

# FY26 Budget Outlook

**City of Somerville, MA**

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Ed Bean, Finance Director

*Presented to  
Somerville City Council  
& School Committee*  
**April 16, 2025**

# **Section 1**

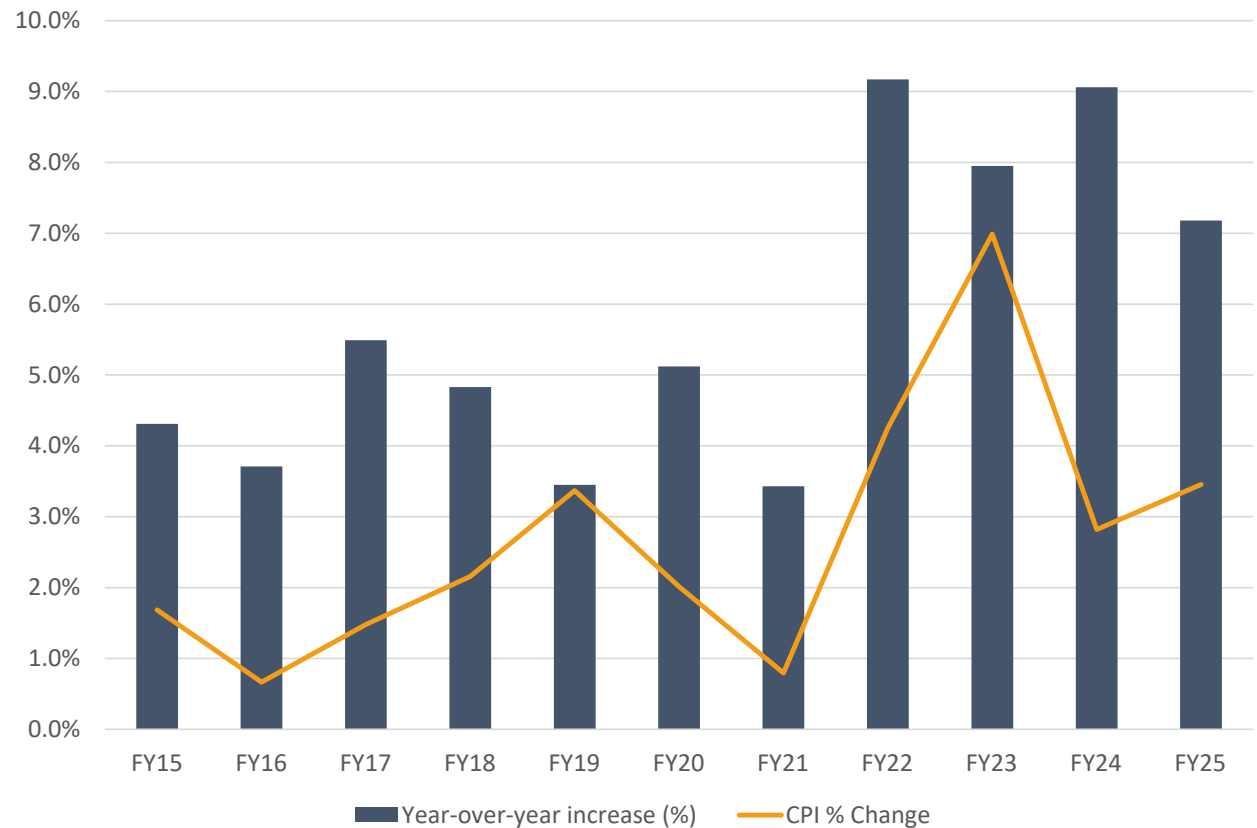
# **Historical Trends**

How have we gotten here?

# The City's General Fund budget has grown by **77%** since FY14

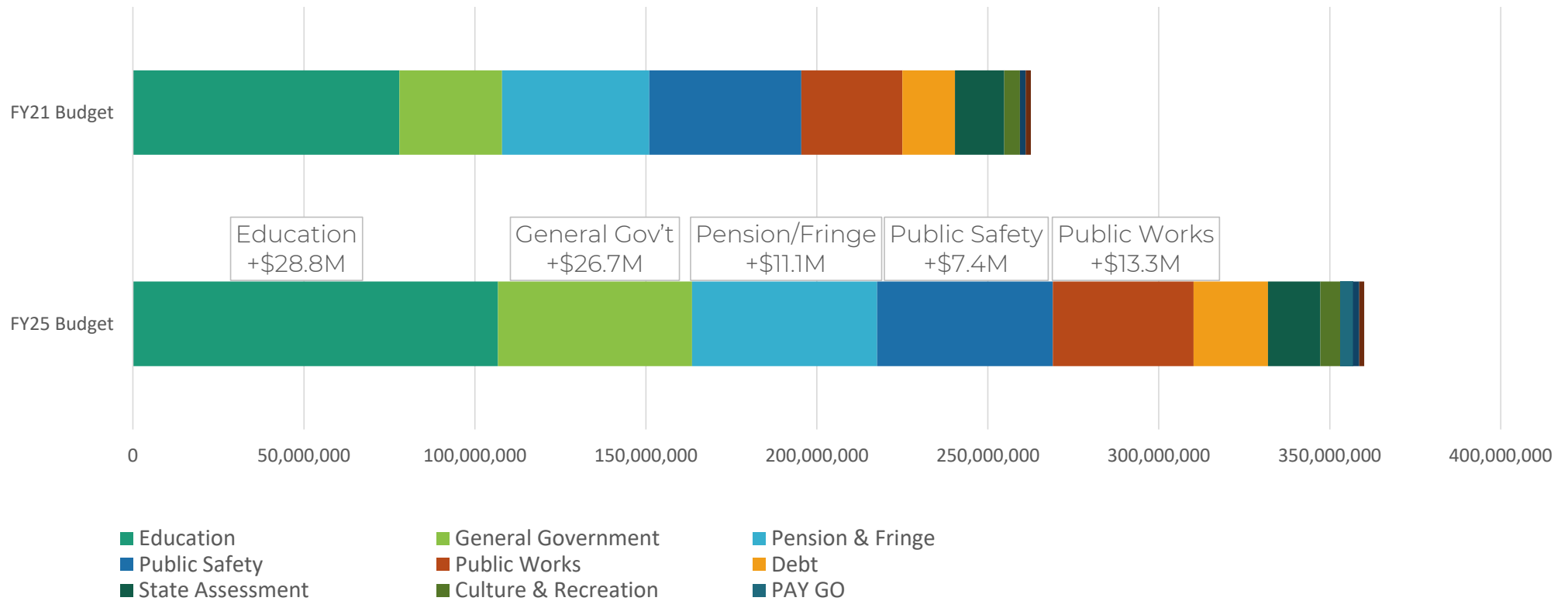
CPI change in Boston over the same period amounts to 34.7%.

