City of Chelsea

Five Year Financial Forecast
for Fiscal Years 2015-2019
and
Preliminary FY'15 Budget Overview

to be presented to the City Council and School Committee

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Five Year Financial Forecast
Budget, Surplus, Free Cash

	FY'15	FY'16	FY'17	FY'18	FY'19
BUDGET	$136,925,972	139,572,163	143,211,197	148,319,245	151,540,510
% CHANGE	4.2%	1.9%	2.6%	3.6%	2.27%
SURPLUS (DEFICIT)	$73,346	(1,710,434)	(1,807,765)	(866,111)	(1,715,932)
FREE CASH AT PREVIOUS FY END*	$6.1m	$4.4m	$2.6m	$1.7m	$0

*Previous year, adjusted by current surplus/deficit, reduced by $1.5m for CIP and $500k for misc. annual appropriations and increased by $2m for year-end adjustments.

Forecast Summary

<u>GENERAL SUMMARY</u>

- City finances are:
  - Stable
  - Uncertain
  - Subject to the influence of the State’s budgetary issues
  - Projected to meet budgetary demands for, at least, the next five years

- Continued fiscal prudence is required.

Forecast Summary

GENERAL SUMMARY (continued)

- Contributing to stability is:
  - growth of locally-generated revenues (including economic development and its impact on new growth, hotel/motel and meals taxes, and one-time building fees).

  - cost containment efforts by holding expenditure lines and reducing debt service.

Forecast Summary

GENERAL SUMMARY (continued)

- Causing consternation is:
  - historically depressed non-school local aid;
  - the projected increases in employee overhead costs, including
    - health insurance
    - pensions
    - retiree health insurance costs;
  - the loss of Federal funding for public safety supports and other categories of spending, and

Forecast Summary

<u>GENERAL SUMMARY (continued)</u>

- Causing consternation is (continued):
  - Capital needs in the out-years (FY’16 & beyond).
  - We’ve been deferring:
    - Non-public safety expenditures on operations
    - Some major capital improvements
  - Continued increases in school enrollment

Forecast Summary

<u>GENERAL SUMMARY (continued)</u>

- Confirming the City’s approach is:
  - Balancing budgets have been regular;
  - Reserves indicate the restrained approach of budgeting;
  - Outside reviews (Standard & Poor’s and annual audit) have indicated that the City’s managing of finances has been a “strength”;
  - We’ve been upgraded to an “AA”!, and
  - We haven’t had to attempt a Prop. 2 ½ override.

Forecasting Optimism

<u>FOR THE OPTIMIST</u>

- The City continues to manage relatively small operational deficits.

- Local aid is not projected to decline any further.

- No positions are cut because of budget pressures, and, in fact, positions are being restored and/or added to address operational needs.

- Economic development continues to produce projects and new tax revenues to help balance the City’s budget.

Forecasting Optimism

FOR THE OPTIMIST (continued)

- State adoption of casinos should deliver more local aid – that aid is not factored into this forecast.
- No Proposition 2½ overrides appear to be necessary to balance the budgets over the next five years.
- The City's municipal charges continue to be the lowest in the region, while services are being maintained and enhanced.

Forecasting Optimism

<u>FOR THE OPTIMIST (continued)</u>

- Audits and Standard & Poor’s reviews reflect positively on the City’s management, financial accountability and future.

- Reserves remain in place to guard against future budget shocks in both expenditures and revenues.

Recognizing Pessimism

<u>FOR THE PESSIMIST</u>

- Despite the economy recovery, the City's budget continues to feel the impacts of what may be the "new normal."

- Employee overhead a concern:
  - Health Insurance, up 8% for FY'15, this despite changes in Health Insurance which reduced the base cost to the City
  - Retirement, up 4% each year
  - OPEB (other post employment benefits) costs, which are not yet required to be funded but for which the City has a $85m liability.

Recognizing Pessimism

FOR THE PESSIMIST (continued)

- Annual infrastructure spending needs may not be fully met.

- Non-school local aid remains below 1987-levels and with inflation are the lowest in the Prop. 2 ½ era – Ch. 70 school aid is growing at levels too low to meet recurring expenses.

- A significant growth in revenue is required to be directed to Schools, increasing the City's minimum contribution.

Recognizing Pessimism

FOR THE PESSIMIST (continued)

- Cost-cutting measures are largely exhausted, so the need for major expense savings would require more drastic measures.

- Regionalism is underway but not providing immediate financial benefits.

