

FY25 Budget Update

City of Somerville, MA

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*Presented to
Somerville City Council
& School Committee*

April 11, 2024

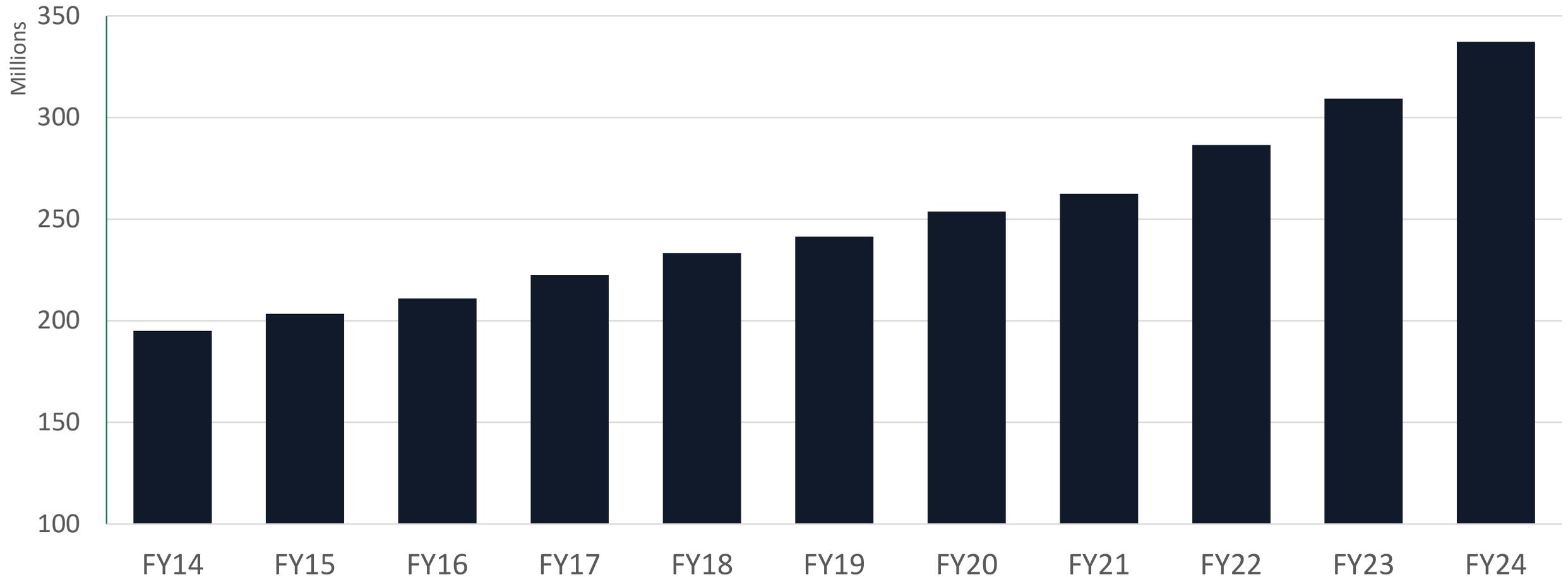
Section 1

Historical Trends

How have investments in recent years shaped City & School budgets?

The City's General Fund budget has grown by **72%** since FY14

General Fund Operating Budget



This growth in budget has enabled a growth in scope
Residents continue needing and asking for more, and the
City has responded

New departments

FY16: Fields Maintenance

FY20: Public Space & Urban
Forestry, Office of Housing
Stability

FY22: SomerViva & Racial &
Social Justice Departments

Modernization

FY16: Health & Human Services
Reorganization

FY18: Fleet Management

FY23: Emergency Management

Added staff to systems, IT, web
and Finance

Generational Investments

New neighborhood in Assembly
Square

New Somerville High School

Somerville Ave Utility & Streetscape
Improvements

Expansion of affordable housing and
social services including food access,
mental health

Concurrently, the Somerville School Department has added significant programming in recent years

