



# Five Year Financial Forecast for Fiscal Years 2019-2023

to be presented to the City Council and School Committee

**Tom Ambrosino - City Manager**

**Ned Keefe - Deputy City Manager**

**Ed Dunn - Auditor**

# FY19-FY23 Financial Forecast as of 5/08/2018

	<b>FY2018 Adopted Budget</b>	<b>Projected FY2019</b>	<b>Projected FY2020</b>	<b>Projected FY2021</b>	<b>Projected FY2022</b>	<b>Projected FY2023</b>
<b>Revenue</b>						
Taxes	68,889,646	74,056,636	76,509,887	79,263,722	82,086,402	85,004,649
Charges for Services	2,260,000	2,389,000	2,535,880	2,694,510	2,865,831	3,050,858
Licenses & Permits	2,567,050	2,147,050	2,147,050	2,147,050	2,147,050	2,187,050
Fines and Forfeitures	2,700,000	2,751,250	2,803,750	2,857,563	2,912,720	2,969,257
Cherry Sheet	83,486,166	88,138,492	89,792,695	91,479,345	93,199,081	94,952,556
Miscellaneous	3,876,816	3,907,830	3,867,697	3,930,178	3,994,533	3,860,819
<b>Total Revenue</b>	<b>163,779,678</b>	<b>173,390,258</b>	<b>177,656,958</b>	<b>182,372,367</b>	<b>187,205,618</b>	<b>192,025,189</b>
<b>Expenditures</b>						
Municipal	38,407,161	39,950,516	41,352,712	42,772,068	43,998,056	45,098,007
Education	88,636,293	92,449,070	94,760,297	97,129,304	99,557,537	102,046,475
Northeast Vocational						
Debt Service	3,608,289	4,157,496	4,048,720	4,299,186	4,273,495	5,187,864
Employee Benefits	16,362,201	17,443,498	18,364,506	19,302,669	20,290,080	21,325,057
Other	17,435,066	20,188,597	20,678,687	21,180,404	21,694,039	22,219,890
<b>Total Expenditures</b>	<b>164,449,010</b>	<b>174,189,177</b>	<b>179,204,922</b>	<b>184,683,632</b>	<b>189,813,207</b>	<b>195,877,294</b>
<b>Surplus/(Deficit)</b>	<b>(669,332)</b>	<b>(798,919)</b>	<b>(1,547,964)</b>	<b>(2,311,265)</b>	<b>(2,607,589)</b>	<b>(3,852,105)</b>



# FUNDAMENTALS HAVE NOT CHANGED IN THE LAST YEAR

- Same Positive Trends
- Same Negative Trends (with one exception)



# POSITIVE TRENDS

- Strong Reserves
- Good Bond Rating
- Excellent Economic Development Opportunities



# STRONG RESERVES

As of June 2017 (close of FY17):

- Certified Free Cash of \$33.7 million.
- Water Enterprise Retained Earnings of \$2.6 million.
- Sewer Enterprise Retained Earnings of almost \$3.7 million.
- Stabilization Funds of \$7.2 million.

Fiscal Year 2018:

- Added \$20 million to Stabilization
  - \$15 million to General Stabilization
  - \$5 million to Schools Capital Stabilization
- Made last payment of \$3 million for new Clark Avenue Middle School

# GOOD BOND RATING

- Standard & Poors confirmed AA/Stable Outlook.

**S&P Global**  
Ratings

225 Franklin Street, 15th  
Floor  
Boston, MA 02110-2804  
tel 617 530-8338  
reference no.: 1516142

February 21, 2018

City of Chelsea  
500 Broadway  
Chelsea, MA 02150  
Attention: Ms. Patrice Montefusco, Acting Treasurer

Re: *US\$8,700,000 City of Chelsea, Massachusetts, General Obligation Municipal Purpose  
Loan of 2018 Bonds, dated: Date of delivery, due: March 15, 2028*

Dear Ms. Montefusco:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.



