

# Mid-Year Fiscal Report

**City of Somerville, MA**

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*Presented to  
Somerville City Council  
Finance Committee*  
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*In accordance with Ordinance 2022-07*

# **Section 1**

## **FY25 Performance**

How is the General Fund performing in fiscal year 2025?

# FY25 Performance: General Fund

Data presented through January 31, 2025

Through 59.3% of the fiscal year, 51.74% **of the General Fund appropriation has been expended and 58.06% of the budget was expended or encumbered.**

	Appropriation	Year-To-Date Expended	Encumbered	Available	Expended & Encumbered
City	270,157,091	146,935,676	16,659,239	106,562,176	60.56%
School	106,747,015	48,174,834	7,061,103	51,511,078	51.74%
<b>Total</b>	<b>376,904,106</b>	<b>193,110,510</b>	<b>23,720,342</b>	<b>158,073,254</b>	<b>58.06%</b>

# General Fund Performance: FY25 Deficit Accounts

City staff are monitoring two accounts currently in deficit.



## Snow Removal

\$1,737,083 Original Budget  
\$1,802,159 Expenditures to-date

\$ (65,076) Current Deficit

Snow invoices are still being processed with additional costs expected.

**Finance Staff will work with DPW and other departments to try to mitigate this deficit on-budget.**



## Police Overtime

\$1,318,656 Original Budget

\$1,518,703 Revised Budget  
*(Includes transfers in)*

\$1,403,933 Expenditures to-date

SPD Administrative staff are reviewing projected expenditures to minimize any deficit at end-of-year.

**We expect this deficit to be mitigated on-budget.**

# FY25 Revenue Performance

Revenue performance for the current year is **on track** through January.

Revenue Category	Budgeted	Collected	Percent Collected
Property Taxes	264,969,749	183,491,907	69.25%
Excise Taxes	12,916,349	4,745,949	36.74%
Penalties & Interest on Taxes	745,332	627,413	84.18%
Payment in Lieu of Taxes	1,691,522	168,134	9.94%
Sanitation Fees	76,861	44,905	58.48%
Fees	1,656,415	1,285,647	77.62%
Rentals	89,644	55,940	62.40%
Other Departmental Revenue	40,000	40,655	101.64%
Licenses & Permits	9,889,038	7,113,828	71.94%
Fines & Forfeits	6,038,667	4,530,944	75.03%
Investment Income	3,750,794	2,304,654	61.44%
Miscellaneous Recurring	775,321	1,076,063	138.79%
State Revenue	54,541,630	31,587,349	57.91%
Other Financing Sources	19,722,784	19,722,784	100.0%
<b>Total Revenue &amp; OFS</b>	<b>376,904,106</b>	<b>256,796,217</b>	<b>68.13%</b>

# FY25 Revenue Key Drivers

Revenue Object	Budget	Collected	% Budget
Building Permits	5,500,000	4,938,155	89.8%
Local Meals Excise	2,717,723	1,327,265	48.84%
Local Room Excise	3,104,518	1,960,866	63.16%
Investment Income	3,750,794	2,304,654	61.44%

# **Section 2**

# **FY26 Levy Limit**

Estimates for next year's property tax levy

## **FY26 Levy Calculation - Below the Levy Limit**

\$258,344,068	FY2025 Property Tax Levy – Below the Levy Limit
\$ <u>221,319</u>	PLUS FY2025 Unused Levy
<b>\$258,565,387</b>	<b>EQUALS FY2025 Levy Limit</b>

\$258,565,387	FY2025 Levy Limit
+ \$6,464,135	PLUS 2 ½ %
+ <u>\$9,000,000</u>	PLUS Estimated new growth
<b>\$274,029,522</b>	<b>EQUALS FY2026 Levy Limit</b>

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

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



## Commercial New Growth in FY26

FY25 New Growth = \$14,139,848  
FY26 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 resulting in lower valuations
- 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.

