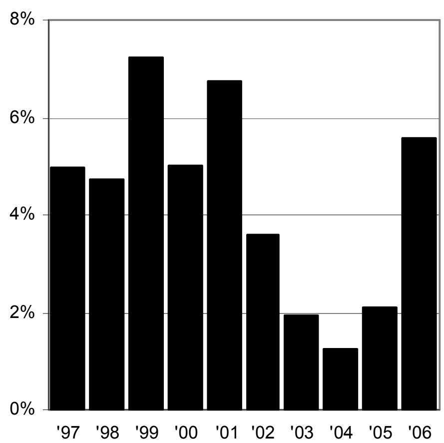
Revenue Estimates and Analysis

OVERVIEW

The FY06 Budget is supported with $2.019 billion in recurring revenue, an increase of $107.1 million, or 5.6%, from the FY05 Budget. The budget also includes $9.2 million in non-recurring revenue and $20.0 million from budgetary fund balance, yielding total revenue of $2.049 billion, an increase of $119.5 million, or 6.2% from FY05.

FY06 will represent a real increase to recurring revenue growth after three years of less than or only inflationary growth (Figure 1). The largest portion of the FY06 increase is attributable to growth in the Property Tax. Among all other major revenue categories, no items are projected to be less than that budgeted for FY05.

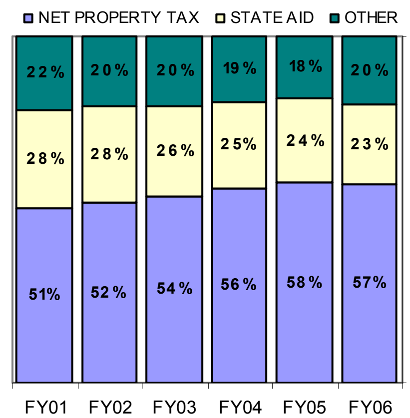


Annual Change in City Revenues

FY97 - FY06 Recurring Revenue

Figure 1

This chapter begins with a review of national and state economic trends that have and will continue to impact Boston in FY06 and beyond. It is followed by an analysis of recent state budget trends and state aid, the City's second largest revenue source. Finally, a detailed discussion of the property tax levy, the City's largest revenue source, is presented along with other City revenues. Net property tax and state aid together



Net Property Tax Levy, State Aid, & Other

Percent of Recurring Revenue

Figure 2

make up 80.5% of total City revenues with the share of property tax increasing steadily and state aid decreasing steadily. Their stability is of critical importance in determining the City's ability to deliver quality services while maintaining fiscal stability and a balanced budget (Figure 2).

THE NATION

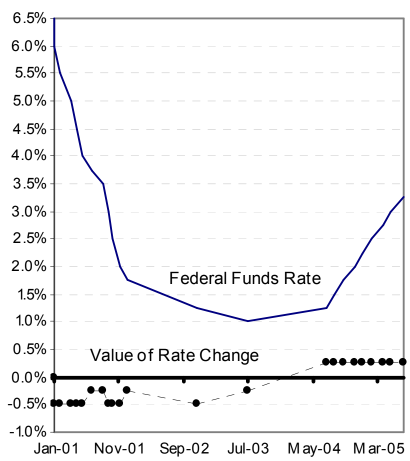
According to recent testimony by Federal Reserve Chairman, Alan Greenspan, the United States economy performed well in 2004 and is currently experiencing steady Gross Domestic Product (GDP), employment and wage growth. In addition, corporate profits and confidence in the stock market are high. Future inflationary pressure is increasing but has been subdued so far and, therefore, consumer spending continues to be robust and the net worth of households continues to rise as well.

Conversely, business leaders, though optimistic, are still cautious and focused on cost containment as new capital investment has been good, but not what would be expected with such large profits. Firms are also delaying some new hiring decisions out of this same caution. Interest rates are rising to counteract anticipated price-level pressures caused by slower productivity growth, higher compensation of workers and higher oil prices. This increase in interest rates will have the added benefit of supporting the dollar exchange rate. And last, growing federal budget deficits are clouding the nation's economic future and will begin to act as a drag on GDP if not dealt with soon.

The country dealt with the most recent recession as a small company might a hostile takeover attempt by a Wall Street giant – relying on the value in homes to sustain a level of consumer spending that dampened the overall effect of the downturn.

As a result, the recession was one of the mildest on record. Lasting only eight months it is tied with the 1990-1991 and 1860-1861 recessions for the shortest duration in recorded history. And even as the uncertainty of terrorism warnings and the involvement of U.S. forces in Iraq, has continued to weigh on confidence, Americans seem to be seeing past those issues to more favorable times ahead.

Currently the Federal Reserve is tightening monetary policy through the federal funds rate from the June 2003, 41 year low of 1.00% to the current 2.75%. Starting in June 2004, the Federal Reserve has increased the federal funds rate by 25 basis points at 9 intervals (Figure 3). Even with these increases, "real" or inflation-adjusted short-term interest rates are still accommodative. The Federal Reserve has stated it will continue to use monetary policy to maintain its duel charges of price stability and maximum employment as the economy expands.