FY22: +8.13% Increase

Added 13.7 FTE

Funding for MBTA student passes

Unidos curriculum at ESCS

Transition of school nursing to the district budget

FY23: 10% Increase

Added 41.4 FTE

Extended Unidos curriculum through 5th grade

Added school-based social workers at every school

Funding for enrollment study

FY24: 7.9% Increase

Added 18.1 FTE

Out of school time investment of \$500k

Extended student MBTA passes to full year

Additional 14.1 FTE transitioned from ESSR to GF

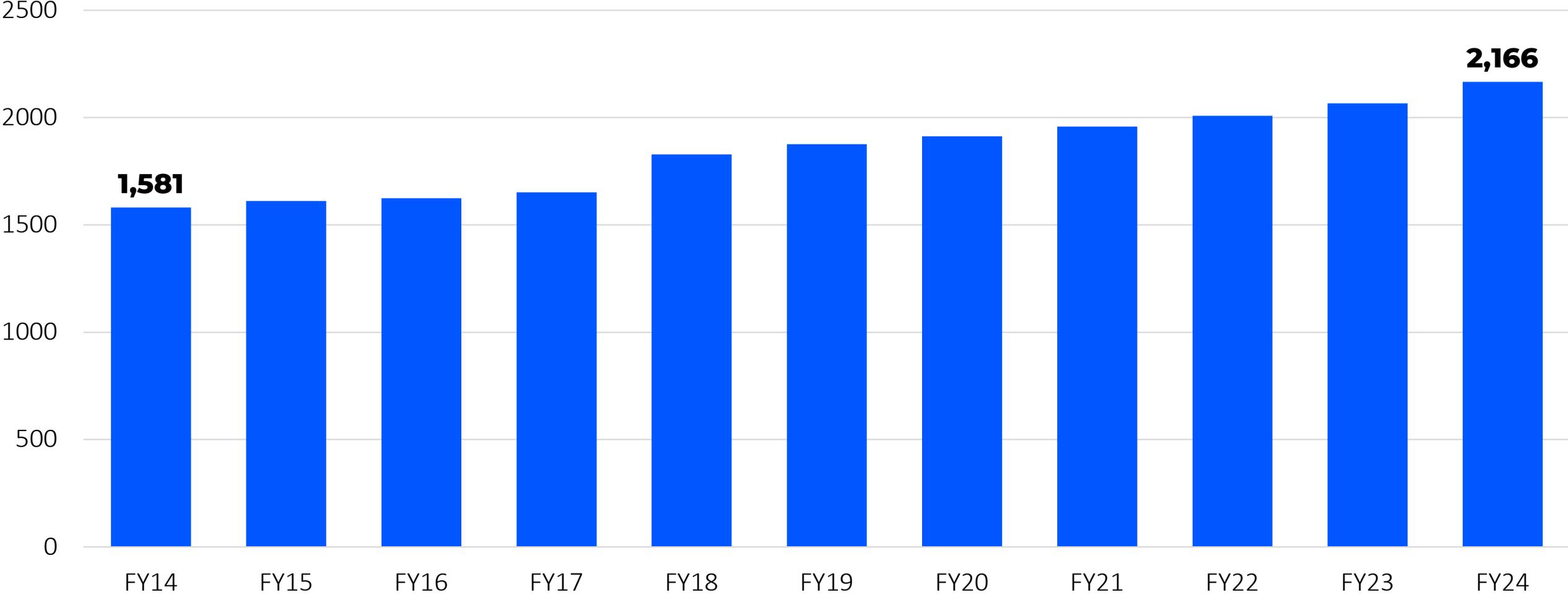
Change in Budget over time

Category	FY20	FY24	\$ Increase FY20-FY24	Share of Growth
General Govt.	\$25,260,279	\$43,414,378	\$18,154,098	23%
Public Safety	\$48,854,895	\$51,601,931	\$2,747,036	3%
Culture & Recreation	\$4,540,398	\$6,082,622	\$1,542,223	2%
Public Works	\$29,678,100	\$39,479,201	\$9,801,100	12%
Debt Service	\$12,511,140	\$21,061,108	\$8,549,968	11%
Pension & Fringe	\$40,930,420	\$52,156,324	\$11,225,904	14%
Other	\$3,291,237	\$6,896,401	\$3,605,164	4%
State Assessments	\$14,608,938	\$15,524,980	\$916,042	1%
School	\$76,257,481	\$100,009,209	\$23,751,728	30%
Totals			\$80,293,266	

Budget growth has increased social services, school staffing, and capital projects