# **Section 3**

## **State Aid Summary**

Minimal growth in net State Aid predicted for FY26

## 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	386,625
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 - 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	0
Transportation	MBTA	5,963,341	6,171,253	207,912
Transportation	Boston Metro Transit District	1,198	0	0
Annual Charges	Special Education	32,198	44,354	12,156
Tuition	School Choice Sending Tuition	73,009	83,416	10,407
Tuition	Charter School Tuition	9,042,278	8,410,400	-642,285
<b>Total Estimated Assessments</b>		<b>15,361,244</b>	<b>14,949,590</b>	<b>-411,654</b>

## FY26 Net State Aid Summary

	FY25	FY26	\$ Increase	% Increase
Total Estimated Receipts	54,727,063	55,408,643		1.25%
Total Estimated Assessments	15,361,244	14,949,590		-2.68%
<b>Net State Aid</b>	<b>39,365,819</b>	<b>40,459,053</b>	<b>+1,093,234</b>	<b>2.77%</b>

# FY26 Major Cost Drivers: Health Insurance



## Health Insurance

At current caseload levels, the health insurance appropriation is projected to increase by approximately **\$3,708,587** in FY26.

The Group Insurance Commission is proposing to increase Non-Medicare Plan premiums an average increase of **12.7%** and Medicare Plans going up **7.4%**. Individual increases will vary by plan and plan type.

The double-digit increases are driven by medical inflation, increased utilization of specialty drugs, and the consolidation of primary care practices under hospital umbrellas.

# FY26 Major Cost Drivers: Pension



## Pension

The pension appropriation will increase by **\$1,359,251** in FY2026 from \$16,990,644 to \$18,349,895.

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 FY2033.

# FY26 Major Cost Drivers: Debt Service



## Debt Service

Interest rates have risen sharply over the past year. The interest rate on a 30-year municipal bond today is 3.8%. The short-term interest rate is approximately 3%.

The 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-offs.

The Somerville High School Debt Exclusion amounted to \$6,625,680 in FY2025. Estimated Debt Service in FY2026 amounts to **\$6,718, 896**.



# FY26 Major Cost Drivers

## Labor & Vendor Contracts



### Collective Bargaining

New contracts were executed with:

- Fire Suppression & Alarm
- E-911
- SMEU-Unit B

Police Patrol & Superiors , SMEU-A, and SMEU-D are in negotiations.

Settlements reached in the next few months will be built into Departmental salaries. Salary Contingency will be budgeted appropriately for any out- year contracts.



### Vendor Contracts

The continuing impact of inflation on vendor contracts is a major concern in FY26. The impact of the Trump Administration tariffs on materials and supplies is uncertain.

# Threat of Federal Grant Cutbacks

By taking a cautious and strategic approach, we aim to protect essential services, maintain fiscal health, and ensure the City remains resilient in the face of changing funding landscapes.

The City and Schools received **\$19.5 million** in federal funds in FY24. About \$11.5 million was passed through the State.

Federal Funds support a variety of critical services including school lunch, special education, homeless prevention services, public safety services, roadway safety initiatives, and efforts to address youth tobacco and alcohol consumption.

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

**Summary of  
FY25 Fixed  
Costs & Major  
Cost Drivers**

Debt Service	Current forecasts expect a \$2.3M increase to the debt service budget, reflecting significant capital investments.
Investments in Staff	Collective Bargaining Agreements with SFD, SMEU B, & E-911 must be accounted for with reserves held for other SMEU Units & SPD.
Health Insurance	The GIC's recent cost increases are anticipated to require an additional \$3.4M budgeted for health insurance.
Pension	Updated annually, FY26's pension appropriation will increase \$1.4M

# **Section 6**

# **Free Cash**

Current free cash balances for FY25

## Free Cash Balance

Date	Description	Amount	Remaining
	Free Cash Certification as of 10/23/24		26,820,999
12/12/2024	Legal Services - 90 Washington St	110,000	26,710,999
12/12/2024	90 Washington Street Purchase	12,000,000	14,710,999
1/23/2025	Additional Building Insurance	183,343	<b>14,527,656</b>

The City has adopted guidelines for the expenditure of “Free Cash” in its Free Cash Fiscal Policy. Department of Revenue guidelines recommend that use 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.

An additional appropriation of \$137,288 is pending for an IT Assessment of Network Security. Assuming the pending appropriation is approved, the amount of certified “free cash” remaining would be **\$14,387,368**.

# 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?