



# Five Year Financial Forecast for Fiscal Years 2020-2024

to be presented to the City Council and School Committee

**Tom Ambrosino - City Manager**

**Ned Keefe - Deputy City Manager**

**Ed Dunn - Auditor**

# FY20-FY24 Financial Forecast as of 5/13/2019

	<b>FY2019 Adopted Budget</b>	<b>Projected FY2020</b>	<b>Projected FY2021</b>	<b>Projected FY2022</b>	<b>Projected FY2023</b>	<b>Projected FY2024</b>
<b>Revenue</b>						
Taxes	73,326,489	76,875,446	79,708,930	82,643,704	85,651,848	88,735,197
Charges for Services	2,455,000	2,548,500	2,705,580	2,875,226	3,058,445	3,256,320
Licenses & Permits	2,145,000	2,145,000	2,145,000	2,145,000	2,184,924	2,225,846
Fines and Forfeitures	2,700,000	2,752,500	2,806,313	2,861,470	2,918,007	2,975,957
Cherry Sheet	89,233,722	91,861,669	93,599,829	95,372,098	97,179,149	99,021,667
Miscellaneous	4,607,830	4,608,932	4,371,831	4,437,436	4,505,009	4,674,610
<b>Total Revenue</b>	<b>174,468,041</b>	<b>180,792,047</b>	<b>185,337,483</b>	<b>190,334,934</b>	<b>195,497,382</b>	<b>200,889,597</b>
<b>Expenditures</b>						
Municipal	39,835,516	43,217,366	44,701,881	45,983,134	47,301,329	48,657,537
Education	93,375,179	96,931,539	99,354,827	101,838,698	104,384,666	106,994,282
Northeast Vocational						
Debt Service	4,157,496	3,507,723	4,020,763	4,324,516	4,245,216	4,788,532
Employee Benefits	17,443,498	17,685,543	18,584,013	19,544,849	20,554,927	21,618,969
Other	20,357,519	20,145,594	20,659,609	21,160,224	21,672,730	22,172,423
<b>Total Expenditures</b>	<b>175,169,208</b>	<b>181,487,765</b>	<b>187,321,093</b>	<b>192,851,421</b>	<b>198,158,868</b>	<b>204,231,743</b>
<b>Surplus/(Deficit)</b>	<b>(701,167)</b>	<b>(695,718)</b>	<b>(1,983,610)</b>	<b>(2,516,487)</b>	<b>(2,661,486)</b>	<b>(3,342,146)</b>



# FUNDAMENTALS HAVE NOT CHANGED IN THE LAST YEAR

- Same Positive Trends
- Same Negative Trends



# POSITIVE TRENDS

- Strong Reserves
- Good Bond Rating
- Excellent Economic Development Opportunities
- Group Health Insurance Costs Stabilized



# STRONG RESERVES

Currently:

- General Stabilization: \$24,387,389.
- School Capital Stabilization: \$4,339,386.
  - Less pending Requests: FY20 CIP \$3,175,000
  - Potential Balance: \$1,164,386
- Free Cash: \$7,813,763
  - Less pending Requests: FY20 CIP \$4,390,459; Misc. Requests \$1,719,328; FY20 Budget \$695,718
  - Potential Balance: \$1,008,258
- Water Enterprise Retained Earnings of \$3,226,667.
  - Less pending Requests: FY20 CIP \$150,000; FY20 Budget \$775,600
  - Potential Balance: \$2,301,067
- Sewer Enterprise Retained Earnings of \$3,520,673.
  - Less pending Requests: FY20 CIP \$150,000; FY20 Budget \$775,600
  - Potential Balance: \$2,595,073



# GOOD BOND RATING

- Standard & Poors confirmed AA/Stable Outlook.

## Summary:

## Chelsea, Massachusetts; General Obligation; Non-School State Programs

### Credit Profile

US\$3.925 mil GO mun purp loan of 2019 bnds due 02/15/2029

*Long Term Rating*

AA/Stable

New

## Rationale

S&P Global Ratings assigned its 'AA' long-term rating to \$3.925 million of Chelsea, Mass.' 2019 general obligation (GO) bonds, and affirmed its 'AA' long-term rating on the city's GO bonds outstanding. The outlook is stable.



