

City of Chelsea

**Five Year Financial Forecast
for Fiscal Years 2014-2018**

and

Preliminary FY'14 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'14	FY'15	FY'16	FY'17	FY'18
BUDGET	\$131,300,962	134,226,847	136,824,742	139,081,591	141,857,062
% CHANGE	8.73%	2.23%	1.94%	1.65%	2.00%
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SURPLUS (DEFICIT)	(\$1,027,952)	(574,616)	578,677	1,591,992	2,178,356
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FREE CASH AT PREVIOUS FY END*	\$3.0m	\$1.4m	\$1.0m	\$1.6m	\$4.3m

*Previous year, adjusted by current surplus/deficit, reduced by \$1.5m for CIP and \$500k for misc. annual appropriations and increased by \$1m for year-end adjustments.

Forecast Summary

GENERAL SUMMARY

- City finances are:
 - Stable
 - Improving
 - Uncertain
- Continued fiscal prudence is required.

Forecast Summary

GENERAL SUMMARY

- 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

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

Forecast Summary

GENERAL SUMMARY

- We've been deferring:
 - expenditures on operations
 - capital improvements
- But we've accomplished so much more!

Forecast Summary

GENERAL SUMMARY

- The City “process” of managing finances was just re-affirmed by Standard & Poor’s as a “strength.”
- We’ve been upgraded to an “AA-”!

Forecasting Optimism

FOR THE OPTIMIST

- The City's structural deficit continues to shrink and could turn into modest surpluses in the out years.
- Certainty exists with labor costs in the out-years.

Forecasting Optimism

FOR THE OPTIMIST

- Local aid is not projected to decline any further.
- No position are cut because of budget pressures, and, in fact, positions are being restored and/or added to address operational needs.

Forecasting Optimism

FOR THE OPTIMIST

- Economic development continues to produce projects and new tax revenues to help balance the City's budget.
- Debt service levels continue to decline.
- State adoption of casinos should deliver more local aid – that aid is not factored into this forecast.

Forecasting Optimism

FOR THE OPTIMIST (continued)

- Reserves remain in place to guard against future budget shocks in both expenditures and revenues.
- No Proposition 2 ½ overrides appear to be necessary to balance the budgets over the next five years.

Forecasting Optimism

FOR THE OPTIMIST (continued)

- The City's municipal charges continue to be the lowest in the region, while services are being maintained and enhanced.
- Audits and a recent Standard & Poor's review reflect positively on the City's management, financial accountability and future.

Recognizing Pessimism

FOR THE PESSIMIST

- 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% each year, this despite changes in Health Insurance which have 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,

Recognizing Pessimism

FOR THE PESSIMIST

- 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.

Recognizing Pessimism

FOR THE PESSIMIST (continued)

- Excise tax revenues are potentially volatile.
- Charter school costs are threatening to take away millions annually from the City (School) budget.

Recognizing Pessimism

FOR THE PESSIMIST (continued)

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

Understanding the Numbers

REVENUES

- General Gov't – FY' 14 – The House increased local aid by 2% (\$200k).
 - Non-school local aid is \$3.5m below FY'01 high (\$10.6m), unadjusted for inflation (DOWN 33%!).
 - Non-school local aid is \$6.6m below FY'01 high, adjusted for inflation (OFF 48%!!).

Understanding the Numbers

REVENUES

- Schools – assumes the Gov's recommendation, providing a 10.9% (\$6m) increase in Chapter 70 (however, final numbers will almost assuredly be lower, with Schools prepared to cut their budget accordingly).
- It is hard to predict any significant increase in local aid in the out-years because of State's own budget issues.

Understanding the Numbers

REVENUES (continued)

- 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 (28%) as a result of economic development activity.

Understanding the Numbers

REVENUES

- Trash fees are expected to rise in the area of 2.5% yearly (\$40k); this is reduced from a 5% annual historical increase.
- Hotel (up 7%, or \$33k) and meals (up 18%, or \$65k). In the out-years, both are expected to grow, especially hotels (up almost 100% in FY'15).
- Motor vehicle excise tax is budgeted as level funded, although the volatility will add or subtract revenues annually, thereby impacting free cash.

Understanding the Numbers

EXPENSES

- Total spending is projected to be up 8.7% in FY' 14 (up \$10.5m), including:
 - \$5.8m is Schools spending;
 - \$1.7m for collective bargaining increases;
 - \$1m for health insurance increases;
 - \$1m for additional State Assessments, and
 - \$1m for public safety (maintaining, in part, positions that are losing federal funding support).

Understanding the Numbers

EXPENSES

- Debt service was down 64% in FY' 12, 3% in FY' 13 and another 5% (\$250k) in FY' 14.
- School increases are being driven by higher Ch. 70 and increased local minimum spending requirements.
- State assessments are increasing largely because of charter school assessments.

