

Mid-Year Fiscal Report

City of Somerville, MA

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*Presented to
Somerville City Council
Finance Committee*

March 19, 2024

In accordance with Ordinance 2022-07

Agenda

01. FY24 Performance

Revenue & expenditures through 8 months

02. FY25 Outlook - Revenue

Anticipated levy limit for FY25 including new growth

03. State Aid Summary

Initial data from the State on local aid & assessments

04. Debt Service

Borrowing expectations and impact on FY2025 Budget

05. Additional Updates

Other Major Fixed Costs Driving the FY25 Budget

06. Free Cash Balance

07. Staffing Report

Recruitment and retention trends

Section 1

FY24 Performance

How does the budget look for the current year?

FY24 Performance: General Fund

Data presented through February, 2024

Through 66.92% of the fiscal year, 64.88% of the General Fund appropriation has been spent or encumbered.

	Appropriation	Year-To-Date Expended	Encumbered	Available	Percent Used
City	239,328,884	140,716,428	18,107,478	80,504,978	66.4%
School	100,667,037	55,178,572	6,600,095	38,888,370	61.4%
Total	339,995,921	195,895,000	24,707,573	119,393,348	64.9%

Compare to Previous Years-February (Period 8)

General Fund Appropriation Expended Encumbered

	2022	2023	2024
City	65.85%	65.9%	66.36%
School	66.59%	65.5%	61.37%
Total	66.06%	65.8%	64.88%

City-Side Salary Accounts Through February

Lag monies in departmental budgets due to transitions and time needed to hire new personnel.

In some cases, lag monies used to hire new staff above entry step 5.

	Original Appropriation	Year-To-Date Expended	Available	% Used
City Salary Accounts	81,135,480	45,508,672	35,622,258	56.1%

33 of 52 payroll weeks processed = 63.5% of Fiscal Year

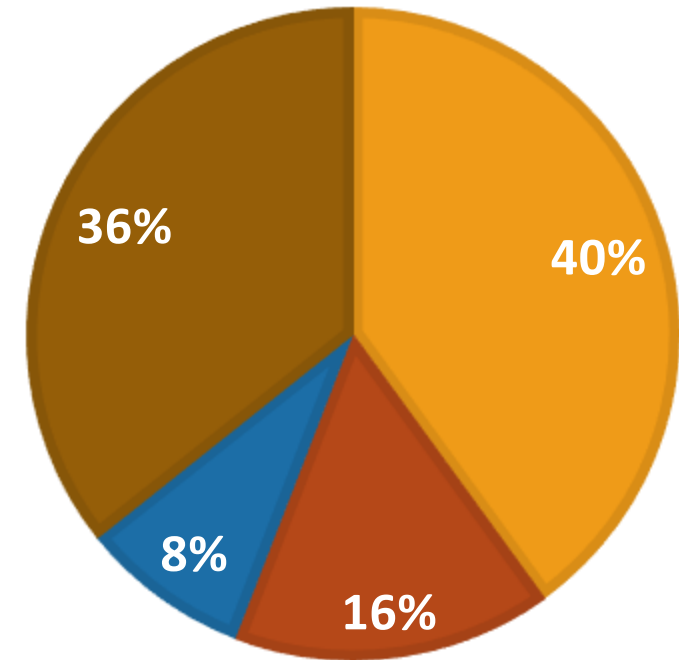
General Fund Performance FY24: Snow Removal

FY24 Budgeted	\$1,715,688
FY24 Expenditures To Date	\$1,626,752

Subtotals	
Snow Labor	\$651,453
Mobilization	\$257,236
Equipment Expense	\$137,324
Road Salt/Ice Melt	\$580,738
Actual YTD	\$1,626,752

BUDGET UTILIZATION

- Snow Labor
- Mobilization
- Equipment Expense
- Road Salt/Ice Melt



Other Potential Appropriations Needed in FY24

- Dilboy Pool
 - Electrical & Plumbing Work needed to open pool
 - Estimated Need: \$160,000-\$200,000.
- East Somerville Police Sub-Station
 - Additional \$13,800 Needed for Lease
 - Monies needed to fit out station –Install Wall and bathroom
- Edgerly Renovation for Winter Hill Students
- 90 Washington Street Litigation

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.

