

# **City of Chelsea**

## **Financial Forecast Fiscal Years 2006-2010 and FY'06 Budget Overview**

Presented to the City Council and School Department

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# Charter Requirements

- Annual "Financial Procedures" are mandated by the City Charter.
  - Review of the financial condition of the City prior to the commencement of the budget process.
  - Submission and adoption of an Operation Budget.
  - Submission and Adoption of a Capital Improvements Program (CIP).
  - Creation of an Annual Audit.
  - Preparation of a Long-Term Financial Forecast.
- Adherence to Financial Procedures ensures the status of the City's finances for the present and future and identifies areas of need or concern going forward.
- The budget process will begin with the submission of the Operating Budget for FY'06 to the City Council by May 1st; the CIP has been submitted, and the Annual Audit for FY'04 has been completed.
- This Five Year Financial Forecast meets the requirements of a pre-budget financial review and a Long-Term Financial Forecast.
- As was the case for FY'05, the City anticipates holding multiple Financial Forecast meetings relative to the FY'06 Operating Budget.

# Five Year Financial Forecast

## Revenue and Expenditure Summary

GENERAL FUND	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009	Projected FY2010
<b>REVENUES:</b>					
Taxes	30,896,837	32,322,334	33,783,444	35,281,081	36,816,159
Charges for Services	1,687,104	1,745,924	1,807,336	1,871,876	1,939,030
Licenses & Permits	855,360	855,360	855,360	855,360	855,360
Fines & Forfeits	1,693,163	1,693,163	1,693,163	1,693,163	1,693,163
Intergovernmental - State Cherry Sheet	59,862,650	60,785,043	61,733,476	62,708,753	63,714,342
Intergovernmental - State Other	13,533	13,533	13,533	13,533	13,533
Intergovernmental - Federal	600,000	600,000	600,000	600,000	600,000
Interfund Operating Transfers	1,413,435	1,441,771	1,470,815	1,500,585	1,441,771
Miscellaneous	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
<b>Total Revenues</b>	<b>98,522,082</b>	<b>100,957,127</b>	<b>103,457,127</b>	<b>106,024,351</b>	<b>108,573,357</b>
	Projected FY2006	Projected FY2007	Projected FY2008	Projected FY2009	Projected FY2010
<b>EXPENDITURES:</b>					
General Government	2,844,226	2,907,983	2,973,238	3,040,026	3,108,385
Public Safety	14,527,398	14,827,710	15,134,415	15,447,654	15,767,569
Education	47,185,707	48,267,738	49,376,657	50,513,131	51,677,848
Public Works	4,634,992	4,762,646	4,893,908	5,028,881	5,167,672
Health & Human Services	1,302,999	1,331,886	1,361,435	1,391,663	1,422,585
Debt Service	10,176,060	9,553,088	9,382,706	9,116,087	8,754,241
Employee Benefits	16,855,541	18,628,962	20,471,106	22,280,224	23,971,209
General Liability Insurance	503,925	519,043	534,614	550,653	567,173
Judgements	25,000	25,000	25,000	25,000	25,000
State Assessments Non-School	2,376,392	2,447,684	2,521,114	2,596,748	2,674,650
State Assessments School	920,032	947,633	976,062	1,005,344	1,035,504
<b>Total Expenditures</b>	<b>101,352,272</b>	<b>104,219,373</b>	<b>107,650,255</b>	<b>110,995,411</b>	<b>114,171,836</b>
<b>Surplus (Deficit)</b>	<b>(2,830,190)</b>	<b>(3,262,246)</b>	<b>(4,193,129)</b>	<b>(4,971,059)</b>	<b>(5,598,479)</b>

# Understanding the Numbers

## REVENUES

- House 1, Governor Romney's State Budget recommendation for FY'05, increases Lottery Aid by \$782,146 and level funds Additional Assistance at \$3.4 M.
- Chapter 70 School Aid increases by \$243,326 under House 1.
- The future of Local Aid for FY'07-'10 is unclear at best. For planning purposes the City is assuming for those years: no increase in Additional Assistance, 3% annual increase in Lottery Aid and 2.5% annual increase in Chapter 70 School Aid.
- Tax Levy and Levy Limit are projected to grow by 2.5% plus New Growth. New Growth is projected at \$600,000 for FY'06 and \$750,000 thereafter. The Overlay provision is 2% of the prior year levy.
- Fines & Forfeits and License/Permits are expected to remain level. Charges are projected to increase by 3.42% in FY'06 and just under 3.6% from FY'06-'09 as a result of increases in trash fees.
- Interest on Investment is projected to remain at current budgeted levels.