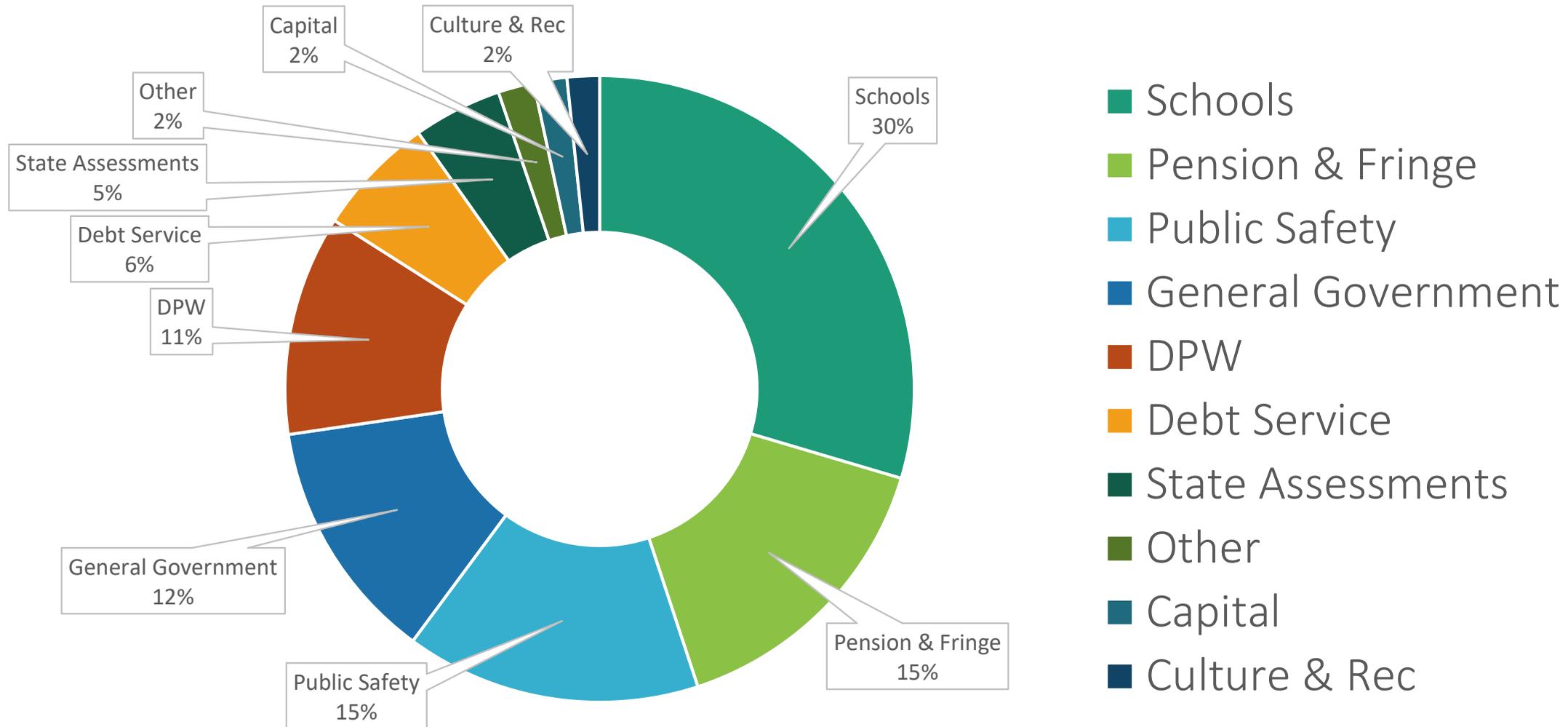
Note that School Nurses migrated from City to Schools during this time period.

37% increase in FTE across all City departments since FY14 to enable this increase in scope



FY24 Budget Composition

Schools remain the largest component of the City budget, at 30% of all budgeted expenditures.



Fixed Costs Drive municipal budgets

When added together, Personal Services, Health Insurance, Pensions, and Debt Service comprise 73% of the City's budget

Salaries

More than half of the City's General Fund pays for employee wages. (52.5%)

Health Insurance

Almost one out of every ten dollars funds health insurance for employees. (9.5%)
The City funds 80% of premiums.

Pensions

4.9% of the City's budget goes to the Somerville Retirement Board based on a full funding schedule complete in 2033.

Key components of a base budget

While we grow our scope of services, fixed costs rise and may conflict with future planning.

When we refer to a ‘base budget’, it means fixed costs as a proportion of the overall budget.

- **Essential Services:** Like trash collection and emergency services, these are non-negotiables for a functioning city.
- **Operational Costs:** The ongoing expenses for running the city.
 - Personnel: The cost of salaries and benefits for employees including health insurance and pension benefits.
 - Operating Expenses: Utilities and internal services departments such as HR, IT, and Finance
- **Maintenance:** Keeping our city's infrastructure, parks, and public spaces in top shape and investing in them to mitigate long term costs.

While the base budget covers our essentials, it doesn't include new projects or expansions. Discretionary and new investments typically come second, ensuring we're always focusing on what's crucial while preparing for the future.

A higher base exposes the General Fund to external pressures

01



Proposition 2 1/2

This law places constraints on the amount of property taxes a community can levy.

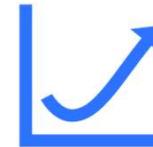
02



Salaries & Benefits

Adding new positions increases exposure to CBA changes, benefits costs, etc.

03



Economic Factors

Inflation can put upward pressure on contract values and limit capacity in future years.