This means the City budget has grown at more than twice the rate of CPI since FY15.



Source: US BLS: <https://www.bls.gov/cpi/regional-resources.htm>

# 5-year perspective on budget changes



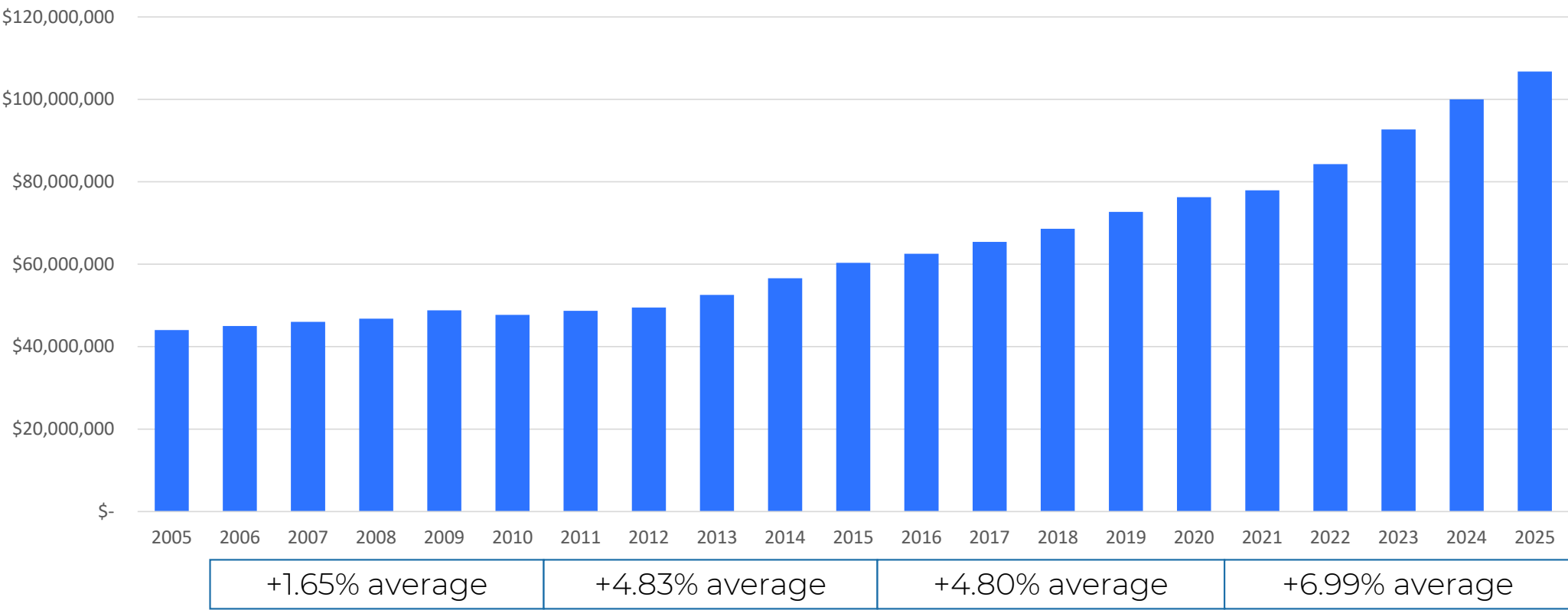


# Schools are our largest investment

The **greatest** proportion of growth has come from the School Department, Nearly one in every three new dollars.

Since FY16, the school budget has increased **5.96%** annually, on average.

Since FY20, the school budget has increased **6.99%** annually, on average.