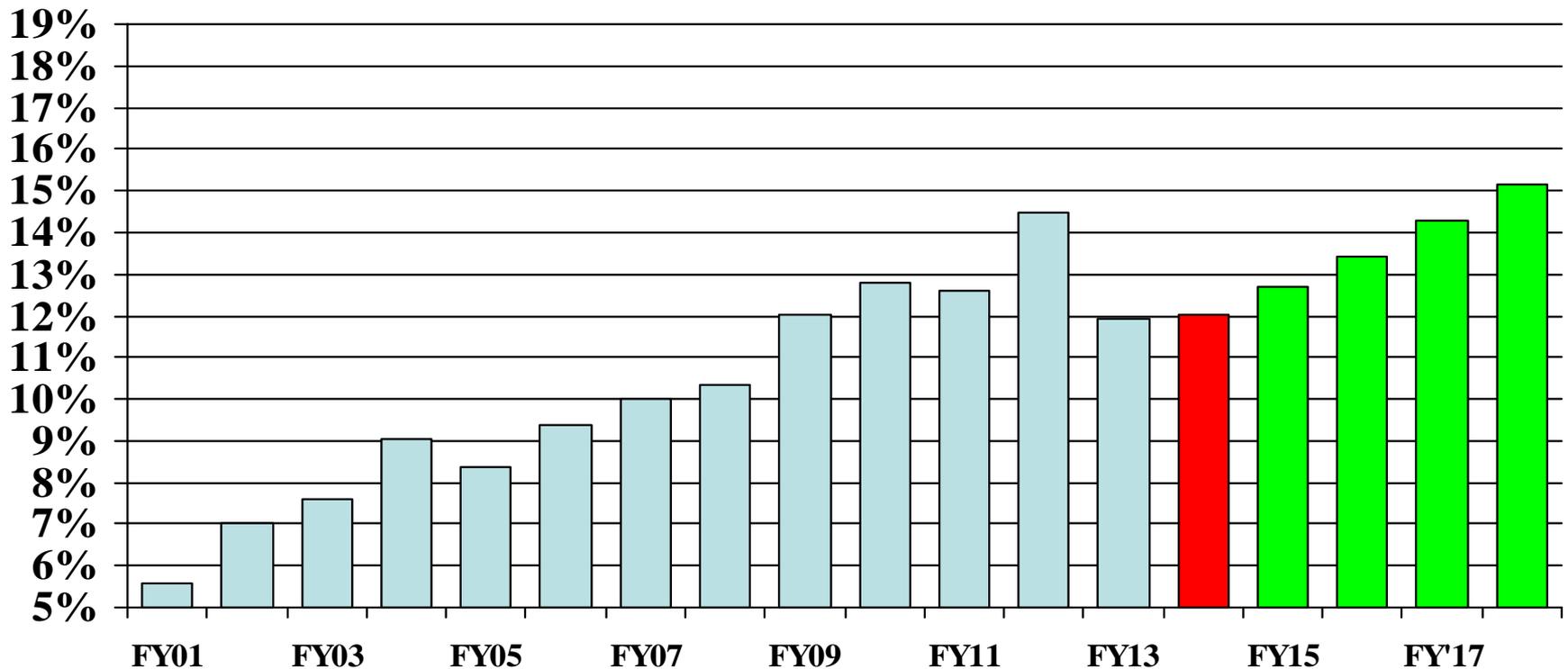
Understanding the Numbers

EXPENSES

- Wage increases (COLA and step increases) reflect collective bargaining agreements and estimates on future costs.
- Health insurance rates are up 8% and the budgeted amount is up 20%, as FY' 13 underfunded the account.
- Retirement costs – the City continues to follow the recommended funding schedule, which results in a 4.6% increase in costs (\$275k to \$6.3m) for FY' 14.

