

Planning to Outlast Yet Another Fiscal Crisis

A Review of Scenarios and Options for
the Continued Stabilization
of City Government
and the Enhancement of the Community

Presented by
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to the
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Defining the Problem

- Despite the City successfully managing that which is in its control, threats to municipal budgets are again being generated by external crises, including:
 - Foreclosures
 - National and World Financial Market Collapse
 - Federal Cuts or a Lack of Aid
 - Lingering and Expanding State Budget Crisis

Foreclosure

- In 2007, there were 239 petitions for foreclosure filed for Chelsea properties. In 2008, the number stands at 184 to date.
- Foreclosures do not directly threaten the local tax base, but indirectly threaten future new growth.
- Foreclosures are demanding more staff time and a nominal amount of financial resources. Both are expected to grow impact.
- The City is active on regional foreclosure issues and does partner with Chelsea Neighborhood Developers and Chelsea Restoration Corporation, among others, to plan and implement a comprehensive foreclosure strategy.
- The City may wish to spend additional monies to gain control of properties for future housing or other uses.

Financial Markets

- It costs us more to borrow, if we can borrow at all.
- We are receiving reduced interest on investments.
- We incur the indirect loss of one-time building fees and recurring property taxes related to economic development and individual rehabilitation projects.
- We incur indirect loss of excise tax as buyers stop buying, because lenders won't lend or buyers are concerned about the economy, and the loss of new vehicles to be registered in new developments or expanding businesses.
- Personal property tax paid by businesses may decline as businesses are unable to update machinery and equipment or maintain inventory levels.
- The cost of services provided to the City by financial institutions are increasing, like bank services that were recently free.

Federal Aid

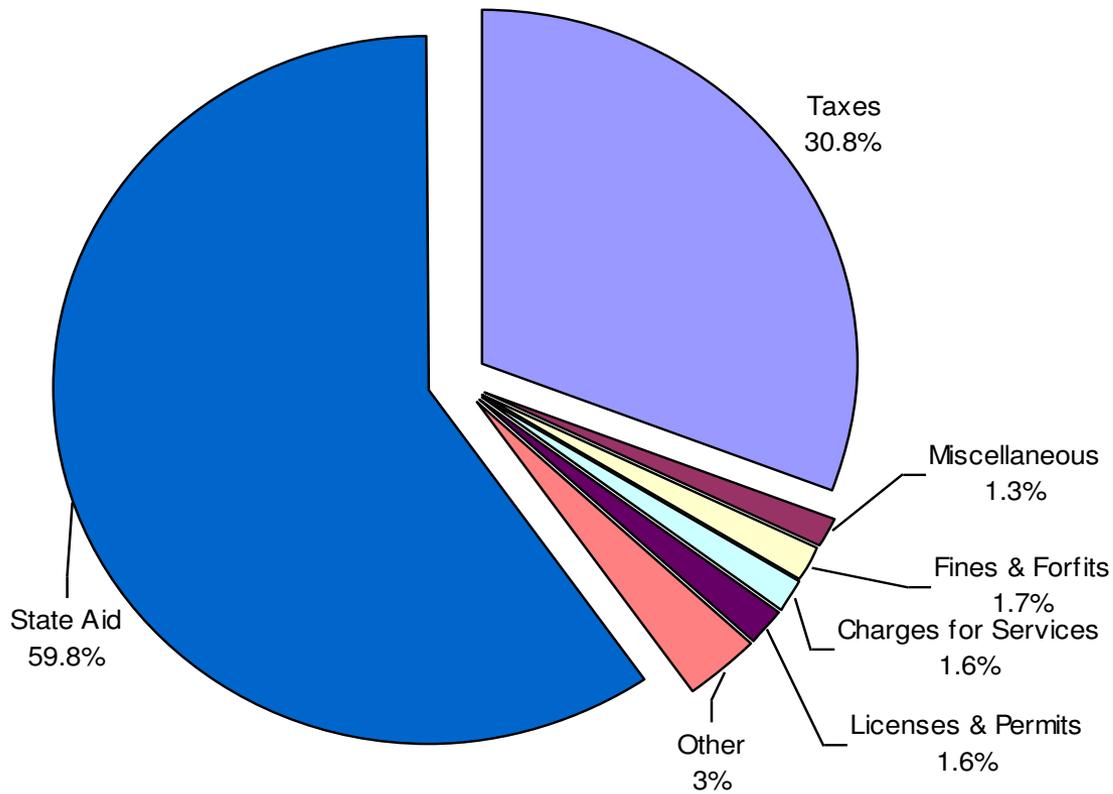
- The City receives little direct Federal Aid.
- Law enforcement and other grants could be impacted by Federal cuts.
- The School Department receives several school aid grants that could be impacted by Federal cuts.
- There is some belief that more aid could flow to states and cities, especially around infrastructure and transportation, to “jump start” an economy in recession or depression.

