



City of Somerville  
 Katjana Ballantyne  
 Mayor

**To:** Honorable City Council  
**From:** Edward Bean, Finance Director  
**Re:** FY23 Mid-Year Financial Report per Ordinance 2022-07  
**Date:** February 23rd, 2023

Following Ordinance 2022-07, I am presenting a report on Mid-Year Fiscal Performance for FY2023. You will find attached to this communication the following:

- Year to Date expense report for the General Fund by prime account
- Year to Date expense report for the School General Fund by prime account
- Year to Date General Fund Revenue by function with individual lines

The FY2023 General Fund budget totals **\$312,033,867**.  
 The budget includes all appropriations.  
 The budget includes state assessments.  
 The budget includes excluded debt for the Somerville High School Construction.

You will note that the General Fund is organized into two funds:

City General Fund (Fund 001) **\$219,340,165**  
 School General Fund (Fund 003) **\$92,693,702**

Departmental staff and I will make ourselves available to the City Council Finance Committee on March 7<sup>th</sup>, 2023, to share and discuss these items.

**1: General Fund Performance - Expenses (as of 2/21/2023)**

Total Budget	YTD Expend	Encumbered	Available	% Exp/Encumber
<b>312,033,867</b>	<b>170,833,372</b>	<b>24,548,280</b>	<b>116,652,215</b>	<b>62.62%</b>

The February 16<sup>th</sup> Report Date constitutes 62.5% of the fiscal year. At this date, **54.75%** of the budget was expended, and **62.62%** was expended or encumbered.

At this stage of the fiscal year in 2022, 62.41% of the budget was expended and encumbered, indicating that this year's pace is slightly higher than the previous year. In FY2021, 64.32% of the budget was expended and encumbered by mid-February.

Breaking the General Fund down into School and City, the results are as follows:



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City GF Budget	YTD Expend	Encumbered	Available	% Exp/Encumber
219,340,165	120,306,348	18,347,018	80,686,799	63.21%

School GF Budget	YTD Expend	Encumbered	Available	% Exp/Encumber
92,693,702	50,527,024	6,201,262	35,965,416	61.20%

If this pace continues, we project an under-expend in the General Fund appropriation, although it is much too early in the fiscal year to accurately determine the amount.

As a point of reference, City General Fund turnbacks at the end of FY2022 in Personal Services totaled **8,556,355**; for Ordinary Maintenance, **4,890,310**; and for School, **174,629**.

Several supplemental appropriations were approved before the setting of the tax rate in December 2022 in an attempt to remediate potential deficits in operating accounts. The City Council approved supplemental appropriations to Law Department Salaries, Fire Department Overtime, Law Department Legal Services, Fire Alarm Overtime, Police Animal Control Overtime, and DPW Sanitation-Hazardous Waste.

We do not see projected deficits in any Personal Services accounts that internal transfers or under-expended balances cannot remediate.

No department head has indicated a need to remediate an Ordinary Maintenance account deficit. However, over a third of the fiscal year remains, so the possibility may exist. In that event, unexpended balances or transfers within the operating budget will be the preferred route to close the deficits.

An appropriation of Free Cash will be sought to pay two legal settlements. That appropriation will be submitted at the February 23rd, 2023 Council meeting. The appropriation is meant to avoid the negative financial impact of litigation and is in accord with our new free cash policy that allows for funding one-time court judgments and legal settlements.

The Snow Removal Account is the only General Fund Account that can legally run a deficit. However, it is a poor financial practice to let it do so at year-end. DPW has expended \$747,678 of the \$1,545,000 FY2023 Snow Removal Budget, or 48% of the budget. The DPW is allowed to encumber far more than the allocated budget to be prepared to bring in contractors when needed. This is not an indication of what the final expenses will be.



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## 2: General Fund Performance – Revenues (as of 2/21/2023)

The FY2023 General Fund Revenue Budget is 313,469,451.

Revenue Budget	Collected	To Collect	% Budget
313,469,451	225,790,00	87,679,450	72.03%

General Fund Revenue is not received on an even straight-line basis throughout the fiscal year. On average, we collect 45% of the annual revenue in the first six months and 55% in the second half of the fiscal year. Some state aid accounts are received monthly, others quarterly.

At this stage of the fiscal year in 2023, 72.03% of the annual revenue budget has been collected. The percentage of budgeted revenue collected for prior fiscal years by mid-February is listed below.

