution to the Commonwealth's economy, its relatively large financial requirements and the restrictions on its property tax raising capacity because of the extraordinary high proportion of land occupied by tax-exempt property.



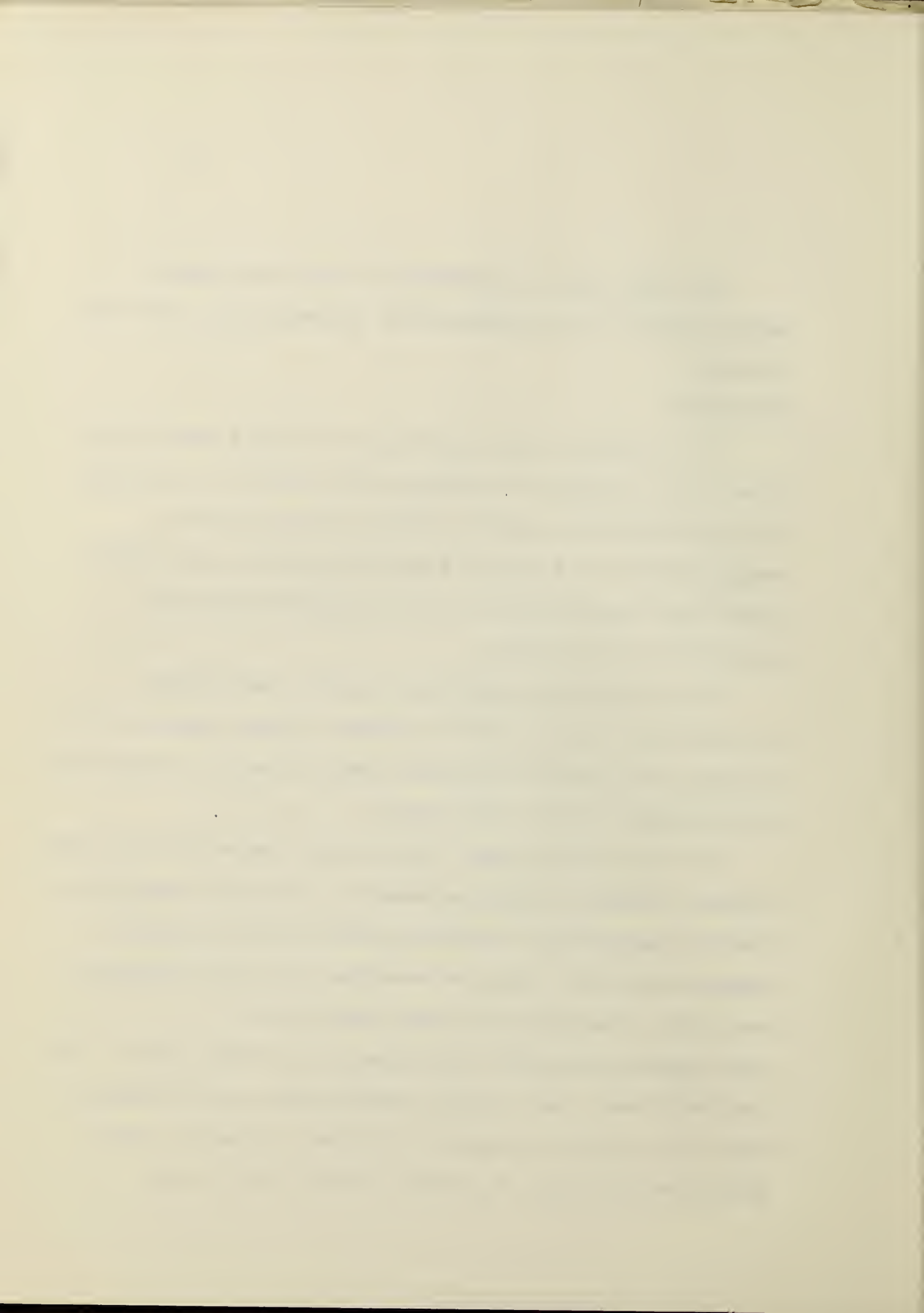
Our additional recommendations for the incoming Administration are categorized by Self-Help and State-Help options.

