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Boston's Recurring Crises: Three Decades of Fiscal Policy

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History offers the best training
for those who are to take part in
public affairs.
Polybius, Histories I

Life must be lived forward but can
only be understood backward.
Kierkegaard

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The word "deficit" has dominated the most recent 35 years of Boston's fiscal history. This report probes the experience and lessons of this history in order to propose a more permanent resolution of Boston's financial difficulties.

Three deficit categories are identified and analyzed: appropriation deficits, revenue deficits and overlay deficits. Over the past 35 years, the City has had 12 years of appropriation deficits, 19 years of revenue deficits and 28 years of overlay deficits. In each year the City's budget was certified as in balance. Deficits became a way of life. Fortunately the overlay deficit problem, except for the potentially expensive utility cases, has been overcome through revaluation. The appropriation and revenue deficits remain to be eliminated.

The report distinguishes between structural imbalances and operating deficits. Structural imbalances are attributable to impositions on Boston of service responsibilities that are unique or of disproportional scale among cities of Boston's population class. They include costs that are mandated by the historical patterns of service and cost allocation as between the Commonwealth and its cities and towns, and costs that may be explained by the special role that Boston fulfills as the state's capital city, as the economic and cultural center of the New England region and as a major entry point and way station for successive waves of foreign immigration.

Conversely some of the City's financial difficulties represent operating gaps that occur because spending exceeds available resources. They indicate political and/or managerial inability or unwillingness to operate within the limits of expenditure/revenue plans. They also reflect the failures or absence of adequate fiscal planning and management systems and controls.

In the last 35 years the structural gap has gradually but definitively been closing as more and more service and/or cost responsibilities have been shifted to state government. Prime examples include public welfare and county court takeovers and state/municipal sharing of MBTA deficits.

The persistence of annual operating deficits over a long period of time, however, leads to the inevitable conclusion that public and bureaucratic tolerance of such fiscal behavior is rooted in Boston's local political culture.

The report recommends that remaining structural imbalances and operating deficit issues be addressed. It recommends a number of specific options to reduce the structural gap and a number of fiscal management reforms to eliminate recurring operating deficits. Those outside Boston's political and cultural context, particularly taxpayers in other cities and towns who helped bailout recurring operating deficits in the past, deserve maximum effort by the City to live within its appropriation and revenues.

To reduce the structural gap some of the report's recommendations are:

1. Commonwealth assumption of responsibility for correctional services paid for by Boston and all cities and towns. Other human service responsibilities to be shifted to the Commonwealth include the municipal cost of personal health care, local public health activities, and environmental health services financed from the property tax and the municipal share of costs for state-mandated veterans' benefits.

2. A change in the funding mechanism for the municipal share of the MBTA deficit, or adoption of a new formula for allocating municipal proportions of the MBTA deficit that is more accurate in measuring city and town residence of transit system riders.

3. An increase in the proportion of the state's tax growth dedicated to the Local Aid Fund from 40% to 50%.

4. A revision in the distribution formula for lottery aid to cities and towns by substituting per capita income for per capita equalized valuation.

5. Institute a fairer system of state reimbursement for property taxes lost on state-owned land for institutions, update in lieu tax payments on state-owned and authority-owned buildings, extend state reimbursement to all tax-exempt land and buildings owned by the Commonwealth and provide state reimbursement for property tax exemptions to non-profit non-governmental institutions.

6. Authorize cities and towns to levy selective local option taxes that would not impact adversely on local economies, particularly excise taxes on economic activities with clearly identifiable beneficiaries of such taxed services.

To reduce Boston's yearly operating deficit the report recommends strengthening the fiscal management structure.

1. Establish a new position of chief financial officer or amend provisions of ordinances affecting the position of Director of Administrative Services to provide its incumbent with the powers and duties of a chief financial officer.

2. Make the Audit Committee appointed by and accountable to the City Council for audit report implementation and follow up.

3. Establish a Revenue Advisory Board to provide advice and counsel on the estimation of City revenues and receipts.

To tighten Boston's fiscal controls some of the report's recommendations are:

1. Amend the quarterly budget allotment system for personnel to require a mayoral waiver that specifies what reductions will be made in the subsequent quarter to keep within allotments and/or what reallocations will be made to maintain spending within appropriate limits for the balance of the fiscal year.

2. To cover unforeseen and extraordinary expenditures, the City should appropriate an annual reserve equivalent to a maximum of 3% of the property tax levy and transfers from this reserve should be made only by the City Council upon recommendation of the Mayor.

   We support the Boston Municipal Research Bureau's proposal that such a reserve fund should include a violation penalty. If the City's operating deficit exceeds the reserve amount, the reserve should be increased by 50% in the next fiscal year. If the deficit is less than the reserve, the balance would be available for next year's appropriation or to reduce the tax rate.

3. Make Boston abide by the same laws affecting other cities and towns which do not allow the net proceeds from the sale of surplus property to be used for operating budget purposes.

4. Eliminate by Home Rule petition the School Committee's remaining fiscal authority, thereby guaranteeing a full review of the School Department's budget and putting the Boston School Committee on the same footing as all School Committees in Massachusetts.

5. Require the City Corporation Counsel to certify the forthcoming year's expected court claims and judgments. City of Boston officials tend to underestimate funding requirements. A similar recommendation applies to Hospitalization and Insurance benefit premiums.

I. INTRODUCTION

Boston's financial problems have been a perennial issue. Moreover, at almost predictable intervals, the City's financial strains have degenerated into crises of varying proportions, crises requiring emergency relief measures by the State Legislature and drastic, often reluctantly-imposed self-help efforts by City Hall.

The purpose of this paper is to re-examine Boston's fiscal landscape over the past thirty-five years, placing particular emphasis on repetitive patterns of fiscal stress. This historical review indicates major changes in the state-municipal services and cost mix, with special reference to their impacts on Boston's current and future finances. The vignettes describing fiscal conditions and trends during the administrations of the past three Mayors and the first two years of the present City Administration point up fiscal policies that were often politically expedient and short-sighted in perspective. They also reveal the extent to which periodic legislative bailouts and austerity programs launched by Boston mayors resulted in lasting improvements or proved to be temporary palliatives.

This analysis carefully distinguishes between structural gaps and operating gaps in Boston's fiscal equations. Some of the City's financial difficulties can be attributed to structural impositions created by law and/or tradition. They include costs of service responsibilities that are unique or of disproportional scale among cities of Boston's population class, costs that are mandated by historical patterns of service and cost allocations in Massachusetts as between the Commonwealth and its cities and towns, and costs that may be explained by the special role that Boston fulfills as the state's capital city, as the economic and cultural center of the New England region and as a major entry point and way station for successive waves of foreign immigration.

Conversely some of the City's financial difficulties represent operating gaps that occur because spending exceeds available resources. They indicate political and/or managerial inability or unwillingness to operate within the limits of expenditure/revenue plans. They also reflect the failures or absence of adequate fiscal planning and management systems and controls.

The constructive goals of this overall inquiry are:

1. to point up existing imbalances in the mix of state-local services and costs and in the mix of state-local revenues that adversely affect Boston's finances and to propose remedies for such structural inequities; and

2. to identify persistent and lingering weaknesses in fiscal policies and practices, and to recommend strengthened resource and management mechanisms that will generate sound fiscal choices, minimize the incidence of budget expenditure overruns and revenue/receipt shortfalls, and reduce the erosion of the City's vibrant property tax base by indefensible assessment practices.

The dreams of a New Boston and A World-Class City were dampened by failures to learn lessons from the City's financial history. The message of this report is that the current and future visions of a City of Neighborhoods and of Boston In the Year 2000 will likewise be marred if fiscal policies and decisions are not disciplined by the powerful events and learning experiences of the past.

This report is organized into three parts:

1. Factual summaries of fiscal conditions covering each mayoralty administration since 1950 is presented in the first part covering the administrations of Hynes, Collins, White and Flynn.
2. A synthesis of the consequences and legacies of fiscal policies and practices over the past thirty-five years drawn from the chronological detailed analysis.
3. A final chapter of recommendations in the form of a State-Boston agenda of action to correct existing structural imbalances in state-local services and costs, to remedy inequities in the current mix of state-local revenues, to strengthen Boston's institutional capacity to plan and manage its finances and to plug remaining loopholes in the City's own fiscal systems and practices.

II. A DECADE OF DENIAL AND DISAPPOINTMENT: THE HYNES ADMINISTRATION, 1950-1959

Hynes' Fiscal Legacy

The 1950 inaugural message of newly-elected Mayor Hynes devoted considerable attention to the fragile state of the City's finances and to the counter-productive and short-sighted fiscal policies of the prior administration. It cited in particular the escalation of tax-supported debt, borrowing for current expenses (welfare and transit deficits) and an overassessment-abatement cycle that produced artificially-low tax rates and undermined confidence in tax assessment practices. It emphasized that these were policies that placed the City's future in considerable jeopardy.

This publicly-announced candor concerning City finances, including an express commitment to implement recommendations of the comprehensive survey of the City's operations and administrative practices, helped win support from the 1950 Legislature for funding tax refunds granted by the City over the next five years on prior assessments that were in excess of available overlay reserves. By authorizing Boston to allocate $2 million a year to an overlay deficit funding account until accumulated overlay deficits (estimated at $11 million) were finally liquidated, the Legislature was giving the new Administration a badly-needed breathing period to overcome financial difficulties as indicated in the following results of the 1949 fiscal year:

1. A net operating deficit, actual expenditures in excess of actual revenues and receipts, of $3.7 millon;
2. An accumulated net operating deficit of $8.1 million, equivalent to 6 percent of annual revenues;
3. A revenue shortfall of $4.3 million over tax levy estimates;
4. Abated taxes of $13.8 million, equivalent to 17 percent of net property tax collections;
5. Temporary loans issued in anticipation of revenue not paid from current taxes and carried over into the next fiscal year in the amount of $10 million;
6. Issues of new bonded debt totalling $27.1 million in 1949 that were three times the total of debt maturing during that year, including $2,350,000 in borrowing for current welfare expenses.

Familiar Signals of Fiscal Strain

While Hynes began his administration preaching fiscal good management, a flurry of distress signals re-emerged between 1950 and 1957. Except for the new Administration's determined policy to lower the City's indebtedness - it did succeed in reducing bonded debt from a net total of $75 million in 1949 to $59 million in 1956 - the new fiscal difficulties closely resembled those of past administrations, as shown in the summary of key financial indicators for the 1950-1957 period (Table I). Moreover, abatements on 1949 and prior tax years had reached $20 million by 1957 compared with the original estimate of $11 million in 1950.

The indicators in Table I clearly revealed that Boston's current operating account was in serious disarray during the 1950-1957 period. Seven successive years of operating deficits had brought on an accumulation of red ink in excess of $35 million, representing over 20 percent of the City's annual revenue yield. Operating deficits were attributable to the proclivity of City officials to spend beyond collections of receipts, mainly by carelessly or deliberately overestimating estimates of revenues and receipts in annual tax rate calculations. Net revenues from current and prior levies of property taxes fell consistently below tax levy estimates because of refunds required by abatements, as did net collections of motor vehicle excise taxes and poll taxes. Ironically, overestimates of Boston's share of state aid by the State Commissioner of Corporations and Taxation, ostensibly legally responsible for the oversight of local fiscal practices, exacerbated this tendency of the City to overestimate revenues from its own sources. Between 1951 and 1954, for example, overestimates of State income, corporation and meals taxes due to Boston totalled $9.7 million or one-third of the overall revenue shortfall experienced during this period.

To offset chronic shortages of cash during the 1950-57 period, City officials resorted to a number of dubious policies, e.g., issuing temporary loans late in the fiscal year for repayment not from taxes collected before the end of the fiscal year but from succeeding years' revenues. By the end of 1956, the pyramid of floating debt had reached $28 million. The City also borrowed $3.5 million in 1955 against tax titles from the Commonwealth for school and hospital maintenance, a bailout device not used since the Great Depression.

Assessment/Abatement Cycle

Moreover, a long history of malpractice in establishing property tax assessments fed the City's temptations to spend beyond its means. Inflated assessments, imposed particularly on non-residential property, produced what proved to be temporary gains in property tax revenues. Large proportions of annual property tax levies had to be eventually abated and refunded with interest in amounts exceeding the minimum reserves (3 percent of property tax levy) required by law. To make matters worse, abated values were not used as the factual basis for correcting assessments in the subsequent years' assessment rolls. Thus a self-defeating assessment-abatement cycle resulted. The failure of responsible City officials to equalize assessed values within and among classes of property as required by law, to restore predictability and certainty to taxable valuations of property and to stem the rising tide of tax rates, which climbed by 60 percent during the fifties, undermined confidence in Boston's real estate markets, contributed significantly to the depressed state of property values and deterred new construction and property rehabilitation.

In 1954, for example, tax refunds were equivalent to 6.6 percent of that year's tax levy, indicating the melting away of over $100 million in 1950 assessed valuations.

TABLE I

KEY FINANCIAL INDICATORS, CITY OF BOSTON
1950 - 1957
(millions)

	1950	1951	1952	1953	1954	1955	1956	1957
Net operating surplus or (deficit), end of year	$(4.6)	$(0.9)	$(5.9)	$(1.6)	$(3.5)	$(3.6)	$(6.5)	$(1.2)
Accumulated surplus or (deficit), end of year	(12.7)	(13.7)	(19.6)	(21.2)	(24.7)	(28.4)	(34.9)	(36.1)
Revenue surplus or (deficit), end of year	(5.5)	(4.3)	(8.8)	(6.8)	(9.9)	(3.9)	(18.0)**	(13.6)
Abatements*	4.4	4.6	7.0	9.4	8.9	8.2	9.8	15.2
Prior year overlay (deficits) raised	---	---	---	(2.7)	(4.4)	(5.8)	(5.6)	---
Overlay deficit funding account	2.0	2.0	2.0	2.0	2.0	2.0	5.7	2.0
Funding loan ***	---	---	---	---	---	---	---	10.0
Outstanding temporary loans, end of year	10.0	10.0	15.0	15.0	15.0	20.0	28.0	25.0

* Prior to adjustments.
** Included anticipated proceeds from unexecuted sale of Sumner Traffic Tunnel for $7.9 million to Massachusetts Port Authority.
*** Authorized by c. 717, Acts of 1957.

Sources: City of Boston, Auditing Department Annual Reports.

Between 1950 and 1956 assessed valuations attributable to new construction failed to reach a yearly average of $15 million. Tax base growth was less than one percent per year.