Federal Funds Rate and Changes
January 2001 - June 2005

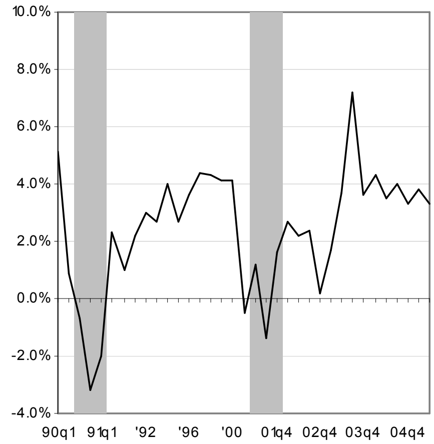
Figure 3

Higher interest rates slow the economy by making money costlier to borrow for purchases such as consumer durable goods and homes. Some evidence of effective monetary policy can be seen in the past two years of historically low interest rates that have spurred record car sales, home sales and home refinancings in spite of slack labor market conditions and the loss of stock market wealth. Higher interest rates usually serve to limit inflation that can come with a stronger economy.

Mortgage rates have continued to remain historically low due despite an increasing Federal Funds rate. The monthly average conventional 30-year fixed-rate mortgage has declined to 5.40% in June 2005 from 6.05% in June 2004. Mortgage rates are expected to rise throughout the remainder of 2005 and 2006 as the federal funds rate continues to increase.

The recent strong home price appreciation and low interest rates, besides inducing mortgage refinancings, which have fueled a great deal of consumer spending through lower monthly mortgage costs and "cash-outs," has had the additional benefit of causing a downward trend in the term of mortgage maturity with many homeowners opting for something less than a 30 year mortgage. This shorter term saves homeowners considerable interest costs over the life of the loan, further improving their financial condition.

The housing market, which kept the nation out of a deeper recession, will likely slow as mortgage rates rise. As should consumer spending on big-ticket, durable goods, as the main driver of that demand – home sales – slows. But the housing market should remain healthy, with just lower annual rates of appreciation, for the foreseeable future.



Real Gross Domestic Product Growth
1990-2005q2 and NBER Dated Recessions

Figure 4

Real gross domestic product (GDP) grew at 3.3% in the second quarter of 2005, slightly less that of the third quarter (4.0%) and that of the second quarter 2004 (3.5%). Real GDP is expected to remain steady over the course of 2005. Current Federal Reserve estimates range from 3.5% to 3.75% annual growth by the end of 2005 after growth of 4.2% in 2004 (Figure 4).

The seasonally adjusted unemployment rate in the U.S. was 5.0% in June 2005, down from 5.6% a year earlier and from 5.4% in December 2004 (Figure 5). According to Federal Reserve forecasts, the unemployment rate is expected to remain at this level, ending the year between 5.00% and 5.25%.

The U.S. consumer price index for all urban consumers (CPI-U) rose 2.5% in the year ending June 2005, down sharply from 3.2% for the year ending June 2004. The "core" rate of inflation, all items less food and fuel, increased over the same time period to 2.1% growth from 1.7% the prior year. This price pressure is evidence of declining productivity and increasing worker compensation forcing increased selling prices against the firm demand of consumers.

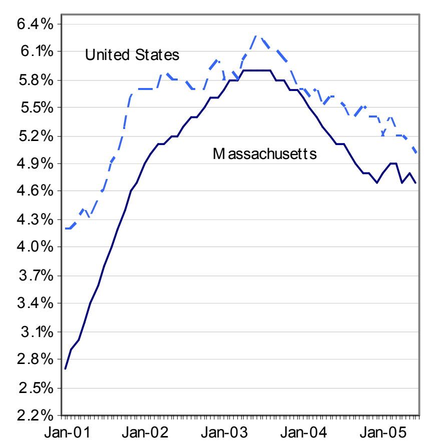
Even with the improving health of the national economy, federal budget deficits are expected to grow due to tax cuts, entitlement cost pressures and military action in Iraq. Given this and ambiguous projections of when balanced budgets return, the states should expect less federal funds coming in the next year and possibly the following years until the federal budget is stabilized.

THE COMMONWEALTH

The Massachusetts economy boomed in 2000 and then slowed to a near stop. According to the Bureau of Economic Analysis (BEA), Massachusetts' real Gross State Product (GSP) increased in 2000 by 8.4% from 1999.

By 2001, annual Massachusetts real GSP growth had slowed to 0.7% and by 2002, had slowed even further to 0.1% annual growth. In 2003, real GSP growth estimates ranked Massachusetts at a dismal 49th out of the 50 states, with only Illinois and the District of Columbia ranking lower. But in 2004 the state's economy improved, growing 4.8%, its ranking increased to17th.