SELF-HELP

1. To prevent the balancing of a single year's tax rate at the expense of subsequent tax rates, the incoming City Administration should prepare and make public a comprehensive and balanced financial plan for the 1984 to 1986 fiscal years similar to the analytical exercise presented in this report.

This three-year plan should update the original estimates for fiscal 1984 to reflect changes necessary for averting any incipient operating deficit and to incorporate unanticipated fiscal developments.

For the 1985 and 1986 fiscal years the expenditure and revenue estimates should be based on realistic assumptions. Thus the expenditure estimates should include adequate appropriations for employee benefits and court judgements and claims, thereby ending past practices of under-appropriating the requirements for these items. (For the 1983 fiscal year, actual expenditures and encumbrances were \$13.1 million in excess of budget allowances, thus accounting for about 80 percent of the City's total



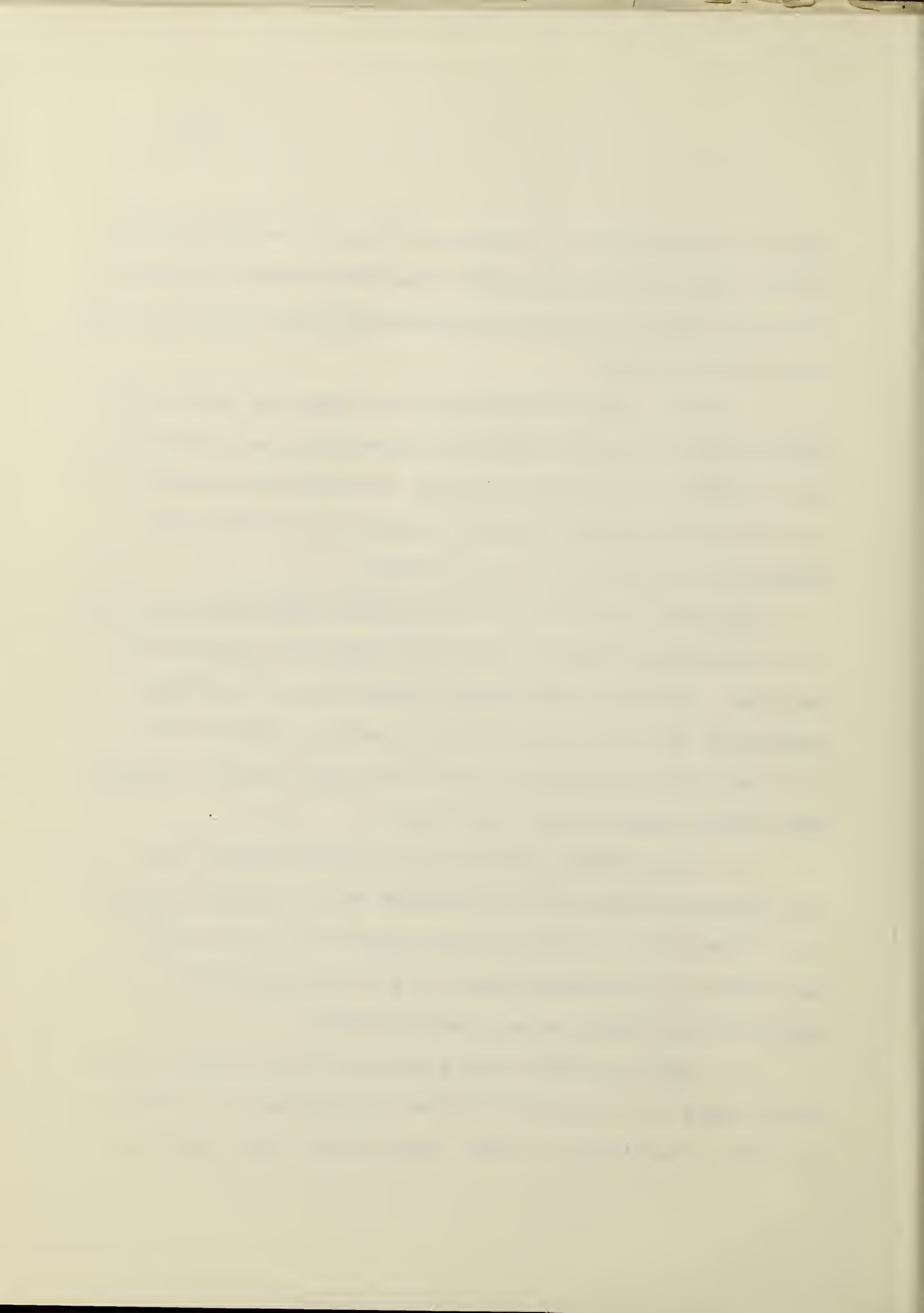
appropriation deficit.) Estimates of local receipts should be based on actual collections from these sources, except where the evidence clearly supports any deviations from such conservative policy.