Disappointing Management Reforms

Not only was the City spending beyond its means during the fifties, but there was little evidence that responsible officials were introducing the large-scale reorganizations and proposals for more effective utilization of personnel and resources contained in the independent surveys of City operations carried out under direction of the Boston Finance Commission. The total number of City and County employees, for example, showed little change over the 1950-57 period -- 17,354 as of January 1, 1950 versus 16,987 as of February 1, 1957, a net reduction of about 2 percent. The City did request and receive authorization from the Legislature for home rule power to undertake departmental reorganization by local ordinance and initiated the establishment of a new Administrative Services Department under a Director with centralized responsibility for budget and personnel decisions. This move was designed to provide the Mayor with badly-needed staff support and fiscal control mechanisms. But the self-help efforts initiated in mid-1957, mainly to reduce acknowledged over-staffing, failed to achieve established targets by wide margins for the reduction of permanent personnel and in appropriation allowances for temporary personnel and overtime, reflecting political difficulties in adjusting service levels to conform with population declines, a weakening local economy, changing service needs, depressed property values and the impact of technology on municipal operations.

For example, with just over 3,000 employees in Boston's Police Department in 1958, the ratio of employees to population was 3.76 per 1,000 as compared with an average ratio for the 18 largest cities of 2.58. Boston's Fire Department of almost 2,200 employees showed a similarly high level of staff to population with a ratio of 2.72 per 1,000 as contrasted with the ratio of 1.60 for the 18 largest cities of the nation. Boston's City Hospital, with 1,074 in-patient beds in 1958 and over 3,100 employees, had an average staffing ratio of 2.95 per patient as compared with the 1.60 average ratio covering 25 general hospitals containing over 400 beds.

Funding Loan Act of 1957

When fiscal distress signals erupted into a full-blown crisis in mid-1957, another round of state intervention to ease Boston's finances became necessary. In addition to authorizing the City to fund (spread out) its accumulated deficits over a period of years (as in funding loan acts of 1938, 1941, 1946 and 1950), however, the Legislature included several "safeguards" in the funding loan legislation of 1957 that were designed to discourage fiscal mismanagement and to stabilize the City's finances. The funding loan legislation authorized the issuance of up to $45 million in bonds for terms up to 20 years and for the following purposes:

1. To cover the City's net operating deficit as of the close of the 1956 fiscal year; and
2. To cover abatements of taxes levied in 1956 and prior years in excess of overlay reserves for those years that would be granted between January 1, 1956 and December 31, 1959.

As subsequently applied, about $29 million from the funding bond proceeds were allocated to cover tax refunds of 1956 and prior years, while the remaining $16 million was used to restore operating funds lost through revenue deficits.

As for the safeguards, what was omitted from the legislation was probably as important to the City's long-range financial future as what was included. Although the overlay requirement -- the tax levy set-aside for abatements -- was increased from 3 percent of the tax levy to a mimimum of 5 percent and a maximum of 6 percent, thereby prescribing a more realistic reserve that would minimize large overlay deficits, the legislation was completely silent on assessment and abatement practices and standards, apparently leaving the need for revaluation to the City's own determination and timetable.

Other safeguards were directed toward preventing the pyramiding of deficits and the careless estimation of municipal revenues, as summarized below:

1. The amount of short-term loans issued in anticipation of revenue that could be outstanding at the end of the fiscal years was limited to the total of outstanding real estate and personal property taxes for the current and preceding years, thereby putting a realistic ceiling on temporary loans issued for carry-over into the succeeding fiscal year.
2. The amount by which estimated receipts exceeded actual receipts, e.g., revenue deficits, in the preceding year must be appropriated in the suceeding year's tax levy.
3. Estimated receipts used in determining the tax levy, except those estimated by state officials, could not exceed the aggregate amount of actual receipts from the same sources during the preceding year and must be annually certified to the State by the City Auditor.
4. Proceeds from tax title loans could be used only for repayment of short-term loans issued in anticipation of revenue, thereby eliminating their use as receipts for tax rate reduction purposes.

The depth of Boston's financial difficulties during the fifties may be measured by the relative degree of relief that the City received from issuing $45 million in funding bonds in 1957 and 1958. The total bond issue was equivalent to 70 percent of the City's outstanding net debt and to more than 25 percent of its annual revenues.

Unconvinced that the 1957 funding legislation had reversed Boston's fiscal trends and stabilized its financial condition, Moody's Investors down-graded the City's credit standing late in 1959 to a speculative Baa rating and gave as its reasons Boston's high expense levels, near-steady tax base declines, little progress in counteracting urban deterioration, and a declining local economy due to shifts of population and shifts of industrial activity away from the central city and away from New England.

III. FISCAL FAMINE AND FEAST: THE COLLINS YEARS, 1960-1967

The fiscal policies enunciated and carried out during the first term of the Collins Administration (1960-63) were in sharp contrast to those of the preceding decade. However, the second term was somewhat schizophrenic in character, its fiscal decisions perhaps dominated by the political pressures of organizing an election campaign for nomination to a U.S. Senate seat.

New Fiscal Policies

Sensitive to the historic pattern of periodic state bailouts to give Boston temporary financial relief, the Collins Administration immediately launched an extensive program of self-help efforts and sought selective assistance from the Legislature to bolster locally-designed initiatives as documented below:

1. Imposed strict controls over spending with particular emphasis on achieving greater productivity through staff attrition, and using available leverage over school appropriation limits and capital outlays to hold school spending to realistic levels.
2. Implemented large-scale departmental reorganizations and management improvements to improve cost-effectiveness of City operations.
3. Pursued legally-available opportunities to enhance revenue yields from local sources.
4. Continued debt policies that restricted the issuance of new long-term bonds to annual totals that were below retired amounts of old debt, and coordinated capital improvement needs with urban renewal plans to take full advantage of using capital outlays as local matching requirements for federal urban renewal grants.
5. Shepherded local initiatives through the Legislature that expanded local revenue-raising opportunities and that eliminated legal impediments to the economical operation of City services.
6. Adhered to the spirit and letter of the safeguards contained in the funding loan legislation of 1957 -- keeping to a minimum the issuance of loans in anticipation of revenue; avoiding the carry-over of temporary loans into succeeding years; averting revenue shortfalls; and curbing the escalation of property tax refunds because of pervasive over-assessment of non-residential property.

7. Corrected long-standing abuses in the assessement of downtown property by implementing the so-called equalization survey initiated by the prior Administration.

By most measures of financial performance, there was steady improvement in current operations of the City during the 1960-63 period, as indicated in Table II.

Financial Comparisons: Collins vs. Hynes

Comparison of specific indicators for the first term of the Collins Administration with those of the Hynes Administration further confirms the remarkable fiscal turnaround:

1. The property tax rate declined by 5 percent, without resort to short-term devices and gimmickry, despite the net reduction of about $20 million in taxable assessed valuations. This contrasted with an annual average increase in the tax rate of 5 percent over the prior 10-year period when the net loss in taxable assessed valuations totalled $105 million.

2. The total number of employees on City and County payrolls as of February 1, 1964 was 1400, or 9 percent below that of February 1, 1960.

3. A more realistic schedule of fees and charges for fines, licenses and services -- parking fines, parking meter fees, health and hospital charges, alcoholic beverage license fees, etc. -- and newly-enacted sewer service charges, which required special legislative

authorization and City Council ordinance, were adopted, thereby relieving some of the pressure on the property tax.

4. The City's net funded debt fell by over 7 percent between 1959 and 1963, thereby renewing the downward trend interrupted by the funding loan issues of 1958 and 1959.

5. In 1962, for the first time in over 15 years, the City's accounts showed "free cash", indicating a cumulative net operating surplus in excess of outstanding taxes available for appropriation.

6. The steady improvement in its current account strengthened the City's available supply of cash and reduced the necessity for borrowing as much in anticipation of revenue. Tax anticipation loans declined to a low of $25 million in 1962 as compared with the prior peak of $75 million in 1955.

7. A new policy of recognizing abatements granted on assessed valuations of prior years when establishing annual abatement rolls of subsequent years helped reduce abatement applications by over 3,000 between 1959 and 1963 and bolstered confidence in City assessment practices.

Risks Cause Fiscal Strains

Fiscal policies turned exceedingly erratic during the 1964-67 period, however. Spending and revenue disposition decisions resulted in sharp reversals of earlier positive trends. (It should be noted, incidentally, that Mayor Collins ran for Senator in 1966.) One new and important constructive effort, however, was the intensification of activity by Boston's Mayor, a growing number of elected municipal officials and segments of the business community to secure greater state aid through enactment of a sales tax.

Fresh evidence of fiscal strain became evident when the City's books for 1963 were closed and in 1964 decisions. Uncollected taxes seemed to be stalled at the $20 million level despite special efforts to collect back taxes. High rates of delinquency in sewer service charge payments were generating deficits that had to be financed from property taxes. Late mailing of water service bills had caused a water service deficit at the close of 1963. City officials used available "free cash" as tax rate revenues and for recurring operating purposes after declaration of tax rates both in 1963 and 1964. Such "free cash" included taxes collected during the first three months of the succeeding fiscal year as permitted by law, thereby contravening sound fiscal practice. Moreover, the downward trend in number of City and County employees was slightly reversed in 1964. The consequences of relaxed fiscal planning and controls and expedient spending and revenue decisions were a tax rate increase of about 4 percent in 1964, after four years of tax rate reduction; an operating deficit of $4.9 million at the end of 1964, the first since 1957; and disappointing financial performance both in 1964 and 1965 that culminated in an unprecedented tax rate increase of 15 percent in 1965.

Perhaps the most serious financial gamble lay in decisions of 1963-67 to use accumulated "free cash" both for tax rate reduction and to cover supplementary appropriations in the face of escalating welfare costs, increasing expenses for pensions and debt service, and higher requirements for salaries and wages. In the 1966 fiscal year this risk was further aggravated by a shortfall in state aid of over $6.5 million due to state withholding of school aid because of racial imbalance. The overall results, as shown in Table III, were a revenue deficit of \$17.5 million and a net operating deficit of almost \$17 million at the close of 1966.

Virtual liquidation of available "free cash" also adversely affected Boston's cash flow. By 1967 temporary loans in anticipation of revenue had more than doubled and the interest expense for this purpose had quadrupled. In addition, a consistent pattern of delinquency in sewer service billings meant that annual deficits in this purportedly self-supporting enterprise had to be covered in tax levies, while faulty projection of welfare costs and deliberate under-appropriation for the welfare function forced the City to borrow for such current expenses, a self-defeating fiscal practice. Meanwhile, end-of-the year balances of uncollected taxes remained high at \$20-25 million levels.

The swing back in 1966 to a \$101 tax rate from the \$115 tax rate of 1965 was accomplished by taking advantage of every conceivable, legally-available revenue and receipt option (totalling about \$5 million), plus the allocation of \$14.5 million from "free cash" and·over \$900,000 from unliquidated reserves. The non-recurring list of revenues and receipts included the redemption of tax titles, welfare borrowing and the sale of surplus property. (See Table III.)

Fiscal prospects for 1967 appeared bleak because "free cash" had been depleted and the State had withheld over \$6 million in school aid while the costs of City, County, and School operations were projected to increase by 13 percent. Between February 1, 1964 and February 1, 1967, there had been a net increase of over 1900 employees on City, County and School payrolls, a rise of about 9 percent. This reversal all but wiped out the personnel reduction progress achieved during the early sixties. Fixed charges -- pensions, debt service and state assessements -- were estimated at 30 percent for 1967 over prior year levels.

Offsetting these negative factors, however, was state implementation of the 1966 sales tax law, including its new provisions for a separate local aid fund and a higher degree of equalization in the distribution of school aid among cities and towns. As a result Boston's share of state aid in 1967, including reimbursement of funds frozen the prior year, was more than double the peak-year distribution of 1964. Despite this new source of property tax relief and continued resort to such short-sighted policies as borrowing for welfare ($5 million in 1967 and $2 million in 1966), however, the 1967 tax rate climbed to $117.80.

IV. VINTAGE KEVIN H. WHITE: 1968-1975

Hope Springs Eternal

When officials of the new White Administration took their oaths of office in January 1968, they were probably heartened by the recovery they saw in the final accounts of the 1967 fiscal year, but somewhat chastened by the visible scars attributable to several short-sighted decisions of the 1964-66 period. The sizeable surplus accumulated between 1960 and 1963 had been virtually liquidated. Uncollected and abated property taxes had reached chronically high levels. City officials had resorted to borrowing to pay for current welfare needs, a depression era fiscal policy. The City's sewer service system was experiencing annual operating deficits.

Newly-appointed financial officers must have seen hope, however, in the restoration of general school aid in 1967 (which had been frozen in the past year), in the large distribution of aid based on the so-called state tax apportionment formula in that same year and in state reimbursement to Boston of general school aid withheld in 1966 because of school segregation.

Their optimism undoubtedly was further buoyed by the expectation that recent state legislative decisions might mean more dependable, long-term relief of Boston's financial condition. Enactment of the limited sales tax in 1966 had broadened the base of state tax sources available for distribution as local aid, and it was generally predicted that the sales tax yield would increase in tandem with the state's economic growth.

Moreover, the 1967 legislation transferring the administrative responsibility and costs of the welfare function from cities and towns to the Commonwealth effective July 1, 1968, which newly-elected Mayor White had used as leverage before resigning his position of Secretary of State meant both immediate and long-term municipal fiscal relief. For Boston this legislation lifted an estimated $17 million in net expense from the 1968 tax rate.

Temporary Financial Stability and Danger Signals

During the 1968-70 period, the City's finances were in a reasonable state of equilibrium, as shown in the accompanying summary of financial indicators (Table IV), mainly because of the shift of the welfare function to the state. Scattered among the key measures of financial performance, however, were clear-cut signals of fiscal strain.

Revenue deficits persisted although they were of reduced scale. Large increases in appropriations for City operations were enacted to finance both new initiatives and programs, expansions that wiped out the net savings of $17 million a year from transfer of Boston's welfare system to the state, as demonstrated by the data in Table V. Costs for debt service were sharply higher due to bond issue commitments for urban renewal and related capital outlays. Contributory pensions also escalated. (See

Table VI.) The City's fiscal problems were exacerbated by the rise in uncollected property taxes from the $20 million to the $30 million level, by operating deficits in Boston's sewer service and water distribution systems, and by cash flow problems requiring larger issues of loans in anticipation of taxes and revenue.

Particularly imprudent was the 1970 decision to appropriate $12.8 million from so-called surplus. Most of this surplus was in the form of "free cash" that became available during the January - March period from settlement of long-standing abatement appeals, mainly from railroads. This temporary windfall was used to finance the costs of relatively expensive collective bargaining agreements and additions to City and School Department payrolls.