04

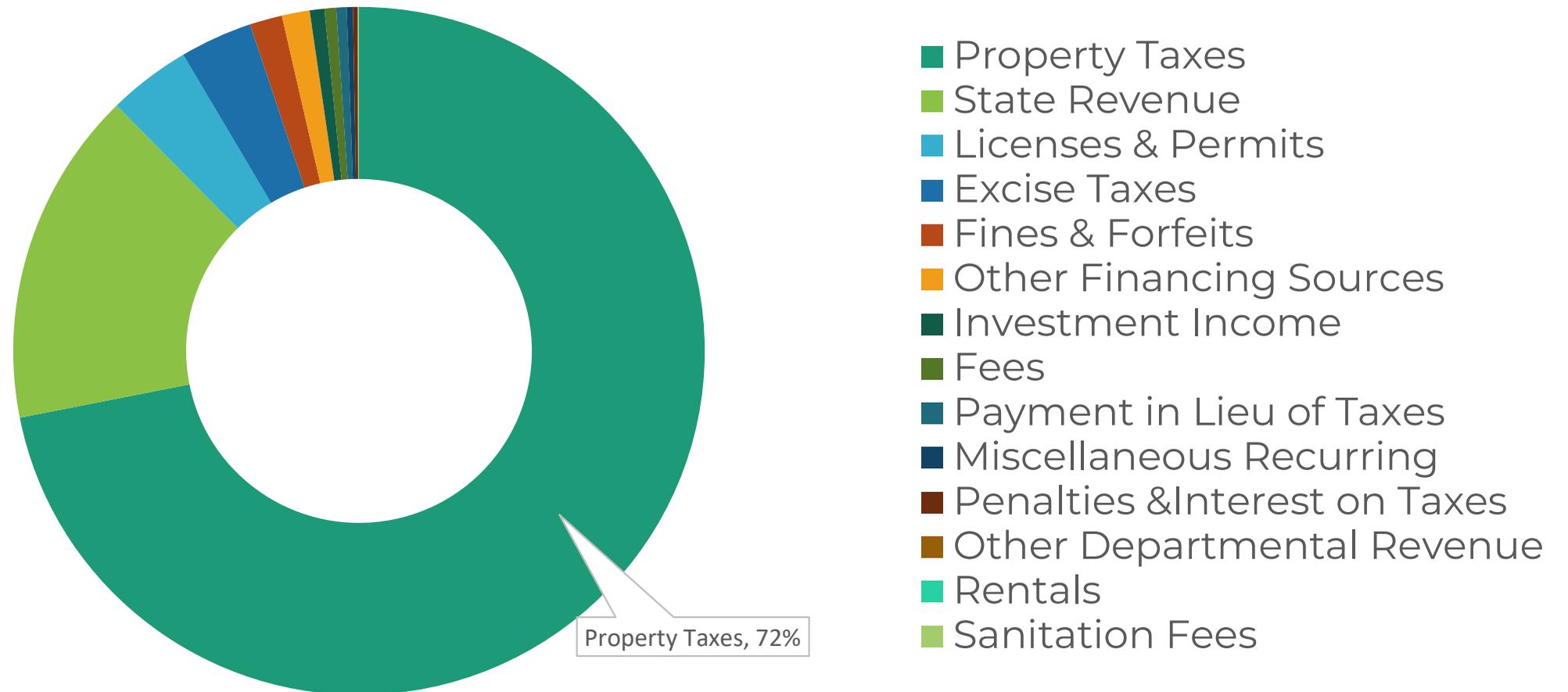


Long-Term Planning

Preserving future capacity is essential to meet these required costs that communities face.

FY24 Revenue Composition

Property taxes remain the largest source of funding for City General Fund operations at 72% of all revenue.



FY24 Revenue Performance

Revenue performance for the current year is on track through March.

Revenue Category	Budgeted	Collected To date	Percent Collected
Property Taxes	244,828,530	180,100,912	73.6%
Excise Taxes	11,512,653	8,018,923	70.0%
Penalties & Interest on Taxes	696,812	687,170	98.6%
Payment in Lieu of Taxes	1,661,522	81,255	4.90%
Sanitation Fees	76,879	76,242	99.2%
Fees	1,850,773	1,641,947	88.7%
Rentals	85,144	139,502	163.8%
Other Departmental Revenue	100,000	20,298	20.3%
Licenses & Permits	13,186,071	12,703,607	96.3%
Fines & Forfeits	5,168,951	5,549,367	107.4%
Investment Income	2,321,526	2,988,196	128.7%
Miscellaneous Recurring	961,611	1,083,738	112.7%
State Revenue	53,669,744	39,459,037	73.5%
Other Financing Sources	4,458,805	4,458,805	100.0%
Total Revenue & OFS	340,579,021	257,009,010	75.5%

General Fund Performance FY2024

Data presented through April 5, 2024

Through 74.2% of the fiscal year, 72.35% of the General Fund appropriation has been spent or encumbered.