Investments in families, youth, and our schools are found throughout the budget. [These programs and facilities are essential to our work and to the community.](#)

### **Fixed Costs**

- Insurance
- Pension
- Information Technology
- HR & Accounting
- Debt Service
- Water & Sewer

### **Facilities & Assets**

- Building Maintenance
- Playground & School Yards
- ARPA projects
- Capital Projects & Renovations
- Dilboy & Ginnie Smithers Pool
- WHCIS Interim Projects

### **Programming**

- Health & Human Service
- Food Access
- SomerPromise
- Mayor's Jobs Program
- Youth Services
- Teen spaces across the city
- Parks & Recreation
- Libraries

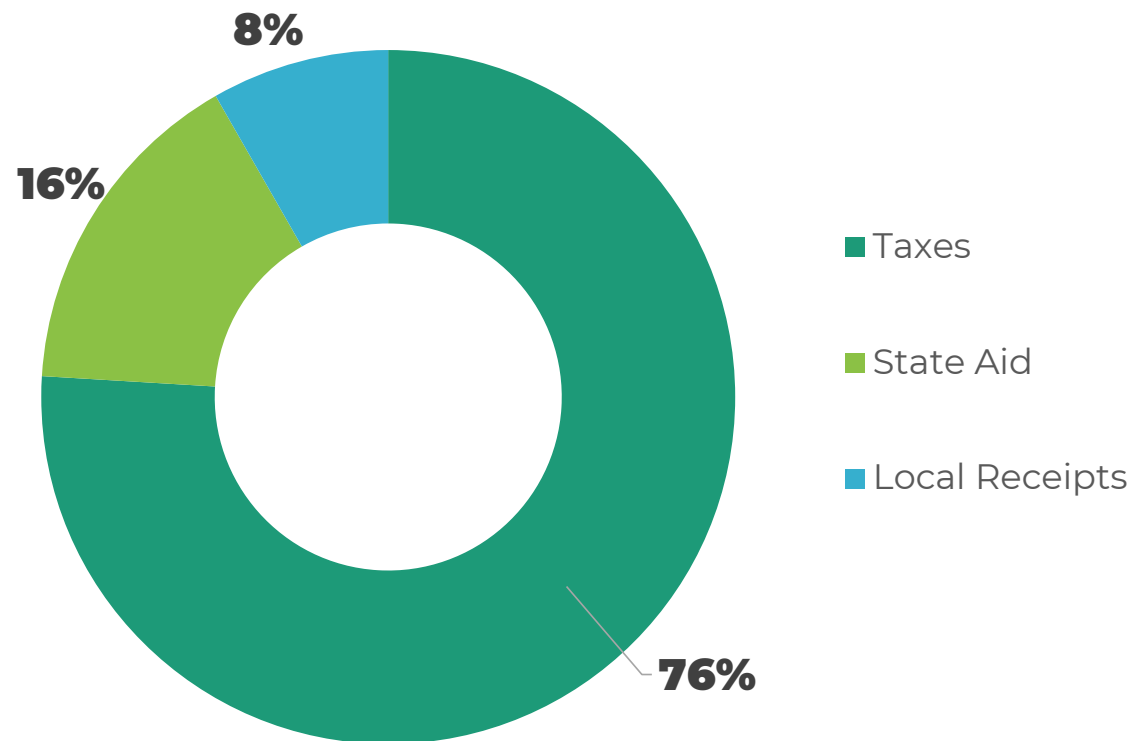
# School Expenses on the Municipal Budget

Expenditure Type	FY24 Expenses
Health Insurance	\$13,693,159
Workers Compensation	\$271,414
Utilities for School Buildings	\$2,972,474
Maintenance & Repair of School Buildings	\$6,315,668
Trash Removal	\$223,942
Snow Removal	\$519,547
Debt for School Construction	\$9,303,871
Pension	\$3,051,852
<b>Total</b>	<b>\$36,351,926</b>

Source: FY24 DESE EOY Report

## FY25 Revenue by Type

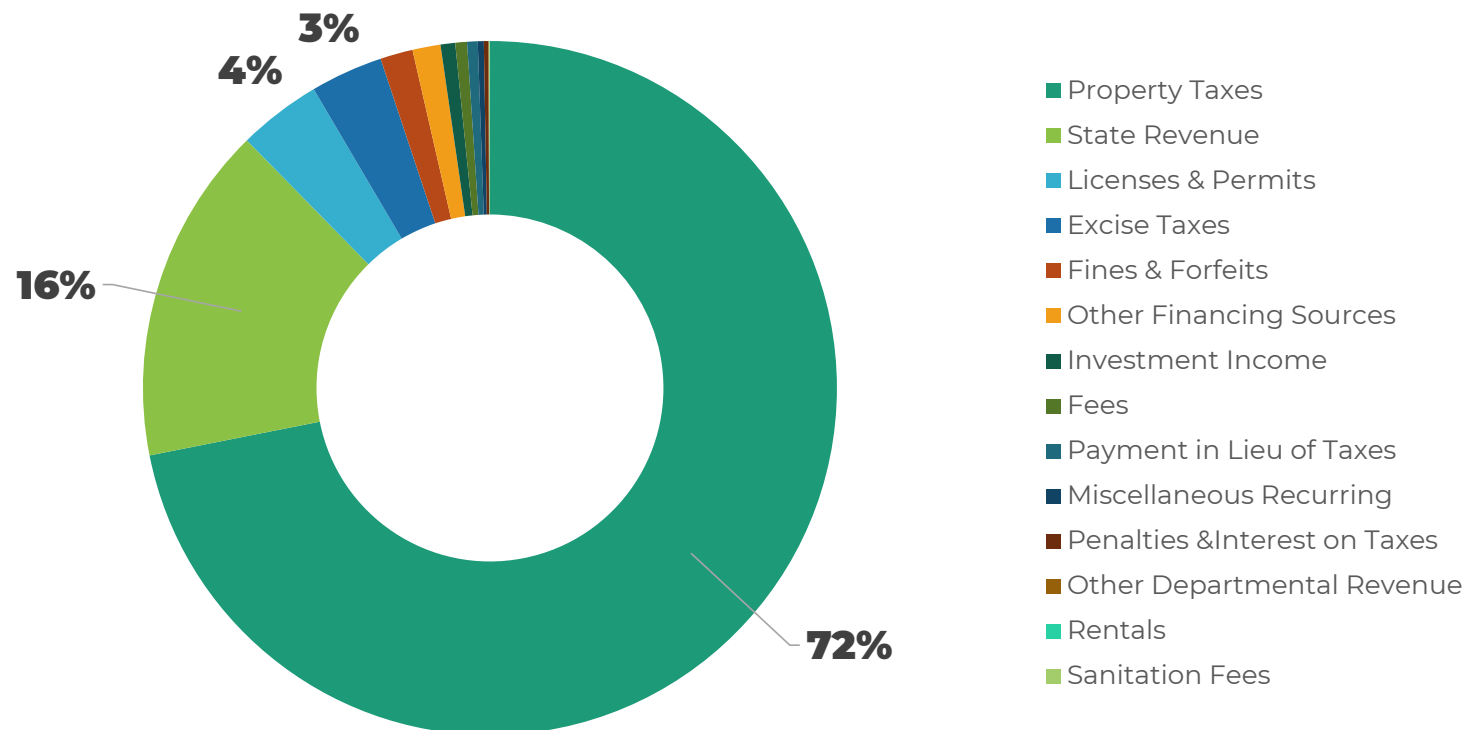
*The City continues to lean on property tax as a primary funding source in the face of middling State Aid and limited revenue generation opportunities.*