In addition, a series of unanticipated financial misfortunes in 1971 compounded the negative consequences of the risks taken in 1970. The Commonwealth withheld half of the school aid due to Boston as penalty for failure to implement school desegregation, thereby temporarily depriving the City of $14 million in state aid revenue. Uncollected City taxes soared by over one-third in 1971 to a new high of $41 million, and abatements in excess of overlay reserves increased from $4 million to $6 million, indicating failure to recognize abatements in fixing subsequent assessments. Revenue shortfalls generated a revenue deficit at the close of 1971 of almost $34 million, which was primarily responsible for an end-of-year net operating deficit of over $27 million.

The City's financial difficulties were further aggravated in 1971 by an increase of about 12 percent in appropriations over those of the prior year despite continuing resort to appropriations from the windfalls of "free cash" generated by tax collections during the first three months of the calendar year. Expenditure categories showing the greatest increases in 1971 over 1970 were school maintenance, up by 14 percent on

TABLE II

KEY FINANCIAL INDICATORS, CITY OF BOSTON
1960 - 1963
(in millions of dollars)

	1960	1961	1962	1963
Net operating surplus or (deficit), end of year	$3.9	$5.2	$8.6	$1.4
Accumulated surplus or (deficit), end of year	1.1	6.3	14.9	16.3
Revenue surplus or (deficit), end of year	3.1	3.4	7.4	0.02
Abatements*	5.4	6.4	7.9	7.2
Prior year overlay (deficits) raised	(0.3)	(0.9)	(0.5)	(1.4)
Loans in anticipation of revenue	45.0	35.0	25.0	30.0
Percent of tax rate revenue	23%	17%	13%	15%
Uncollected taxes, Dec. 31	20.5	21.4	20.4	20.8
Sewer service surplus or (deficit)	---	---	(0.4)	(0.6)
Water service surplus or (deficit)	0.2	0.9	1.8	(0.4)

* Excluding adjustments.

Sources: City of Boston, Auditing Department Annual Reports.

TABLE III

KEY FINANCIAL INDICATORS, CITY OF BOSTON
1964 - 1967
(in millions of dollars)

	1964	1965	1966	1967
Net operating surplus or (deficit), end of year	$(4.9)	$7.8	$(16.9)	$2.6
Accumulated surplus or (deficit), end of year	11.5	19.3	2.4	5.0
Revenue surplus or (deficit), end of year	$(6.0)	6.0	(17.5)	1.6
Appropriations from surplus	8.9	1.1	14.5	0.2
Abatements*	6.8	11.3	7.8	10.4
Prior year overlay (deficits) raised	(0.8)	(0.5)	(0.6)	(0.1)
Deficit appropriations (sewer and water)	(1.3)	(0.4)	(0.4)	(1.6)
Uncollected taxes, end of year	20.4	22.3	21.7	25.1
Loans in anticipation of revenues	30.0	50.0	45.0	64.0
% of tax rate revenues	13%	21%	18%	22%
Bonded debt issued	23.7	12.4	18.5	37.2
Bonded debt retired**	9.7	11.1	11.8	12.8
Municipal relief loans	4.5	---	2.0	5.0
Sales of city property - schools	---	---	1.0	---
Sewer service surplus or (deficit)	(0.4)	(0.4)	(0.7)	(0.8)
Water service surplus or (deficit)	1.0	0.1	0.2	(0.2)

* Excluding adjustments.
** Excluding traffic tunnel retirement and rapid transit debt.

Sources: City of Boston, Auditing Department Annual Reports.

TABLE IV

KEY FINANCIAL INDICATORS, CITY OF BOSTON
1968 - 1971
(in millions of dollars)

	1968	1969	1970	1971
Net operating surplus or (deficit), end of year	$(3.2)	$0.2	$1.6	$(27.5)
Accumulated surplus or (deficit), end of year	1.8	1.9	3.5	(24.0)
Revenue surplus or (deficit), end of year	(8.5)	(3.4)	(2.4)	(33.6)
Appropriations from surplus	2.1	---	12.8	6.1
Abatements*	9.3	18.5	14.8	15.5
Prior year overlay (deficits) raised	(1.2)	(1.6)	(4.1)	(6.0)
Deficit appropriations (sewer and water)	(1.5)	(3.3)	(3.7)	(5.7)
Uncollected taxes, end of year	29.8	29.7	30.2	40.9
Loans in anticipation of revenue	59.0	59.0	85.0	130.0
Percent of tax rate revenues	18%	18%	23%	31%
Bonded debt issued	34.5	43.6	53.7	77.2
Bonded debt retired**	19.3	25.1	18.3	24.5
Municipal welfare loans	9.6***	4.6***	---***	---***

*Excluding adjustments.
**Excluding traffic tunnel retirement and rapid transit debt.
***Welfare transferred to state as of July 1, 1968.

Sources: City of Boston, Auditing Department Annual Reports.

TABLE V

TAX RATE APPROPRIATIONS FOR CITY MAINTENANCE AND WELFARE
CITY OF BOSTON
1967 - 1970
(in millions of dollars)

	1967	1968	1969	1970
Tax rate appropriations for City maintenance	$166.7	$181.6	$159.9	$185.1
Minus tax rate appropriations for welfare	- 49.0	-41.9	- 5.1	- 8.5
Net appropriations	$117.7	$139.7	$154.8	$176.6
Percent change in net appropriations over prior year	---	+19%	+11%	+14%

TABLE VI

ACTUAL EXPENDITURES BY MAJOR CATEGORY, GENERAL REVENUE FUNDS
CITY OF BOSTON
1967 - 1971
(in millions of dollars)

Major Expense Category	1967	1968	1969	1970	1971	Percent change, 1967-71
City Maintenance	$171.8	$178.9	$155.3	$188.4	$201.1	+ 17%
County Maintenance	12.4	13.6	15.1	17.0	18.3	+ 48%
School Maintenance	57.3	64.2	72.6	83.4	95.2	+ 66%
Debt Requirements	16.8	24.7	31.7	26.6	35.3	+110%
Retirement Funds	16.7	17.6	20.1	17.7	34.2	+105%
State Assessments	16.8	19.2	20.7	20.1	29.8	+ 78%
Total	$292.0	$318.2	$315.5	$353.2	$413.9	+ 42%

Source: Table 1, Boston's Fiscal Crisis: Origins and Solutions, December 1976, Boston Municipal Research Bureau.

TABLE VII

ACTUAL EXPENDITURES BY MAJOR DEPARTMENTS AND FUNCTIONS
GENERAL REVENUE FUNDS
CITY OF BOSTON
1967 - 1971
(in millions of dollars)

Department or Function	1967	1968	1969	1970	1971	Percent change, 1967-71
City and County:						
Fire	$17.1	$18.0	$20.7	$24.8	$26.2	+ 53%
Health and Hospitals	32.0	36.5	39.3	48.2	52.8	+ 62%
Police	22.6	27.0	28.5	38.2	41.0	+ 81%
Public Works	12.0	14.1	15.0	15.4	17.5	+ 46%
Welfare	49.5	37.3	---	1.3	---	---
Employee Health Ins.	1.9	3.3	3.4	4.4	5.1	+168%
County Courts	7.8	8.5	9.5	10.6	11.3	+ 45%
County Corrections	2.2	2.4	2.8	3.3	3.7	+ 68%
School:						
Administration	1.5	1.7	1.8	2.1	2.4	+ 60%
Instruction	44.5	49.8	55.7	63.2	73.1	+ 64%
Fixed charges:						
Redemption of City Debt	12.2	18.7	24.5	17.5	23.6	+ 92%
Interest on City Debt	3.8	5.0	5.8	7.4	9.7	+155%
Interest on Temp. loans	0.7	0.9	1.3	1.7	1.9	+171%
MBTA Assessments	13.5	15.8	16.8	15.5	25.1	+ 86%

Source: Tables 2A, 2B, and 2C, Boston's Fiscal Crisis, December 1976, Boston Municipal Research Bureau.

TABLE VIII

ACTUAL REVENUES BY MAJOR SOURCE, GENERAL REVENUE FUNDS
CITY OF BOSTON
1967 - 1971

Major Source	1967	1968	1969	1970	1971	Percent change, 1967-71
	(in millions of dollars)					
Property Taxes	$166.9	$188.3	$211.2	$237.4	$266.8	+ 60%
Departmental Revenue	32.5	37.6	44.2	56.8	61.7	+ 90%
Revenue from State	79.5*	70.4	52.4	55.7	44.5**	---
Motor Vehicle Excise Tax	9.2	8.9	8.7	9.8	9.2	---
Other	0.3	0.9	0.7	0.8	0.9	+200%
Total	$288.4	$306.1	$317.1	$360.5	$383.3	+ 33%

*Includes increase of $16 million in state tax apportionment distribution over 1966, release of $6.3 million in c.70 school and withheld in 1966, and $9.2 million in c.70 school aid (none received by Boston in 1966).
**Excludes $14.2 million in c.70 school aid withheld in 1971 and reimbursed in 1972.

Source: Table 10, Boston's Fiscal Crisis, December 1976, Boston Municipal Research Bureau.

TABLE IX

NUMBER OF EMPLOYEES, CITY OF BOSTON
1967 - 1971

No. of Employees	Feb. 1 1967	Feb. 1 1968	Feb. 1 1969	Feb. 1 1970	Feb. 1 1971	Percent change, 1967-71
City Departments*	14,575	14,826	14,153	14,651	15,851	+ 9%
County Departments	1,212	1,245	1,312	1,344	1,373	+ 13%
School Departments**	6,849	7,261	7,569	8,197	8,159	+ 19%
Total	22,636	23,332	23,034	24,192	25,381	+ 12%
Fire Department	2,058	2,038	2,022	2,073	2,127	+ 3%
Health & Hospitals Department	4,502	4,673	4,592	4,867	5,503	+ 22%
Police Department	2,349	2,697	3,012	3,090	3,394	+ 19%
Public Works Department	1,385	1,403	1,375	1,416	1,448	+ 4%
Welfare Department	891	1,029	---	---	---	---
City Departments minus Welfare Department	13,684	13,797	14,153	14,651	15,851	+ 16%

*Data excludes employees on federally-assisted model cities and safe streets programs.
**Data includes employees on federally-assisted payrolls.

Source: Annual Reports, Auditing Department, City of Boston.

top of a School Committee deficit of $1.6 million at the close of 1970; Boston's share of the MBTA deficit, an increase of 62 percent to $25 million, thereby wiping out the benefits of the 1969 legislation reducing Boston's proportionate assessment for the transit system; debt service, up by almost $9 million or 32 percent; and contributory retirement funds, up by 93 percent, mainly because of the deliberate decision to defer the large increase for contributory pensions into the next fiscal year. (See Tables VI and VII for details on expenditures over the 1967-71 period and Table VIII for details on revenues during this period.) Borrowing in anticipation of revenue rose sharply, from $85 million in 1970 to $130 million in 1971. Deficits in the City's water and sewer utilities continued to worsen.

Self-Imposed Austerity

The financial urgency that surfaced early in 1971 (a mayoralty election year) prompted City officials to launch a personnel reduction program with the goal of reducing the City's payroll by 500 employees within a six-month period. As indicated in Table IX, the number of City employees, excluding those in the Welfare Department, had increased by 16 percent between 1967 and 1971 -- from 13,684 to 15,851. (Omitted from these figures are employees in the federally-assisted Model Cities and Safe Streets programs.) Of the overall net increase of over 2100 City employees during this period, over 1000 or almost half of the total were added to the Health and Hospital Department (which showed an increase of 22 percent over 1967), while the Police Department's staff grew by 545 employees, equivalent to a 19 percent rise. These large increases in the number of Health and Hospital employees occurred despite the fact that the three municipal hospitals (City Hospital, Mattapan Chronic Disease Hospital and Long Island Hospital) were experiencing steady declines in the average number of patient days and in-patient occupancy rates. Offsetting this trend, however, was the new emphasis on the development and expansion of neighborhood health centers. As for the significant rise in Police Department employees, the Administration's own task force report confirmed major findings and reiterated recommendations of earlier outside police surveys completed in 1948 and 1970 concerning overstaffing and outmoded methods, but initial implementation failed to offset staff expansion, and large-scale change would not take place until the impending fiscal crisis of 1973-74.

Approaching Fiscal Crisis

Returned to office by the November election of 1971, the City Administration seemingly failed to recognize and/or acknowledge the fact that its finances had degenerated from an incipient state during the first term to a new serious condition by early 1972. The property tax levy for 1972 increased by 12 percent over the prior year and followed record-high percentage increases of more than 18 percent in 1970 and 16 percent in 1969 over the previous year. Moreover, after having used up the remaining small balance of "free cash" balance in 1971, Boston's free cash cupboard was bare. Despite a one-year windfall of $6 million in state highway aid (under a new local highway aid formula) and initial distribution of lottery funds ($3.7 million) supplemented by state reimbursement of $14.2 million of withheld school aid, the City ended up 1972 with another large revenue deficit due to shortfalls in departmental receipts and motor vehicle excise taxes. The revenue deficit was the major cause of the 1972 net operating deficit of almost $16 million; the City's accumulated operating deficit had reached an unprecedented level of $40 million.

The City's finances in 1972 were marred by a growing list of weakening indicators. In addition to constantly rising sewer and water systems deficits, which exceeded $7 million in 1972, over $3 million had to be raised in deficit appropriations to cover prior-year salary and wage increases. The level of uncollected taxes had climbed to $58 million from $41 million by the end of 1972, thereby forcing the City to borrow $180 million in anticipation of revenue, equivalent to 36 percent of tax rate receipts and $50 million above prior year requirements.

Fiscal Stabilization Efforts

Over the next 30-month period (January 1, 1973 - June 30, 1975) City officials took steps to stem the tide of fiscal deterioration by re-instituting an employee reduction program, an effort which accomplished 85 percent of its overall goal of 1600 fewer employees over the next 18 months, and by careful utilization in each tax rate period of federal General Revenue Sharing (GRS) funds, which first became available in the 1972 fiscal year. Boston transferred $29 million from federal revenue sharing funds in the 1973-74 fiscal year and $21 million from this same source in the 1975 fiscal year to cover certain City appropriations. By the end of the 1975 fiscal year there was still a $45 million balance in GRS funds available for appropriation through transfer.

Also of significant assistance in temporarily stabilizing finances during this period were growth in the property tax base, large increases in state aid, mainly general school aid and categorical grants for certain school purposes. By 1975 Boston's taxable valuations had increased by over $100 million over 1971 to $1.78 billion. Boston's share of state aid rose by over $60 million between 1971 and 1975, as shown in Table IX, because of prior legislation making changes in school aid distribution formulas and eliminating the so-called machinery distribution to cities and towns. Additional fiscal benefits came from legislative permission to spread the 1972 MBTA deficit over the next 18 months instead of being assessed in a single year and 1973 legislative authorization for state financing of one-half the MBTA deficit assessable on cities and towns. The latter legislation reduced Boston's share of the 1975 MBTA assessment from a potential $40 million to $25 million. A reduction in Boston's share of local highway aid because of formula revision in 1975 was offset by acceleration of the lottery fund distribution and by advance state funding of so-called Chapter 766 aid for special education, as shown in Table X.