2. All or most of the personnel costs for collective bargaining settlements affecting expenditure requirements for the 1984 fiscal year should be financed from savings generated from payroll reductions and from unencumbered appropriation balances of prior years.

Personnel vacancies in non-critical positions should be left unfilled and payroll attrition should be fostered by adopting retirement incentives, productivity enhancement mechanisms and alternative service delivery systems that will help shrink the City's work force and improve the cost and effectiveness of City Services.

3. The new City Administration should adopt firm policies and schedules for retention and/or disposition of the \$20 million in appropriation reserves so that this set-aside is used effectively for averting potential appropriation and/or revenue deficiencies.

4. Excess proceeds from the sale of City assets should not be used as revenues for current operations, but should go into a stabilization fund. Section 5B, C40, Mass, G.L.



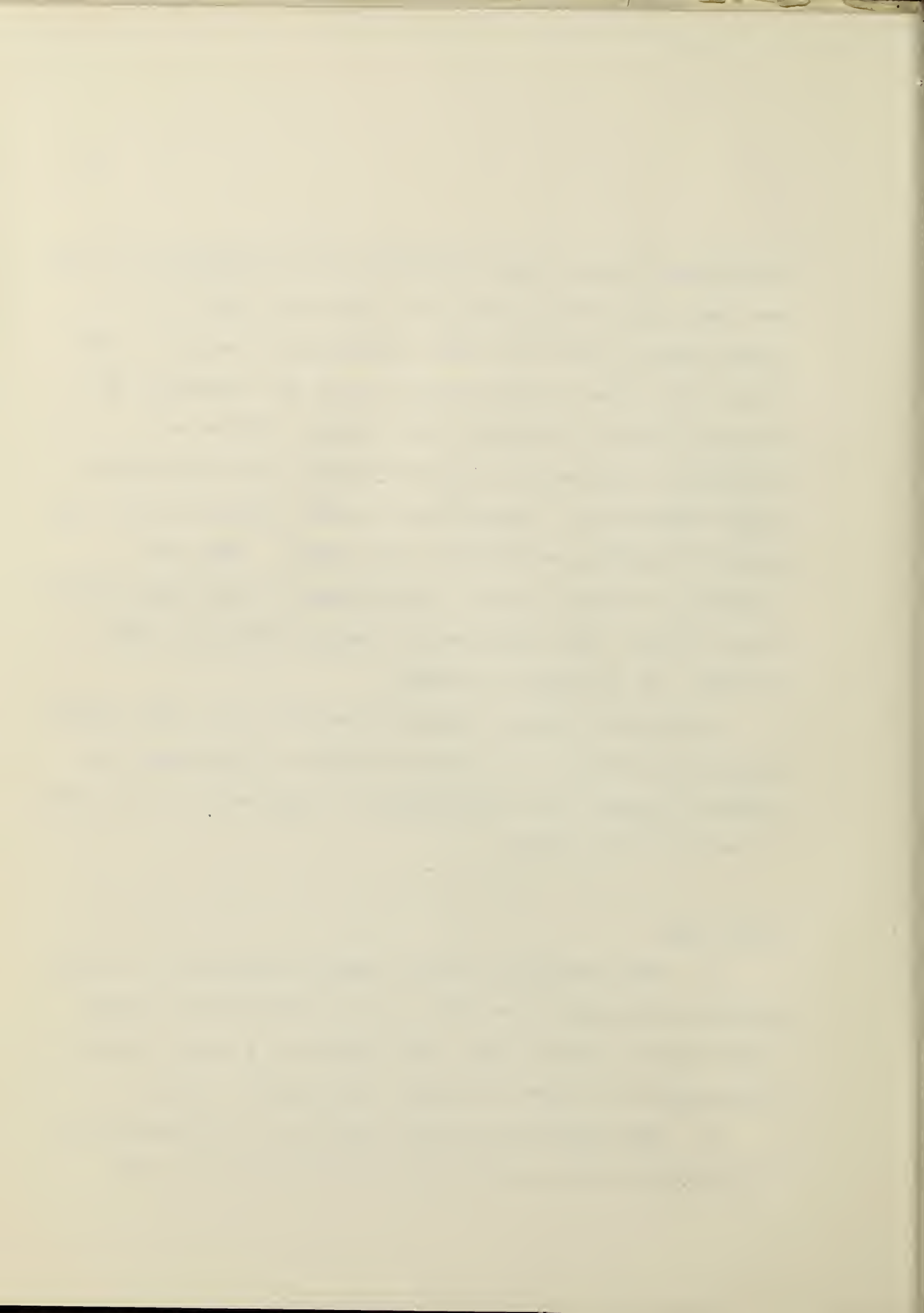
authorizes cities, towns and districts to appropriate in any one year up to 10% of the prior year's tax levy for a stabilization fund and allows the aggregate amount in the fund at any time to total up to 10% of the valuation of a city or town for financing such capital outlays as automotive equipment and other equipment with relatively rapid depreciation, sidewalk and street reconstruction, and deferred building maintenance and repair. These are regularly recurring capital requirements of the City and the high interest costs incurred in issuing bonds for these purposes can thereby be avoided.

As Boston's fiscal condition improves, the City should appropriate funds in its current budget to supplement for capital purposes the accumulations of proceeds from the sale of surplus City assets.

STATE-HELP

1. The Legislature should assume financing of transit services throughout the state, in all metropolitan areas including the Boston area. (For Boston this would relieve the property tax levy of almost \$40 million a year.)

2. The Legislature should authorize the Commonwealth to integrate county correctional institutions into the



statewide correctional system, at an estimated state cost of \$40 million a year, providing about \$14 million a year in property tax relief to the City of Boston.

3. If the Legislature is reluctant to enact only part of the above package of recommendations, it should substitute a limited set of local excise tax options that any city or town could adopt, options that would have minimum adverse impact on local economies. Two that make sense for Boston are:

a. A parking excise tax applicable to parking facilities in non-residential areas. A 20% parking excise tax in Boston, for example, would raise an estimated \$13 million a year.