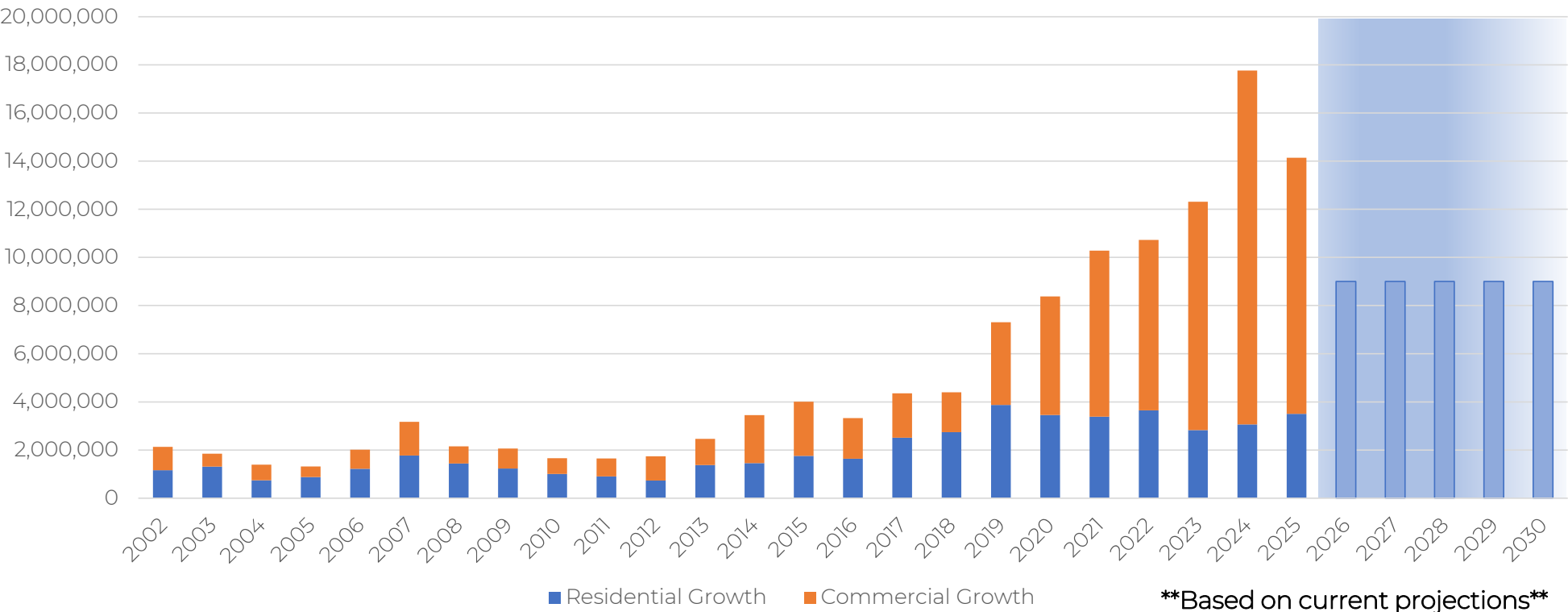
# FY25 Revenue Composition

*The City continues to lean on property tax as a primary funding source in the face of middling State Aid and limited revenue generation opportunities.*



# The City has benefitted from record new growth since FY20, but projections show a slow down

New Growth Applied to the Levy Limit: FY02-FY25



# Property Tax Levy History

	Total Tax Levy	Debt Exclusion	Tax Levy w/o exclusions	Increase from prior year
FY20	167,812,263		167,812,263	
FY21	184,014,988	1,335,839	182,679,149	14,866,886
FY22	200,839,916	6,033,610	194,806,306	12,127,157
FY23	221,093,410	6,674,013	214,419,397	19,613,091
FY24	244,828,530	6,705,968	238,122,562	23,703,165
FY25	264,969,748	6,625,681	258,344,067	20,221,505

We anticipate a slowdown in budget growth for FY26, primarily due to lower new growth.

