



City of Somerville
 Katjana Ballantyne
 Mayor

To: Honorable City Council
From: Edward Bean, Finance Director
Re: FY24 Mid-Year Financial Report per Ordinance 2022-07
Date: February 22, 2024

In accordance with Ordinance 2022-07, I am presenting a report on Mid-Year Fiscal Performance for FY2024. You will find attached to this communication the following:

1. Year to Date expense report for the General Fund by prime account
2. Year to Date expense report for the School General Fund by prime account
3. Year to Date General Fund Revenue by function with individual lines

The FY2024 General Fund Budget Totals **\$339,823,952**.
 The Budget includes all appropriations.
 The Budget includes inter-fund transfers.
 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 in two funds:

City General Fund (Fund 001) - **\$239,156,915**
 School General Fund (Fund 003) - **\$100,667,037**

1: General Fund Performance-Expenses (as of 1/31/2024)

| Total Budget | YTD Expend | Encumbered | Available | % Exp/Encumber |
|---------------------|--------------------|-------------------|--------------------|-----------------------|
| 339,823,952 | 173,666,084 | 27,518,043 | 138,639,825 | 59.20% |

The January 31st Report Date constitutes **58.85%** of the Fiscal Year. At this date, **51.10%** of the budget was expended and **59.20%** of the budget was expended and encumbered.

At this stage of the fiscal year in 2023, **58.96%** of the budget was expended and encumbered indicating that the pace this year is slightly ahead of the pace of the previous year. In FY2022, **58.75%** of the budget was expended and encumbered by January 31st.

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

| City G.F. Budget | YTD Expend | Encumbered | Available | % Exp/Encumber |
|-------------------------|--------------------|-------------------|-------------------|-----------------------|
| 239,156,915 | 126,185,235 | 20,565,279 | 92,406,401 | 61.36% |

| School G.F. Budget | YTD Expend | Encumbered | Available | % Exp/Encumber |
|---------------------------|-------------------|-------------------|-------------------|-----------------------|
| 100,667,037 | 47,480,849 | 6,952,764 | 46,233,424 | 54.07% |

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

Several supplemental appropriations were approved prior to the setting of the tax rate in December 2023 to remediate potential deficits in operating accounts. Supplemental appropriations were made for the following purposes: Expenses related to the move of the Winter hill Community School to the Edgerly School; School Department IT network Expenditures; Lease payments for the Tufts Administration Building; Snow Removal Equipment; and additional Building Improvements money.

We do not see projected deficits in any of the Personal Services accounts that cannot be remediated by internal transfers or under expended balances. We are watching closely Police & Fire Overtime Accounts.

No department head has indicated a need to remediate a deficit in an Ordinary Maintenance account. 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.

The Snow Removal Account is the one General Fund Account that can legally run a deficit. However, it is poor financial practice to let it do so at year end. To date, DPW has expended \$1,234,033 of the \$1,715,688 FY2024 Snow Removal Budget or 72% 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.

2: General Fund Performance – Revenues (as of 1/31/2024)

The FY2024 General Fund Revenue Budget is **340,579,021**.

| Revenue Budget | Collected | To Collect | % Budget |
|-----------------------|--------------------|--------------------|-----------------|
| 340,579,021 | 223,291,580 | 117,384,864 | 65.56% |

General Fund Revenue is not received on an even straight-line basis throughout the fiscal year. On average, we collect proportionally more of the annual revenue 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 2024, 65.56% of the annual revenue budget has been collected. For comparison, below is listed the % of budgeted revenue collected at the end of January for prior fiscal years.

FY2023 58.92%
 FY2022 71.24%.
 FY2021 67.16%

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

The chart below documents the performance to date in FY2024 by category.

| Revenue & Other Financing Sources | | | |
|--|--------------------|--------------------|-----------------|
| | Budget | Collected | % Budget |
| Property Taxes | 244,828,530 | 167,706,575 | 68.50% |
| Excise Taxes | 11,512,653 | 4,551,940 | 39.54% |
| Penalties & Interest on Taxes | 696,812 | 503,192 | 72.21% |
| Payments in Lieu of Taxes | 1,661,522 | 50,455 | 3.04% |
| Sanitation Fees | 76,879 | 65,802 | 85.59% |
| Fees | 1,850,773 | 1,273,317 | 68.80% |
| Rentals | 85,144 | 133,164 | 156.40% |
| Other Department Revenue | 100,000 | 20,298 | 20.30% |
| Licenses & Permits | 13,186,071 | 10,641,185 | 80.70% |
| Fines & Forfeits | 5,168,951 | 4,216,284 | 81.57% |
| Investment Income | 2,321,526 | 2,213,707 | 95.36% |
| Miscellaneous Recurring | 961,611 | 872,269 | 90.71% |
| State Revenue | 53,699,744 | 26,584,582 | 49.53% |
| Other Financing Sources | 4,458,805 | 4,458,805 | 100.00% |
| Total Revenue & OFS | 340,579,021 | 223,291,580 | 65.56% |

Some of the major revenue drivers are:

FY24 Revenue – Building Permits

- Recap budget projection: \$8,500,000
- Revenue year-to-date: \$7,892,038
- Variable revenue based on # of big-ticket projects in the pipeline. Budget conservatively to avoid long-term consequences on the General Fund.