# ECONOMIC DEVELOPMENT OPPORTUNITIES

- Broadway Hotel will open in Summer of 2018.
- Second St. Hotel scheduled for construction starting in 2018.
- Chelsea Clock Development will pull full building permit in Summer of 2018.
- Waterfront Development Opportunities (Forbes Site; 295 Eastern Ave.; InterPark site at 111 Eastern Ave.; 257 Marginal St.).
- Silver Line Developments (170 Cottage St.; Innes Development; Seidman Site)



# TROUBLING TRENDS

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





# MINIMAL STATE SUPPORT FOR SCHOOL SYSTEM

School Budget Increased by \$3.65 million.

But:

- Although Chapter 70 increased by approximately 3.2 million, Charter School Net Costs increased by approximately 1.2 million, so the state only paid for 2 million of the increase.
- Balance of almost 1.7 million provided by City (Not sustainable)

Problems with the State

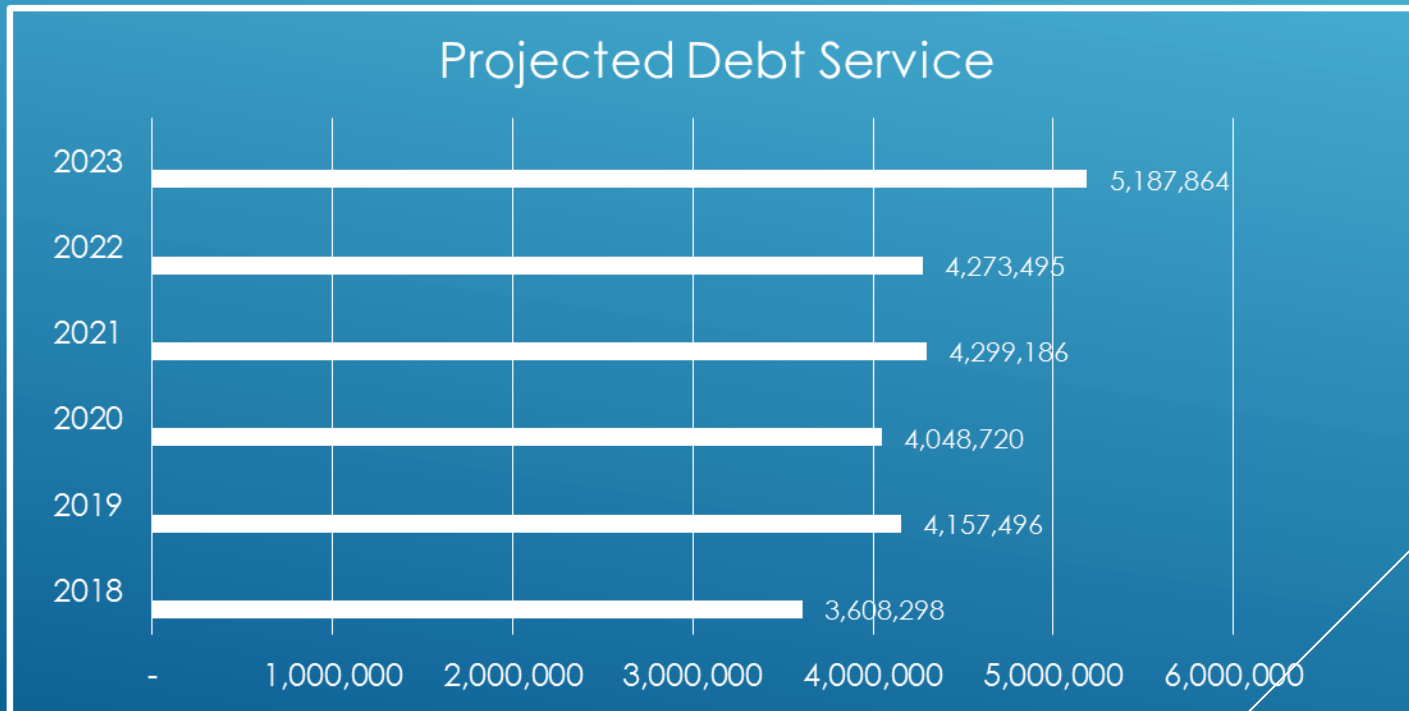
- Charter School Tuition Reimbursement Costs underfunded statewide by \$76 million.
- Further, Chapter 70 underfunded for urban districts with economically disadvantaged students.
- Because of new state counting method, City economically disadvantaged children reduced from 5,833 (FY16) to 5,000 (FY19)
- And in the past year, reimbursement for such students reduced from \$4,319 in FY18 to \$4,104 in FY19, a \$215 reduction, which cost the School Department almost \$1.1 million this year alone.