The decline in economic growth and correspondingly, state tax revenues, in Massachusetts that followed during this recent recession was substantial. Massachusetts lost the highest percentage of jobs in the nation, at one point losing more than 200,000 jobs or 6.0%. Simultaneously the bursting of the internet-stock market bubble greatly affected Massachusetts's income tax collections. For example, collections from wage and salary withholding taxes fell $600



Unemployment Rates
January-01- January-05
Seasonally Adjusted

Figure 5

million in FY02, while overall income tax from all sources fell nearly $2 billion. This demonstrates that not only did taxable incomes fall as a result of job losses, but also due to massive losses in investment income as well. It should be noted that several income related state tax cuts were still phasing in during this period, further exacerbating the decline in revenue. Further detail on state tax cuts is provided in this chapter.

Recently, employment and tax revenue in Massachusetts are slowly increasing. Seasonally adjusted non-farm payrolls show a gain of 23,900 jobs in June 2005, or 0.8% from the prior June, but the state remains more than 166,000 jobs behind the recent peak in February 2001. Income tax revenues increased 10% in fiscal 2004 and were running 10.1% ahead of fiscal 2004 in May 2005.

Employment by sector has decreased most substantially in Manufacturing which is still down 96,700 jobs since January 2001, or 23.6%. This is followed by Information, which is down 31,100 jobs or 26.6% and Trade, Transportation & Utilities, down 24,400 jobs or 4.1%. Most sectors have now stabilized or have slowly grown over the last few months. For example, Leisure and Hospitality has increased substantially by 19,000 jobs or 6.9% since its trough in October 2001.

The employment outlook is weak but improving. A forecast for Massachusetts from Economy.com projects only a mild employment gain in 2005 of a 1.6%, after declining in both 2003 and 2004. The seasonally adjusted unemployment rate for Massachusetts in June 2005 was 47 %, down from 5.1% in June 2004, both of which are well above the ten-year low of 2.6% in October 2000 (Figure 5).

Massachusetts' seasonally adjusted total personal income grew by 6.1% in the first quarter of 2005 over first quarter 2004. This is strong growth even when compared to 2000 when annual personal income growth was over 11% in Massachusetts. Earnings growth by industry over the same first quarter time period were strongest in Real Estate and Leasing, Professional and Technical Services, and Healthcare and Social Assistance growing 15.7%, 10.9% and 10.8%, respectively. Earnings growth in Utilities, Military and Non-durable goods were weakest at rates of -5.5%, -0.4% and 0.8%, respectively.

(see *Boston's People & Economy* section of Volume I for detail on Boston's economy.).

THE COMMONWEALTH BUDGET

In the decade prior to FY03, the Commonwealth had been successful in balancing its budget, giving it the capacity to support an adequate and diversified local revenue base for municipalities. Recently, due to the national economic recession, the corresponding drop in state tax revenues left the state in need of making program reductions, drawing on reserves, increasing taxes and freezing tax cuts already enacted, and reducing local aid. Municipalities received reductions in FY03 local aid in July 2002 by way of gubernatorial veto of certain line items, then in the fall with cuts to grant accounts, and once again in the winter when the legislature granted the new governor temporary control over large local aid accounts in order to offset a projected deficit in that year.

The state formulated an FY04 Budget amid ever-rising costs pitted against a stagnated tax base. In January 2003, the Governor released a budget plan that included massive change to the funding of local aid accounts and restructured state government in myriad ways in order to achieve balance. There was some controversy as to whether the Governor's plan would in fact eliminate a projected $2.5 to $3.0 billion structural deficit in FY04 without raising taxes or affecting core services. The legislature committed to work quickly to produce a plan of its own. The House budget was released the following April 23, and the Senate budget in early May. The Conference Committee Budget, the compromise between the houses of the Legislature, was sent to the Governor June 20th.

The result was a rejection of nearly all of the Governor's reform measures, including substantial changes to local aid funding. The FY04 budget included yet another reduction in local aid.

The Commonwealth has tended to build its budgets cautiously the last several years by being relatively conservative in its revenue estimates. This caution had been rewarded by the accumulation of reserves that have allowed the state more options in dealing with recent revenue shortfalls than those of the past. The state had nearly exhausted those reserves by the close of FY03 and is now starting to build them again. The FY06 Budget may require the use of some portion of those reserves in order to balance.

With the Commonwealth running large budget surpluses 1990's, tax cuts occurred in rapid succession. In July 1998, the Legislature and the Governor worked out a tax cut that included a doubling of the personal exemption and a reduction in the unearned income tax rate from

12% to 5.95%. In the FY00 Budget, the Governor signed into law a reduction of the earned income tax rate from 5.95% to 5.75% over three tax years. The Governor's FY01 Budget recommended a reduction in the tax rate on earned income and the interest and dividend components of unearned income to 5.0% over three tax years, which was later passed by referendum in November of 2000. The FY02 Budget included the above rate cut and some smaller targeted tax cuts taking effect in tax year 2001 such as: a refundable local property tax credit for low income senior citizens, an increase in the residential rental deduction, a new deduction for charitable donations, and a credit for developers of low income housing. The Governor's FY03 Budget included the continuation of the voter-approved income tax rate reduction to 5.0% valued at $452 million in FY03.