Thus, according to the performance indicators listed in Table XI, Boston's financial condition improved slightly during the 30 months ending June 30, 1975. Annual expenditure and receipts were roughly in balance although sewer and water deficits chargeable to taxes had reached a new high of $9.5 million. The City's cash flow problem was alleviated, helped somewhat by the shift from annual to semi-annual payment of property taxes under the statutory change in the muncipal fiscal year to coincide with both the federal and state fiscal calendars. (This had been a City of Boston legislative initiative.)

Implementation of the City's personnel reduction policy through attrition of permanent and provisional employees, which had been inaugurated late in 1972, was particularly instrumental in achieving some fiscal stability. (See Table XII.) During the 18-month period ending June 30, 1974, the number of City and County employees declined by over 1400 or 8.5 percent. It should be noted, however, that budgetary savings from this austerity program primarily offset higher personnel costs generated by staff additions during the prior 6½ years. The number of personnel filling permanent City positions and paid from City funds increased by over 400 between 1968

TABLE X

ACTUAL REVENUES BY SELECTED SOURCE, GENERAL REVENUE FUNDS
CITY OF BOSTON
1971 - 1975

Selective Revenues, General Revenue Funds	1971*	1972*	1974**	1975***	Percent change, 1971-75
	(in millions of dollars)				
Net collections of current year's property taxes	$259.6	$289.6	$445.8	$301.5	+ 16%
Net collections of prior years' property taxes	4.3	3.6	6.4	4.7	+ 9%
City departmental revenues	13.4	12.9	20.6	9.3	- 31%
County departmental revenue	5.3	6.3	9.8	7.4	+ 40%
Health and hospitals revenue	41.6	37.7	69.1	52.6	+ 26%
Revenues from state:					
State tax apportionment	5.4	2.0	3.8	---	---
School aid, c.70	14.2	37.3	62.7	51.3	+ 38%[c]
School aid, c.70 withheld in prior years	---	14.2	---	---	---
School aid, c.69-71	2.1	3.7	3.8	3.1	+ 48%
Construction of school projects	2.3	2.5	4.0	10.5	+357%
Pensions to retired teachers	7.8	7.7	7.9	8.7	+ 12%
Vocational education	1.7	1.7	4.8	2.1	+ 24%
Miscellaneous	---	---[a]	0.5	4.1[b]	---
Highway Fund	---	6.0	4.3	1.8	---
Lottery Aid Fund	---	3.7	6.2	9.7	---
Federal revenue sharing (transfers to City's Fund)	---	---	29.0	21.0	---

a. $73,173.
b. Includes $3.0 million for racial imbalance and $1.1 million for Chapter 766 aid.
c. Increase for period, 1972-75.

TABLE XI

KEY FINANCIAL INDICATORS, CITY OF BOSTON
1972 - 1975

(in millions of dollars)

	1972	(18 months) 1973-74*	1975**
Revenue surplus or (deficit), end of year	$(22.8)	$ 12.5	$ 18.8
Appropriations balance or (deficit), end of year***	6.9	1.4	(18.4)
(Deficit) appropriations:			
Prior year pay raises	(3.1)	---	---
Estimated receipts	---	12.4	---
Sewer and water deficits	(7.3)	(5.2)	(9.5)
Abatements****	20.8	42.1	40.8
Prior year overlay (deficits) raised	3.0	3.4	8.4
Uncollected taxes, end of year	58.0	71.4	59.8
Loans in anticipation of revenue	180.0	240.0	100.0
% of tax rate revenues	36%	33%	19%
Bonded debt issued	84.0	70.1	40.0
Bonded debt retired*****	22.3	30.5	28.9

*For 18 months, 1/1/73 - 6/30/74.
**Fiscal year, 7/1/74 - 6/30/75
***Difference between adjusted tax rate appropriations and net expenditures. Adjusted appropriations include prior-year appropriations carried forward, transfers and deficit appropriations.
****Excluding adjustments.
*****Excluding traffic tunnel retirement and rapid transit.

TABLE XII

NUMBER OF EMPLOYEES, CITY OF BOSTON
1971 - 1975

No. of Employees	Feb. 1 1971	Feb. 1 1972	Feb. 1 1973	Feb. 1 1974	Feb. 1 1975	Per cent Change, 1971-75
City Departments*	16,211	16,058	15,546	14,155	14,322	- 12%
County Departments	1,373	1,366	1,386	1,398	1,330	- 3%
School Departments**	8,157	8,228	8,394	7,774	7,976	- 2%
Total	25,741	25,652	25,326	23,327	23,628	- 8%
Fire Department	2,127	2,190	2,200	2,115	2,149	+ 1%
Health and Hospitals Department	5,503	5,388	5,570	4,621	4,662	- 15%
Police Department	3,394	3,289	3,195	3,021	3,157	- 7%
Public Works Dept.	1,448	1,350	1,312	1,248	1,210	- 16%

*Data excludes employees on federally-assisted model cities and safe streets programs.
**Data includes employees on federally-asssted payrolls.

Source: Annual Reports, Auditing Department, City of Boston.

TABLE XIII

CITY OF BOSTON PERSONNEL, 1/1/68 AND 6/30/74

City Department	Personnel Level 1/1/68	Personnel Level 6/30/74	Change from 1/1/68 to 6/30/74	Per Cent Change
Police	2,688	3,091	+ 403	+ 15.0%
Mayor's Activities	44	304	+ 260	+ 590.9
Fire	2,038	2,137	+ 99	4.9
Public Facilities	41	96	+ 55	+ 134.1
Library	545	580	+ 35	+ 6.4
Administrative Services	157	188	+ 31	+ 19.7
City Council	18	35	+ 17	+ 94.4
Housing Inspection	88	105	+ 17	+ 19.3
Boston Retirement Board	19	29	+ 10	+ 52.6
Election	39	49	+ 10	+ 25.6
Public Works	1,433	1,215	- 218	- 15.2
Parks and Recreation	570	455	- 115	- 20.2
Health and Hospitals	4,547	4,464	- 83	- 1.8
Real Property	177	151	- 26	- 14.7
Traffic and Parking	125	109	- 16	- 17.8
Auditing	62	49	- 13	- 21.0
Youth Activities Commission	58	47	- 11	- 19.0
Veterans Services	71	61	- 10	- 14.1
City Total	13,230	13,649	+ 419	+ 3.2%

Source: Boston Municipal Research Bureau, "Another View of Boston's Personnel Reduction Program", September 30, 1974, Special Report No. 45.

TABLE XIV

PERSONNEL IN MAYOR'S OFFICE AGENCIES

1/1/68 AND 6/30/74

Agencies under Mayor's Control	Year Funded	Personnel Level 1/1/68	Personnel Level 6/30/74
Mayor's Office	---	38	34
U.S. Bond Allotment Plan	---	5	2
Public Celebrations	---	1	1
Office of Public Service	1968		108
Office of Human Rights	1968		28
Office of Cultural Affairs	1968		5
Coond. Council on Drug Abuse	1970		7
Development & Industrial Comm.	1970		11
Comm. on Affairs of Elderly	1970		15
Board of Rent Appeals	1970		65
Safe Streets Act	1972		6*
Policy Analysis & Planning	1972		0**
Office of the Boston Bicentennial	1973		12
Animal Control Commission	1973		2
		44	304

*23 federally-funded employees.
**13 federally-funded employees.

Source: Boston Municipal Research Bureau, "Another View of Boston's Personnel Reduction Program", September 30, 1974.

and mid-1974 while the number of County employees increased by over 200, for an overall increase of 625. (These figures excluded Welfare Department employees absorbed by the State in mid-1968 and employees on federally-funded payrolls.)

As shown in Table XIII, the net increase of over 400 City employees was due to Police Department staff expansions, mainly to implement the reduced-hour work week, and the staffing of 12 new activities directly under the Mayor's control, as indicated in Table XIV. These staff increases offset employee reductions in the Parks and Recreation and Public Works Department, reductions due to shifts from force account (using City employees) to contractual delivery of certain services.

Imminent Fiscal Emergency

Lingering weaknesses in the City's financial structure -- the inequities in assessments and failures to recognize abatements, exacerbated by large percentages of uncollected taxes and the troubling trend in tax foreclosures, and political difficulties in sustaining personnel reduction progress -- were ominous signals in 1975 that basic deficiencies in Boston's fiscal practices had not yet been remedied. The special factors contributing to tax rate stabilization between 1972 and 1975 could conceivably give Boston only one more year of grace. A serious fiscal emergency was clearly on the horizon. A substantial operating deficit for the 1975 fiscal year had been averted only by wholesale transfers of available surpluses to deficient accounts in closing the City's books. A School Department operating deficit of under $1 million in 1972 had climbed to $8 million by 1975. For the first time in almost two decades, Boston had temporary loans in anticipation of revenue outstanding at the end of the fiscal year.

V. WHITE'S MIDDLE YEARS: 1976-1980

The Roundhouse Punch

After four years of a constant tax rate, the taxpayer of Boston was shocked in the Fall of 1976 (fiscal 1977) when Mayor White announced that property taxes would rise by 28.5 percent or $56.20 per $1000 of assessed value. This was the largest tax increase in the City's history. A Boston Globe reporter called it a "roundhouse" punch that had Boston taxpayers "reeling and wondering what happened." The explanation according to the Globe, was that "city services have become more expensive, there's less help from the state and federal governments, inflation continues to eat up savings and four years of a stable tax rate had to end sometime." (September 17, 1976). Mayor White blamed the increase on less federal and state aid that year and "most importantly" on the School Department where "... costs are totally out of control." (Boston Globe, September 17, 1976)

Reaction to the tax hike was quick and furious. Taxpayers were outraged. Bankers feared that homeowners -- who were facing average tax bill increases of $400 -- would not pay their escrow taxes and might even "abandon" their homes. (Boston Globe, September 17, 1976) The Boston Municipal Research Bureau called for strict control of City and School spending and warned that without such, next year's property tax rate could soar again, by more than $30.

One analyst and journalist concluded, on the other hand, that Mayor White may have been getting "a bum rap, all the way" (Boston Herald, September 23, 1976) Although the tax rate was up by 28.5 percent, he noted, "the cost of everything the City buys - wages, services, goods - has gone up 36 percent."

Warren Brookes wrote:

> In short, White may have done a pretty good job in holding down the growth of government spending since 1972, in spite of the rapidly rising prices on everything. ... (O)ur research shows that he may well be among the more fiscally conservative mayors. This does not mean there is not room for additional pruning and belt tightening but there may not be as much 'fiscal fat' as the furor would suggest.

Brookes went on to state that high property taxes in Boston were due to two factors: over-reliance on the property tax, and a steadily declining share of state revenues sent back to cities and towns as local aid. Brookes claimed that the "...city is being short-changed by the state government by more than $35 million" (September 23, 1976).

A month later Warren Brookes wrote a 5-part series on the City's finances. His current concern was that:

> ... the city may well be moving at an alarming pace toward a New York City-type financial crisis within the next six to nine months. (October 18, 1976)

He warned that:

> How well and how soon we meet this crisis may determine the future economic and sociological health of the city. (October 18, 1976).

Brookes's series called for specific cuts of $64 million in City spending and $26 million in additional state aid: a $90 million solution of the City's fiscal problem.

On the spending side Brookes' analysis indicated that the City was being operated by 4300 more employees "than it realistically needs to do the job", which, if cut, would generate a $64 million dollar saving.

His specific proposals for budget cuts were:

1. Hospitals. Brookes argued that in 1967 the hospital was a 1000 bed facility with a staff of 3459. By 1976, the City Hospital had been

converted to a 400-bed facility with a staff of 3700! Brookes proposed that 700 positions be cut.

2. CETA. Brookes' analysis noted that almost 1200 CETA employees had been added to City payrolls since 1967. He argued that these jobs should replace city payroll positions -- "take from the city's own payroll 1200 positions, equivalent to those which are now funded by the Federal program."

3. Schools. Using a ratio of students-to-total personnel of 11.8, the ratio which had existed in 1972, instead of the 9.3 ratio of 1976, Brookes recommended a reduction of 1700 employees.

4. Police and Fire. Brookes compared Boston to other cities and argued for a reduction of 400 police officers and 300 firefighters to save about $12 million.

On the revenue side the Brookes solution was for the state to absorb Suffolk County expenses (courts and corrections) into the state budget (with a total annual budget of $26 million at the time), and to send more state aid to the City. Brookes was particularly concerned that all local governments in Massachusetts had been "shortchanged" in local aid. He argued that between 1975 and 1977 state tax revenues had risen by over $700 million, while local aid was level funded. As a result local aid declined from 37 percent to 27 percent of state revenues. Brookes, among others, was critical of the Governor and the Legislature for solving their fiscal problems by "socking it to the cities and towns". (Brookes, Boston Herald, January 4, 1977).

Budget cuts of $64 million and $26 million in additional state aid was Brookes' solution "...to keep this city from going over the brink of both economic and sociological disaster."

In retrospect the City had not been over the brink. In fact an economic renaissance was quite visible. Subsequent to the tax rate jump of 28.5 percent in 1976, the City held the tax rate for three succeeding years and without significant cuts in spending. Total expenditures rose by 20 percent between fiscal 1977 and fiscal 1980! Only in 1981 did the tax rate rise again -- to $272.70 (by 7.8 percent), before Proposition 2½ forced a three-year reduction beginning in 1982.

The Solutions This Time

Why didn't the City go over the brink? Because of a series of events increasing the City's revenue and absorbing some of its costs between fiscal 1978 and 1980.

The significant factors were:

1. For fiscal 1977 the City's actual revenues, excluding those from property taxes, exceeded original estimates by $46 million. Revenue surpluses were mainly unanticipated windfalls and new sources -- $15 million of additional reimbursements from the Commonwealth for school construction, and for prior year's cost of living reimbursements for retired teachers; $17 million from additional Federal General Revenue Sharing funds and a new program of Federal Local Fiscal Assistance.

2. Establishment of an independent Water and Sewer Commission in 1977. By spinning off the water and sewer responsibilities to a separate self-supporting entity, the City was able to eliminate annual recurring deficits in water and sewer operations and recover an accumulated deficit in the City's water and sewer enterprise

accounts as of June 30, 1977 of about $25 million (Official Statement, August 1, 1977, p. 27).

3. In fiscal 1979, the state increased direct local aid by revising the education distribution formula while enacting a partial takeover of county court costs which together gave the City an increase of $68 million in additional funds. Although the state initiated these moves to affect reductions in municipal tax rates in fiscal 1979, such was not forthcoming in Boston. State officials, particularly Governor Dukakis, were quite upset that the City did not use some of these funds to reduce property taxes, especially in the era of Proposition 13 (California) and with the prospects for a referendum on Proposition 2½ in Massachusetts (1980).