	Appropriation	Year-To-Date Expended	Encumbered	Available	Percent Used
City	239,328,884	158,638,870	17,625,783	63,064,230	73.6%
Schools	100,667,037	62,955,768	6,761,455	30,949,813	69.3%
Total	339,995,921	221,594,638	24,387,238	94,014,043	72.35%

- Dilboy Pool
 - Electrical & Plumbing Work needed to open pool
 - Estimated Need: \$160,000-\$200,000.
- East Somerville Police Sub-Station
 - Funds needed to fit out station and install wall and bathroom
 - Additional \$13,800 Needed for Lease
- Edgerly Renovation for Winter Hill Students
- 90 Washington Street Litigation
- Homelessness needs may require an appropriation of free cash to the Emergency Stabilization fund.

Other Potential Appropriations Needed in FY24

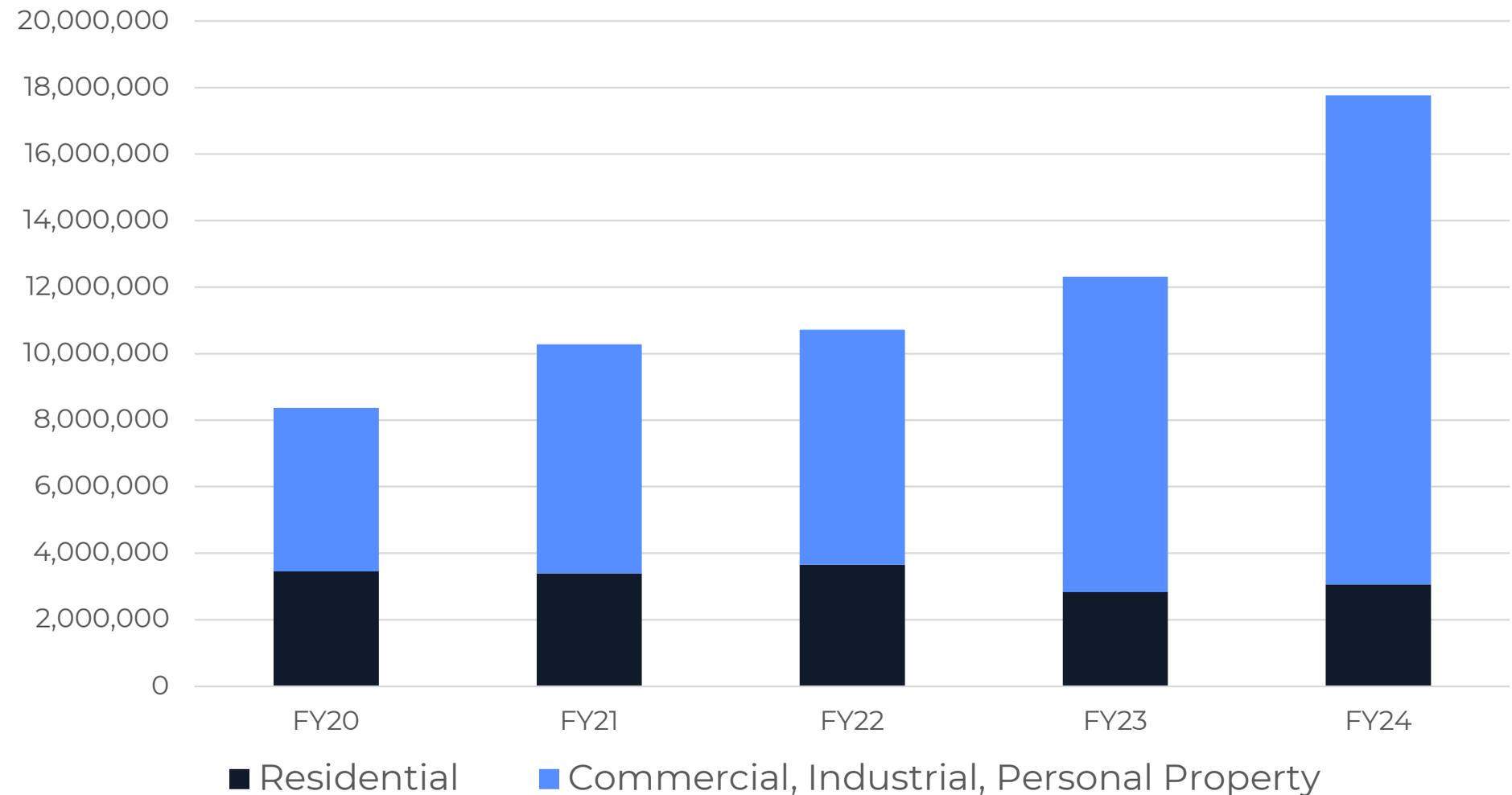
Unexpended balances or transfers within the operating department are the preferred route to close deficits or supplement the budget. Bigger ticket items require free cash or additional borrowing authorization.