In FY03, the legislature, instead of continuing tax cuts, voted to accept a tax increase package. Valued at $1.14 billion by the Massachusetts Taxpayers Foundation, the package included a freeze of the income tax rate at 5.3% ($215 million), reducing the personal exemption by 25% ($240 million), repeal of the charitable donations deduction ($190 million), an increase in capital gains taxes ($275 million), and a $0.75 increase in the cigarette tax ($220 million) along with other increases to fees for various licenses. The Governor vetoed these tax increases but enough support existed for a legislative override of those vetoes.

Even with the enacted tax increases, the FY03 budget was reduced several times during the course of the year as revenues failed to meet estimates. Most early reductions fell on executive branch agencies or grant accounts where the governor has the power to cut unilaterally. In January 2003, the new governor sought from the legislature temporary power to reduce local aid accounts normally under legislative control. The legislature granted that temporary power and local aid for FY03 was reduced statewide. The FY04 Budget then further reduced major local aid accounts again.

The Governor's FY06 state budget again proposed changes in state government organization, along with welfare reform and changes in taxation. State government would be changed by a consolidation of transportation agencies, welfare work requirements would increase, the income tax would be reduced to the voter-approved level of 5.0% and several corporate "loopholes" would be closed. Local aid would remain intact and funded near level with FY05 with only small increases in Chapter 70 school aid and Lottery aid.

Beyond the recent reductions in and level-funding of local aid accounts, the City sees the ongoing need to modernize the property tax and seek a more diversified mix of revenue sources. To that end, the City has proposed and continues to support, several state legislative changes to shore up the property tax and to allow municipalities to generate more "own-source" revenue.

Specifically, the Mayor has filed legislation to close property tax loopholes that allow private businesses on tax exempt land to avoid taxes and that allow exemptions for certain equipment or corporate structures in the telecommunications industry.

In addition, the Mayor has filed legislation to enact a 1% local option tax on prepared food and beverages sold in municipalities in addition to the 5% state tax already in place. If the Legislature were to enact this legislation and the City Council adopted it, the City could recover an estimated $17 million annually. A meals tax is a good fit for what has become a strong tourist and travel economy in Boston. It would provide revenue growth at a nominal rate without a heavy burden on residents, tourists or travelers with the total rate of taxation remaining one of the lowest of any major city.

At the same time, the Mayor has filed legislation to enact a local option tax on parking in commercial parking lots. The City, like other regional employment centers, expends considerable resources on traffic control and street maintenance in support of this employment. But unlike other cities, Boston does not have any taxing authority to recover those costs. This local option tax could generate $19 million annually.

All of these measures were defeated in the Legislature for FY04, but the City remains active in support of their eventual passage and will continually stress the importance of a diversified and equitable revenue system for municipalities. In fact the Mayor recently called upon the Boston Municipal Research Bureau to conduct a study into the City's revenue structure.

STATE LOCAL AID

In FY03, the Commonwealth's annual expenditure for direct local aid statewide was substantially reduced twice. The first statewide reduction of a net $32 million dollars occurred in late July 2002, one full month into the fiscal year, and mostly as a result of vetoes by the Governor. The second reduction of $114 million occurred in January 2003, as a result of the Legislature granting the new Governor temporary power to make unilateral reductions to local aid accounts.

In the decade prior to FY03, Commonwealth officials, driven by practical considerations and availability of resources, reinstated increases in local aid in the form of aid earmarked for education. This period of increases followed three years of significant local aid reductions, which played a key role in the Commonwealth's return to a balanced budget after the last economic recession. The Commonwealth's annual expenditure for direct local aid statewide has increased from $2.32 billion in FY92 to $5.02 billion in FY03, an increase of 116%.

At the same time, Boston's share of local aid (net of reimbursement for teacher's pensions) increased 36.9%. The remainder of this section looks at Boston's experience with local aid in detail.

Local aid refers primarily to distributions from the Commonwealth to municipal general revenue for Chapter 70 education aid, additional assistance and lottery aid. The amount of these funds to be distributed is listed on each community's cherry sheet (a listing of a city or town's local aid that was formerly printed on cherry-colored paper) along with other relatively smaller Commonwealth programs such as library aid, school construction, transportation and other reimbursements, and highway funds. As mentioned above, due to a lingering structural deficit in the state budget, there is virtual certainty that local aid will not be increased substantially in FY06.

The FY06 estimate of state aid assumes only minor growth. The City received local aid (after adjusting for an accounting change in the treatment of Charter School Tuition) from the Commonwealth totaling $522.7 million in FY02, $476.6 million in FY03, and $459.8 million in FY04. The City expects $462.0 million of local aid in FY05 and is budgeting $466.7 million in FY06.