# **Section 2**

## **FY26 Outlook: Revenue**

Recalibrating based on emerging macro trends



## Commercial New Growth in FY26

FY 25 New Growth = \$14,139,848

FY 26 Projection = \$9,000,000

*Reduction of \$5,139,848*

- Development has slowed due to high interest rates and inflationary pressures on construction costs.
- Vacancies in commercial real estate have resulted in lower valuations in the region.
- Vacant lab buildings are taxed at 60% of their potential value and there are presently 7 vacant lab buildings in the city.

Current projections indicate a **slowdown** in commercial new growth for FY26, relative to recent years.



## **FY26 Levy Calculation – How we project tax revenue**

\$ 258,344,068    FY2025 Property Tax Levy – Below the Levy Limit

\$     221,319    PLUS FY2025 Unused Levy

**\$ 258,565,387    EQUALS FY2025 Levy Limit**

\$ 258,565,387    FY2025 Levy Limit

+    6,464,135    PLUS 2 ½%

+   9,000,000    PLUS Estimated new growth

**\$274,029,522    EQUALS FY2026 Levy Limit**

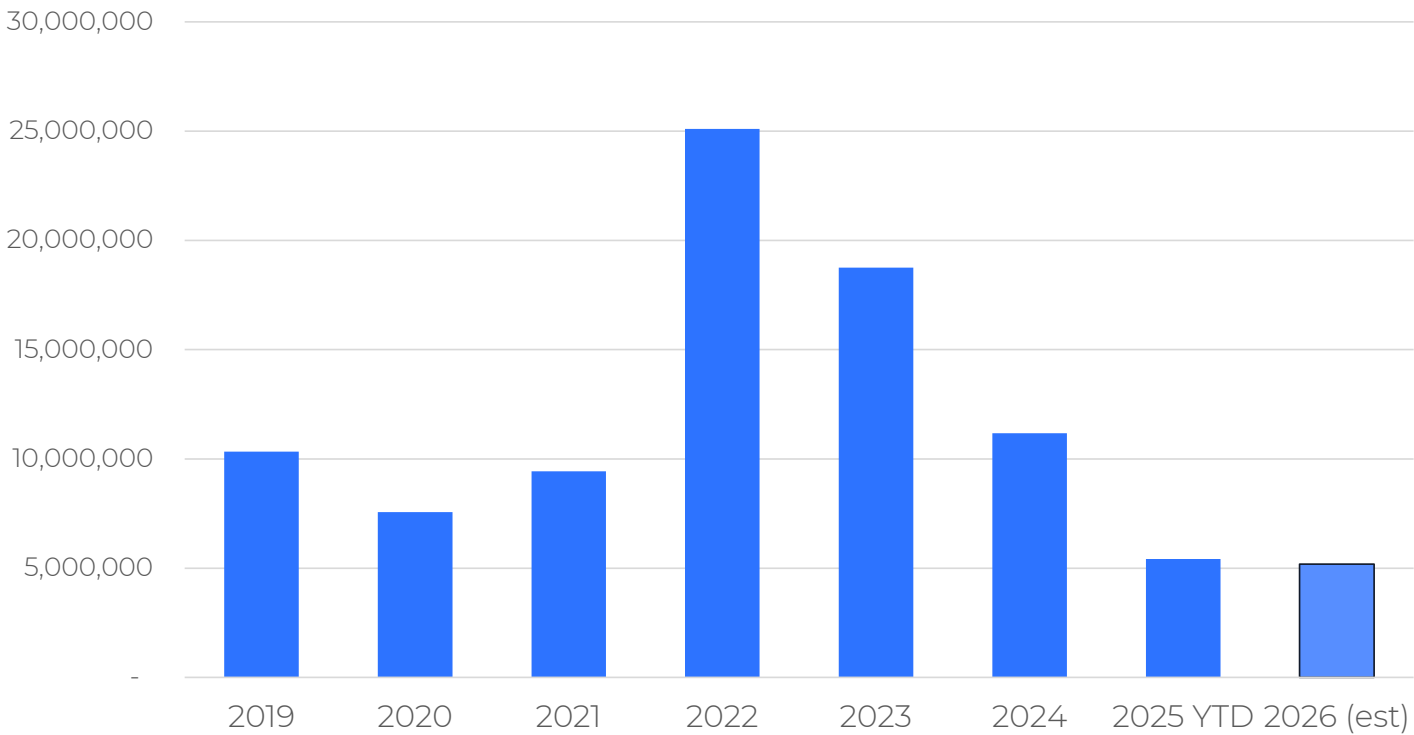
A potential **\$15,685,454** in new property tax revenue could be raised in FY2026 under the levy limit..

This is a reduction of **\$4,536,051** from FY2025 Levels.