# ECONOMIC DEVELOPMENT OPPORTUNITIES

- Expansion of 200 Maple St. Hotel – Ongoing.
- Construction of Second St. Hotel – Ongoing.
- Chelsea Clock Development: Phase I Ongoing; Phase II Building Permit in FY20.
- Forbes Site Development: Approved. Estimated Annual Taxes \$1.8 million.
- Waterfront Development Opportunities (295 Eastern Ave.; InterPark site at 111 Eastern Ave.).
- Silver Line Developments (170 Cottage St.; Innes Development; Seidman Site)

# GROUP HEALTH COSTS STABILIZED

Prior to FY17:

- Premium Based – subject to large annual increases by vendors

In FY17: Became self insured on July 1, 2016

- Cost increase for FY20 only 1%
- Trust Fund Balance \$5.9 million as of June 30, 2018 (Comprehensive Annual Financial Report, p. 102).
- Statutory Authority under M.G.L. c. 32B, Sections 21-23 will allow the City to control future group health cost increases.





# TROUBLING TRENDS

- State Aid for School System
- Pension/OPEB Liability
- Debt Service Increases
- Excise Tax Dependence



# STATE SUPPORT FOR SCHOOLS --UNRESOLVED

School Budget Increased by almost \$3.3 million. City is paying for approximately \$1.5 million of that increase.

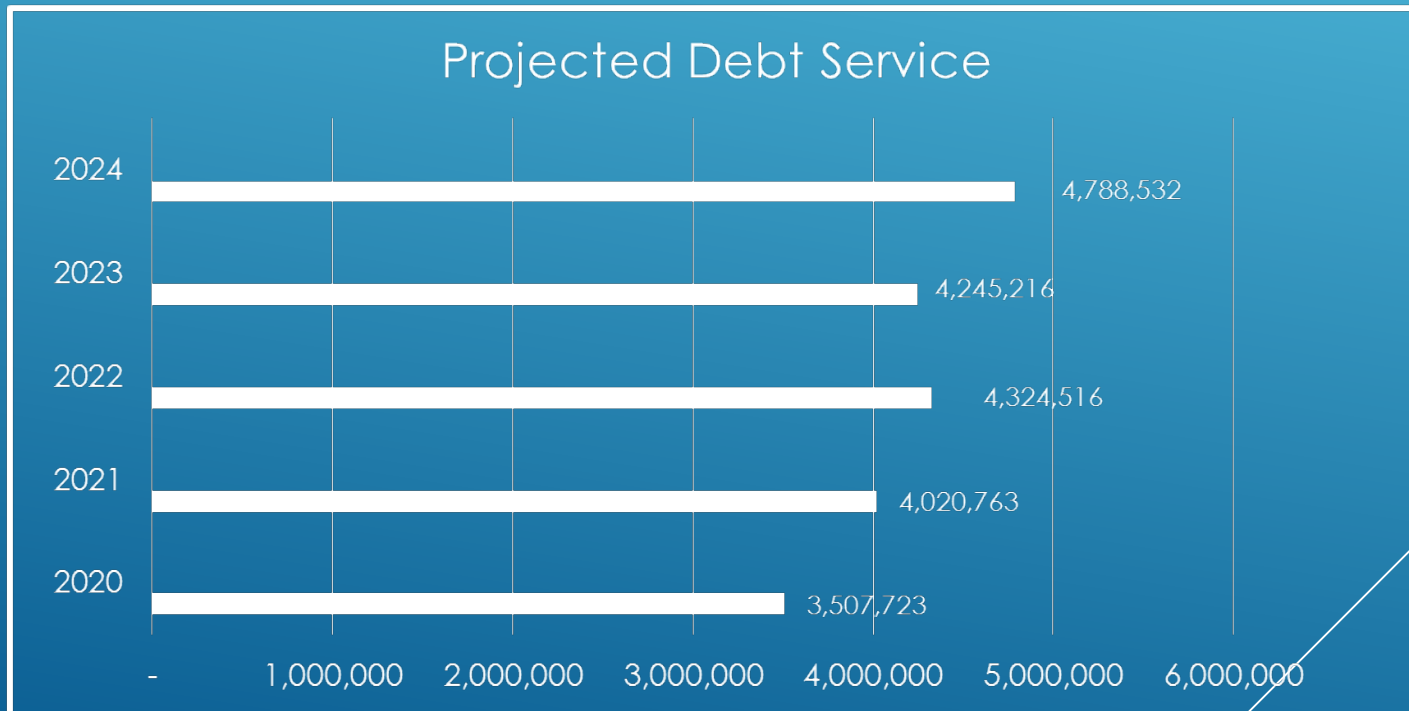
- Charter School Costs take away a significant portion of Chapter 70 funding.
- Charter School Tuition Reimbursement Costs underfunded statewide by \$70+ million.
- Current Chapter 70 formula is broken. Current formula harms urban districts by: failing to adequately count economically disadvantaged students; underfunding those that are counted; and failing to adequately fund English Language Learners.
- Still no resolution on competing proposals for full fix of Chapter 70 Formula. City may join lawsuit in Fall.