Since FY82, there have been three distinct phases in state local aid funding policy. From FY82 through FY89, local aid policy was essentially a revenue sharing response to Proposition 2 ½, the statewide cap on local property tax rates and levies. A reasonable annual increase in local aid became an essential component in the financial planning for municipalities. The distribution between municipalities was based upon a relative measure of balance between local needs and local resources, and the revenue was distributed both in the Chapter 70 and Additional Assistance line items.

During the FY90, FY91 and FY92 budgets the Governor and the Legislature sharply reduced state revenue sharing with cities, towns, and regional school districts in order to help balance the state budget. Between FY89 and FY92, statewide cherry sheet aid declined $639 million or 21.5% while all other state spending increased by $1.5 billion or 15%.

Beginning in 1993 with the passage of the FY94 state budget, the Commonwealth embarked upon a multi-year commitment to increase and equalize funding for local education in its local aid distributions. During this period, Chapter 70 increased and additional assistance remained frozen. In general, state local aid during the FY94-FY03 period has been less favorable for Boston than the revenue sharing arrangement during the FY83-FY89 period. To illustrate, the City's total state aid between FY92 and FY03 grew $121 million or 36.9%, while its total state aid between FY82 and FY89 increased by $215 million or 111%.

The City received Chapter 70 education aid totaling $205.6 million in FY02 and FY03. The City received $200.5 million in FY04 and expects to receive the same amount in FY05 and $203.6 million in FY06.

FY00 was the last year of the statutorily established funding schedule for education reform. There has yet to be established a post-FY00 funding schedule. A vital component in the City's delivery of quality public education in the near-term is strong financial support from the Commonwealth.

A key component of the Commonwealth's education reform effort is charter schools. The current educational aid is delivered in tandem with state-mandated costs for charter schools. Charter schools, which are granted charters by the State Board of Education, are publicly funded schools administered independently from local school committee and teacher union rules and regulations. There are two kinds of charter schools, the Commonwealth charter school and the Horace Mann charter school. The former is a school outside the local public school system and the latter is part or all of a school in the public school system. Unlike a Commonwealth charter school, Horace Mann charter school budgets remain part of the public school budget. In addition to the Board of Education, the local school committee and local bargaining agent must approve Horace Mann charter schools.

There are currently twenty-one Commonwealth charter schools and two Horace Mann charter schools available to Boston resident students. There were approximately 4,434 Boston resident students attending Commonwealth charter schools in FY05. The City expects that number to be between 4,434 and 4,954 in FY06, depending on the outcome of appeals to the closing of two charter schools.

Before FY99, all charter school tuition was drawn directly from the City's Chapter 70 aid. This draw on the City's education aid totaled $10.9 million in FY98. Under amendments to the charter school law, the Commonwealth, subject to appropriation, will pay to the City as reimbursement for Chapter 70 aid reductions 100% of tuition for new charter school students the first year, followed by 60% of tuition and tuition increases the second year, 40% of tuition and tuition increases the third year and 0% thereafter.

In FY03, the Commonwealth failed to appropriate funding for the charter school reimbursement, therefore the City paid the full tuition cost of $32.1 million in that year. The net cost to the City of charter schools in FY04 was $33.6 million. In FY05, the City has budgeted a $14.8 million reimbursement (that now includes a reimbursement for capital facilities as well as tuition) on a $46.7 million tuition assessment for a net impact of $31.9 million. In FY06 the city has budgeted a $10.3 million reimbursement against a $49.0 million tuition cost, yielding a net impact of $38.7 million.

Lottery aid for the City, as for most municipalities, had grown steadily over the last few years as a result of a state decision to phase-out an earlier imposed lottery cap and return to the practice of returning all lottery profits to cities and towns. The City's lottery aid was $71.0 million in FY01, and $63.5 million in FY02. Lottery aid was then level funded in the state's FY03 budget and then later reduced to $57.6 million after the Governor effectively capped Lottery aid to cities and towns, diverting the excess funds to the state. The City received $54.0 million in lottery aid in FY04 and expects to receive $54.0 million in FY05 and $60.5 million in FY06 as the latest cap begins to come off.

Under normal circumstances, the lottery formula is not favorable to the City because it distributes lottery aid increases based inversely upon each municipality's relative per capita property wealth. The City receives a smaller percentage share of lottery aid than its share of the state population, and dramatically less than the share of lottery proceeds derived from sales in Boston.

Nevertheless, lottery aid has been an important source of revenue growth, aiding the City's efforts to sustain adequate municipal services. Beginning in FY01, growth in the City's lottery distribution reflected only profit growth in the lottery and not the removal of the state cap on lottery aid that had been in effect the five years prior to FY01. Now that lottery aid is subject again to the state's discretionary capping or reducing, it may take several years before it is again restored as solely a local aid revenue source.