FY24 Revenue – Safety Review Fee

- Tied to building permit revenues.
- Recap budget projection: \$680,000.
- Revenue year-to-date: \$516,818 -76% of budget
- Should exceed budget.

FY24 Revenue – Local Meals Excise

- Recap budget projection: \$2,717,637.
- Revenue year-to-date: \$1,376,253 -50.6% of budget
- Two quarters of revenue
- Third & Fourth Quarters Generally Stronger
- Should exceed budget.

FY24 Revenue – Local Room Excise

- Budget projection: \$2,425,853
- Revenue year-to-date: \$1,922,113
- Two quarters of revenue
- Should substantially exceed budget.

FY24 Revenue –Investment Income

- Recap budget projection: \$2,321,526.
- Revenue year-to-date: \$2,213,707.
- Rising Interest Rates Allow Fatter Return on Cash Instruments

3. Anticipated levy limit for FY2025

The Chief Assessor is current estimating approximately \$12M in new growth for FY2025. In determining what the potential property tax levy limit could be in FY2025, the following is a calculation guide.

| | |
|----------------|--|
| \$238,122,572 | FY2024 Property Tax Levy - Under 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 new growth |
| 256,425,538 | EQUALS FY2025 Levy Limit |

Based on these calculations, a potential **\$18,302,967** in new property tax revenue could be raised in FY2025. This is contingent on realizing the \$12,000,000 in new growth. The Chief Assessor and his staff will continue to monitor conditions in the field and will refine projections throughout the Spring.

4: Amount of certified free cash remaining

The Department of Revenue certified **\$32,813,163** in "Free Cash" on October 17th, 2023. The amount certified by DOR is based on the operational results of FY2023.

Two appropriations have been approved since the certification:

- An appropriation of \$1,370,177 for legal services relating to the 90 Wahington Street Demonstration Project.
- An appropriation of \$13,620 to Parks & Recreation to pay invoices relating to the "Learn to Skate Program".

A third appropriation is currently pending:

- An appropriation of \$171,969 for lease payments relating to the Assembly Square Fire Station.

Assuming the pending appropriation is approved, the amount of certified "free cash" remaining would be **\$31,257,397**.

As a non-recurring revenue source, DOR guidelines recommend that free cash should 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.

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

5: Existing debt service schedule and projects to be borrowed in FY2024

Current projects are those for which the City has already borrowed and there is a determinate debt service. In FY2024, the debt service for these projects totaled 13,726,805. In FY2025, debt service for current projects will be 13,163,976.

Active projects are those authorized by the Mayor and the City Council but have yet to be borrowed. The City plans on borrowing for these projects in May 2024. As such, the cost of debt service is not definitively known. The City estimates additional new debt service in the aggregate amount of \$1,797,409 This is assuming a Long-Term Borrowing Rate of 4.00% and a Short-Term Rate of 3.25%.

A listing of both Current and Active Projects is provided.

DEBT SERVICE

| Capital Projects | FY 2025 |
|--------------------|-----------------------|
| Current | 13,163,976 |
| Active | 1,797,409 |
| Grand Total | 14,961,385,811 |

| Capital Projects-Current | FY 2025 Debt Service |
|---|----------------------|
| Current Long-Term Debt | 13,163,976 |
| 90 Washington St - Demolition | 204,000 |
| ADA Improvements | 81,389 |
| ASQ DIF | 1,508,495 |
| Athletic Field Lighting | 14,450 |
| Beacon St Reconstruction | 155,700 |
| Buena Vista Garage Repairs | 103,150 |
| Building Renovations | 186,880 |
| Building Renovations - Fire Headquarters | 5,125 |
| Building Renovations - ISD | 7,456 |
| Building Repairs - Public Safety Building | 50,581 |
| Central Hill Campus Improvements | 129,263 |
| Central Hill Memorial Park | 39,950 |
| Citywide Bicycle & Pedestrian Upgrades | 13,800 |
| Community Path Design & Improvements | 26,031 |
| Conway Park - Environmental Remediation | 96,700 |
| Conway Park - Renovation | 346,368 |
| Davis Sq Interim Improvements | 24,500 |
| Departmental Equipment | 62,475 |
| Dickerman Park Renovations | 16,331 |
| Dilboy Stadium Improvements | 121,998 |
| DPW Equipment | 71,500 |
| DPW Equipment & Vehicles | 65,400 |