*\*This projection assumes \$9M in new growth.*

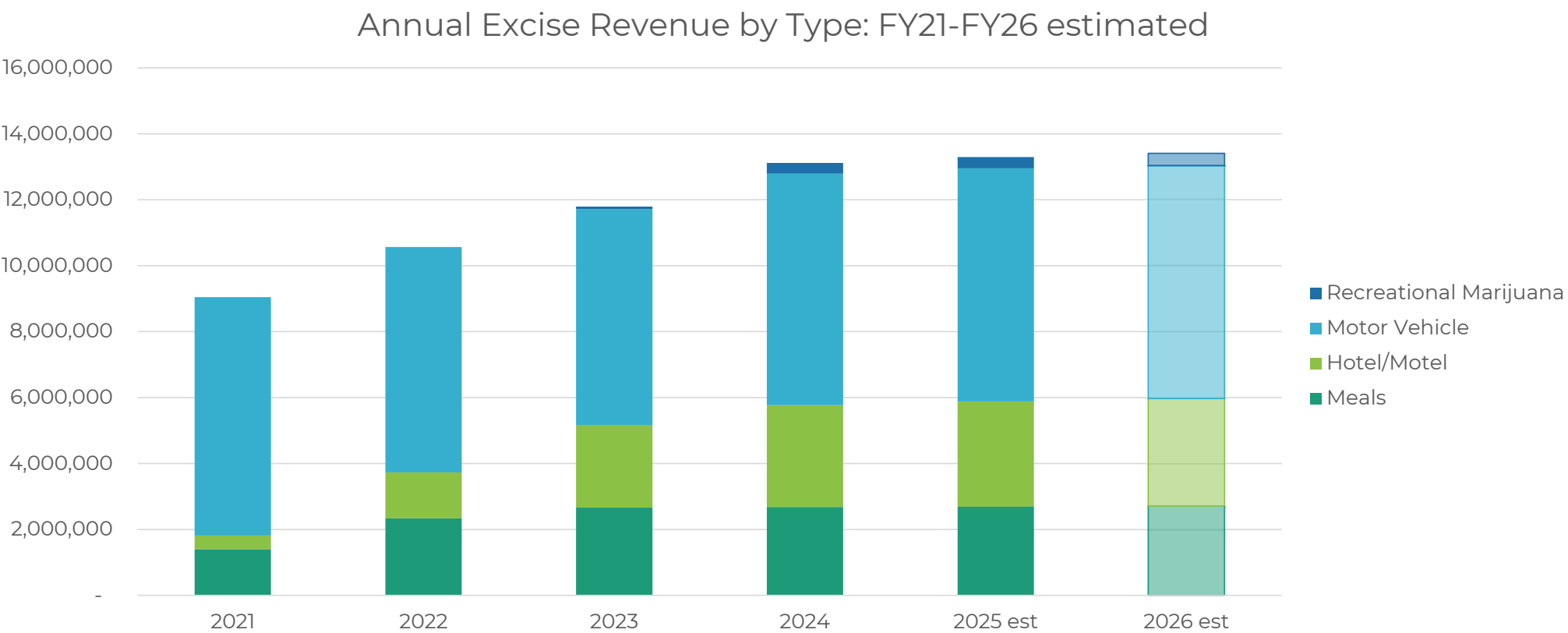
# Building Permits remain a core revenue source, but growth is moderating due to macroeconomics

Building Permit Revenue: FY19-FY26 estimated



Fiscal Year	Change from prior year	
2020	▼	27%
2021	▲	25%
2022	▲ ▲	166%
2023	▼	25%
2024	▼	40%
2025	▼	52%
2026*	▼	4%

# Excise Tax growth is moderating, but remains a valuable part of our revenue



## State Aid – Governor’s FY26 Proposal

Category	Program	FY25 Cherry Sheet	FY26 Governor’s Proposal	Variance
Education	Chapter 70	21,780,232	22,166,857	286,625
Education	Charter Tuition Reimbursement	1,435,013	890,118	-544,895
Gen. Govt.	Unrestricted General Government Aid	31,024,812	31,707,358	682,546
Gen. Govt.	Veterans Benefits	105,108	135,461	30,353
Gen. Govt.	Exemp: VBS & Elderly	196,465	318,526	122,061
Offset Receipt	Public Libraries	185,433	190,323	4,890
	<b>Total Estimated Receipts</b>	<b>54,727,063</b>	<b>55,408,643</b>	<b>681,580</b>

# FY26 Cherry Sheet – Preliminary Assessments

Category	Assessment	FY25 Cherry Sheet	FY26 Governor's Proposal	Variance
State Charges	Air Pollution Districts	34,425	34,346	-79
State Charges	MAPC	47,404	48,837	1,433
State Charges	RMV Non-Renewal Surcharge	240,400	240,400	-
Transportation	MBTA	5,963,341	6,171,253	207,912
Transportation	Boston Metro Transit District	1,198	-	-
Annual Charges	Special Education	32,198	44,654	12,156
Tuition	School Choice Sending Tuition	73,009	83,416	10,407
Tuition	Charter School Tuition	8,969,269	8,326,984	-642,285
	<b>Total Estimated Assessments</b>	<b>15,361,244</b>	<b>14,949,590</b>	<b>-411,654</b>



## FY25 Net State Aid Summary

	FY25	FY26	\$ Increase	% Increase
Total Estimated Receipts	54,727,063	55,408,643		
Total Estimated Assessments	15,361,244	14,949,590		
<b>Net State Aid</b>	<b>39,365,819</b>	<b>40,459,053</b>	<b>+1,093,234</b>	<b>2.78%</b>