## PENSION/OPEB CONCERNS

- City's proportionate share of net pension liability is \$61.1 million as of June 30, 2018.
- Payoff schedule for 2029, but could be impacted by future recession.
- OPEB unfunded liability at \$186.4 million as of June 30, 2018. City has approximately \$2 million set aside so far.
- Plan is to start payoff schedule once Pension system paid off. But, state could require greater commitment at earlier timeframe.

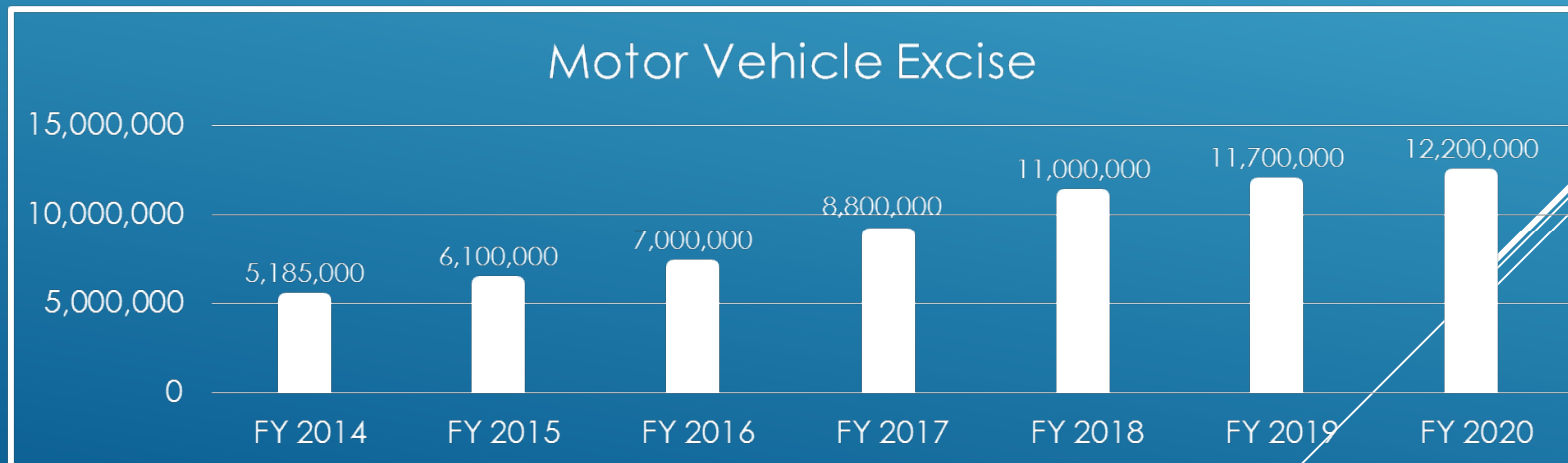
# DEBT SERVICE INCREASES

- Debt Service expected to increase significantly over next few years.
- Investment necessary but comes at a cost.



# EXCISE TAX

- Budget heavily dependent upon Excise Tax. Was \$11.7 million in FY19. Will increase to \$12+ million in FY20.
- Large gap between excise guarantee from Enterprise and Revenue projections: \$7+ million.
- Industry future uncertain given hailing services like Uber and self-driving vehicles.





# FINAL COMMENTS

- Reserves, along with fiscal prudence, will allow us to meet budgetary demands for next five years without any override.
- But, there will be pressure on the City to promote new revenue growth through continued economic development.