4. In the 1980 fiscal year the balance of court take-overs was implemented providing the City with additional funds with which to hold the tax rate steady.

While the tax rate held steady at $252.90 for four years, (1977-80), the underlying financial indicators in Table XV showed the City burdened with carrying an annual appropriation deficit of about $25 million a year and an overlay deficit of over $20 million per year. Fortunately, there also was a revenue surplus in 4 out of the 5 years.

A number of additional factors are worthy of note in explaining finances for the 1977-80 period:

1. Each year expenditure over-runs, according to reports of the City Auditor, were attributed mainly to appropriation deficits for schools,

FINANCIAL INDICATORS
1976 - 1980
(millions of dollars)

	1976	1977	1978	1979	1980
Revenue surplus (deficit)	(3.9)	45.6	3.1	12.9	18.1
Appropriation surplus (deficit)	(20.7)	(17.7)	(21.8)	(20.2)	(43.4)
Prior year overlay (deficit) raised	(20.3)	(25.4)	(17.5)	(24.3)	(15.6)
Deficit appropriation raised	---	(20.7)	(15.0)	(13.1)	(18.3)

Source: Auditor's Reports: City of Boston police, health and hospitals, and occasionally county expense. Both at the beginning and end of this period, the City administration was pointing the finger at excessive school costs. Between 1975 and 1981 the student population had declined by 20,000 while staffing had remained constant.

2. Overlay reserves during this period averaged 6 percent of annual gross levies while the actual total of taxes abated averaged 7.5 percent, portending the impending Tregor crisis. As shown in Table XV overlay deficits had worsened in these years. The overlay deficit for fiscal 1980 reflects the deliberate policy of deferring refunds for abatements, not a diminution of the problem.

3. The bailouts during this period were of two types. State reimbursement for school construction and the water and sewer deficit reimbursements were one-time, non-recurring funds. These one-time receipts helped reduce annual operating deficits, but it should be noted that such temporary sources would continually reappear in Boston's financial history. On the other hand, the county court takeover and revision of the educational aid formula were more permanent sources of future revenues.

VI. THE VINEGAR YEARS: TREGOR AND PROPOSITION 2½, 1981-84

A Most Disruptive Period

The fiscal 1981-82 crisis, revolving around the Tregor court case and the implementation of Propostion 2½, was perhaps the most disruptive period in the City's recent history and contributed to the political weakening of a very strong mayor. The initial effects of what the Mayor once described as the equivalent of a hurricane and a tornado hitting the city simultaneously were dramatic. Their result was constituent unrest and political turmoil, leading to a number of demonstrations and takeovers of fire and police stations that had been closed and in the neighborhoods; even the stopping of traffic flowing through the East Boston to Boston tunnels. The City was forced to reduce its budget by $75 million from fiscal 1981 to 1982, resulting in layoffs of some 2,700 city-funded employees and over 700 tenured teachers. (BMRB, January 12, 1982).

In anticipation of this drama the Boston Municipal Research Bureau (BMRB) issued a report entitled "Living on Less: Boston's Challenge for 1981" (February 1981). The Bureau highlighted three facts that were portending a year of "continued financial crisis and cutbacks for Boston city government" -- 1) the impact of Proposition 2½; 2) the impact of abatements under the Tregor court decision; and, 3) the "school budget saga".

The impact of 2½ was estimated as a $78 million reduction in property taxes. When calculated on the basis of the City's discretionary budget, the Bureau expected the cuts on the City's budget "will hit not just what many consider governmental frills, but the heart of municipal services." The Bureau estimated that first-year personnel layoffs could reach 5,000 employees, almost 40 percent of the work force.

As to the abatement liability, the Bureau estimated a contingency of between $50 million and $100m. Together with an estimated $40 million school deficit for 1981 this led the Bureau to "raise the question of whether there will be enough cash on hand to get through the fiscal year" (p.2.). There was some speculation that schools might be forced to close early.

While the Bureau saw some hard times ahead, it also saw some silver linings in the ominous storm clouds. "Time of crisis also present opportunities" (p.4.). What the Bureau had in mind was management controls "...(O)peration of the city can never be really improved until some sound systems are put in place" (p.5).

In addition to management systems, the Bureau said it would also push for a change in administrative structure. Most particularly, the Bureau was looking for a chief fiscal officer who would select key financial officials such as the assessor, treasurer, and personnel director.

Finally, the Bureau identified a need for fiscal controls and management changes in the School Department. It sponsored a special study of this issue by Marcy Murningham under the guidance of an advisory group consisting of Joseph Slavet, Joseph Barresi and Joseph Cronin.

The Bureau was prescient in its forecast of silver linings. Several of the fiscal solutions adopted during this period included some new management controls for City financial operations.

The City's first effort to deal with the impacts of Proposition 2½ and Tregor was to implement the recommendations of a select, internal committee. This committee recommended that $97 million be reduced from the City's budget. Among the austerity measures recommended were 25 percent cuts in Police and Fire Department budgets, a 30 percent reduction in the Public Works budget, a 35 percent reduction in the budgets of mayoral agencies and a massive 60 percent cut in the budget of the Parks and Recreation Department. These recommendations were received as Draconian and inevitable.

As the Boston Globe editorialized:

> The financial walls around Boston are closing in. And, to date, the secret door through which city residents will escape unacceptably harsh reductions in city services has not been located. (December 5, 1980).

Boston's abatement/assessing problems have been of a recurring nature. Because of its relative importance to Boston's past and to the prospects for Boston's future, the next section digresses to present the background necessary to understand assessing, abatements, overlay deficits and the Tregor court case.

Digression: An Historical Summary of Assessing Inequities in Boston

The property tax has been utilized by Massachusetts cities and towns since colonial times and Massachusetts has consistently tended to be more dependent upon the property tax as a revenue source than most other states.

Historically, the administration of the property tax has been characterized by complexity and diversity. Because the property tax was a locally administered tax, its effects on each of the 351 cities and towns in the Commonwealth was different. In general, tax rates were highest in the largest and oldest cities. In Boston the effective rate at which property was taxed often varied from one class of property owner (e.g., residential) to another (e.g., commericial), and often from one neighborhood to the next. It was these inter- and intra-class differences which led to considerable litigation during the 1960s and 1970s.

Inequities in the administration of the local property tax arose from three factors:

1. Assessed values seldom reflected actual conditions.

Although the General Laws of the Commonwealth required assessors to assess property at its "fair cash valuation"[1], property was typically assessed at less than market value. Such fractional valuation was often the natural result of property value appreciation in a community which did not periodically update assessment.

The use of fractional valuations was also reinforced by State practices. Fractional valuations could result in larger amounts of state aid because of inconsistencies in the state's process for equalizing municipal valuations, the basis for distributing most state aid. While many of the inconsistencies have since been corrected, a pattern continued for a long while which allowed communities which assessed at a low fraction of market value to receive proportionately more state aid than otherwise similar communities that were near full valuation.

Across the board underassessment patterns generally created a new cycle which further accentuated inequities. Cities and towns were forced to compensate for low levels of assessment by raising the tax rate to a level that would be unacceptable if properties were assessed at full value.[2] Any form of reassessment would then be opposed by taxpapers who were afraid that upward adjustments would not be accompanied by a reduction in property tax rates. In addition, the class of taxpayers underassessed relative to other classes had an increasing stake in opposing a reassessment effort that would lead to an increase in its share of the tax burden.

2. Fractional assessments were often varied according to the type or class of property. Residential classes of property were valued at different percentages of market value than assessments for industrial and commercial property.

The system of fractional assessment, which existed throughout the Commonwealth and was most notable in Boston, was in violation of the Massachusetts Constitution which forbade the imposition of taxes upon one class of persons or property at a different rate from that which was applied to other classes.[3] The legislature and courts had long been aware of the practice of applying different assessment/market ratios to various classes of property. Such practices were tolerated for many years. [4]

3. Similar property classes contained substantial variations in assessment ratios.

Intra-class inequities in assessment ratios were attributed to a number of factors. Throughout the Commonwealth a recently sold parcel of property was more likely to be revalued than one which had not changed ownership. Properties in declining neighborhoods were likely to have higher assessment-to-market-value ratios than properties which were located in more attractive neighborhoods where market values were rising. Differences in the rate of inflation in housing prices in different neighborhoods was often responsible for assessment ratio disparities. [5]

Judicial Response: The Bettigole Decision

Prior to 1961 a taxpayer whose property was assessed higher than other properties in the community could not obtain any relief from the courts unless the taxpayer could prove that his or her property was absolutely overassessed (that is, at more than 100 percent of its market value). In 1961, the State Supreme Court ruled in Bettigole vs. Assessors of Springfield 343 Mass. 233, 178 N.E. 2nd 10 (1961), that all property must be assessed at full value and that fractional assessments or assessments below 100 percent of value, as well as nonuniform assessments were unconstitutional.

The Bettigole decision clearly stated the law of the Commonwealth, but enforcement was left in the hands of city or town officials. Following Bettigole, many of the smaller towns in Massachusetts revalued their property. Cities and larger towns, however, sought to avoid revaluation because, in many cases, they also had a de facto classification system. Political leaders recognized that revaluation would result in a significant tax burden shift from business property to residential property. Since local officials were reluctant to revalue, the only option was for at least ten taxpayers of a communmity to bring suit seeking to force such action. Local officials were often able to negotiate one or more of the taxpayers out of the suit and thereby avoid the threat of court-ordered revaluation. This strategy was particularly successful in Boston.

The Sudbury Decision and 100% Fair Cash Valuation

In 1974, with the decision of the state's highest court in Sudbury v. State Tax Commission, assessing policy underwent a fundamental change. The Supreme Judicial Court addressed the problem of continued underassessment in the Commonwealth by requiring every city and town to assess its property at 100 percent of market value, thus ending any residual legal basis for the fractional assessment of property within and among classes.[6] Important in this decision was recognition of the state Department of Revenue's responsibility to enforce compliance with the state law.

For communities which assessed all property at a relatively high but uniform percentage of full value, the impact of 100 percent valuation was minimal. However, in communities in which a system of de facto classification had developed, the impact of 100 percent valuation was more severe. A move to full valuation would substantially disrupt the existing patterns of tax burdens and preferences which had resulted from fractional valuation. In 1972, equalization of assessments in the City of Boston would have resulted in an average incease of 20 percent in property taxes on residential properties, while taxes on commercial and industrial properties would have decreased by an average of 14 percent.[7] Statewide, an estimated $265 million in property taxes would have been shifted from commercial property owners to individual homeowners.[8]

The Political Response: Classification

In response to the Sudbury threat, Mayor White initiated a constitutional referendum proposal authorizing classification of property for assessment purposes. Classification could be implemented in Massachusetts only by amending the state constitution through a statewide referendum process which required four years. A similar classification amendment had been on the ballot in 1970 and was severely defeated. In November 1978, however, the voters of the Commonwealth approved a classification amendment by a two-to-one margin. The constitutional amendment and enabling legislation expressed a legislative and popular intent to treat residential property more favorably than commercial or industrial property.

The Tregor Decision

The illegal, de facto classification system remained in existence while individual cities and towns in the Commonwealth developed plans for revaluation. In March of 1979, the continued existence of this system was dealt a serious blow, and cities and towns, particularly the City of Boston, were faced with the problem of tax abatements until the individual revaluation efforts were successfully completed.

In Tregor v. Board of Assessors of the City of Boston,[9] decided on March 23, 1979, the Supreme Judicial Court indicated that until revaluation was completed, a taxpayer could make at least a prima facie case of disproportionate assessment if he showed that his property were assessed at a percentage of fair cash value greater than the average percentage of fair cash value of all taxable property in the city or town.

The court further indicated that a taxpayer who proved such disproportionate assessment was entitled to have the assessed value to market value ratio for his property reduced to the average ratio of the "most favored class" of properties -- generally single family homes. Relying on policy considerations rather than statutory or constitutional authority, the court held that an order to reduce the taxpayer's assessment level to match the assessment to value ratio of the lowest class "vindicated the right of the aggrieved taxpayer by conforming his assessment to those of the most favored taxpayers".[10] The court indicated that the lowest class remedy was chosen to provide some incentive to assessors in all cities and towns within the Commonwealth to comply with the fair cash valuation standard set forth in the General Laws and ignored for many years.

As a result of the Tregor case, cities and towns which were not assessed uniformly or at full cash value faced several immediate problems: (1) the return of collected property taxes through pending applications for abatement; (2) increased overlays in the tax levy to cover abatements; (3) reductions in assessments on commercial and industrial property in future years to avoid abatement appeals.

Throughout the Commonwealth, taxpayers who had appeals pending an appeal based on disproportionate assessment of a prior year's tax would receive a reduction in assessed value to the lowest assessment/value ratio which existed. Because most cities and towns previously assessed commercial, industrial and utility property at a higher ratio, those communities were required to reduce such assessments to the level of a single-family home or whatever substantial class of property had the lowest ratio.

For the City of Boston, the effects of the Tregor decision carried with it an estimated liability of $154 million in abatements. The chickens had come home to roost in fiscal 1982.

The Solution to the City's Finances: Fiscal 1982 and 1983

The second half of fiscal 1981 to the end of fiscal 1983 were hard years for the City. Budget cutbacks, layoffs, and political discord dominated the landscape. However, the City emerged from these 2½ years with a number of major accomplishments. First, it was able to cover the Tregor liability, through a combination of bonding and sale of the Hynes' auditorium, thereby mitigating the financial impact. Second, it finished a complete revaluation of city property, thereby cleaning up its act in assessing for the first time in its history. Third, it agreed to (the City's financial team had actually helped design) a number of reforms in management controls which were included in the overall financial solution. The importance of each of these to this period and for the future of the City is the remaining part of this period's vignette.

Clearly, Proposition 2½ was dealing with the inordinately high level of property taxes in Boston. In addition revaluation, supplemented by classification, which was implemented in 1983, finally established full and fair market assessments and ended the abatement bleeding of commercial taxes. But it was the Tregor Bill, or more appropriately the Funding Loan Act of 1982, which provided both funding for previous overlay deficits and introduced some fiscal reform measures to improve the way the City was managed.

In 1982, the City sought to issue bonds to finance Tregor-related abatements. The idea was to authorize the City to borrow an amount to be deposited in a separate fund dedicated solely to paying the abatements for disproportionate assessments and to reimburse the City for payments already made in such cases. To facilitate their marketing, the bonds were to be secured by dedicated revenues. The "Tregor Bill", which took about a year from initial proposal through many revisions to final passage, had an unusually checkered history. The political wear and tear was extensive.