| | |
|---|-----------|
| DPW Hybrid Trucks | 37,800 |
| DPW Salt Shed | 17,825 |
| DPW Snow Removal Equipment | 72,200 |
| DPW Trackless Vehicles | 24,000 |
| East Somerville Community School | 474,808 |
| Engine 6 Repairs | 6,556 |
| Field & Playground Improvements | 70,150 |
| Fire Apparatus | 343,523 |
| Fire Radio Boxes | 42,000 |
| Healey School Improvements | 549,120 |
| High School Design & Renovation | 9,213 |
| High School Roof Repair | 13,613 |
| Highland Ave Fire Station Renovation | 7,000 |
| Hodgkins Park | 67,681 |
| Kenney Park | 45,300 |
| Land Acquisition - 217 Somerville Ave | 64,863 |
| Land Acquisition - 45 College Ave | 84,831 |
| Land Acquisition - 90 Washington St | 443,288 |
| Land Acquisition - Alan St | 90,243 |
| Land Acquisition - Armory | 294,425 |
| LED Streetlight Conversion | 281,250 |
| Lincoln Park - Design & Engineering | 32,150 |
| Lincoln Park Renovation | 876,450 |
| Lincoln Park Schoolyard | 299,586 |
| Modular Fire Housing | 44,425 |
| Morse-Kelly Park Renovations | 27,381 |
| MSBA School | 727,057 |
| North St Playground Renovations | 30,650 |
| Outdoor Rec Facility - Albion | 57,269 |
| Outdoor Rec Facility - Grimmons | 67,681 |
| Park Construction | 29,000 |
| Powderhouse Building | 29,580 |
| Powderhouse Rd Traffic Signals | 48,300 |
| Retaining Wall | 29,400 |
| Road Reconstruction - East Broadway | 59,600 |
| Roof Replacement - Engine 7 | 8,100 |
| Sacramento St Underpass Reconstruction | 61,400 |
| School & City Building Improvements | 111,675 |
| School Construction | 47,220 |
| School Renovations | 610,353 |
| School Renovations - SHS Auditorium, Kitchen, Cafeteria | 182,575 |
| School Renovations - SHS Room 143 | 7,906 |
| Somerville Ave Streetscape DIF | 581,500 |
| Spring Hill Sewer Project - Streetscape | 331,250 |
| Streets, Sidewalks, & ADA Improvements | 1,490,153 |

| | |
|--|---------|
| Trum Field - Fieldhouse | 156,000 |
| USQ Streetscape & Utility Improvements | 132,075 |
| USQ Traffic Signals & Lighting | 52,000 |
| West Branch Library - Construction | 509,413 |
| West Branch Library - Design & Engineering | 64,400 |
| WHCS Field | 29,450 |
| WHCS Repairs | 38,350 |
| WHCS Schoolyard & Nunziato Field | 20,400 |

| Capital Projects-Active | FY 2025 Debt Service (Estimated) |
|---|----------------------------------|
| Active Debt (Authorized) | 1,797,409 |
| Somerville Ave Utility & Streetscape Improvement DIF | 409,920.00 |
| Public Safety Building - Design and OPM | 175,489.74 |
| Public Safety Building - Construction Manager at Risk - Pre Const Phase | 18,969.89 |
| Building Improvement -FY22 | 154,984.67 |
| Building Improvement -FY23 | 82,118.74 |
| Union Square Plaza & Streetscape - Design (25%) | 35,000.00 |
| Spring Hill Sewer Improvement Streetscape Phase 1 | 328,285.02 |
| Street Resurfacing, Sidewalk, ADA Ramp Improvements - FY17 | 40,112.65 |
| Street Resurfacing, Sidewalk, ADA Ramp Improvements - FY19 | 53,964.66 |
| Street Resurfacing, Sidewalk, ADA Ramp Improvements - FY20 | 157,181.34 |
| Street Resurfacing, Sidewalk, ADA Ramp Improvements - FY22 | 149,560.99 |
| Street Resurfacing, Sidewalk, ADA Ramp Improvements - FY23 | 226,725.95 |
| Building Master Plan Initial Des & OPM | 255,702.54 |
| Davis Square Interim Streetscape Improvements | 44,071.14 |
| Clarendon Hill Infrastructure Improvements Project DIF | 34,759.62 |
| 217 Somerville Ave - Design / Construction | 40,481.07 |
| Active Total | 1,797,408 |

The estimated Somerville High School Debt Exclusion for FY2025 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 |
| Total | 2,930,000 | 3,398,899 | 6,328,899 |

6: Review of current city staffing trends and vacancies

In the fiscal year 2024, the City has successfully filled 227 vacancies and processed 73 transfers. Currently there are 103 open vacancies. At the start of the fiscal year there were 169 vacancies. Despite challenges posed by the current job market, there are encouraging indicators. Notably, the City has achieved an average time from posting to offer acceptance of 101 days, significantly outperforming 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

7: Any additional fiscal concerns

It is far too early to accurately predict what our budget capacity will be for FY2025. Major components that feed into the budget such as anticipated revenue sources, new growth, debt service, health insurance expenses, state aid, etc. are not fully vetted out until late spring. We are studying a host of macro level concerns that will impact the FY2025 General Fund budget.