# FY26 Revenue Projection

As of April 16, 2025.  
Estimates will change

Revenue Category	FY 2025 Budgeted	FY 2026 Estimate	\$ Change
Property Taxes	264,969,749	280,730,444	15,760,695
Excise Taxes	12,916,349	13,407,044	490,695
Penalties & Interest on Taxes	745,332	972,057	226,725
Payment in Lieu of Taxes	1,691,522	1,717,564	26,042
Sanitation Fees	76,861	76,861	-
Charges – Electricity	-	40,605	-
Fees	1,656,415	2,048,452	392,037
Rentals	89,644	89,644	-
Other Departmental Revenue	40,000	60,000	20,000
Licenses & Permits	9,889,038	9,650,839	(238,199)
Fines & Forfeits	6,038,772	7,772,213	1,733,441
Investment Income	3,750,794	3,750,794	-
Miscellaneous Recurring	775,321	778,383	3,062
State Revenue	54,541,630	55,218,318	676,688
Other Financing Sources	4,380,730	4,101,961	(278,769)
<b>Total Revenue &amp; OFS</b>	<b>361,562,157</b>	<b>380,415,179</b>	<b>18,853,022</b>

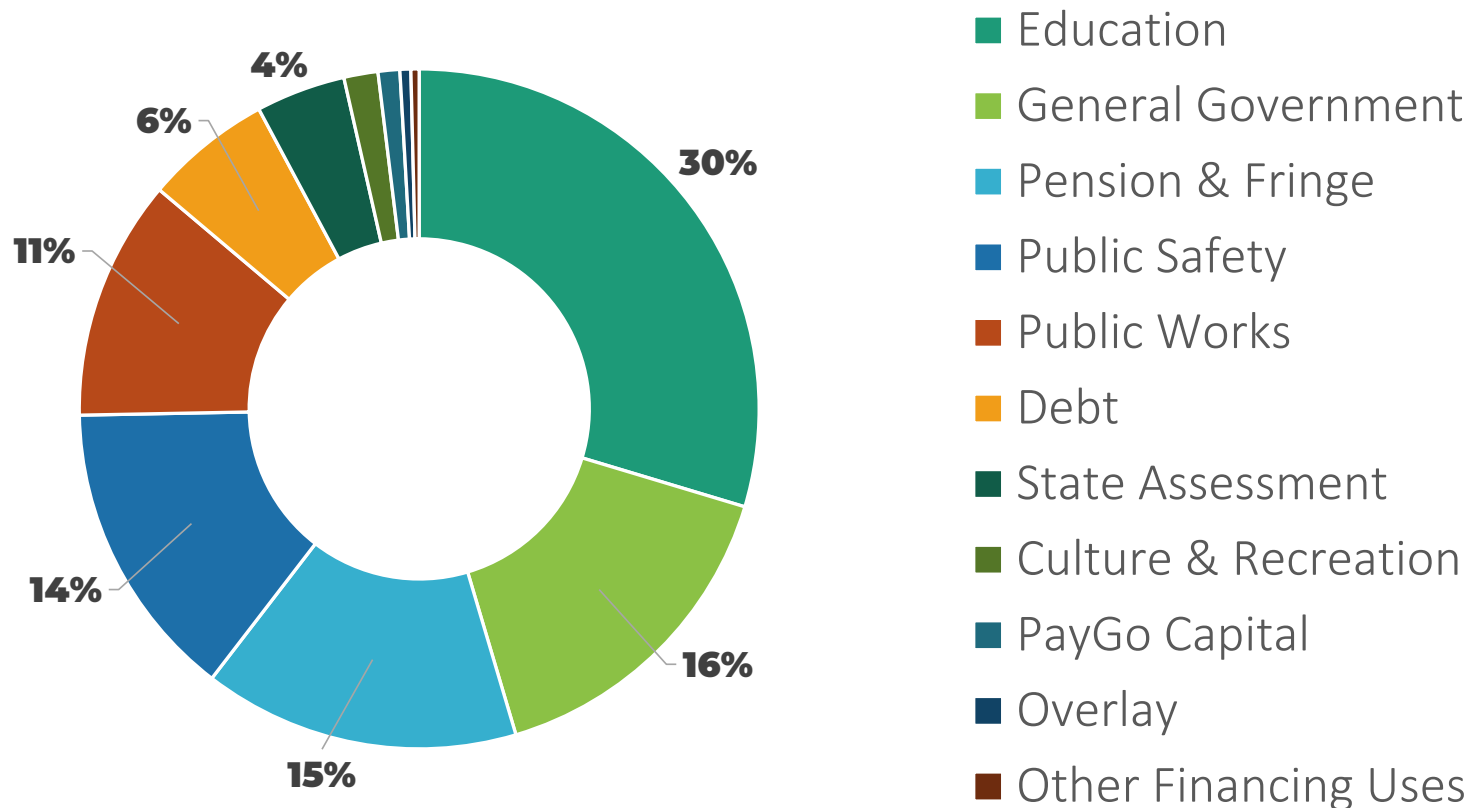
# **Section 3**

## **Expenditures**

FY26 outlook on primary drivers of change.

# FY25 Budget Composition

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





## **Fixed Costs Drive municipal budgets**

### **Salaries**

More than half of the City's General Fund pays for employee wages. (51.0%)

### **Health Insurance**

Almost one out of every ten dollars funds health insurance for employees. (9.3%)  
The City funds 80% of premiums.

### **Pensions**

4.8% 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:** 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
- **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 us 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.

# FY26 Major Cost Drivers: Health Insurance



## Health Insurance

Group Insurance Commission increased plan amounts on average of 11.4%. Last year's average increase was 8.8%. This is the highest increase we have experienced. At current caseload levels, we anticipate the health insurance appropriation to increase by approximately \$2,999,753 in FY26.

Current caseload is 2,960. New positions added to the FY26 Budget will increase this amount.

City contributes 80% of the premium.