The Tregor bill provided, among other things, for the issuance of bonds to fund, in part, disproportionate assessment tax refunds. The legislation set up a Disproportionate Assessment Fund (DAF) for such refunds. The amount put into this fund included a $45 million, ten-year bond issue, and proceeds from the sale of the John B. Hynes Veterans Auditorium to the Massachusetts Convention Center Authority for $34 million. The City also raised about $50 million in overlay deficits for fiscal 1982. Funds in the Disproportionate Assessment Fund were to be used until June 30, 1983 for Tregor-related abatements. After that, disproportionate assessment refunds were to be paid from regular overlay reserves or from other available City services. A key provision in the Act was that on June 30, 1983 any surplus in the Disproportionate Assessment Fund in excess of certain interest would be disbursed to the City for application to any purposes.

The issuance of the bonds were secured by pledged revenues. These included an excise tax on the transfer of certain hotel and motel rooms in the city, an excise on the recording deeds for real estate transfers, and an excise on conversion of new construction of condominiums and on subdivisions or consolidations of real property in the City. To the best of our knowledge this was the first authorization through Home Rule petition of a local excise tax in Massachusetts. In addition to the pledged revenue the DAF included the City's receipts from the 121A excise imposed on limited dividend developments in the City in lieu of property taxes.

Passage of the Tregor bill had the dual effect of relieving the City of the burden of paying large amounts of commercial abatements from current revenues and reimbursing the City for previous tax refunds for such cases.

Nevertheless, despite this financial relief, two of the City's four key financial indicators actually worsened. Only the overlay deficit and appropriation deficit numbers declined. According to Table XVI, the City incurred revenue deficits during each year beginning with 1982. Appropriation deficits, while one-half of the amounts experienced earlier, were still \$15-16 million annually, and the overlay deficit was, by historical standards, practically nil. The annual appropriation raised was in the range of \$35 to \$45 million, historically-high absolute totals.

Particularly important to this analysis are the financial management reforms contained in the Tregor Bill. These reforms included:

1. An expenditure allotment system to prevent department personnel overspending.

Under its provisions, effective for fiscal 1984, each City department and agency, except the School Department, may not exceed in either the first or second quarter of each fiscal year 30 percent of the total appropriations for all personnel categories in that fiscal year and may not allot less than 21 percent of total appropriations in either the third or fourth fiscal quarter.

For the School Department, not more than 20 percent of school personnel expenditures may be made in the first fiscal quarter and not more than 30 percent in any of the remaining quarters.

It is the City Auditor's responsibility, in determining that a department will exhaust or has exhausted its quarterly allotment and any amounts allotted but unexpended in previous quarters, to notify the Mayor. The Mayor must within seven days either waive or enforce the allotment.

"If the allotment for such a quarter is waived or not enforced, the department head must reduce subsequent quarters' allotments appropriately. If the allotment for such quarter is not waived, the department head must terminate all personnel

FINANCIAL INDICATORS
1981 - 1984
(millions)

	1981	1982	1983	1984
Revenue Surplus (deficits)	5.5	(6.5)	(20.8)	(6.7)
Appropriation surplus (deficit)	(36.9)	(35.6)	(16.2)	(15.9)
Prior year overlay (deficit) raised	(22.7)	(55.2)	(5.2)	(5.6)
Deficit appropriation raised	(25.0)	(31.5)	(44.2)	(36.7)

Source: Auditor's Reports: City of Boston expenditures for the remainder of the quarter." (s.18, C.190, Acts of 1982) Personnel expenditures in excess of allotment is a violation of law subject to criminal sanctions. This provision was designed to reduce the City's proclivities for appropriation deficits documented in this report.

2. The Act empowered the Mayor to reallocate among departments a maximum of $3 million in non-personnel appropriations. The intent of this proposal was to provide some executive flexibility to allow for unforeseen emergencies.

3. The Act allowed the City Auditor, with the Mayor's approval after the close of the fiscal year, to make transfers from one appropriation to another for the purpose only of closing the account. The time allowed for such transfers was reduced.

4. The Act also mandated reforms concerning assessing policy. It required that on property for which the assessors granted abatements the lower assessments should be maintained unless there was evidence of a value increase or unless there was a general revaluation. Boston's long assessing history provoked this reform. In the past, properties which received an abatement in one year were reassessed up to the disputed value in the subsequent year.

While each of these were important reforms, subsequent financial experience indicated that they did not eliminate every loophole.

Fiscal 1984

The final budget of the White Administration (fiscal 1984) was balanced by using about $72 million in non-recurring revenue. The City of Boston averted a potential gap between revenues and expenditures during the 1984 fiscal year by use of the following list of non-recurring revenues for normal operating purposes:

1. An unallocated balance of $19.6 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 surplus garage facilities owned by the City in excess of debt service paid and outstanding on such properties, estimated at $18.5 million.

The use of these one-time revenue sources was akin to selling the "family jewels" in order to maintain a lifestyle that current income could not sustain.

The 1984 tax rate computation was also balanced without providing for the anticipated full year's cost of collective bargaining salary and wage increases for City, County and School employees which were currently under negotiation and expected to require up to another $25 million in appropriations.

The use of non-recurring revenue was, of course, a potential problem for the next Mayor in preparing the fiscal 1985 budget. In addition to finding increased revenues to meet increasing costs, it would also be necessary to replace the one-time, non-recurring revenues allocated in fiscal 1984. Failure to provide an adequate appropriation to cover collective bargaining costs was an historic practice used by the City to avoid tipping its collective bargaining hand. It also was the basis for appropriation deficits for many years.

VII. THE EARLY FLYNN YEARS: OLD WINE IN NEW BOTTLES?

> We have submitted a tight, balanced budget together with revenue estimates to provide a clear picture of the city's financial future. With strong management controls and support from the Commonwealth in our efforts to develop new revenue sources, we will be able to provide the residents of Boston with the services they need. (April 18, 1984)

With these words, Mayor Raymond L. Flynn submitted his fiscal 1985 budget to the City Council over a year ago. The budget had "substantial increases in the appropriations of Police and Fire Departments and also provided increased funding for Health and Hospitals and the Community Schools Program". Independent observers viewed the budget as out of balance, but the appropriation and tax orders were nevertheless enacted unanimously by the City Council.

As originally submitted, the budget document included revenue estimates as well as appropriations. Among the revenue estimates were $10 million from anticipated legislative passage of a parking excise tax. Revenue and appropriations for the submitted budget totalled $963 million.

The City's final plan for fiscal 1985 (i.e. the tax recapitulation sheet approved by the State Department of Revenue) varied from the original submission of April 18 in two major respects: (1) the Mayor subsequently reduced the budget by $4.7 million, up to a 5 percent reduction from the appropriations of some 48 departments. (Exempt from this directive were the major line departments of Police, Fire, Hospitals, and Public Works, and Parks and Recreation, which account for 68 percent of total departmental requirements) and (2) the 1984 fiscal year had ended with deficits which had to be raised in 1985. An appropriation deficit of $15.6 million, a revenue deficit of $23.9 million, and an overlay deficit of $13.9 million for a total deficit appropriation requirement of $53.4 million for fiscal 1985.

On the revenue side there were a number of changes from the original plan, two of which are significant. (1) the parking excise tax was not passed by the legislature. (2) as originally submitted, the 1985 budget was purported to be in balance without any resort to one-time non-recurring revenue sources as had been used to balance the past year's budget. As finally submitted to the State Department of Revenue, the 1985 tax rate recapitulation included - $54.1 million in one-time revenues -- $29.6 million from the sale of garages - $8.2 million from additional 121A state reimbursements, $4 million from parking meter fund balances, \$2.7 million in street cut deposits, and \$10.6 million in carried forward appropriation balances, mainly from the School Department.

In December 1984, the Boston Finance Commission issued a report which took issue, albeit rather meekly, with the City's spending plan for fiscal 1985. The Commission expressed concern that the "...city weakens its own position (for additional revenue) if its overall spending plan is based on unrealistic assumptions". It also noted that "(t)he city faces yet another deficit this year because it submitted, and the state Department of Revenue approved, an unrealistic tax rate recap sheet (budget)". (emphasis added). The Commission concluded, upon review of expenditure and revenue plans, that "...the city cannot comply with that budget".

The Commission stated:

> It appears to us that despite several positive steps taken by the Flynn Administration that the revenue side of the ledger is unduly optimistic. When combined with several underfunded expenditures, another deficit will inevitably result. The City of Boston has ended each of the past nine years with a deficit almost always due to working with unrealistic overall budgets (p.2.).

As this report is being written, the fiscal 1985 budget, which the Mayor called a "tight, balanced budget", the City Council passed unanimously, and the State Department of Revenue approved, is by admission of City officials about \$30 million in deficit.

This deficit projection could still change since the City can use unliquidated encumbrances of past years to reduce it. Nevertheless, as of this writing, the City's overall deficit for the current year is due to variances on both the appropriation and revenue sides.

The appropriation deficit is estimated at \$23 million. Three-fourths of this deficit is due to non-personnel spending in excess of appropriations -- higher than budgeted costs in execution of courts, pensions and snow removal; an inadequate full-year's estimate for the Court House Commission; and omission of employee health and insurance benefit provisions for the Health and Hospitals Department. In addition, salary increases for the Fire Department were overlooked.

Approximately $6.4 million of the deficit is on the revenue side. The cause is mainly an over-optimistic estimate of revenues. (For details see the April 23, 1985 report of the Boston Municipal Research Bureau.)

Attention has now turned to the fiscal 1986 budget which, according to City spokesmen is in "structural deficit" to the amount of $58 million. The Research Bureau estimates the deficit as $51.7 million. The Mayor is actively seeking authority to raise $45 million in local option excise taxes. He originally proposed, among others, a parking excise tax ($12 million), an increased hotel/motel room tax ($15 million) and an entertainment tax ($18 million).

Although legislative passage of these specific options look bleak, the probability of the City obtaining at least some additional financial aid is quite good. The most likely option is for the state to use part of its 1985 surplus to pick up municipal costs for county corrections. However, as of this writing, it seems likely that the courthouse buildings now owned by counties and rented by the state, might be purchased by the state or that a jet fuel tax and/or part of a hotel/motel tax increase might be shared with Boston.

While it is extremely difficult to predict exactly what will happen, and in what amounts, it is very likely that Boston will receive in Calendar 1985 an additional source of funds to help it deal with the gap between operating revenues and operating expenses for fiscal 1986.

It is not our purpose to detail the size or specific causes of the operating gap. We leave the size of this year's revenue-expenditure gap to the expertise of the

Bureau. Our paramount questions are: What have we learned from Boston's earlier "fiscal crises" and "solutions"? To what extent can they be helpful in structuring today's resolution?

VIII. FISCAL POLICIES AND PRACTICES — AN OVERVIEW

Deficit Spending: A Way of Life

Boston's history over the past three decades resembles a mosaic of fiscal crisis. The word "deficit" has been a distinguishing characteristic of the City's financial reports. Independent analyses of the City's condition have not only emphasized the fiscal imbalance as between Boston and its suburbs or between Boston and the State. They have also questioned whether the City's heavy service responsibilities and its constricted revenues are adequate explanations for Boston's high costs and high taxes.

We believe there is considerable evidence to support the claim that much of the City's financial difficulties are due to these imbalances. We also believe, however, that irrespective of service/cost and revenue maladjustments, the City's management bears reponsibility for preparing and rigorously implementing sound financial plans that balance appropriations with revenues. Our major conclusion from this detailed review of the City's fiscal history is that public tolerance of persistent deficits over such a long period of time is rooted in Boston's local political culture.

The City of Boston has been spending beyond its means for most of the past 35 years. With the intermittent exceptions of the first term of the Collins Administation and the brief interval following major state bailouts, the bottom-line of the City's current account has been written in indelible red ink. During the most recent period, 1980-1985, spending in excess of available current resources has ranged between $25 million and $40 million a year. The $40 million operating deficit in 1984 occurred despite the extraordinary resort to non-recurring revenues amounting to $76 million. An operating deficit estimate at $30 million for the current 1985 fiscal year will occur despite the utilization of $54 million in non-recurring revenues.

Revenue Deficits

The gap between estimated and actual revenues and receipts has been the major factor in Boston's failure to live within its available resources. In fact the City incurred annual revenue deficits in 19 of the fiscal-year periods between 1950 and 1984. This incredible legacy of revenue deficits has persisted to the present despite the provisions incorporated in the 1957 funding loan legislation which were designed to avert and discourage the incidence of such deficits. These safeguards required the State Director of Accounts to determine and certify the amount by whch estimated receipts exceeded actual receipts in the preceding fiscal year. They also required that estimated receipts be approved by the State Tax Commission (present Commissioner of Revenue) and be limited in amount to the aggregates of actual receipts collected during the preceding year from the same sources as certified annually by the City Auditor. Although the safeguards in the funding loan legislation have been subsequently strengthened, revenue deficits have become a fixture in the City's fiscal profile.

Appropriation Deficits

The propensity of City, County and School agencies to spend in excess of enacted appropriations from time to time has exacerbated Boston's revenue deficit syndrome. In the 10-year period between 1975 and 1984, appropriation deficits exceeded $240 million. The annual levels of over-expenditures ranged from a low of $15.6 million in 1984 to a high of $43.4 million in 1980. With almost 10 months of the current fiscal year completed, the BMRB estimated that the appropriation deficit for 1985 would be about $23 million. Appropriation deficits have occurred because of unforeseen contingencies and emergencies, budget estimation lapses, deliberate understatment of appropriation needs and/or failures in internal control and auditing procedures. That they have become a way of life despite examination of the City's financial statements and recommendations for management improvements by independent auditors since 1978, and despite specific provisions in the funding loan legislation of 1982 to discourage over-spending, reflects deep-seated weaknesses in Boston's fiscal management structure.

Annual and cumulative deficits have also plagued certain of Boston's so-called enterprise operations -- its sewer system and the Health and Hospitals Department. Operating deficits in sewer services emerged in 1962 and reached a peak of $6 million a year in 1976 and 1977. Legislation of 1977 establishing a relatively independent and self-supporting Boston Water and Sewer Commission authorized refinancing of about $25 million in accumulated sewer and water service operating deficits and indebtedness, and ended the prior practice of levying deficits of these City utilities on Boston's property taxpayers.

Serious deficits in Health and Hospital Department operations became visible with the accounting change that established a Health and Hospital Enterprise Fund in 1978. Since that time separate accounts for the Health and Hospitals Department show end-of-year differences between operating income and expenses, identify the losses from services to patients and the subsidies required from the City's funds for other departmental operations, and indicate the transfers from City funds to offset net losses. Between 1982 and 1984 the annual net loss from operations has ranged between $20 million and $29 million per year. Operating transfers from City funds to the Health and Hospital Enterprise Fund have ranged between $12 million and $21.5 million per year. By the end of the 1984 fiscal year, the balance in this fund had accumulated to a deficit of $132.9 million.