FY24 Revenue Performance

Revenue Category	Budgeted	Collected	Percent Collected
Property Taxes	244,828,530	177,112,341	72.3%
Excise Taxes	11,512,653	9,749,036	84.7%
Penalties & Interest on Taxes	696,812	615,214	88.3%
Payment in Lieu of Taxes	1,661,522	50,577	3.0%
Sanitation Fees	76,879	66,102	86.0%
Fees	1,850,773	1,434,191	77.5%
Rentals	85,144	135,340	159.0%
Other Departmental Revenue	100,000	20,298	20.3%
Licenses & Permits	13,186,071	11,530,601	87.4%
Fines & Forfeits	5,168,951	4,775,143	92.4%
Investment Income	2,321,526	2,603,278	112.1%
Miscellaneous Recurring	961,611	945,768	98.4%
State Revenue	53,669,744	35,148,712	65.5%
Other Financing Sources	4,458,805	4,458,805	100.0%
Total Revenue & OFS	340,579,021	248,645,414	73.0%

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

FY24 Revenue Key Drivers

Revenue Object	Budget	Collected	% Budget
Building Permits	8,500,000	8,436,236	99.2%
Local Meals Excise	2,717,637	1,376,253	50.6%
Local Room Excise	2,425,853	1,922,113	79.2%
Investment Income	2,321,526	2,603,278	112.1%

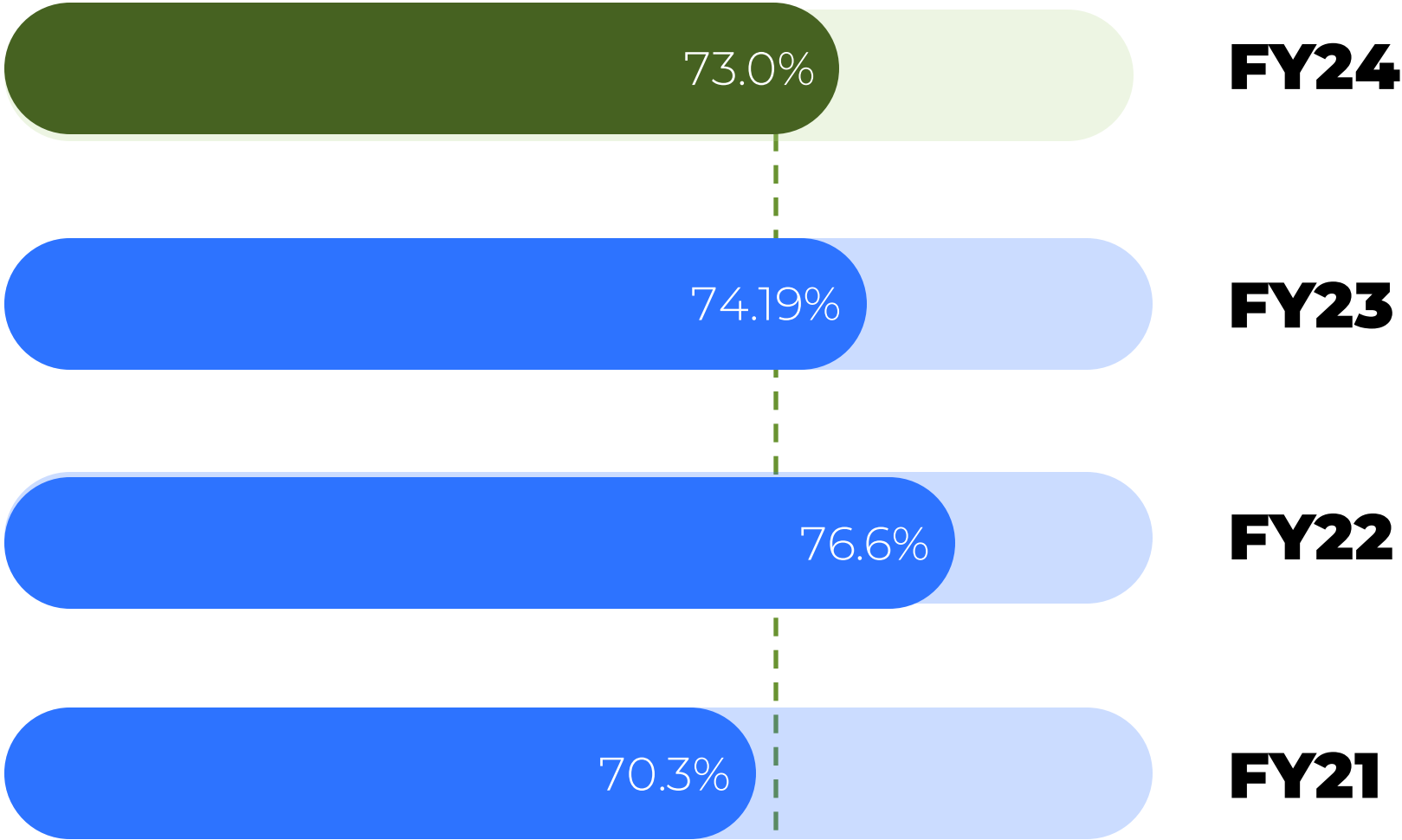
Economically-sensitive revenue source collections remain strong.