FY2022 76.6%  
 FY2021 70.31%.  
 FY2020 70.8%  
 FY2019 64.6%  
 FY2018 65.2%

The trend in recent fiscal years is to exceed the revenue budget. Collections at a higher percentage earlier in the fiscal year indicate that the revenue budget will be exceeded by year-end.

In FY2022, the revenue budget was exceeded by **\$24,446,153**. Of this total, **\$17,633,021** was attributable to the Licenses & Permits category. The city's development boom and the vitality of the restaurant and hotel/motel sectors have contributed mightily to this expansion of local revenues.

The below-listed chart documents the performance to date in FY2023 by category.



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Revenue & Other Financing Sources			
	Budget	Collected	% Budget
Property Taxes	221,105,279	162,245,578	73.40%
Excise Taxes	11,270,260	3,805,883	33.77%
Penalties & Interest on Taxes	681,809	466,209	68.40%
Payments in Lieu of Taxes	1,555,551	26,882	1.70%
Sanitation Fees	40,000	36,599	91.50%
Fees	2,780,386	1,960,316	70.50%
Rentals	85,016	150,676	177.20%
Other Department Revenue	100,000	79,968	80.00%
Licenses & Permits	13,083,329	18,123,348	138.50%
Fines & Forfeits	5,181,644	4,033,875	77.80%
Investment Income	850,000	1,517,025	178.50%
Miscellaneous Recurring	1,329,594	1,399,578	105.00%
State Revenue	52,355,677	30,322,712	57.90%
Other Financing Sources	3,062,775	1,621,544	52.90%
<b>Total Revenue &amp; OFS</b>	<b>313,469,451</b>	<b>225,790,000</b>	<b>72.03%</b>

Some of the major revenue drivers are:

#### FY23 Revenue – Building Permits

- Recap budget projection: \$8,500,000
- Revenue year-to-date: \$15,240,745
- Variable revenue based on # of big-ticket projects in the pipeline. Budget conservatively to avoid long-term consequences on the General Fund.

#### FY23 Revenue – Safety Review Fee

- Tied to building permit revenues.
- Recap budget projection: \$1,426,223
- Revenue year-to-date: \$1,120,306 -78.6% of budget
- Should exceed budget.



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FY23 Revenue – Local Meals Excise

- Recap budget projection: \$2,650,803
- Revenue year-to-date: \$1,359,052 -51.3% of budget
- Two quarters of revenue
- Third & Fourth Quarters Generally Stronger
- Should exceed budget.

FY23 Revenue – Local Room Excise

- Budget projection: \$2,425,853
- DOR required a reduction to \$2,000,000.
- Revenue year-to-date: \$1,552,373
- Two quarters of revenue
- Should exceed budget and original projection.

FY23 Revenue –Investment Income

- Recap budget projection: \$850,000
- Revenue year-to-date: \$1,517,025
- Rising Interest Rates Allow Fatter Return on Cash Instruments

**3. Anticipated levy limit for FY2024**

The Chief Assessor currently estimates approximately \$14M in new growth for FY2024. In determining the potential property tax levy limit in FY2024, the following is a calculation guide.

\$214,419,396	FY2023 Property Tax Levy
<u>897,646</u>	PLUS FY2023 unused levy
215,317,042	EQUALS FY2023 Levy Limit

215,317,042	FY2023 Levy Limit
+5,382,926	PLUS 2 ½ %
<u>+14,000,000</u>	PLUS new growth
<b>234,699,968</b>	<b>EQUALS FY2024 Levy Limit</b>

Based on these calculations, a potential **\$20,280,572** in new property tax revenue could be raised in FY2024. This is contingent on realizing the \$14,000,000 in new growth. The Chief Assessor and his staff will continue to monitor field conditions and refine projections throughout the spring.



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#### **4: Amount of certified free cash remaining**

The Department of Revenue certified **\$38,970,525** in "Free Cash" on January 26<sup>th</sup>. DOR was extraordinarily late in certifying "free cash" for many Massachusetts communities citing staffing shortages. Free cash is typically certified by late October.

As a non-recurring revenue source, DOR guidelines recommend that free cash be restricted to paying one-time, non-recurring, and unforeseen expenditures, funding capital projects, funding capital equipment, or replenishing other reserves. Supplementation of operating budget items with free cash should be minimal, if at all.