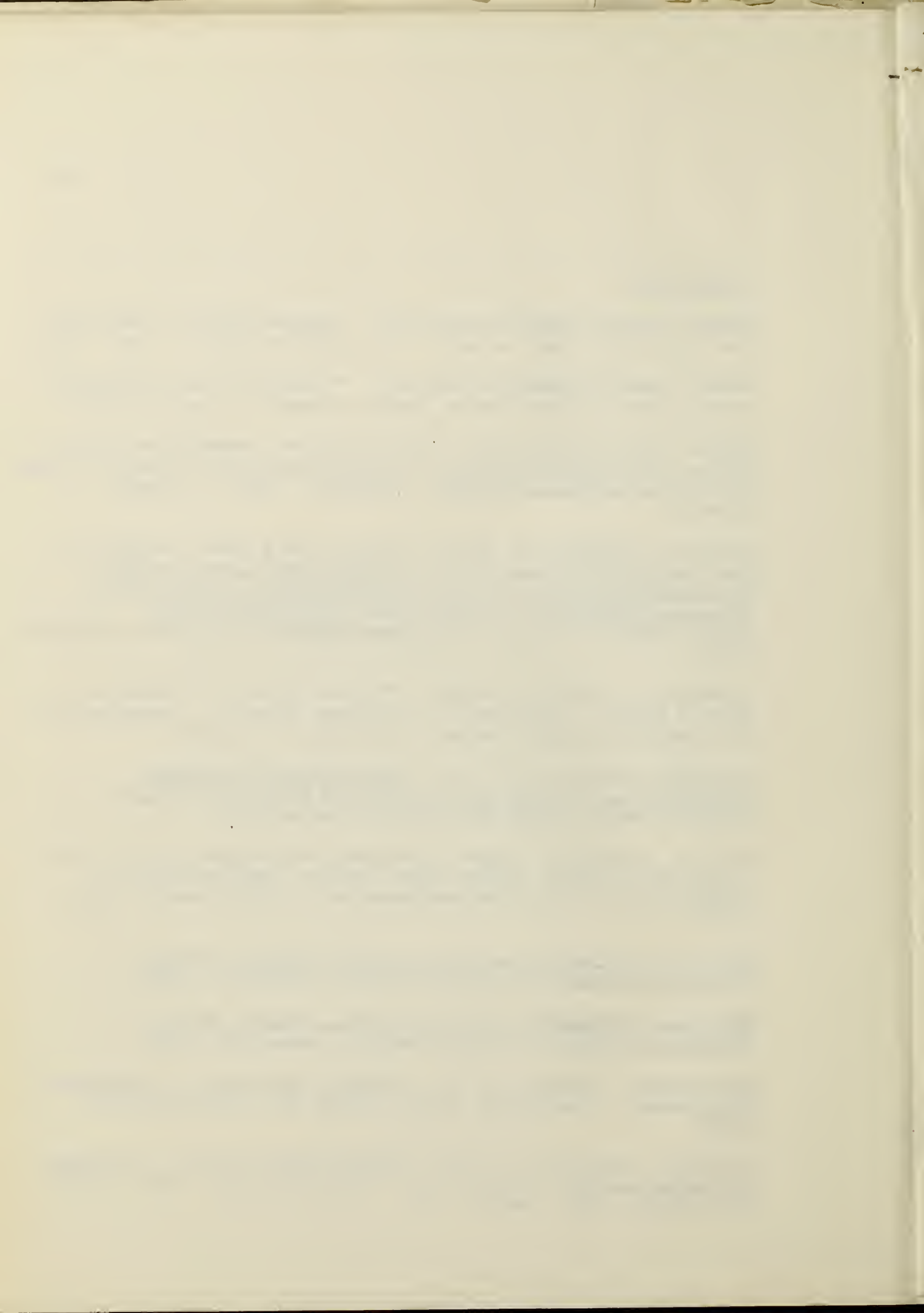
b. A 2.3% supplement of the current state excise tax of 5.7% on hotel and motel accommodations applicable to rooms opened for patronage after August 1, 1981; plus, at 8%, the total yield of the occupancy tax on all pre-1981 rooms.

For Boston, such a hotel/motel excise surcharge would raise an estimated \$13.2 million in fiscal 1985 and increase to \$14.3 million in 1986.



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