FY24 Revenue Key Drivers

Revenue Object	Budget	Collected	% Budget
Parking Fines	4,783,644	4,241,517	88.7%
Ordinance Violations	250,000	393,535	157.4%
Motor Vehicle Excise	6,369,163	6,303,615	99.0%

Revenue:
FY24 YTD vs
Prior Years

Through February, 73.0% of budgeted General Fund revenue has been received. This is in line with prior years, which have ranged from 70.3% to 76.6%.



Data presented is through February. Dotted line indicates straight-line projection.

Section 2
FY25 OUTLOOK

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	12,758,030	1,245,377
Penalties & Interest on Taxes	696,812	696,812	0
Payment in Lieu of Taxes	1,661,522	1,661,522	0
Sanitation Fees	76,879	76,861	(18)
Fees	1,850,773	1,392,939	(457,834)
Rentals	85,144	89,644	4,500
Other Departmental Revenue	100,000	100,000	0
Licenses & Permits	13,186,071	10,120,448	(3,065,623)
Fines & Forfeits	5,168,951	5,256,261	87,310
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	355,465,469	14,886,448

As of March 19, 2024.
Estimates will change

FY25 Revenue Projection

Key takeaway: Revenue growth rate is expected to decline dramatically in FY25.

FY2023 Revenue = \$313,469,451

FY2024 Revenue = \$340,579,021

- Increase of \$ 27,109,570

FY2025 Projected Revenue = \$355,465,469

- Increase of \$14,886,448.

Building Permit revenue down by \$3 million.

Safety review Fee down by \$500,000.

Interest rates will drop lowering Investment Income.

Current projections indicate a slowdown in revenue growth for FY25.

Section 2

FY25 Levy Limit

Estimates for next year's property tax levy

FY25 Levy Calculation - Below the Levy Limit

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

\$238,463,940 FY2024 Levy Limit
+ \$ 5,961,598 PLUS 2 ½ %
+ \$ 12,000,000 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

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

- 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.

Section 3

State Aid Summary

Minimal growth in net State Aid predicted for FY25

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%

Municipal Empowerment Act

“A bill designed to arm local governments with greater tools and supports to chart their own course”

The bill, currently at the Statehouse would create local options to:

- Increase meals Tax from .75% to 1%
- Increase Hotel/Motel Tax from 6% to 7%
- New local option vehicle excise tax surcharge of 5%

Estimates predict this legislation could add approximately \$1.6 million to the City's revenue base

The Fair Share Amendment, the so-called Millionaire's Tax, aims to fund public education, roads, bridges and public transportation. Will generate over \$1.5 billion. Will cities & towns see any of this money?