Additional Assistance, as mentioned above, had been frozen since FY94, with most local aid increases coming through Chapter 70 education aid instead. Its purpose and usefulness came into question during the FY03 state budget process when the Governor vetoed $31 million from the statewide appropriation and the legislature failed to override that veto. Subsequently, the new Governor, using his temporary local aid reduction powers, reduced additional assistance yet again in January 2002 by $73 million. As Boston receives over 40% of the statewide distribution of additional assistance, these reductions fell disproportionately on the City. The City received $206.6 million in additional assistance in FY02 and adjusted additional assistance of $175.1 million in FY03. The City received$164.2 million in FY04 and expects the same FY05 and FY06. Additional assistance has been important to Boston in supporting schools, public safety, and other basic services. Its continued reduction would seriously risk the City's ability to provide those services to residents and visitors alike.

PROPERTY TAX LEVY

The property tax levy has been the City's largest and most dependable source of revenue growth during the past 20 years. In FY05, the net property tax levy is $1.105 billion, providing 57.8% of all City recurring revenue, with an increase to $1.159 billion expected in FY06. According to current estimates, the net property tax levy will account for 57.4% of total recurring revenue in FY06.

The increases in the gross property tax levy have been steady and consistent from FY85 to FY04, ranging from $28 million to $63 million. However, because of the increasing property tax levy base, the $29.9 million increase in FY85 represented an 8.9% increase, while the $54.6 million rise in FY05 represented 5.0% growth. It is important for the financial health of the City that the property tax levy continue to grow, but its future growth, as explained in more detail below, is not guaranteed.

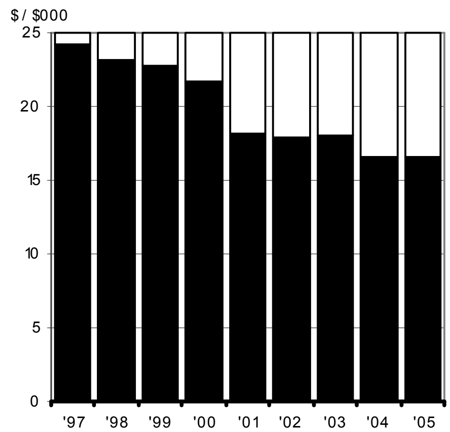
The difference between the Gross and Net property tax levies is due to a required "overlay reserve". The overlay reserve is a portion of the gross levy set aside to pay for abatements of tax bills that are contested. Until FY04, the City was required by Chapter 717 of the Acts of 1957 to reserve between 5% and 6% of the levy for this purpose. In FY04, the City petitioned the state legislature to repeal the act and allow the state Department of Revenue to approve the City's reserve annually as it does with every other city or town in the Commonwealth. The act was repealed and the City reserved 4% of the levy in FY04 and FY05. This 1% lower reserve amount added approximately $10 million in recurring revenue to the operating budget starting in FY04. The level of needed reserve is determined by the City Assessor each year according to his projected need to satisfy abatements. In FY06, the reserve has been set at 3.5%

Proposition 2 ½ has been the overwhelming factor affecting the City's property tax levy since being passed in 1980. Proposition 2 1/2 limits the property tax levy in a city or town to no more than 2.5% of the total fair cash value of all taxable real and personal property. It also limits the total property tax levy to no more than a 2.5% increase over the prior year's total levy with certain provisions for new growth and construction. Finally, Proposition 2 ½ provides for local overrides of the levy limit and a local option to exclude certain debt from the limit. The City of Boston, however, has not voted to either override the levy limitations or exclude any debt from the limit.

Proposition 2 ½, as amended in 1991, allows growth in the levy beyond the 2.5% limit for any new properties and any increases in property valuations that are not related to municipal-wide revaluations. This limitation is more flexible than the original limitations on allowable new growth and has helped to strengthen revenue growth in a budget that does not have a diversified revenue base.

In each year since FY85, the City has increased its levy by the allowable 2.5%. These increases have grown as the levy has grown, beginning in FY85 at $8.4 million and reaching $27.3 million in FY05. During these same years, the levy has also been positively impacted by taxable new value, especially from new construction that has added to the tax base. The amount levied from taxable new value in FY05 was $27.8 million and is estimated at $22.0 million in FY06. The combined effect of the allowable 2.5% increase and the taxable new value is an average annual levy increase from FY98 through FY05 of $50.0 million or 5.5%, and a projected increase in FY06 of $50.7 million or 4.4%.

As real estate values decreased in the early 1990s, the City continued each year to maximize the allowable levy increase under Proposition 2 ½. Between FY90 and FY94, the levy increased each year by an average of 6.4%. The dramatic decrease in values brought the effective tax rate (levy / taxable value) from its healthy low point of 1.4% in FY89 to 2.47% in FY94, dangerously close to the Proposition 2 ½ tax rate ceiling of 2.5%. Reaching the 2.5% cap would have resulted in a very limited increase in allowable 2.5% annual levy growth. However, due to several years of strong taxable value increases, the City now has some space between its FY05 net effective tax rate of 1.66% and the tax rate ceiling (Figure 6).



Overall Property Tax Rate & Space Below Levy Ceiling
FY97 -FY05
Figure 6

Should the real estate market depreciate, the City's lack of proximity to the 2.5% property tax rate threshold should insulate revenues from an immediate shock but could, if values are depressed long enough, impair the growth of the property tax. This would have serious implications for the City's ability to maintain services.