Overlay Deficits

From time immemorial Boston's finances have been battered by the outflow of property taxes from the City treasury because of tax refunds stemming from successful appeals of non-residential property owners from established assessed valuation figures. At intervals in the City's history, property tax refunds in excess of available overlay reserves accumulated in amounts that threatened Boston's cash flow capacity to meet payrolls and other obligations. At these points in time (1950, 1957 and 1982) the Legislature was asked to intervene by authorizing Boston to liquidate the accumulation of overlay deficits, not in the suceeding year as required by law, but over a period of years, usually through the issuance of funding bonds.

Although earlier funding loan acts had sought to prevent any future incidence of accumulated overlay deficits by requiring more realistic overlay reserves, they had neither included safeguards to guarantee assessments at 100 percent of full and fair cash value as mandated by law, nor added provisions that were designed to force local assessors to recognize abated values in their subsequent assessment rolls, thereby restoring confidence and reality to assessment practices. Not until the property classification act of 1979, requiring general revaluation every three years and state oversight of assessing practices, and the revaluation of all property in 1983 were remedies adopted which were aimed at the root causes of the City's perennial problem of overlay deficits -- its assessments.

Nevertheless and despite the investment of over $13 million to plan and implement the comprehensive revaluation of property completed in 1983 and the $7 million allocated to carry out the 1986 revaluation initiated this year, there is still evidence indicating that overlay deficits are continuing to have material adverse effects on Boston's financial operations. Although the prior administration had set aside additional reserves to cover large anticipated refunds from settlement of abatement appeals on the electric and gas companies, overlay deficits re-emerged only a year after implementation of the funding loan legislation. The 1984 tax rate requirements included $5.6 million for overlay deficits; the succeeding year's tax rate increased the overlay deficit to $14 million.

The recent report by independent auditors on the City's financial statements for the 1984 fiscal year contains ominous language concerning the amount of the City's contingent liability on "numerous pending property tax abatement applications", language that is similar in tone to the warnings in prior audit reports covering the 1980 and 1981 fiscal years. "We are unable to satisfy ourselves," noted the Peat, Marwick, Mitchell report, "as to the adequacy of the City's $109.3 million liability for estimated tax refunds and the classification of the liability between the $53.2 million recorded in the General Fund and the $56.1 million recorded in the General Long-Term Obligations Account Group. The liability recorded in the General Fund anticipates that the tax refunds will occur during the 1984 fiscal year, the remaining liability to occur in subsequent fiscal years.

According to the City's Commissioner of Assessing, the auditor's comments are based on the City's current court battle with the Boston Edison and Boston Gas utility companies. Boston Edison alone has appeals for abatements pending from 1977 to 1985; appeals by Boston Gas cover 1983 through 1985 tax years. The worst case estimate of total abatements to these utilities for these years is in the $100 million range. The City has established reserves of $23.6 million against this contingency and anticipates setting aside additional reserves of $5 million for 1986.

While we believe that the 1983 revaluation, despite its problems, ended the City's overlay deficit cycle, there is no doubt that if these two utilities are successful in their abatement appeals, another round of bond issue financing of overlay deficits would be necessary.

Fiscal Planning and Management Structure

The periodic eruption of fiscal crises over the past three decades suggest an internal tolerance among Boston's fiscal planners and managers for chronic deficits, expedient fiscal policies and counterproductive assessment practices. The Administrative Services Board, with a legal mandate to coordinate the City's financial processes, and the Administrative Services Department, with centralized powers over essential budget, personnel and purchasing functions since January 1, 1954 have not lived up to original expectations. The scope of responsibility of the Administrative Services Department has been diluted by gradual dispersion and fragmentation of its powers and by the erstwhile creation of replicative agencies in budget and mangement, fiscal affairs and policy management, decisions made in 1978, 1980 and 1982 that reflected deep doubts on the competence and reliability of the Administrative Services Department. Although total staff in the administrative, budget and personnel divisions of the Administrative Services Department has quadrupled over a quarter-century, its professional reputation has been tarnished by periodic politicization, staff turnover, bureaucratic competition and weak leadership. As for the Administrative Services Board, it has been an ineffective coordinating device, more of an odd-jobs agency with a narrow mission and limited role.

A 1979 independent audit of the City's finances, pointing to serious deficiencies in the assessment of property, in personnel and payroll controls, in purchasing and contract practices, in funding of retirement benefits, in management information systems, in departmental revenue systems, in internal auditing, in internal accounting and in personnel policies and practices, represented a serious indictment not only of the Administrative Services Department and its constituent budget, personnel, purchasing, and data processing units, but of the consolidated Collecting-Treasury Department, the Civil Service-headed Auditing Department and the Assessing Department. Similarly, the 658-page report Boston In Transition: A Financial Analysis, issued early in 1984 by a financial and research team on behalf of the newly-elected Mayor, provided substantial documentation of weaknesses in Boston's financial planning and management institutions and systems. Except for establishing a new unit in the Mayor's Office to oversee capital planning and budgeting (a function assigned by law to the Public Facilities Department), however, efforts to strengthen the City's financial planning and management practices have to date avoided fundamental reorganization of existing intitutional arrangements.

During the campaign debates of 1983, Mayor Flynn had proposed appointment of a chief financial officer, either through the grant of additional powers to a current position or by creating a new office. In addition, presumably critical of the expenditure control role of the Auditing Department and convinced that provisions of the 1982 funding loan legislation did not go far enough, Mayor Flynn had also recommended a new internal audit unit within the Mayor's office. Neither of these proposals have been implemented. Moreover, it remains to be seen whether the five-member Audit Committee, established under the 1982 funding loan act, will help generate significant improvements in Boston's fiscal policies and management practices. The Committee is responsible for monitoring the progress of mandated annual audits undertaken by independent, certified public accountants (CPAs) by meeting at least quarterly with the accounting firm and for submitting recommendtions to the Mayor and City Council after reviewing audit report recommendations; but the Committee has not yet carried out the latter phase of its statutory assignment. The management letter issued by the CPAs to supplement their recently completed audit is still being reviewed by City officials and has not yet been transmitted to the Audit Committee. Finally, the issue should be raised whether independent audit monitoring should be jointly accountable to the Mayor and City Council or to the City Council alone. As the elective body that appropriates funds and authorizes loans, it is the City Council that should be responsible for oversight of the independent audit function and for follow-up of Audit Committee recommmendations.

If City officials do not reverse historic and recent patterns of fiscal behavior, of which the following examples are only illustrative, they will experience great difficulty in operating within the predictable limits on available resources, however:

1. The tendency to negotiate collective bargaining agreements where the financial impact is considerably greater in the out-years of such contracts, the tendency to omit budgeting for full yearly requirements of anticipated collective bargaining agreements, and the tendency to operate for relatively long periods without collective bargaining agreements.

2. The tendency to ignore or overlook the operating budget implications of new capital facilities, expanded capital facilities and renovated capital facilities.

3. The tendency to provide inadequate appropriations in the operating budget for maintenance, thereby jeopardizing capital investments in faciities and subsequently necessitating large and continuing bond issues for deferred maintenance repairs. (footnote).

Major Changes in State-Local Services/Cost Mix

Over the past two decades a new pattern of fiscal interdependence as between state and municipal governments in Massachusetts has emerged. A significant component of this trend, which has had important implications for Boston's own finances, is the changing mix in the allocation of responsibilities as between the state and its cities and towns. The gradual but steady increase in state assumption and/or financing of local services since 1966 has shifted the financing of a growing list of costs from property taxes to broad-based, more elastic state taxes. A corollary of this trend is greater state encourgement and legislative incentives for municipalities to cover the costs of enterprise operations, utility-like systems such as water and sewer and cemeteries and waste disposal, and services with clear-cut beneficiaries such as hospitals that can be financed through charges, fees, third-party payments and revenue bond authorizations, mechanisms that will render them self-supporting and remove them from property tax pressures.

Major changes in the State-Boston services/cost mix, including the years of effective transfer or cost assumption and the estimte of financial relief to the City of Boston are summarized in Table XVII.

TABLE XVII

TRANSFER/SHIFT OF MUNICIPAL SERVICES/COSTS TO
COMMONWEALTH OF MASSACHUSETTS

Service/Cost	Effective Fiscal Years of Service/Cost Shifts	Estimated Annual Financial Relief to Boston
Public Welfare	1969	$17 million*
50/50 Sharing of MBTA Deficit	1975	15 million
Boston Water and Sewer Commission	1977	20 million**
County Courts	1978 - 1980	25 million***
County Medical Examiner Services	1982	300,000
Medicaid Payments for Outpatient Services and Medicare/Medicaid Reimbrusements for Portion of Cost of Free Care to Patients (Under state's hospital cost control law--c.372, Acts of 1982)	1982 - 1983	N.A.
Hospital care for General Relief welfare recipients (Under "free care" provisions of c.372)	1985	N.A.
Health services (in addition to hospital care) for General Relief welfare recipients	1985	N.A.
MDC Parks Assessment	1986	****
75/25 Sharing of Veterans' Benefits	1986	300,000

*Net cost excluding expenditures from federal and state funds.
**Accumulated deficits and debt service.
***Net county court receipts.
****Since assessment is deducted from estimated distribution of local aid, financial benefit is limited to annual increase in assessment.

Although the shifts of certain municipal costs to the Commonwealth has succeeded in rectifying some of the most glaring imbalances in the state-local services/cost structure of Massachusetts, there is a significant residue of state assessments, municipal costs and fixed charges that (1) either entail large-scale subsidy from limited sources of local taxes and/or fees-for-service, or (2) defy political and economic rationality as continuing municipal responsibilities or State-imposed mandates.

Major Changes in State-Local Revenue Mix

Even more significant than the shifting nature of the State-municipal services/cost stucture has been the changing pattern of the state-municipal revenue structure in Massachusetts. Responding to the pleas of municipal officials to ameliorate the effects of property tax limitation under Proposition 2½, the State Legislature has not only authorized the selective transfer of municipal services and/or costs to the Commonwealth but has significantly increased the annual allocations of local aid and redirected its distribution among cities and towns according to more realistic measures of differences in local public service costs and local revenue-raising capacities.

The results have been dramatic. The State's proportion of state-local taxes has climbed from less than 50 percent of the total prior to 1976 to about 66 percent of the total in 1985. Since 1983 the state tax proportion of state-local taxes in Masachusetts has exceeded the national average.

For Boston, property tax limitation, tax base expansion because of an unprecedented rate and scale of new construction, increased local aid based on formulas with greater sensitivity to needs and resources, enhancement of receipts from fees, fines and service charges through self-help efforts and the utilization of a variety of non-recurring receipts have contributed to a major re-shaping of the revenue mix in the City's General Fund, as indicated in the accompanying comparative summary of tax rate revenues for 1950 and 1985. (Table XVIII.) Data for 1985 indicate that Boston's resource structure is being transformed into a revenue pie with almost equal one-third slices coming from property taxes, state aid and other locally-derived revenues. The relative decline in property tax prominence from 76 percent of the total in 1950 to 36 percent of the total in 1985 has been matched by incredibly sharp increases in local aid and miscellaneous sources of local revenues and receipts, which taken together now account for over 64 percent of the City's total resources.

A major element of concern, however, is the heavy dependence of Boston on non-recurring revenues for operating purposes, particularly from the sales of surplus City properties, a practice that the State's General Laws deny to other cities and towns in the Commonwealth.

Another continuing revenue problem is the annual gap of 20-25 percent between operating income and expenses of the Health and Hospitals Department, a revenue imbalance requiring not only recurring City subsidies for community health services, special health programs and infrastructure, but annual transfers from City funds to offset operating losses of the City's three medical institutions. Although recent legislation and regulations have liberalized reimbursements under Medicaid for outpatient services and under Medicare for portions of the cost of providing free patient care, City subsidies from property taxes remain high because there is an unusually large concentration of low-income residents in Boston without third-party coverage or financial resources to pay for in-patient and other health service needs, including most of the State's homeless and a large proportion of persons on General

ESTIMATED REVENUES AND RECEIPTS, CITY OF BOSTON, 1950 AND 1985

	Adjusted Tax Levy Estimates			
	1950		1985	
Source	Amount $ (millions)	% of Total	Amount (millions)	% of Total
Property Taxes	$98.8	75.8%	$363.2	36.2%
State Aid	12.3	9.4%	337.1	33.5%
Other Local Receipts	19.2	14.8%	304.6	30.3%
Total	130.3	100.0%	1004.9	100.0%

Sources: State Department of Revenue, Tax Rate Recapitulation for Boston, 1985 Fiscal Year; City of Boston, Auditing Department Annual Report, 1950.

Relief. In fact the Boston City Hospital provides one-quarter of all the free care in Massachusetts at an annual estimated cost of $50 million.

Reimbursements to the City Hospital for free care through the end of the 1984 fiscal year totalled $23 million and another $12 million in reimbursement claims have been submitted, but the financial statements of the Health and Hospital Enterprise Fund do not reflect this revenue because of the uncertainty over the total amount to be received. Thus, the $23 million in actual third-party reimursements for free care has been used to reduce at least temporarily the required subsidy from the City's General Fund, awaiting final determination as to free care reimbursement amounts. On the other hand, financial statements of the Health and Hospital Enterprise Fund include a liability of $15.5 million to cover alleged overpayments of Medicaid outpatient revenue totalling $25.7 million for the years 1982-84. The latter amount has also been tentatively applied in reduction of the City's subsidy. Under a worst case scenario, the Health and Hospital Enterprise Fund could suffer a net loss of $33 million in revenue because of these controversies, thereby further exacerbating its accumulated deficit condition of $133 million at the close of the 1984 fiscal year.

Closely related to this concern over the recurring and accumulated deficit in the Health and Hospital Enterprise Fund is the threat that effective October 1, 1985 the federal government may lift or modify the waiver granted to Massachusetts and several other states from compliance with the national policy for containment of health care cost increases. If this waiver is not extended, officials of the Health and Hospitals Department estimate an aggregate reduction of up to $52 million in third-party reimbursements in the 1986 and 1987 fiscal years. Since non-public hospitals as a group would benefit financially from the federal reimbursement system alternative, they favor discontinuance of the waiver.

Finally, despite the overall improvement in the adequacy of local aid and in the equity of its distribution, there are lingering issues of predictability and fairness -- in the annual uncertainty over how much local aid will be appropriated, in the Commonwealth's current 60/40 formula for sharing State tax growth with cities and towns and in the State's disposition to finance municipal and/or county costs and assessments shifted to the State from local aid distributions due to cities and towns.