State Budget Crisis

- The City and its non-profit partners receive dozens of grants which are and will be further reduced, like:
 - Municipal Police Grant – supporting 4 new officers – eliminated
 - Summer Jobs Earmark – supporting youth summer jobs – eliminated
- Local Aid was spared, so far, in FY'09, but will almost certainly be cut in FY'10.

Local Aid Overview

FY'09 General Fund Revenue



Local Aid Overview

Schools

- Chapter 70 is the largest source and must be directed to schools.
- FY'09 - \$50.8m
- FY'01-FY'09 – up 35%
- State may have constitutional obligation to maintain Ch. 70 levels.
- Schools would have to absorb cuts.
- State law does not provide for schools to maintain reserves.

Non-School

- Lottery Aid (FY'09 - \$6.8m) and Additional Assistance (FY'09 - \$3.4m) are largest sources and can be used for almost everything.
- FY'09 - \$10.2m combined
- FY'01-FY'09 – down 4%
- State has no constitutional obligations to maintain either.
- Add'l Asst. has been under siege – could be eliminated.
- Lottery Aid could be cut.

City's Base Year

- FY'09 Budget - \$118.3m – up 3.5%
 - Schools - \$63.4m – 54% of total – up 3.7%
 - General Government - \$54.9m – up 3.1%
- General Government Breakdown
 - Departments - \$27.8m
 - Other – \$21.1m
 - Debt Service (\$10m), Health (\$7m), Retirement (\$5m), Judgments (\$.5m) & State Assmnts (\$4.6m)
- Reserves – Appx. \$13.5m – 11.4% of Budget
 - Unreserved General Fund (\$9.0m), Stabilization (\$3.7m), Capital (\$0.8m)

FY'10-FY'13 Forecasts

The FY'09-FY'13 Projects the Following
Budget Surpluses/Deficits

– FY'10 (\$.876 M)

– FY'11 (\$.566 M)

– FY'12 (\$.316 M)

– FY'13 \$.243 M

Total Project Four Year Deficit = \$1.515m

Potential Budgetary Impacts

- School and Non-School Local Aid Reductions
- Reduced Buildings Fees
- Reduced Property Tax Growth
- Reduced Excise Tax
- Lost Grant Funding
- Additional Borrowing/Financing Costs
- Lost Investment Revenue

Local Aid

- Five Year Forecast assumed 3% increase in Lottery beginning in FY'11, no Additional Assistance increase, and 2.5% increase in School Aid.
- Schools need to deal with School Aid loss, unless they hit “horrific” level, which is hard to believe based upon Constitutional responsibility.
- Estimates on Local Aid losses could range from 5%-20%. Assumptions on growth thereafter could be the next year or several years out.