Section 4

Debt Service

Projected debt service for FY25 and influencing factors

FY25 Debt Service Factors

Debt costs are expected to grow with Capital Investments and rising interest rates.

FY 24 General Fund Debt Service within the levy limit is **\$14,345,136**. Total General Fund Debt service including SHS Debt Exclusion of \$6,602,863 totaled **\$21,051,105**.

City will be going to market in mid-May with the assistance of Hilltop Securities to finance numerous projects.

Predicted Long-Term Borrowing Rate of 4.00%.

Predicted Short-Term Borrowing Rate of 3%.

The final FY25 appropriation will be determined based on market results. **Projections are best estimates.**

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

- Additional capacity may be needed for Edgerly and 90 Washington Street. Not known at this point.

Section 5

Additional Updates

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. Current caseload is 2,942. 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.

FY25 Personal Services: Labor & Employee Staffing



Salary & Wage Study

The HR Department is conducting a compensation study for both union and non-union positions. Implementation of the study's recommendations for the union positions is subject to the collective bargaining process. The impact on the FY2025 Budget for compensation is not known currently. We would expect to budget a substantial appropriation in the Salary Contingency Account to bring salaries to a market competitive level.



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.

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 & Elementary and Secondary School Emergency Relief Cliff – To what extent will ESSR staff and programming (schools) and ARPA programming (city) be assimilated into the General Fund Budget.
- Somerville School Department budget growth. A 5-7% increase in the \$100,667,037 budget ranges from \$5.03M to \$7.04M.
- Continuing impacts of inflation on vendor contracts.

NOTE: FY25 estimated revenue growth is only \$14,886,448 at this time. This means the City must fund the sum of all increases within this target.

Section 6

Free Cash

Current free cash balances for FY24

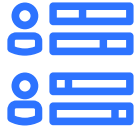
Free Cash Balance

Date	Description	Amount	Remaining
	Free Cash Starting Amount as of 10/17/23		32,813,163
11/30/2023	Legal Services - 90 Washington St	1,370,177	31,442,986
12/21/2023	Parks & Rec – Skating Program	13,620	31,429,366
2/29/2024	ASQ Fire Station Lease	171,969	31,257,397

The City has adopted guidelines for the expenditure of “Free Cash” in its Free Cash Fiscal Policy. 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.

How does Somerville use free cash?

01



One-Time Expenditures

Avoid recurring investments which may put the General Fund in a difficult position

02



Capital Projects

Mitigate costs of the City's CIP and reduce debt service

03



Replenishing Reserves

Maintaining healthy reserve levels at the City's targets

Priority of free cash use per policy

1. Maintain reserve ratio
2. Emergency expenditures
3. Employee liability reserves
4. CIP (at least 50%)
5. Other discretionary

Section 7

Staffing Report

FY24 staffing updates

227 vacancies
filled

73 promotions
/ transfers

103 open vacancies

At start of Fiscal Year -
169 vacancies

40% reduction in
vacancies

FY24 Staffing Updates

The average time from posting to offer acceptance was 101 days. This is lower than the NEOGOV average of 119 days for local government positions.

A sample of some of the key positions we are currently focusing on filling are listed below, however there are critical vacancies in many departments.

- Emergency Management Director - Executive
- Deputy Director of Economic Development – OSPCD
- Heavy Motor Equipment Operator/Laborer - DPW
- Director of Veterans’ Services - HHS
- Special Heavy Motor Equipment Operators/Catch Basin Cleaners – Water & Sewer
- Working Foreman Plumber – DPW
- Electrician - DPW
- Recruitment and Retention Manager - HR
- Chief of Police- Police Department
- Project Manager - IAM

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

- Housing Counsel – OSPCD – Housing
- Water and Sewer Engineer – Water & Sewer
- Residential Decarbonization Manager – OSE
- Community Health Worker – HHS
- Youth Equity Support – Creole
- Recreation Laborer – Parks & Recreation