Plan Name	Type	FY26 Increase for Family Plan
Harvard Pilgrim Explorer*	POS	10.0%
Harvard Pilgrim Quality	HMO	11.0%
Health New England	HMO	9.4%
MGB Complete	HMO	10.4%
Wellpoint Total Choice	Indemnity	14.6%
Wellpoint Community Choice	PPO-type	11.2%
Wellpoint Plan/PLUS	PPO-type	12.4%
Harvard Pilgrim Across America	PPO	12.5%

*\*Harvard Pilgrim Explorer is the City's most common plan.*



# FY26 Personal Services: Labor & Employee Staffing



## Collective Bargaining

The following bargaining units settled collective bargaining agreements recently:

- Fire Suppression & Alarm
- Police Patrol
- E-911
- SMEU B
- Non-Union re-classification\*

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



## Salary Contingency & Reserves

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 every department.

Salaries must be sustainable in the long term, to avoid layoffs or service cuts.

# **FY26 Cost Drivers: Pension Appropriation**



## **Somerville Retirement Board**

The Somerville Retirement System conducted an updated actuarial study of our pension liability as required by law. The current unfunded pension liability is \$138,847,324. Full funding of the liability will be achieved in 2033.

The pension appropriation will increase by **\$1,359,251** in FY2026 from **\$16,990,644** to **\$18,349,89**.



## FY26 Cost Drivers: Debt & CIP



### Debt Service

- FY25 General Fund Debt Service within the levy limit is \$15,080,422. The City will be going out to market in mid-May with the assistance of Hilltop Securities to finance active capital projects. The estimated debt service for these projects to be borrowed in May and paid in FY26 is **\$3,394,886**. The appropriation increase in FY26 is expected to total **\$ 2,304,107**, factoring in pay-downs and debt drop downs.
- The Somerville High School Debt Service Exclusion amounted to \$6,625,680 in FY2025. Estimated Debt Service in FY2026 amounts to **\$6,700,922**.

The City estimates a long-term bond rate of 3.8% and short-term rate of 3.5%. Should the market yield more favorable results, the FY26 appropriation will be less.

The following projects will be included in this May's General Obligation Bond borrowing. **Debt payments for these investments will occur in FY26.**

### **Buildings, Facilities, & Apparatus**

City Hall/Edgerly Engineering  
Annual Building Improvements  
Assembly Sq Fire Station  
Edgerly & WHCIS Improvements  
Fire Pumper

Additional Investments in Assets to be funded  
via reserves (Capital Stabilization)

Brown School Boiler  
Argenziano Classroom

### **Parks & Streetscapes**

Somerville Ave Streetscape  
Annual Pavement Program  
Union Sq Streetscape & Plaza Design  
Central Hill Campus Open Space  
Spring Hill Sewer Streetscape  
Clarendon Hill DIF  
217 Somerville Ave Park

# Addressing the threat of Federal grant cutbacks

- The Trump/Vance Administration ordered federal agencies to pause all activities related to obligations or disbursement of all federal financial assistance while the new administration reviews all federal programs for alignment with the Trump/Vance agenda.
- The City and schools received approximately **\$19.5 million in federal funds in FY2024**. Approximately, \$11.5 m of that federal funding was passed through the state.
- Federal Funds support a variety of critical services including school lunch, special education, community development block grant initiatives, public safety services, roadway safety initiatives, homeless prevention services, and efforts to address and reduce youth tobacco usage and alcohol consumption.

Local government's ability to regularly access federal grant funding awarded to them remains uncertain at this time.

# **Federal grants range from essential to supplementary**

**SPS receives \$4M in Federal funding, \$3.5M in Federal entitlement grants, as well as a diverse roster of other grants. A cutback in these funds would impact critical programs that serve our students, which will result in:**

- Impacts to food security programs, widening achievement gaps, and increasing disparities between students from different backgrounds.**
- Drastic cuts which would impact students, educators, and families.**

**On the City side, Federal grants are typically supplemental, funding one-time purchases or supplies. Losses of these funds will force difficult decisions in the future.**



## **FY26 Budget Development Update**

### **Level Service Review**

Departments have submitted their level service budgets along with department-specific revenue projections.

### **School Department Collaboration**

City staff continue to meet with School Leadership to work on a final budget proposal.

### **Pending Final Estimates**

Awaiting final estimates for Health Insurance, State Aid, Debt Service, updated new growth.

# 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 Capital Investment Plan.



## Balanced Budget Techniques

1. Targeted cuts to non-personnel line items.
2. Capture as much “new growth” as possible.
3. Re-examine all revenues
4. Consider Alternative funding sources
5. Encourage employees to review lower cost health insurance plans and City's Opt-Out program



# Short- and Long-Term Priorities for financial sustainability



## Federal Government

Lobby and support legal efforts against the cutting of federal funds to institutions that do not comply with the President's political priorities.



## Beacon Hill

Lobby for more funding flexibility via our state delegation.

Municipal Empowerment Act can give municipalities the power to raise more revenue.

Fair Share Amendment @ Beacon Hill is an opportunity to share

“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*

## What to expect in the FY26 General Fund Budget

### Level Service

The FY26 budget will largely be focused on level service, maintaining services on which our residents rely.

### Coordinated efforts

Working cross-departmentally to identify opportunities, make progress on them, and break down silos.

### Focused on maximizing resources

Building out the foundation of the organization is a priority identified by staff this year. We expect to utilize existing resources to enhance service delivery using what we already have.

### Preparing for uncertainty

A conservative budget will ensure that the City and Schools are ready for whatever happens over the next twelve months.