- If economic development fails, substantial gaps in out-year revenues will exist.

- Excise tax revenues are potentially volatile.

Recognizing Pessimism

<u>FOR THE PESSIMIST (continued)</u>

- Charter school costs are threatening to take away millions annually from the City (School) budget.

- School enrollment increases are placing pressure on both the City’s operational and capital budgets.

- Federal grants, reimbursement and transfers are shrinking (or gone), with revenue losses resulting in either program elimination or the City paying a larger share of costs.

- The City’s Free Cash position could be exhausted by FY’19.

Understanding the Numbers

REVENUES

- General Gov’t – FY’14 – The House increased local aid by 2% ($200k).
  - Non-school local aid is $3.3m below FY’01 high ($10.6m), unadjusted for inflation (DOWN 31%!).
  - Adjusted for inflation, non-school local aid remains below FY’82 levels, when Proposition 2½ first took effect.

- Schools – assumes the Gov’s recommendation, providing a 3.8% ($2.4m) increase in Chapter 70.

Understanding the Numbers

REVENUES (continued)

- It is hard to predict any significant increase in local aid in the out-years because of State's budget issues.
- Tax levy is projected to grow by 2.5% ($1m) plus new growth ($625k). The new growth is lower in FY'14 than the $1.7m in FY'13, but is expected to pick-up again in the out-years.
- Fines & forfeits grow from nighttime parking enforcement, most licenses & permits are expecting no change, and building fees are expected to increase (45%) as a result of economic development activity.

Understanding the Numbers

REVENUES (continued)

- Trash fees are expected to rise in the area of 2.5% yearly ($40k); this is reduced from a 5% annual historical increase.

- Hotel and meals taxes are flat, although hotels are expected to increase in the out-years as a result of future development.

- Motor vehicle excise tax is up $1m, although the volatility will add or subtract revenues annually, thereby impacting free cash.

Understanding the Numbers

EXPENSES

- Total spending is projected to be up 4.2% in FY’15 (up $5.4m), including:
  - $2.8m for collective bargaining increases;
  - $3.4m is Schools spending;
  - $1.2m for additional State Charter School Assessments, and
  - $0.5m for health insurance increases.
  - (Salary reserves is down $1.7m)

Understanding the Numbers

EXPENSES (continued)

- Debt service was down 64% in FY’12, 3% in FY’13, 5% in FY’14, and 4% in FY’15 (but will grow in FY’18).
- School increases are driven by higher Ch. 70 & increased local minimum spending requirements.
- State assessments are increasing largely because of charter school assessments.