Building & Property Tax Impacts

- The below represents on-going and planned projects, and, were factored into the Five Year Financial Forecast prior to be the Status being changed to Delayed/Unsure

<u>Residential Project</u>	<u>Units</u>	<u>Status</u>	<u>Building Fees</u>	<u>Property Taxes</u>
Forbes Phase I	64	On Track	\$100,000	\$160,000
Atlas Phase I	60	Completed	\$95,000	\$135,000
Parkway Plaza	238	Completed	\$500,000	\$600,000
Forbes Phase II	70	Unsure	\$175,000	\$210,000
Atlas Phase II	60	Delayed	\$126,000	\$135,000
Admirals Hill	160	On Track	\$345,000	\$400,000
Urb. Ren. Phase I	280	Delayed	\$500,000	\$700,000
Scattered Sites	200	Various	\$500,000	\$450,000
Webster Block	141	On Track	\$250,000	\$282,000
Forbes III	164	Unsure	\$420,000	\$492,000
Urb. Ren. Phase II	250	Delayed	\$600,000	\$750,000
TOTAL	1,687		\$3,608,000	\$4,314,000
Just Delayed/Unsure			\$1,821,000	\$2,287,000

Commercial Projects

Mystic Mall	On Track	\$115,000	\$115,000
Cambria Suites	On Track	\$225,000	\$230,000

Other Impacts

Excise Tax

- Additional excise related to new development was not factored into the Five Year Financial Forecast, thus no accounting of potential loss is necessary.

Grants

- The loss of grants typically result in the loss of service, although there may be transitional costs, like unemployment insurance or additional personnel costs while waiting to attrite to General Fund supported employment levels. Assuming a nominal amount, no accounting for this is forecasted.

Borrowing/Finance Costs

- Current increased costs are several hundred basis points higher than expected. The City is waiting for rates to settle and examining other ways to finance needs in the meantime. If rates remained high, it is likely that fewer projects would be done, not that CIP costs would skyrocket, thus no accounting for this is forecasted.

Investment Income

- Investment rates are down several hundred basis points. Rates are expected to bounce back up again. However, it is appropriate to assume at least a \$100,000 annual loss until rates bounce back.

Totality of Potential Impacts

Assumptions:

- Local Aid cut 5-20% with no subsequent increases.
- Residential projects are still fundamentally strong, so building projects are delayed a year.
- JPI Urban Renewal project does go forward, with JPI buying the property one year later than anticipated.
- Lost grants do not require significant municipal appropriations to maintain.
- School cuts or level funding does not require City action to manage, although an argument could be made that the use of Reserves would be an appropriate reaction to massive school cuts.

Totally of Potential Impacts

- Estimates on potential revenue losses from FY'09-FY'13, cumulative, include;
 - Non-School Local Aid - \$500k to \$10m
 - Building & Property Tax Fees - \$1m - \$4m
 - Additional Financing Costs related to the Urban Renewal Project - \$500k to \$2m
 - Lost Investment Income - \$100k to \$500k
- Five year, cumulative potential loss - \$2.1m - \$16.5m.
- Reserves may or may not cover potential losses.

Emerging/In-Reserve Options

- Additional Economic Development
 - Mystic Mall - \$100 million potential
 - Urban Renewal - \$500 million potential
- Health Insurance - \$1 million savings
- Entrepreneurial – i.e., Marginal St
- Regionalization – E911/Health
- Debt Service/Pension Reductions
- Impact Fees – i.e., Gulf/Fire Fee

Other Items of Interest

- Several other factors should be noted and considered, including:
 - Labor contracts are assumed to increase 2 1/2%, 2 1/2%, 3%, 2% and 2%.
 - Some funding should be maintained for emergency capital repairs.
 - Salaries dominate discretionary spending, so, to eliminate \$1m in spending through salary reductions, approximately 15 staff would need to be eliminated.
 - The last round of staff reductions were especially felt in City Hall offices. Few of those positions have been re-added, so future staffing cuts are likely to be disproportionately felt by public safety.
 - FY'16 sees a major drop-off in debt service (and a concurrent drop in State Aid related to that), so an opportunity may exist to begin to think about using that.

Questions

Assuming a 5 year problem (which might be too pessimistic):

1. What amount of Reserves should be left over at the end of '13?
2. Assuming that cuts or property taxes increases beyond 2 1/2 are necessary to end with the desired Reserve level, which is more acceptable and should either be off the table?
3. Can we prioritize salaries, operating and capital expenses to determine which areas should be cut first?
4. Should cuts be instituted now to increase Reserves for future use?