# Understanding the Numbers

## EXPENSES

- Funding for Salary Costs assumes a 2% increase to meet all currently agreed upon contractual obligations and likely future contracts.
- Health Insurance is assumed to increase by 15% for FY'06 and 13% for all years after.
- Retirement assessment is forecasted per the PERAC schedule which represents an average 6% over the 5 years.
- Operating Expenses will remain roughly level increasing by 1.86% for FY'06, as discretionary funding will continue to be restrained to allow for the absorption of salary related and other contractual increases.
- School Spending reflects projected 2.5% increases in Chapter 70 School Aid and the associated spending requirement. Increases in the City's portion of educational spending can be found in State Assessments for Charter Schools and School Department Indirects, including Health Insurance and Retirement.
- Debt Service is based upon current and future infrastructure related costs.

# Budget Pressures

## SUMMARY

- Although the economy appears to be rebounding from the post 9/11 recession, it will take years, if not longer, for the State and its municipalities to fully recover from the financial devastation caused by what was arguably the worst municipal finance impact in at least the last 50-years.
- Regarding the lingering State budget crisis, direct and indirect impacts on the City's budget are and will continue to be negatively felt for at least the next three years.
- The most significant of those direct impacts is the status of Local Aid, which accounted for 61% of the City's revenues in FY'04, and especially non-school Local Aid, which is projected to remain below FY'99 levels until at least FY'06, if not longer.
- Despite the City's ability to control discretionary spending, Employee Wages and Benefits, most notably Health Insurance, as well as other Contractual Obligations, Liability and other Insurance and Assessments continue to create a structural imbalance within the City's budget.
- Given that cost-cutting and efficiencies began in earnest with Receivership in 1991, efforts to reduce a structural imbalance with further savings continues to be challenging.
- Absent a significant bounce from an improving economy that impacts Local Aid and/or New Growth, the long-term issue confronting City leaders will be the need to increase revenues from local receipts through a Proposition 2 ½ Override or other revenue-generating vehicle(s).

# Budget Pressures

## BUDGET BUSTERS FY'05 - EXPENDITURES

In addition to the general expansion of the City's budget caused by wage increases, contracts for service, supplies, energy and the like, "Budget Busters" having the most significant impact on the projected spending plan include:

- Health Insurance which is projected to rise 10.5%, or \$826,000. The City, like most other entities, public or private, continues to grapple with double-digit increases and searches, with varying success, for substantive relief.
- Retirement costs are scheduled to rise by 5.9%, or \$317,000, over actual costs incurred in FY'04.
- Debt Service is up 3.2% as a result of the CHS addition, including bonding the City's portion (\$annually) and carrying the interest on the State's portion (\$ until State reimbursement takes place).
- School Choice & Charter School Assessments is up over 200%, or \$496,000, as a result of increased out-of-district enrollments, although there are minimal offsets as a result of additional State reimbursements and savings within the School Department budget.
- Other State Assessments, most notably for MBTA service, is up 4.9%, or \$104,000, as costs for services continues to escalate.

# Budget Pressures

## Expenditures:

- By contract, the City covers 90% HMO and 75% of Indemnity and Medex costs for employees. The same coverages are provided for eligible retirees.
- For more than a decade, the City has been part of the City of Boston health insurance pool, the results of which have been the savings of hundreds of thousands of dollars annually.
- In addition, the City has attempted to control costs by agreeing to higher co-pays and deductibles, as well as reducing the overall number of plans offered.
- Despite those efforts, Health Insurance has averaged a 13.36% increase from FY'01-FY'06 (projected).
- For FY'06, Health Insurance is projected to increase 15%, or \$1,251,588.
- In the out years, the City is budgeting increases of 13% annually.