Budget Pressures

Health Insurance as Percent of Total Budget

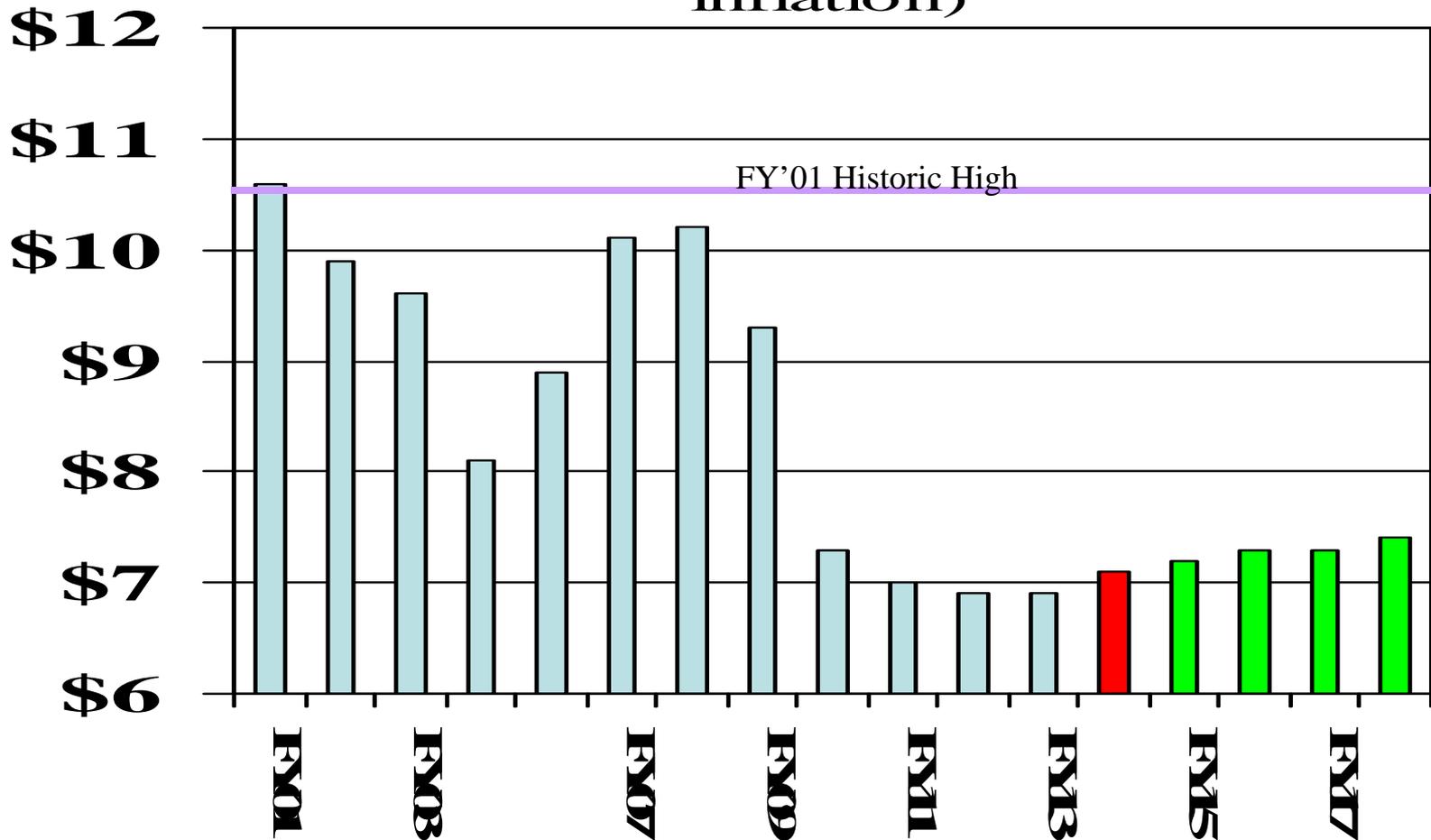


Reflects combined City and School expenditures

Budget Pressures

Non-School Local Aid

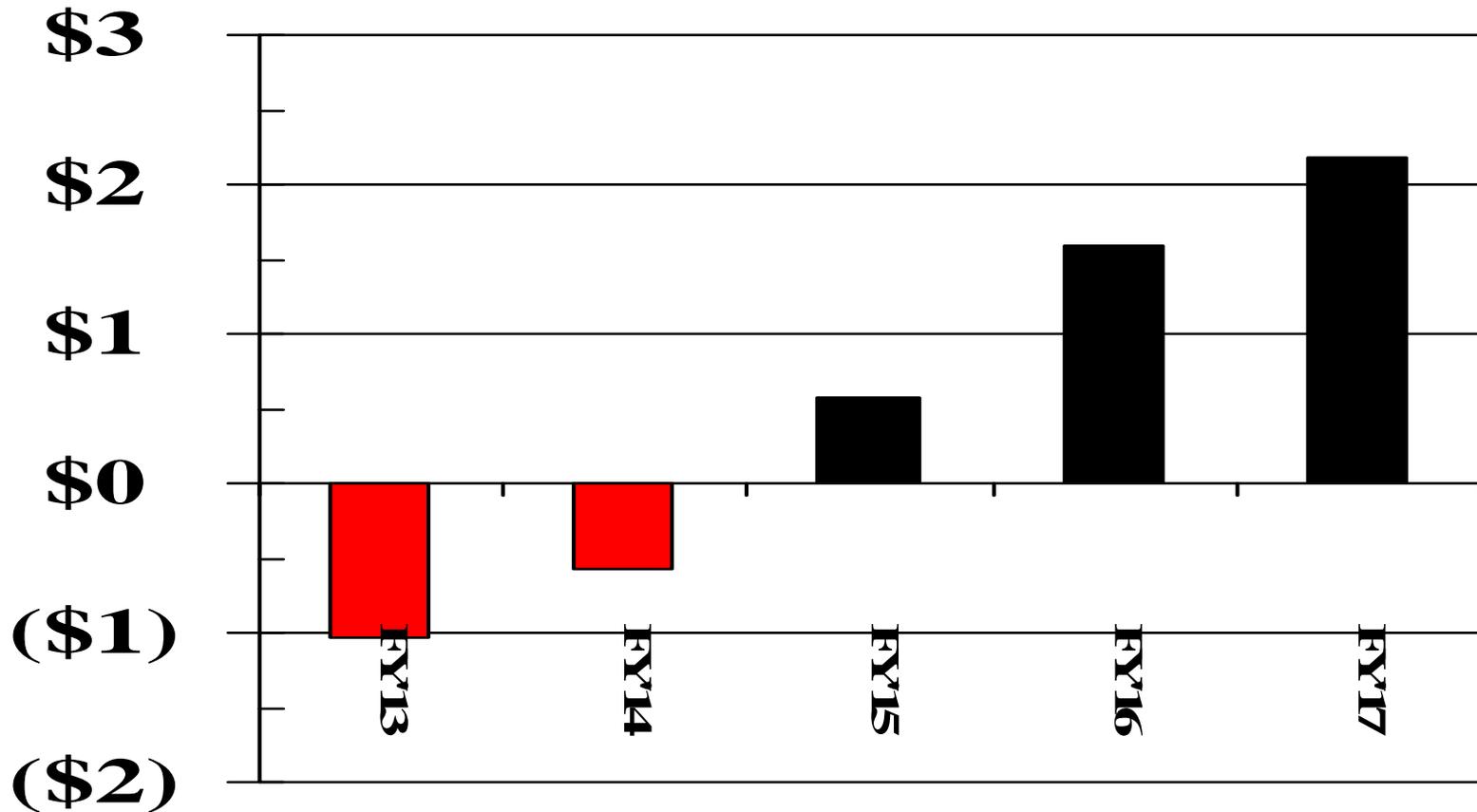
amounts in millions (unadjusted or inflation)



Budget Pressures

Projected Deficits

amounts in millions



School Department Budget

- Budget up \$5.8m (8%).
- Chapter 70 Aid up \$6.1m (10%).
- Local Contribution up \$3.2m (21%).
- Charter School net tuition sent \$3.8m.
- CPS Enrollment 6,192, up 200 (3.3%).
- If/when Chapter 70 is reduced,
Schools will adjust budget down.

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'13.
- Municipal charges remain less in Chelsea than all other cities.

City	Average Tax Bill	Combined Water & Sewer Bill	Combined Homeowner Costs	% Above Chelsea Cost
G	\$4,629	\$1,597	\$6,226	72%
F	\$4,140	\$1,224	\$5,364	48%
E	\$3,645	\$1,592	\$5,237	45%
D	\$3,716	\$1,428	\$5,144	42%
C	\$3,655	\$1,138	\$4,793	32%
B	\$3,729	\$854	\$4,583	27%
A	\$3,305	\$1,198	\$4,503	24%
<i>Average</i>	<i>\$3,831</i>	<i>\$1,290</i>	<i>\$5,121</i>	<i>41%</i>
Chelsea	\$2,165	\$1,456	\$3,621	

Potential Future Budget Impacts

ON THE NEGATIVE

- 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.

Potential Future Budget Impacts

ON THE NEGATIVE

- The lingering State and Federal budget crises could lead to further revenue reductions and impacts on services.
- 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 a huge burden.
- Reserves are less than ideal should another recession hit.

Potential Future Budget Impacts

ON THE NEGATIVE

- Costly infrastructure projects are pending, including Broadway, the City Yard and Clark School.
- The long-term impact of charter schools is not modeled yet and may be incorrectly projected in the out-years.
- Minimum school spending requirements are now a factor, have not been modeled and are probably understated.

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.
- Entrepreneurial activities around excise tax and loan refinancing have strengthened the City's overall bottom line.

Potential Future Budget Impacts

ON THE POSITIVE

- Debt service continues to reduce and savings can support additional capital projects or other service needs.
- Overall costs appear to be roughly equal to anticipated annual revenues.

Potential Future Budget Impacts

ON THE POSITIVE

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