

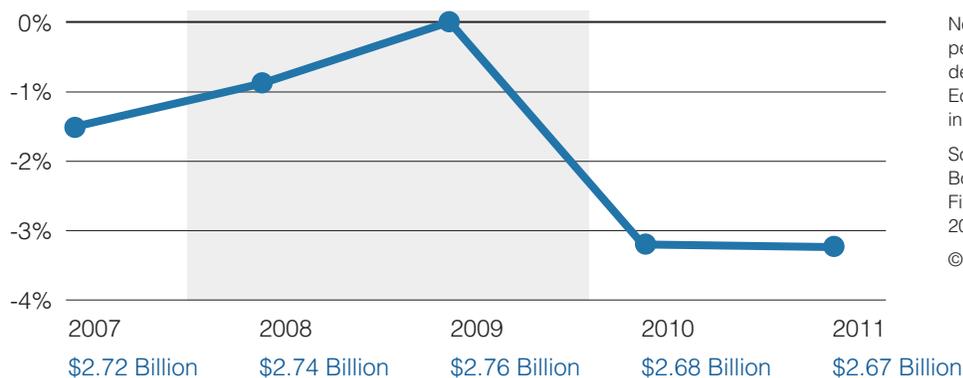
Boston

Boston revenue was hit late by the Great Recession

Two years after the end of the Great Recession, Boston's revenue was still dropping. With limited revenue sources under its direct control, the city relied heavily on aid from federal and state governments—sources that declined between 2009 and 2011. Revenue was down more than 3 percent in fiscal 2011 from the 2009 peak. (See Figure 1.) Operating spending increased 1 percent, largely due to efforts to shore up long-term obligations, and the city tapped reserves to cover shortfalls.¹

FIGURE 1

Boston Governmental Revenue, Percent Change From Pre-downturn Peak, 2007-11



Note: Shaded area indicates the period of the Great Recession as defined by the National Bureau of Economic Research. Amounts are in 2011 dollars.

Source: Pew calculations from Boston's Comprehensive Annual Financial Reports for fiscal 2007-11.

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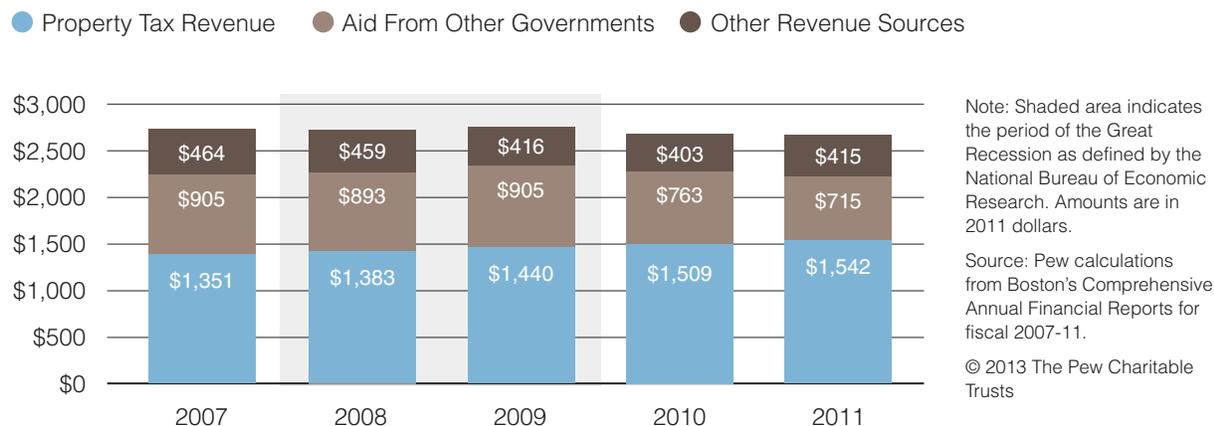
Intergovernmental aid declined, but property tax growth offset some losses

Intergovernmental aid declined \$190 million between 2009 and 2011, despite funding from the American Recovery and Reinvestment Act, driving Boston's revenue to a five-year low.² Similar to five other cities examined, Boston does not levy either income or local sales taxes,³ making it more vulnerable to declines in other sources, such as aid from the state and federal governments.

