May 8, 2024

Councilor Brian Worrell, Chair
City Council Committee on Ways and Means
1 City Hall Square Room 550
Boston, MA 02201
617-635-3040

Councilor Enrique Pepén, Vice Chair
City Council Committee on Ways and Means
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Boston, MA 02201
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Dear Chair Worrell and Vice Chair Pepén,

On behalf of the Greater Boston Chamber of Commerce and our 1,200 members, I write to urge the Council to prioritize fiscal responsibility as you consider the City's FY25 budget proposal. Given current revenue and economic uncertainty, all levels of government should maintain budgeted spending levels in line with inflation or limited to 3-4% growth for the coming fiscal year.

As new commercial development slows, federal pandemic resources expire, and new working and commuting patterns solidify, the Council must contemplate how spending decisions now will impact residential and commercial taxpayers during this budget cycle and in future years. The proposed FY25 City budget includes a spending increase of $344 million, or 8%[1], following increases of 6.8% in FY24[2] and 5.9% increase in FY23.[3] While the City enjoyed revenue growth in recent years, changing fiscal circumstances will likely impact City revenues for the foreseeable future. High interest rates and a burdensome regulatory process will slow commercial property growth this year, and federal pandemic assistance is no longer available to bolster the City's finances. The City should proceed cautiously as residents and businesses will bear the brunt of the resulting tax increases that may be necessary to match the proposed spending. I urge the Committee to practice fiscal discipline as Boston navigates these challenges.

Maintaining Core City Services in a Changing Revenue Environment

To maintain critical services without unnecessarily harming residential taxpayers, the Council must resist increasing City spending at unsustainable rates that puts additional pressure on taxpayers during this budget as well as in future budget years. This is particularly concerning as the City navigates uncertainty in its revenue projections.

The City's budget is reliant on property tax revenue, representing around 70% of total revenue forming the foundation of City expenditures. A recent special report from the Boston Municipal Research Bureau illustrates how a disruption in commercial property values can have significant impacts on residential taxpayers, particularly when residential property values continue to increase. Just a 10% drop in overall commercial property value may raise residential taxes by 16.5% if residential values climb just 5%.[4]

Acknowledging this potential impact, the City filed a home rule petition to shift the tax burden back onto commercial property owners beyond current state law. The proposal may ease potential tax increases on residents, but it will not eliminate them, according to the Administration. Additional spending beyond normal inflationary adjustments will only exacerbate potential tax increases on both residents and businesses. Referred to as the model for the current proposal, when a similar tax burden shift special law under Mayor Menino was implemented in 2004, the City's budget growth that fiscal year was only .55%, and the City eliminated hundreds of positions to mirror the underlying fiscal conditions for pursuing extraordinary legislative relief.

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[1] https://www.boston.gov/departments/budget/fy25-operating-budget
[2] https://www.boston.gov/departments/budget/fy24-operating-budget
[3] https://www.boston.gov/departments/budget/fy23-operating-budget
[4] Research Bureau Special Report: Analyzing Mayor Wu's Property Tax Classification Proposal at page 10.

Combining the proposed 8% budget increase with the proposal to increase the City's commercial property tax burden, which the Chamber strongly opposes, will place further strain on our already struggling downtown businesses. The tax burden shift will be passed on from commercial landlords to tenants, resulting in higher rents for the small businesses and ground floor retailers. As our downtown continues to recover, the City must prioritize policies that ensure a vibrant downtown where restaurants and shops can thrive, instead of increasing burdens on small businesses that are vulnerable to closure.

As fewer storefronts and tenants choose to locate in Boston due to an increasingly uncompetitive business climate, the resulting empty spaces exacerbate commercial property devaluation in the City. Particularly in Class B office buildings, landlords will have fewer tenants and shops to support a healthy commercial sector and high quality of life. Factor in significantly higher spending levels, and the City sets itself up for drastic cuts to essential city services and increases in residential property taxes when economic conditions worsen.

In pursuing modest spending growth, the City would align itself with the state's budget approach amid similar revenue uncertainty. The Healey Administration has put in place a hiring freeze to cap personnel spending and the Administration along with the House of Representatives has advanced an FY25 budget with modest growth of 3.6%, a pullback from recent budget cycles. This reflects a responsible approach the Council should consider.

We acknowledge that these are difficult decisions to make, but we urge the Council to identify discretionary spending areas to reduce while allowing the City to maintain funding for core services such as our public schools and public safety systems. In doing so, the Council would acknowledge the fiscal reality in 2024 and shield residential taxpayers from dramatic increases in property taxes to make up the difference. While curbing spending increases, the City can contemplate short-term solutions to ease impacts on residential taxpayers by considering the use of its almost $1.2 billion budgetary fund balance, providing a temporary increase to the residential exemption, and limiting City government growth as we navigate changes in revenues.

If spending continues to remain elevated despite changes in revenue projections and federal funding support, City finances will be put into a precarious situation, forcing even more difficult long-term decisions to either raise property taxes or drastically cut City services. We hope and recommend the City take a proactive approach to quell these concerns by producing an FY25 budget with modest spending growth that is in line with rates of inflation.

Thank you for your attention and please reach out with any questions.

Sincerely,

James E. Rooney

James E. Rooney
President & CEO

CC: Members of the Boston City Council