No other Ordinary Maintenance Deficits indicated by Department Heads.

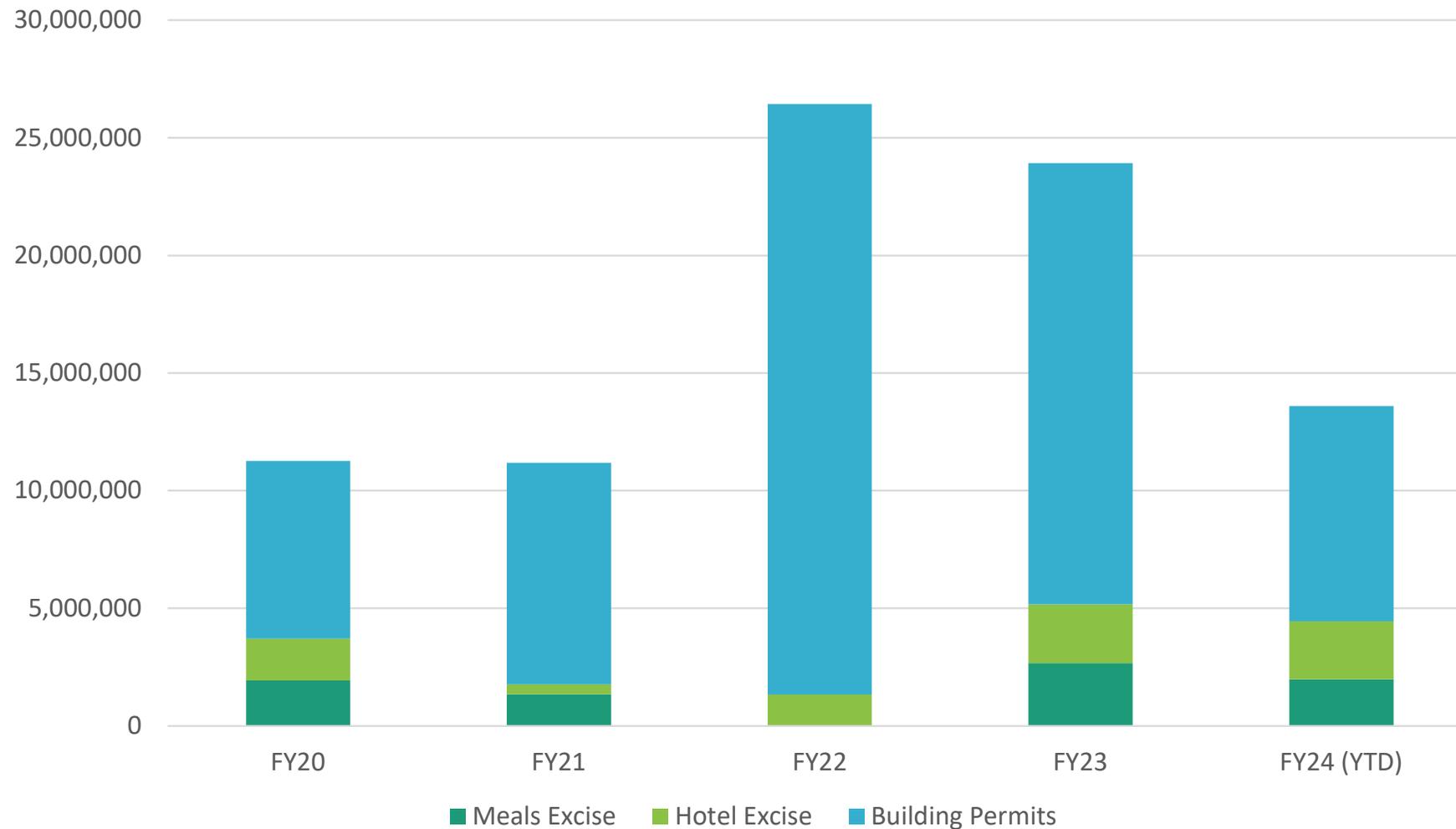
With 3.5 months remaining in the fiscal year, the possibility of other deficits may occur.

Careful planning and strategic growth have sustained this increase over time

The City has seen record new growth each year since FY20, from \$8.3M up to \$17.7M in FY24.