Free cash may be appropriated up until June 30<sup>th</sup>. At this time, no free cash has been appropriated; however, the Administration will discuss plans for these funds before your Honorable Council in the upcoming weeks.

#### **5: Existing debt service schedule and projects to be borrowed in FY2023**

Funds for current projects are those for which the City has already borrowed, and there is a determinate debt service. In FY2023, the debt service for these projects totaled **12,256,755**. In FY2024, debt service for current projects will be **11,924,298**.

Active projects are those authorized by the Mayor and the City Council that will go out to market in May 2023 in either a Long-Term Bond or short-term Bond Anticipation Note. As such, the cost of debt service is not definitively known, nor is the amount to be borrowed, as the amount is dependent on project spending this spring. Therefore, the amount of debt service for current projects is an estimate. The City estimates additional new debt service for current projects in the aggregate amount of **2,541,237**. This assumes a Long-Term Borrowing Rate of **4.75%** and a Short-Term Rate of **3%**.

A listing of both Current and Active Projects is provided.

Additional projects that may be requested in the next few months are not included. The Administration will be presenting a revised CIP in the next few weeks.

The Somerville High School Debt Service (excluded from the property tax levy) is included in a separate chart.



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## DEBT SERVICE

Capital Projects	FY 2024
<b>Current</b>	<b>11,924,298</b>
<b>Active</b>	<b>2,541,237</b>
<b>Grand Total</b>	<b>14,465,535</b>

Capital Projects-Current	FY 2024 Debt Service
<b>Current Long-Term Debt</b>	<b>11,924,298</b>
ADA Building Improvement	83,039
Armory Building Acquisition	293,925
Beacon St Reconstruction	155,950
Bueno Vista Garage	100,400
Building Improvement	125,680
Bunker Gear	15,300
Central Hill Campus Improvement	127,763
Central Hill Memorial Park	41,200
Citywide Bike/Pedestrian Upgrades	19,500
Community Path Design and Improvement	27,031
Conway Park Environmental Remediation	66,200
Conway Park Renovation	345,618
Departmental Equipment	59,675
Dickerman Park Renovations	17,081
DIF (Assembly Square)	891,183
Dilboy Stadium Improvement	120,248
District Improvement Financing	615,213
DPW Compactor Trucks	20,400
DPW Equipment	213,400
DPW Hybrid Trucks	39,200
DPW Salt Shed	18,325
DPW Snow Removal Equipment	74,950
E Broadway Road Reconstruction	61,600
E Somerville Community School Remodeling	54,050
Engine 6 Repairs	6,756
Engine 7 Roof Replacement	8,300
ESCO (East Somerville Community School)	432,838
Field & Playground Improvement	67,150
Fire Pumper	71,550
Fire Radio Boxes	44,000



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Fire Truck	169,150
Harris Park Construction	24,900
Healey School Improvement	548,870
High School Design & Renovation	9,413
High School Roof Repair	8,988
Highland Fire Station Engineering	7,250
Hodgkin's Park	96,281
Homans Renovation	7,650
ISD Office Renovations	7,656
James McCarthy Athletic Field Lighting	14,950
Kenney Park	47,050
Ladder Truck	99,573
Land Acquisition - 217 Somerville Ave	66,363
Land Acquisition - 45 College Ave	87,081
Land Acquisition - 9-11 Alan St	86,493
LED Light Conversion	287,200
Lincoln Park School	1,216,390
Modular Fire Housing	45,225
Morse-Kelly Park Renovations	28,631
MSBA School	738,650
North Street Playground	12,000
North Street Playground	19,800
Outdoor Rec - Facility Albion	101,069
Outdoor Rec - Facility Grimmons	85,881
Paving & Sidewalk Improvement	184,750
Powder House Building	31,760
Powder House Road Traffic Signals	44,950
Public Safety Building Repairs	52,331
Pumper Fire Truck	46,800
Redevelopment Authority Acquisition	443,288
Remodeling- DPW Roof	5,125
Remodeling- Fire Headquarters	5,375
Retaining Wall	30,350
Sacramento Street Underpass Reconstruction	63,400
School & City Building Improvements	114,275
School Building Remodeling	7,056
School Construction	49,020
School Remodeling	579,425
School Renovations	32,836