IX. RECOMMENDATIONS

The following list of recommendations is divided into four categories: (1) recommendations to correct state-local imbalances in service responsibilities and costs; (2) recommendations to reduce Boston's revenue imbalances; (3) recommendations to strengthen Boston's fiscal management structure, and (4) recommendations to eliminate glaring weaknesses in fiscal policies and practices.

It should be emphasized that some of the recommendations are directed toward easing Boston's more immediate and shorter-term financial difficulties and they include bills winding their way through the Legislature. Other proposals, however, particularly those targeted at elimination or reduction of cost imbalances through transfer of selected service responsibilities to the Commonwealth and measures to increase the City's available resources, would require a longer period of discussion and implementation because they are more controversial. This latter group of recommendations includes statewide changes which would cost relatively large amounts of money and would have to be phased in over a period as with state takeovers of public welfare and county courts.

Eliminate or Reduce Boston's Service/Cost Imbalances

1. Shift the net costs for the following list of human services still financed by cities and towns from property taxes to the Commonwealth:
   a. The costs of correctional services for the Suffolk County Jail and House of Correction incurred by the City of Boston and assessments for County correctional services imposed on other cities and towns.
   b. The municipal cost of personal health care, local public health activities and environmental health services in excess of third-party reimbursements, service fees and charges, grants from governmental and private agencies and receipts from all sources for such services other than property taxes.
   c. The municipal share of costs for state-mandated financial assistance, medical benefits and social services to eligble veterans and their dependents.
2. Replace the property tax as the funding mechanism for municipal shares of MBTA deficits; or credit cities and towns for 50 percent of the annual allocation of federal assistance to Massachusetts for mass transit operations to Massachusetts prior to determining the state-municipal shares of the MBTA deficit, thereby reducing their MBTA assessments; or adopt a new formula for allocating municipal proportions of the MBTA deficit that is more accurate as to the city and town residence of transit system riders boarding transit vehicles within the city of Boston.
3. Shift the ownership and operation of county courthouses to the Commonwealth thereby completing State takeover of the county court function initiated in 1978.

4. Eliminate the residue of state assessments still imposed on cities and towns on the basis of outmoded concepts and arrangements for charging the direct costs of certain state-provided services to a city or town and/or assessing cities and towns for their pro-rata shares of particular regional services -- special education, state supervision of retirement systems, audit of municipal accounts, motor vehicle excess tax bills, mosquito control districts, air pollution control districts, and county cooperative extension services, but excluding health insurance for elderly governmental retirees and the shared costs of metropolitan planning councils.

5. Shift the annual increases in costs of municipal contributory pensions not reimbursed by the state and that are in excess of 2½ percent over the prior year's cost to the Commonwealth.

Below is a summary of the estimated fiscal impacts from the elimination or reduction in net operating costs of the City of Boston and of the estimated cost to the Commonwealth for these proposed service/cost shifts.

TABLE XIX

Fiscal Impacts of Proposed Service/Cost Shifts

	City of Boston (in millions)*	State (in millions)**
County jails and houses of correction	$14.7	$60.0
Municipal health services	25.0	100.0
Veterans'benefits	0.5	4.0
Regional transit deficits:		
Replacement of property tax	43.2	111.8
Municipal sharing of federal assistance for transit operations	5.0	14.0
Revision of assessment formula	12.0	12.0
County courthouses	***	***
Miscellaneous state assessments	2.7	10.0
Annual increases in municipal costs of contributory pensions that exceed 2½% over prior year.	9.0****	60.0****

* Based on 1986 budgets and tax rate estimates.
** Assuming no changes in service levels.
*** Since state rental of county court facilities roughly cover operating expenses of such facilities, Suffolk County and other counties would be spared the extraordinary capital costs for future renovations and/or replacements.
**** Only for first year after effective date of shift.

Enhance Boston's Revenue Sources

1. Increase the proportion of state tax growth dedicated to the local aid fund from 40 percent to 50 percent since total local expenditures currently constitute 52 percent of total state-local costs. (The current allocation of 40 percent dates from 1978 when the local aid fund was established and the rough calculation was made that liberalized school aid and state absorption of county court costs could be financed by a set-aside in such fund equal to 40 percent of annual increases in income, sales and corporation taxes.) Incidentally, it is estimated that the increase in local expenditures in the 1984 fiscal year was about half the percentage increase in the state's direct costs.

2. Terminate the State's current policy of financing the shifts of municipal costs and/or assessments to the Commonwealth by equivalent deductions from local aid distributions, thereby providing fiscal relief to cities and towns that is restricted to future cost increases in shifted costs, as illustrated by the 1985 decision governing assessments on cities and towns for the MDC parks system and for other state-owned parks and recreation facilities. Otherwise there will continue to be confusion over jurisdictional and financial responsibility as between the Commonwealth and its cities and towns over such responsibilities and costs.

3. Substitute per capita income for per capita equalized valuations of property as the measure of municipal revenue-raising capacity in the formula governing distribution of local aid from lottery, beano and charity game receipts. Statutory limits on property tax levies and data deficiencies in determining equalized valuations of non-residential properties have largely invalidated the relevance of equalized valuations for measuring the capacity of cities and towns to raise revenues.

4. Shift the net cost to cities and towns of so-called clause abatements, property tax exemptions to persons defined by state law as unable to bear their normal shares of public expenditures (persons with limited resources or physical disabilities and the elderly) and to groups of veterans (including their wives, widows or parents) as rewards for wartime service to the Commonwealth. (The state now reimburses cities and towns for under $15 million a year, equivalent to only about 38 percent of the $40 million cost of such clause abatements.) Full state reimbursement for abatement of property taxes to homeowners under clause exemptions would equalize the

deduction of one-half of rents from earned income under the state income tax to a maximum of $2500 per year. (This latter state subsidy is estimated at $57 million a year.)

5. Offset local tax base erosion in Boston and other cities and towns by instituting a fairer system of state reimbursement for property taxes currently lost on state ownership of land for institutional purposes by updating in lieu tax payments on state-owned and authority-owned buildings, by extending state reimbursement to all tax-exempt land and buildings owned by the Commonwealth (not covered by in lieu payments) and by providing state reimbursement of cities and towns for property tax exemptions enjoyed by non-profit, non-governmental institutions similar to the policy adopted by the state of Connecticut.

6. Authorize cities and towns to levy selective local option taxes that would not impact adversely on local economies, particularly excise taxes on economic activities with clearly indentifiable beneficiaries of such taxed services. (This extends the legislative precedent for limited local excises dedicated to payment of debt service under Boston's Funding Loan Act of 1982.)

Table XIX summarizes estimated revenue benefits to the City of Boston and of the estimated impact on all cities and towns of these proposed changes in the state/municipal revenue mix.

TABLE XX

Impact of Proposals for Revenue Enhancement

	City of Boston	State
Fifty percent sharing of state tax growth	$6.0	$40.0
Revised formula for lottery aid distribution	7.0	----
State reimbursements for net costs of clause abatements	2.0	25.0
State reimbursement for tax-exempt property	N.A.	N.A.
Selective local option taxes:		
Increased hotel/motel excise tax	9.0	*
Aviation fuel excise tax	7.0 -- 10.0	*
Parking excise tax	10.0 -- 15.00	*

* Estimate dependent on municipal decisions to levy tax.

Strengthen Boston's Fiscal Management Structure

1. To improve fiscal planning and management and concentrate political and bureaucratic accountability for fiscal policies, establish a new position of chief financial officer or amend provisions of the ordinance affecting the position of Director of Administrative Services to provide its incumbent with the powers and duties of a chief financial officer. This proposal is in support of an earlier recommendation made by the Boston Municipal Research Bureau.

2. To tighten controls over spending practices and to curb illegal and/or wasteful practices before they become endemic, establish an internal audit unit as an internal check on programs and operations.

3. To terminate once and for all the legacy of revenue deficits, establish a revenue advisory board to provide advice and counsel to the Collector-Treasurer and the Supervisor of Budgets on estimation of City revenues and

receipts, a mechanism similar to the one serving the Commonwealth of Massachusetts.

4. Amend provisions of the Funding Loan Act (through a Home Rule petition) so that the Audit Committee is appointed by and accountable to the City Council for audit report implementation and follow-up.

Tighten and Modernize Boston's Fiscal Policies and Practices

1. To end departmental overspending of appropriations require the Mayor to enforce or waive allotments of appropriations for personnel categories on a quarterly basis, not on an annual basis as currently practiced. Enforce those provisions making officials, who intentionally spend in excess of legal appropriations or involve the City in contracts the payments for which they are in excess of such appropriations personally liable for such overspending.
2. To curb the use of transfers after the close of the fiscal year as deficit bailouts rather than as legitmate transactions to close the City's accounts, require the Mayor to provide written documentation and explanation to the City Clerk not later than 70 days after the close of the fiscal year of each transfer made by the City Auditor after June 30th, as recommended by the Boston Municipal Research Bureau (Special Report, 4/23/85).
3. To cover unforeseen and extraordinary expenditures, including expenditures for extreme emergencies involving public health and safety and court judgements against the City, appropriate to an annual reserve fund an amount equivalent to a maximum of 3 percent of the property tax levy, expenditures from which would require appropriation transfers by the City Council upon recommendation of the Mayor, thereby subjecting Boston to

the same provisions of general law applicable to all cities (c. 40, G.L., s. 5A). In effect such a reserve fund would replace the reserves of 4 percent of departmental appropriations for personnel established by executive order for the current fiscal year.

If the City incurs an operating deficit after a reserve mechanism is established, to the extent that the reserve is below the statutory maximum, it should be increased as required in the next fiscal year. If the entire reserve is not needed, the balance can be used for appropriation or tax rate reduction in the next fiscal year. This proposal is similar to a recommendation of the Boston Municipal Research Bureau. (Special Report, 4/23/85)

4. To guard against School Department overspending and to insure realistic annual school budgets, eliminate (by Home Rule petition) the School Committee's statutory grants of appropriation power for general school purposes and alteration and repair of school buildings under a special act of 1936 and place the Boston School Committee on the same legal basis as other school committees in the Commonwealth with respect to those provisions of Proposition 2½ (c. 580, Acts of 1980) that ended the fiscal autonomy of school committees other than in Boston by eliminating judicial enforcement of former school fiscal autonomy (amendment of c. 71, G.L., s. 7).

5. To terminate the self-defeating practice of using the net proceeds from the sale of surplus City property for operating budget purposes, amend those provisions of the Boston Funding Loan Act of 1982 (by Home Rule petition) that authorize such fiscal policy and make the City subject to provisions of the General Laws that require cities and towns to use such

proceeds only for outstanding debt incurred for acquiring such property and/or for purposes for which cities and towns may issue bonds for periods of 5 years or more (c. 44, G.L., s. 63).

6. To ensure that a comprehensive municipal budget is prepared that covers all funds to be expended during the forthcoming fiscal year, include in the annual budget presentations (City/County and School) estimated expenditures from all sources -- federal grants, state reimbursements and grants not subject to appropriation and private funds -- in addition to those incorporated in the tax rate recapitulation requiring certification by the State Department of Revenue.

7. In light of the historical tendency to underestimate tax levy requirements for court judgements and claims by large amounts, the City's Corporation Counsel should not only certify to the Board of Assessors a list of fiscal court judgements that must be raised but include a list of pending suits that are likely to result in final judgements against the City, including estimates of such contingent liabilities during the forthcoming fiscal year. This is similar to the recommendation of the Boston Municipal Research Bureau (Special Report, 4/23/85) that the City raise for court claims and judgements an amount equal at least to prior year's actual expenditures.

8. In view of the poor past record in estimating tax levy requirements for employee health and life insurance benefits, the City's Director of Administrative Services should certify to the Board of Assessors and provide adequate documentation supporting estimate payments during the forthcoming fiscal year. This is also similar to the recommendation of the Boston Municipal Research Bureau that the appropriation for this purpose

be at least equal to the prior year's expenditure and that the Director of Administrative Services certify that adequate funds covering fringe benefits in collective bargaining agreements have been included in the operating budget. Moreover, since the City's share of health insurance costs has been rising at an annual rate of 15 percent since 1982, responsible officials must intensify efforts to control this fixed expense by designing a comprehensive cost containment strategy that encourages selection of cost-effective health care coverage and controls unnecessary utilization of health care services.

9. Since a large proportion of Boston's current and future overlay deficits is attributable to tax abatements on real and personal property of public utilities and since perennial litigation over the market value of public utility property is a statewide issue due to differences over standards of value, transfer the legal responsibility for assessment of public utility properties throughout the state to the State Department of Revenue and distribute the property taxes levied on such properties back to the city or town of utility location.

Footnotes

1 G.L. C59, ss. 38. "Fair Cash Value" means the price at which a property would be sold on the open market in an arms length transaction between a willing buyer and seller, neither of whom is under a compulsion to buy or sell.

2 Since 1900, a total "taxable property values" for the City of Boston remained virtually at the same level:

Year	Taxable Values (Billions)	Tax Rate per $1000 assessed valuation
1920	$1.57	$24.10
1930	1.97	30.80
1960	1.46	100.70
1978	1.82	252.70
1982	1.90	230.90

3 Since the property tax is levied at a set rate per thousand dollars of assessed value, the higher the assessement ratio (the percentage of market value at which the property is assessed) the greater the relative burden for a particular type of property.

In a 1976 report describing assessment patterns in the City of Boston, assessments of various classes of real and personal property were shown at an average percentage of full cash value ranging from 26.8% to 100%. See Tregor v. Board of Assessors, Mass., 287 NE 2nd 538, 540 (1979).

4 See Subury v. Commissioner of Corporations and Taxation, 366 Mass 55, 321 NE 2nd 641, 645 (1974), recognition that discrimination between and within the various classes of property had long been the rule rather than the exception.

5 Percentages of fair cash value for single family residential property in various wards of the City of Boston ranged from 17% for Wards 1 and 2 to 79.2% and above in Ward 12 in 1975. See Tregor v. Board of Assessors, Mass. 387 NE 2nd 538, 540 (1979).

6 Sudbury v. Commissioner of Corporations and Taxation, 366 Mass 588, 321 NE 2nd 614 (1974). The court found that the combination of high degrees of dispersion and fractional valuation in some cities resulted in discrimination in the distribution of state funds against cities and towns "whose assessors act lawfully". 321 NE 2nd 647.

7 Holland and Oldman, <u>Estimating The Impact of 100% of Market Value Property Tax Assessing of Boston Real Estate</u>. (August 1974), 10.

8 "Estimating the Impact of 100% Valuation and Taxation by Classification", Raymond G. Torto (Massachusetts Mayors Association) June 1978; "The Statewide Impact of Full Property Revaluation in Massachusetts", William C. Wheaton (Federal Reserve Bank) May 1975.

9 Massachusetts, 387 NE 2nd 538 (1979).

10 Massachusetts, 387 NE 2nd 538, 544 (1979).