OTHER REVENUE

Approximately 20% of the City's budget is mainly comprised of excise taxes, fines, payments-lieu-of-taxes, investment income, departmental revenue, licenses and permits, penalties and interest and available funds.

The recent recession greatly affected the excise, interest on investment, and license and permit revenues of the City. Room occupancy and jet fuel revenue fell as the travel and tourism industries suffered through terrorism warnings and reduced corporate travel business.

While motor vehicle excise had performed well due to zero percent financing from manufacturers on new cars, investment income suffered steep losses as reduced interest rates suppressed earnings after several years of very strong gains.

License and permit revenues, as a result of building permits, were strong in recent years due to strong commercial development in the City.

The remaining sources of other revenue to the City are based on agreements with non-profit institutions, contracts with urban redevelopment corporations, or set rates of fees, fine, penalty or interest. These endure economic changes with little change in activity or revenue.

As the economy continues to recover there has been be a reversal of this recent history in other revenue collections. As interest rates rise, motor vehicle sales and construction will slow, but investment income will increase and business and leisure travel will raise hotel room and jet fuel excises. The FY06 Budget reflects the continuation of this transition that really began in late FY05.

Overall, the City is seeing an increase in these revenues after a modest decline in recent years. In FY01 the City collected $372.0 million from these combined sources and $365.9 million in FY02. In FY03 the City collected $377.3 million (some from one-time payments) and in FY04, $360.9 million. The FY05 Budget assumes a conservative $345.3 million and FY06 growth to $393.8 million.

Non-Recurring Revenue

The City appropriates funds from the Surplus Property Disposition Fund on an as-needed basis for one-time expenditures.

In FY06, the City will appropriate $9.2 million from the Surplus Property Disposition Fund for the following uses: $1.0 million for the Risk Retention Reserve, $0.8 million for youth programming, and $7.5 million for the Mayor's "Leading the Way" affordable housing program.

Budgetary Fund Balance

Fund Balance can be appropriated for use during the fiscal year. Fund Balance, or Budgetary Fund Balance, is more commonly referred to as "Free Cash" when used this way. This item is most simply described as the portion of available reserves, generated to a considerable degree by annual operating surpluses, which the City can responsibly appropriate for spending.

The FY04 Budget employed the use of a $20.0 million appropriation from that amount. For FY05 a $15.0 million appropriation has been assumed and for FY06 $20.0 million will be used. (See *Financial Management* section of Volume I for more detail on this revenue source.)

CITY OF BOSTON
REVENUE DETAIL

		FY03 Actual	FY04 Actual	FY05 Budget	FY06 Budget
	PROPERTY TAX LEVY	1,035,870,991	1,094,149,616	1,148,741,908	1,199,460,456
	OVERLAY RESERVE	(39,841,192)	(42,082,678)	(43,712,895)	(40,561,465)
	Subtotal	996,029,799	1,052,066,938	1,105,029,013	1,158,898,991
	EXCISES				
	Motor Vehicle Excise	45,576,419	33,137,120	32,000,000	37,500,000
40129	Room Occupancy Excise	18,000,000	17,000,000	20,500,000	22,600,000
40130	Jet Fuel Excise	18,839,212	8,524,273	13,000,000	14,000,000
40140	Condominium Conversion Excise	674,500	834,500	445,000	400,000
	Boat Excise	34,636	69,943	5,000	50,000
	Subtotal	83,124,767	59,565,837	65,950,000	74,550,000
	FINES				
	Parking Fines	55,326,949	63,097,196	58,500,000	62,000,000
45104	Code Enforcement - Trash	489,788	286,393	300,000	300,000
	Other Fines	3,168,288	3,280,474	3,218,534	3,293,534
	Subtotal	58,985,025	66,664,063	62,018,534	65,593,534
47151	**INTEREST ON INVESTMENTS**	8,552,002	7,791,729	7,300,000	16,000,000
40169	Massport	10,903,054	11,017,226	11,000,000	11,253,000
	Other Payments In Lieu of Taxes	11,179,994	11,250,958	11,756,512	12,026,912
	Subtotal	22,083,048	22,268,184	22,756,512	23,279,912
	URBAN REDEVELOPMENT CHAPTER 121A				
	Urban Redev. Chap. 121B Sec. 16	1,564,463	1,448,872	1,500,000	1,534,500
	Urban Redev. Chap. 121A Sec. 6A	17,262,339	18,655,871	15,742,133	18,500,000
41013	Urban Redev. Chap. 121A Sec. 10	35,280,393	34,702,694	33,000,000	33,500,000
	Subtotal	54,107,195	54,807,437	50,242,133	53,534,500
	MISC. DEPARTMENT REVENUE				
43105	Registry - Vital Statistics	975,903	1,661,742	1,000,000	1,500,000
43109	Liens	1,163,650	934,725	800,000	800,000
43120	City Clerk - Fees	786,248	534,994	550,000	550,000
43137	Municipal Medicaid Reimbursement	17,620,082	11,571,725	11,000,000	11,500,000
43202	Police Services	749,735	826,938	480,000	650,000
43211	Fire Services	2,769,902	2,702,822	2,700,000	2,700,000
43301	Parking Facilities	1,848,419	1,520,418	1,450,000	1,650,000
43311	PWD - Street & Sidewalk Occupancy Fees	2,721,395	2,309,062	2,325,000	2,325,000
43797	PWD - Fiber Optic Rental Fees	522,035	207,215	250,000	250,000
44002	Tuition & Transportation - Schools	588,472	395,581	400,000	400,000
47119	Settlements	1,205,885	455,733	450,000	450,000
47131	Pensions & Annuities	1,085,870	3,003,110	2,250,000	2,250,000
47132	Fringe Benefit & Indirect	1,850,000	0	0	500,000
47155	Prior Years Reimbursements	4,172,926	754,660	100,000	2,099,483
48000	Detail, 10% Admin. Fee	2,195,149	2,379,810	2,385,000	2,535,000
	Other Misc. Department Revenue	5,299,452	11,547,867	4,166,768	6,035,200
	Subtotal	45,555,122	40,806,401	30,306,768	36,194,683