We also benefit from harnessing our strengths: Somerville is a destination in a vibrant metropolitan area



Revenue since FY20
Meals Excise: \$7.9M
Hotel Excise: \$8.5M
Building Permits: \$70.0M

Section 2

The FY25 Budget

Recalibrating based on emerging trends

FY25 Levy Calculation – How we project tax revenue

\$238,122,572	FY2024 Property Tax Levy – Below the Levy Limit
\$ <u>341,368</u>	PLUS FY2024 Unused Levy
\$238,463,940	EQUALS FY2024 Levy Limit

\$238,463,940	FY2024 Levy Limit
+ \$ 5,961,598	PLUS 2 ½ %
+ \$ <u>12,000,000</u>	PLUS Estimated new growth
\$256,425,538	EQUALS FY2025 Levy Limit

A potential \$18,302,967 in new property tax revenue could be raised in FY2025 under the levy limit..

**This projection assumes \$12M in new growth.*

Commercial New Growth in FY25

- FY 24 New Growth = \$17,763,972
- FY 25 Projection = \$12,000,000.

Reduction of \$5,763,972

Vacancies in commercial real estate resulting in lower valuations

High Interest rates are hampering investment, construction, and refinancing.

Recent changes in State regulations allow lab office buildings to be categorized as “manufacturing corporations”, exempting them from personal property taxation.

Two of the city’s nine lab office buildings have now qualified for this manufacturing status. We expect the other seven to follow.

Current projections indicate a slowdown in commercial new growth for FY25, relative to recent years.

State Aid – Governor’s FY25 Proposal

Category	Program	FY24 Cherry Sheet	FY25 Governor’s Proposal	Variance
Education	Chapter 70	21,245,048	21,399,428	154,380
Education	Charter Tuition Reimbursement	2,004,332	882,585	-1,121,747
Gen. Govt.	Unrestricted General Government Aid	30,121,177	31,024,812	903,635
Gen. Govt.	Veterans Benefits	79,485	105,108	25,623
Gen. Govt.	Exemp: VBS & Elderly	219,702	216,284	-3,418
Offset Receipt	Public Libraries	162,341	162,699	358
Total Estimated Receipts		53,832,085	53,790,916	-41,169

FY25 Cherry Sheet - Assessments

Category	Assessment	FY24 Cherry Sheet	FY25 Governor's Proposal	Variance
State Charges	Air Pollution Districts	33,589	34,429	840
State Charges	MAPC	46,255	47,411	1,156
State Charges	RMV Non-Renewal Surcharge	160,500	208,540	48,040
Transportation	MBTA	5,807,352	5,963,341	155,989
Transportation	Boston Metro Transit District	1,198	1,198	0
Annual Charges	Special Education	17,516	32,014	14,498
Tuition	School Choice Sending Tuition	67,704	63,032	-4,672
Tuition	Charter School Tuition	9,390,866	8,398,039	-992,827
Total Estimated Assessments		15,524,980	14,748,004	-776,976

FY25 Net State Aid Summary

	FY24	FY25	\$ Increase	% Increase
Total Estimated Receipts	53,832,085	53,790,916		
Total Estimated Assessments	15,524,980	14,748,004		
Net State Aid	38,307,105	39,042,912	+735,807	1.92%

FY25 Schools State Aid Summary

	FY24	FY25	\$ Change	% Change
Circuit Breaker Reimbursement	\$3,423,220	\$3,363,014	-60,206	-1.7%
Chapter 70 School Aid*	\$21,245,048	\$21,399,428	+154,380	+0.7%

**4.45% increase in Chapter 70 funding from FY21 to FY25*

**Revenue growth
is expected to
moderate in FY25**

FY2023 Revenue = \$313,469,451

FY2024 Revenue = \$340,579,021

Increase of \$ 27,109,570

FY2025 Projected Revenue = \$356,239,860

Increase of \$15,660,839.

Building Permit revenue down by \$3 million.

Construction Related Permits (Electrical, Plumbing, Safety Review Fee) all down

Interest rates will drop lowering Investment Income.

Current projections indicate a slowdown in revenue growth for FY25.