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SHS Auditorium/Kitchen/Cafeteria	182,025
SHS Room 143	8,156
Street Sidewalks & ADA Ramp Improvement	975,953
Trackless Vehicles	25,000
Trum Field FH	161,600
Union Square Streetscape & Utility Improvement	184,825
West Branch Library	576,263
Winter Hill Community School Repair	39,350
Winter Hill Community School Soccer Fields	30,450
Winter Hill Schoolyard & Nunziato Fields	15,900
<b>Current Debt Total</b>	<b>11,924,298</b>

Capital Projects-Active	FY 2024 Debt Service (Estimated)	FY24 Ban	FY24 Bond
<b>Active Debt (Authorized)</b>	<b>2,541,237</b>		
Building Improvements	23,063		x
Building Master Plan Initial Des. & OPM	321,183	x	x
Central Hill campus Phase 1 (front of SHS)	6,006		x
Clarendon Hill Housing Redevelopment - DIF Borrowing	70,000	x	
Conway Environmental Remediation	9,311		x
Davis Square Interim Streetscape Improvements	18,623		x
High School Construction	370,988	x	
Public Safety Building - CM at Risk	17,426	x	x
Public Safety Building - Design & OPM	77,691	x	x
Somerville Ave. Utility & Streetscape Improvements - Streetscape	882,608	x	x
Spring Hill Sewer Phase 1 - Gen Fund	111,671	x	
Street Resurfacing, Sidewalks, and ADA Ramp Improvements	597,668		x
Union Square Plaza & Streetscape - Design (25%)	35,000	x	
<b>Active Total</b>	<b>2,541,237</b>		



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The Somerville High School Debt Exclusion for FY2024 is as follows:

Long-Term Debt -Exclusion (Outside the Levy Limit)	Principal Payments	Interest Payments	Total D/S
Somerville High School Construction	2,930,000	3,398,899	6,328,899
<b>Total</b>	<b>2,930,000</b>	<b>3,398,899</b>	<b>6,328,899</b>

## 6: Review of current city staffing trends and vacancies

So far, in FY23, the City has filled 238 vacancies and processed 88 transfers. Currently, there are 163 open vacancies. The current job market is proving extremely difficult to overcome. However, there are a few positive signs. The City's average time from posting to offer acceptance was 96 days, much lower than the NEOGOV average of 130 days for local government.

A sample of critical positions staff are focused on filling is listed below. However, there are essential vacancies in many departments.

- Director of Finance & Administration - DPW
- Chief Labor Counsel - Law
- Heavy Motor Equipment Operator/Laborer - DPW
- Out-of-School Time/Child Care Coordinator - HHS
- Special Heavy Motor Equipment Operators/Catch Basin Cleaners - Water & Sewer
- Water and Sewer Engineer - Water & Sewer
- Project Managers - IT and HR
- Chief Administrative Officer
- Executive Director - OSPCD

Positions that were open for more than 150 days (but have now had offers accepted) include:

- Community Engagement Youth Specialist - Nepali
- Dilboy Stadium Laborer
- Economic Development Planner
- Grants Development Specialist / Grant Writer
- Part-Time Library Page
- Part-Time Equity and Recovery Outreach Worker
- Public Health Nurse
- Public Information Officer
- Senior Clerk



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## **7: Any additional fiscal concerns**

A few notes that may impact FY2024:

- House 1. – The Governor's proposed budget is scheduled to be filed by March 1st. Usually, initial local aid numbers are known by this time, but a new Governor is given extra time to file the budget. The House and Senate budget plans are customarily released and debated in April and May. State tax collections are expected to continue growing, but it is unclear what the revenue forecast will mean for local aid accounts. The general practice was to link the percentage increase in Unrestricted General Government Aid to the percentage of forecasted growth in state tax collections. Last year, the Legislature doubled the percentage increase for UGGA from the 2.7% consensus revenue growth to 5.4% increase.
- Governor Healey stated at the Massachusetts Municipal Association Annual Conference that she is fully committed to funding the Student Opportunity Act, charter school reimbursements, and the McKinney-Vento program for transporting homeless students. These initiatives would positively affect the school Budget.
- The Group Insurance Commission reported that they expect an aggregate increase of 6.7% this year, anywhere from 4-8 percent per health insurance plan. The exact rate increases by plan will be available early in March.
- The City is engaged in successor contract negotiations with several bargaining units. The impact on the FY2024 budget is not known at this time.
- Rising interest rates and construction inflation will influence the amount and timing of new capital projects. The Administration will issue a revised General Fund Capital Investment Plan in the next several weeks.