Property tax collections increased \$102 million between 2009 and 2011 as a result of a tax rate increase, but that growth was not enough to offset the declines in intergovernmental aid.⁴ Nevertheless, property taxes, which accounted for \$6 of every \$10 in city revenue in 2011, continued to grow in 2012.⁵ (See Figure 2.)

FIGURE 2

Breakdown of Boston's Revenue (in millions), 2007-11



Reserves provided a cushion between decreased revenue and increased operating spending

Despite the revenue losses, operating spending increased 1 percent between 2009 and 2011, putting more pressure on the city's finances. Boston used some of its reserves to make up the difference, drawing its balance down by \$301 million from 2009 to 2011. Still, reserves remained strong and were sufficient to replace one-fifth of general fund revenue in 2011.

Managing the future: Boston took steps to shore up pension funds

Spending commitments, demand for services, and revenue performance are among key factors that will affect Boston's future fiscal health. Two long-term obligations which can be analyzed using the data available are pensions and retiree health care and other benefits.

As of 2010, the city's pension assets covered just 62 percent of liabilities, and nothing was set aside to cover \$4.6 billion in retiree health care liabilities.⁶ To improve its fiscal standing, the city took forward-looking steps.⁷

Between 2009 and 2011, Boston's largest area of spending growth was annual payments to cover retirement obligations. Annual contributions toward these costs more than doubled to \$198 million and annual spending on other employee benefits increased 50 percent to \$297 million in 2011 after adjusting for inflation.⁸

These changes—and continued fiscal discipline—suggest that the city's retirement system is headed toward a more solid financial footing. According to city projections, if Boston continues to pay its actuarially recommended contribution and other assumptions are met, the pension system will be fully funded by 2025.⁹

See Pew's 30-city interactive at pewstates.org/City-Fiscal-Conditions-Interactive for complete data.

Endnotes

1 See the full study methodology at www.pewstates.org/City-Fiscal-Methodology for a detailed explanation of the terms used in this profile and view the underlying data at www.pewstates.org/City-Fiscal-Conditions-Interactive.

2 City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011*. (2011) p. v, <http://www.cityofboston.gov/auditing/reports/cafr.asp>. Boston received a total of \$179.5 million in Recovery Act funds from the federal government and the state of Massachusetts as of 2011; \$57.1 million was received in 2011 alone.

3 Boston recently added a local tax on restaurants, but does not collect a broader sales tax.

4 The weighted average of residential, commercial, and industrial levies increased from \$16.63 per \$1,000 of property value in 2009 to \$19.15 in 2011. Residential rates increased from \$10.63 to \$12.79, a 20 percent jump, while commercial, industrial, and personal property tax rates increased from \$27.11 to \$31.04, a 14 percent rise.

5 Part of the reason property tax collections are such a large piece of total revenue in Boston is that the city is one of four that Pew examined which operate and fund the school system and thus collect school district property tax levies that in many jurisdictions go to independent school boards.; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2012* (2012), p. 68, <http://www.cityofboston.gov/auditing/reports/cafr.asp>. Many cities studied by Pew's American cities project had published comprehensive annual financial reports for 2012 as of the publication of these profiles, but some cities had not. Thus, the study period was defined as 2007 through 2011, though fiscal data from 2012 was used where appropriate.

6 For more information and analysis on the state of retirement funding in the 30 cities, see The Pew Charitable Trusts, American cities project, *Cities Squeezed by Pension and Retiree Health Care Shortfalls* (March 2013), http://www.pewstates.org/uploadedFiles/PCS_Assets/2013/Pew_city_pensions_brief.pdf.

7 In 2011, the city transferred \$82 million in reserves to the State-Boston Retirement System. See City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), p. 6, <http://www.cityofboston.gov/auditing/reports/cafr.asp>.

8 These figures include transfers of reserves to the State-Boston retirement system, which reduced unfunded liabilities as part of a plan to fully fund the system; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2009* (2009.), p. 22.; City of Boston, *Comprehensive Annual Financial Report, for the Fiscal Year Ended June 30, 2011* (2011), p. 20.

9 Sam Tyler, *Testimony of the Boston Municipal Research Bureau*, Boston Municipal Research Bureau (2012), <http://www.bmrb.org/content/upload/COLA423.pdf>.