FY25 Revenue Projection

Revenue Category	FY 2024 Budgeted	FY 2025 Estimate	\$ Variance
Property Taxes	244,828,530	263,004,297	18,175,767
Excise Taxes	11,512,653	12,676,587	1,163,934
Penalties & Interest on Taxes	696,812	745,332	48,520
Payment in Lieu of Taxes	1,661,522	1,691,522	30,000
Sanitation Fees	76,879	76,861	(18)
Fees	1,850,773	1,649,256	(201,517)
Rentals	85,144	89,644	4,500
Other Departmental Revenue	100,000	70,000	(30,000)
Licenses & Permits	13,186,071	9,889,038	(3,297,033)
Fines & Forfeits	5,168,951	6,038,667	869,716
Investment Income	2,321,526	1,857,221	(464,305)
Miscellaneous Recurring	961,611	775,321	(186,290)
State Revenue	53,669,744	53,637,569	(32,175)
Other Financing Sources	4,458,805	4,038,545	(420,260)
Total Revenue & OFS	340,579,021	356,239,860	15,660,839

*As of March, 2024.
Estimates will change*

FY25 Major Cost Drivers: Health & Pension



Health Insurance

Group Insurance Commission increased plan amounts on average of 8.8%. This is the highest increase we have experienced. At current caseload levels, we anticipate the health insurance appropriation to increase by approximately **\$2,140,346** in FY25.

The current caseload is 2,942 plans. New positions added to the FY25 Budget will increase this amount.



Pension

Current unfunded accrued liability: **\$119,508,568**.

FY25 Appropriation will increase by **\$354,723** to **\$16,990,644**.

Full funding schedule ends in 2033.

Projected Debt Service for FY25

Debt Service Type	FY 2025
Current – Projects already bonded as of June 30, 2023	13,404,463
Active – Projects already approved by Mayor & Council but not yet bonded	1,689,681
High School Debt Excluded	6,578,758
Grand Total	21,672,902

*+\$621,797 from FY24
Assumes 4% LTD 3% BAN*

FY25 Personal Services: Labor & Employee Staffing



Collective Bargaining

The following bargaining units are in negotiations:

- Fire Suppression & Alarm
- Police Patrol & Superiors
- E-911
- SMEA

Settlements reached in the next few months will be built into Departmental salaries. Capacity must be reserved to these ongoing negotiations.



Salary Contingency

By planning for these costs in advance, we ensure stability in services and workforce, avoiding last-minute budget adjustments or cuts to other essential items.

This proactive approach demonstrates fiscal responsibility and supports the long-term sustainability of municipal operations, ultimately benefiting the entire organization.

Other Cost Drivers Impacting the FY25 Budget

- Tufts Administration Building lease will be fully budgeted. This adds \$1,549,975 in capital costs.
- Assembly Square fire station comes online. The FY25 budget must include lease payments and twelve new Firefighters in January of 2025. This adds \$1,154,196 in salary and capital costs.
- American Rescue Plan Act. City staff are continuously assessing the use of ARPA to maintain existing social service programs and mitigate the ARPA cliff.
- Somerville School Department budget growth & Elementary and Secondary School Emergency Relief Cliff – To what extent ESSR staff and programming be assimilated into the General Fund Budget.
- Continuing impacts of inflation on vendor contracts and utilities.

FY25 estimated revenue growth is only \$15.6M at this time. This means the City must fund the sum of all increases within this target.

Section 3 Solutions & Opportunities

How will we maintain the base budget and find opportunities moving forward?

Short- and Long-Term Priorities for financial sustainability



ARPA usage

City staff are currently reviewing updated rules from the US Treasury in order to maximize the impact of the American Rescue Plan Act (ARPA) in supporting existing activities.



Beacon Hill

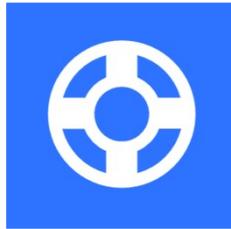
Lobby for more funding flexibility via our state delegation.

“As cities and towns continue to see expenses outpace local revenue growth, especially within the restrictive confines of Proposition 2½, finding other sources of revenue is critically important, as is finding ways to make local government more efficient.” ([source](#))

Adam Chapdelaine

MMA Executive Director and CEO

Short- and Long-Term Priorities for financial sustainability



Strategic use of reserves

Reviewing potential to fund one-time projects or investments with reserves or free cash.

Netting down debt service with strategic use of reserves, per long-range forecast and as planned in the CY23 Capital Investment Plan.



Stay anchored to our key financial metrics.

City policy references specific measures of fiscal health which must be adhered to in the long term.

1. Ensuring projected surpluses in future years.
2. Utilizing Debt Service in a sustainable way.
3. Fully funding our long-term liabilities.

What to expect in the FY25 General Fund Budget

Level Service

The FY25 budget will largely be focused on level service, funding the base budget and core services.

Investments in Staff

Large increase in Salary Contingency to protect the base budget going forward.

Still growing, just less than FY24

With \$12M in projected new growth, Somerville remains in a strong position relative to our peers.

Patience

More than prior years, there may be opportunities after July 1 to make supplemental appropriations.

Final budget is in the Fall.



Question & Answer

www.somervillema.gov/budget
for more information