CITY OF BOSTON

REVENUE DETAIL

		FY03 Actual	FY04 Actual	FY05 Budget	FY06 Budget
	LICENSES & PERMITS				
40211	Building Permits	20,145,888	22,724,810	15,000,000	17,000,000
40213	Weights & Measures	232,144	235,081	225,000	230,000
40215	BTD - Street & Sidewalk Permits	1,633,634	1,804,755	1,600,000	1,600,000
40221	Health Inspections	1,099,087	1,182,989	1,065,000	1,100,000
40222	Alcoholic Beverage Licenses	2,280,043	2,361,597	2,215,000	2,300,000
40224	Entertainment Licenses	507,074	1,383,232	485,000	500,000
40229	Other Business Licenses and Permits	1,008,870	127,358	990,000	1,000,000
40235	Cable Television	2,607,867	4,203,714	2,900,000	3,250,000
	Other Licenses and Permits	631,788	796,732	870,000	800,000
	Subtotal	30,146,395	34,820,267	25,350,000	27,780,000
	PENALTIES & INTEREST				
40133	Penalties & Interest - Property Tax	2,075,795	1,768,406	1,500,000	1,675,000
40134	Penalties & Interest - Motor Vehicle Excise	2,937,443	2,909,603	2,850,000	2,850,000
40136	Penalties & Interest - Tax Titles	4,152,050	5,145,195	3,650,000	3,750,000
40139	Penalties & Interest - 121A	0	123	0	0
	Other Penalties & Interest	192	7,823	200	10,000
	Subtotal	9,165,479	9,831,151	8,000,200	8,285,000
	AVAILABLE FUNDS				
42502	Cemetery Trustee	1,849,004	1,932,385	2,029,004	2,110,000
42503	Parking Meters	10,000,000	1,000,000	10,000,000	10,000,000
	Subtotal	11,849,004	2,932,385	12,029,004	12,110,000
	STATE AID				
41015	State Owned Land	213,204	170,686	267,079	322,390
41101	R.E. Abatements - Veterans/S.S./Blind	465,986	464,028	464,028	468,191
41104	Elderly Exemptions	880,051	454,310	454,310	617,460
41111	State Lottery Local Aid	57,555,789	53,968,473	53,968,473	60,545,688
41112	Highways	0	0	0	0
41114	Veterans Services	1,210,070	1,618,085	1,900,010	1,932,574
41116	Additional Assistance	175,126,364	164,211,152	164,211,152	164,211,152
41119	Racing Taxes	478,153	722,801	688,333	630,000
41301	School Construction	17,232,498	17,555,199	16,787,162	15,463,685
41305	Charter Schools Reimbursement	0	3,085,155	14,776,376	10,055,804
41306	Chapter 70 Education Aid	205,643,453	200,498,366	200,498,366	203,634,716
41311	School Transportation	10,448,750	9,152,359	0	0
41316	Tuition for State Wards	0	0	0	0
41117	Police Career Incentive	7,341,643	7,941,863	7,937,515	8,600,000
	Subtotal	476,595,961	459,842,477	461,952,804	466,481,660
41115	**TEACHERS PENSION REIMBURSEMENT**	53,727,847	61,389,720	61,389,720	76,520,673
	RECURRING REVENUE TOTAL	1,849,921,644	1,872,786,589	1,912,324,687	2,019,228,953
	NON-RECURRING REVENUE				
42500	Budgetary Fund Balance	0	20,000,000	15,000,000	20,000,000
42501	Surplus Property	13,000,000	0	1,876,000	9,226,000
	GRAND TOTAL	1,862,921,644	1,892,786,589	1,929,200,687	2,048,454,953