Understanding the Numbers

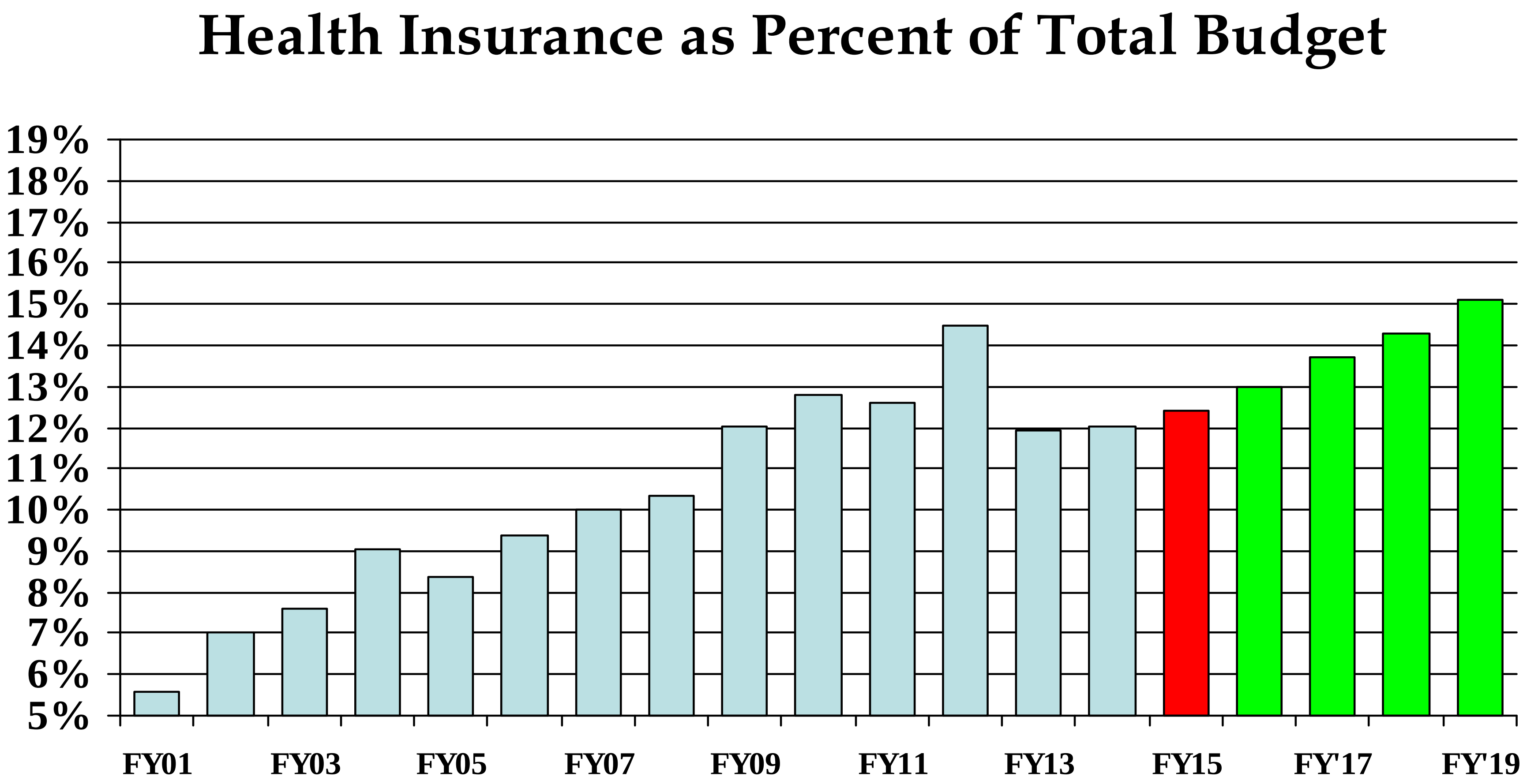
EXPENSES (continued)

- Wage increases (COLA and step increases) reflect collective bargaining agreements and estimates on future costs.

- Health insurance rates are up 8% and projected to continue to climb at the same rate of increase.

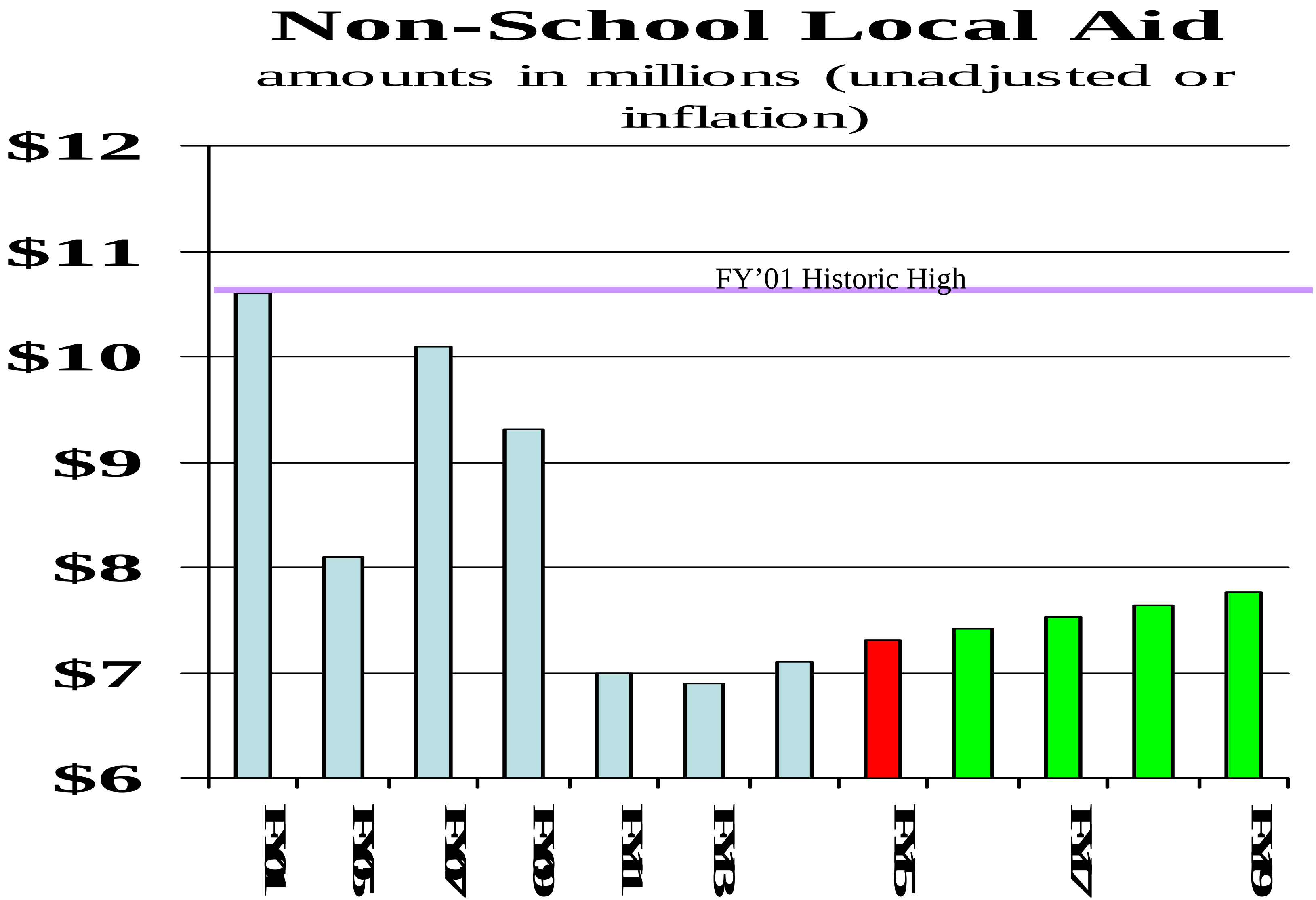
- Retirement – the City follows the recommended funding schedule, which results in a 3.6% increase in costs ($227k to $6.5m) for FY’15.