# PENSION/OPEB CONCERNS

- Unfunded Pension Liability at \$81.7 million (as of 1/1/17).
- Payoff schedule for 2029, but could be impacted by future recession.
- OPEB unfunded liability at \$192 million. City has approximately \$1.3 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.

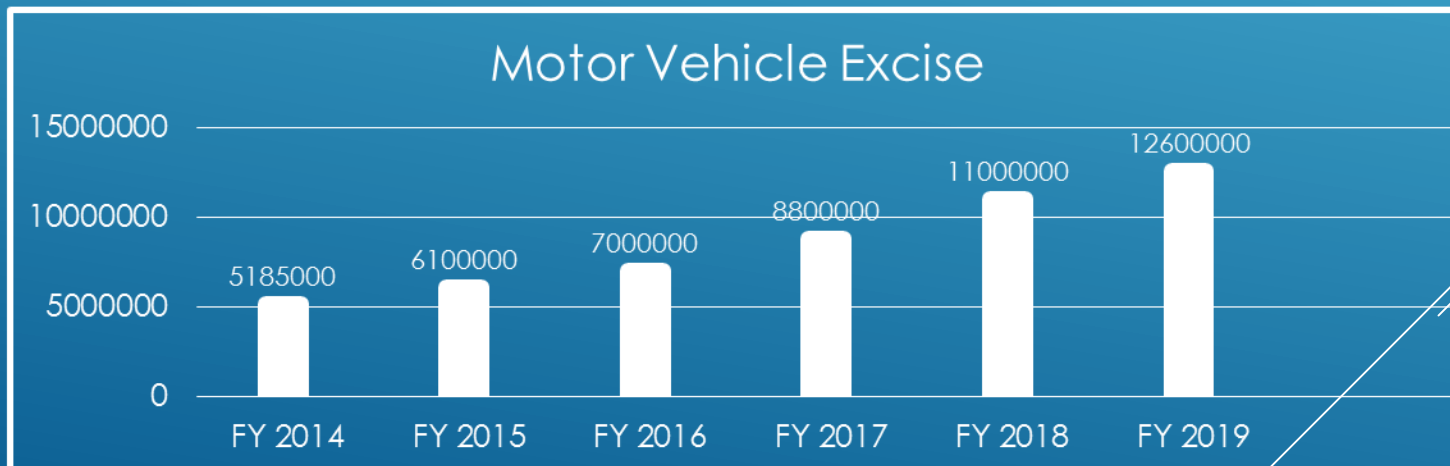
# DEBT SERVICE INCREASES

- Debt Service increased approximately \$550,000 in FY19.
- Investment necessary but come at a cost.



# EXCISE TAX

- Budget heavily dependent upon Excise Tax. \$12.6 million in FY19.
- Large gap between excise guarantee from Enterprise and Revenue projections: \$7+ million.
- Industry future uncertain given hailing services like Uber and self-driving vehicles.





# ONE SUCCESS STORY - GROUP HEALTH COSTS

Prior to FY17:

- Premium Based – subject to large annual increases by vendors

In FY17: Became self insured on July 1, 2016

- Cost increase for FY19 only 2.73%
- As of March 2018, after 21 months, we have a surplus of approximately \$5.9 million in our Health Insurance Trust Fund



# 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.