- **DECLINE IN NEW GROWTH** -FY2024 saw a record level of "new growth" added to our tax base, a total of \$17,763,972 spurred on by new commercial developments. But development has slowed due to high interest rates, inflationary pressures on construction costs, and difficulty in finding tenants for the new commercial space. These factors will affect commercial valuation. While commercial growth remains healthy, the Chief Assessor predicts new growth of about \$12 million. Hence, the growth of overall property tax revenue will decline. The Assessors will be evaluating the trends throughout the Spring and will have updated numbers at budget time.
- **STATE AID** - The Governor's proposed Budget (House 1) was filed with the State Legislature. Half-way through the fiscal year, state tax revenues are coming in much lower than expected

with estimates ranging as high as a \$769 million deficit. The Governor proposed a 3% increase in the Unrestricted General Government Aid Account, which is higher than the 2% consensus forecast for state tax revenue growth that was announced in January. A 3% increase results in an additional \$903,635 for Somerville. Chapter 70 Education Aid increased by the minimum of \$30 per student. That totals an additional \$154,380. However, these increases are blunted by a budgetary decrease of \$1,121,747 in Charter School Tuition Reimbursement money. Total estimated receipts for FY2025 on a budgetary basis are \$31,817 less than FY2024. On the State Assessments side of the ledger, state assessments against the city decreased by \$776,976. The net result measuring receipts against assessments is an increase of \$745,159 in state aid compared to FY2024 Levels. That represents a 1.9% increase. The House and Senate budget plans are customarily released and debated in April and May.

- **HEALTH INSURANCE-GIC** -The Group Insurance Commission reported that they are expecting an aggregate increase of 9.6% this year which will be anywhere from 8-11 percent per health insurance plan. The exact rate increases by plan will not be available until early March. As a matter of comparison, the average increase in FY2023 across all plans was 5.6%. Annual increases have been relatively modest since the city accreted to the GIC in 2012. A 9.6% increase would be the highest we have faced. Health insurance expenses constitute 10% of the annual General Fund Budget.
- **DEBT SERVICE** -Interest rates have risen sharply over the past two years. Debt costs are growing with additional capital investments. Analysts are suggesting a softening of interest rates after the Federal Reserve Board meets in June. The City traditionally borrows in May to fund capital project deficits by June 30th. The city works closely with its Financial Advisor to survey the market. We can expect debt service to become a larger percentage of the operating budget as we borrow to remediate critical infrastructure needs. Debt service is currently 6% of the Operating Budget. The City's AAA bond rating will help.
- **COLLECTIVE BARGAINING** - The City is engaged in successor contract negotiations with several units. The HR Department is conducting a compensation study for both union and non-union positions. The impact on the FY2025 Budget for compensation is not known currently. We would expect a dramatic rise in funding the Salary Contingency.
- **ESSR & ARPA CLIFF**- ESSR is the Elementary and Secondary School Emergency Relief Fund – part of the ARPA Act. School Districts have used this federal money to hire new staff and expanded supportive services. A question for the FY2025 Budget is to what extent will ESSR funded staff and programs be moved to the General Fund School Budget. A similar question arises for ARPA programming that may be assimilated into the City General Fund Budget.
- **TAB LEASE and WHCIS ONGOING WORK**-A supplemental budget was appropriated to pay for a partial year lease with Tufts University effective September 1, 2024, for use of the Tufts Administration Building. A full annual lease payment will be budgeted in FY2025. Any additional monies required for renovation work in the Edgerly Education Center is a priority so that Winter Hill students can be properly housed at the Edgerly for the entire academic year.
- **MUNICIPAL EMPOWERMENT ACT** - Governor Healey filed legislation designed to increase municipal flexibility and strengthen municipal finances. The bill would enable communities, at local option, to increase the local meals tax from 0.75% to 1% and increase the lodging tax from 6% to 7%. A new local-option vehicle excise tax surcharge of 5% would be available to all 351 municipalities. Should the legislation pass, and should Somerville adopt all three options, I estimate an additional \$1.6 million could be raised based on current budgetary estimates.