Budget Pressures



Reflects combined City and School expenditures

Budget Pressures



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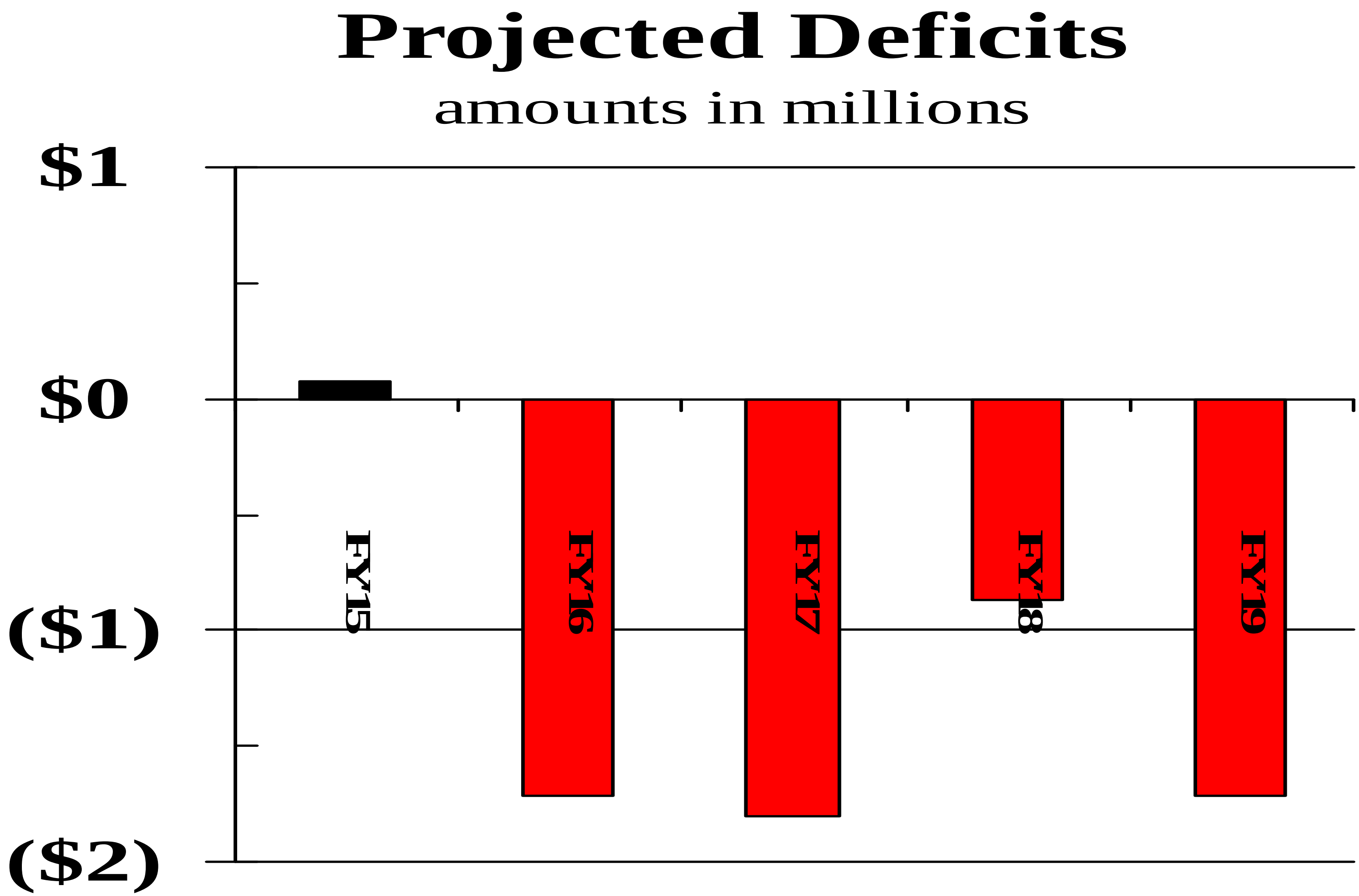

School Department Budget

- Budget up $3.4m (8%).
- Direct Chapter 70 Aid up $2m (3.5%).
- Local Contribution up $1.1m (6.7%).
- Charter School net tuition sent $5.1m.
- CPS Enrollment 6,461, up 221 (3.6% in FY’15, 3.3% in FY’14).
- School positions up 10, to 841.

Municipal Costs Affordability Index

- The City reviews data from 7 neighboring cities (Boston, Everett, Lynn, Malden, Revere, Somerville and Winthrop) to chart a Municipal Costs Affordability Index. Below, the chart refers to those communities anonymously, but lists out average property tax and water & sewer bills for the average single-family owner occupied unit in each city in FY’14.
- Municipal charges remain <u>substantially</u> less in Chelsea than all other cities.

City	Average Tax Bill	Combined Water & Sewer Bill	Combined Homeowner Costs	% Above Chelsea Cost
A	$4,629	$1,597	$6,226	71%
B	$3,645	$1,592	$5,237	45%
C	$3,655	$1,138	$4,793	32%
D	$3,716	$1,428	$5,144	42%
E	$4,140	$1,224	$5,254	48%
F	$3,729	$854	$4,583	27%
G	$3,305	$1,198	$4,503	24%
Average	*$3,623*	*$1,311*	*$4,934*	*41%*
Chelsea	$2,165	$1,456	$3,621	

Potential Future Budget Impacts

<u>ON THE NEGATIVE</u>

- Matching the City's economic development agenda of the last 15 years is vital but could prove to be difficult.
- Motor vehicle excise taxes are volatile.
- Fuel and energy costs could skyrocket again.
- The lingering State and Federal budget crises could lead to further revenue reductions and impacts on services.

Potential Future Budget Impacts

ON THE NEGATIVE (continued)

- OPEB could be implemented, with the potential of adding millions or tens of millions to annual costs. Even without a required contribution, the unfunded liability is a huge burden.

- Costly infrastructure projects are pending, including Broadway, the City Yard and Clark Avenue School.

Potential Future Budget Impacts

<u>ON THE NEGATIVE (continued)</u>

- The long-term impact of charter schools is not modeled yet and may be incorrectly projected in the out-years.

- School enrollment increases could provide tremendous operational and, especially, capital pressures on the City budget.

- Reserves are not ideal should another recession hit.

Potential Future Budget Impacts

ON THE POSITIVE

- There is no Prop. 2 ½ override anticipated in the future.

- Promising economic development could lead to further increases in building fees and property, hotel/motel excise and vehicle excise taxes.

- Local aid to be potential impacted by casinos has not been projected in the forecast, and could add $1+m annually to revenues in the out-years.

Potential Future Budget Impacts

ON THE POSITIVE (continued)

- Entrepreneurial activities have strengthened the City's overall bottom line.

- Debt service continues to reduce and savings can support additional capital projects or other needs.

- Overall costs appear to be roughly equal to anticipated annual revenues.

- The City is active in statewide policy discussions on health insurance, retirement and charter school costs, as well as regionalization of services to improve efficiencies.

Potential Future Budget Impacts

ON THE POSITIVE (continued)

- Reserves, along with fiscal prudence, do provide a method to assure balanced budgets for at least the next 5 years.