## Health Insurance Costs

amounts in millions



# Budget Pressures

## Expenditures:

- In addition to wages, health insurance and other minor benefits, the City makes annual payments into its Retirement System.
- Payments are calculated by PERAC based upon an actuarial schedule which seeks to have the City's under-funded pension system fully funded by 2028.
- Retirement costs have increased by 4.71% from FY'01 to FY'06 (projected).
- For FY'06, Retirement is projected to increase by 8%, or \$470724, over the actual cost incurred in FY'05.
- Increases in the out years include: FY'07, 7.74%; FY'08, 5.74%; FY'09, 2.33%, and FY'10, -2.27%.
- For the period FY'05-'09, Retirement will require an annual average increase of nearly 4.4%.

## Retirement Costs

amounts in millions



# Budget Pressures

## BUDGET BUSTERS FY'05 - REVENUES

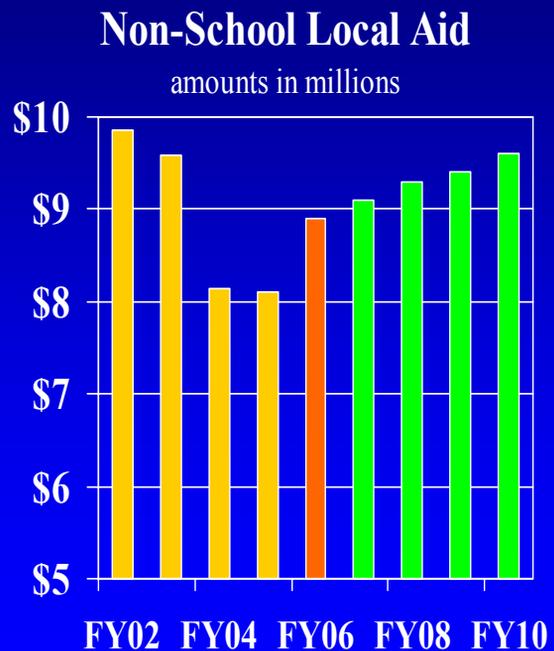
Contributing as Budget Busters are certain revenue related issues, including:

- Lottery Aid and Additional Assistance are projected to be level-funded. While it is welcoming news that these accounts have not been further reduced, growth in these major revenue sources is vital yet absent.
- Revenues derived from Motor Vehicle Excise are falling an estimated 19%, or \$500,000, as a result of smaller rental car fleets being required to service Logan Airport and hosted in Chelsea.

# Budget Pressures

## Revenues:

- Non-School Local Aid provides funding for general municipal services.
- The two greatest sources of Non-School Local Aid are Lottery Aid and Additional Assistance.
- For FY'06, House 1 recommends a modest increase to Non School Local Aid.
- For FY06, the total aid of \$8.9 M is \$933K less than FY'02, the high point for the two Non-School Local Aid accounts.
- The cumulative loss in revenues from the loss of Non-School Local aid from the FY'02 high and through FY'06 is \$4.6 M.
- It is unclear as to any future increases in the two Non-School Local Aid accounts. For planning purposes, the City assumes a 3% increase in Lottery Aid and a 0% increase in Additional Assistance.



# Budget Pressures

## BUDGET TRENDS FY'05 & BEYOND

### On the positive:

- The City's fiscal discipline continues to provide for budget stability.
- The recession has dissipated and the economy is growing.
- Local Aid appears to have stabilized.
- Major economic development initiatives are promising, thereby providing the potential for increasing New Growth and building permit fees.
- Debt Service, except for the short-term impacts from delayed reimbursement for the CHS addition, is declining.

### On the negative:

- Health Insurance, while increasing by 10.5% for FY'05, has increased an average of 12.5% for the years FY'01 -FY'05.
- Retirement costs continue to expand on average by 6% annually in the out years.
- Labor wage increases, if granted, will expand projected structural deficits.
- Locally raised revenues may be unable to grow at rates necessary to offset static Local Aid levels and increasing spending requirements, especially non-discretionary spending.
- Free Cash continues to dwindle, reducing budget flexibility and potentially impacting core municipal services.

# Budget Pressures

## FIVE YEAR DEFICITS:

- Should no action be taken, substantial deficits do exist in each of the next five years:
  - FY'06 \$ 2.830 M
  - FY'07 \$ 3.262 M
  - FY'08 \$ 4.193 M
  - FY'09 \$ 4.971 M
  - FY'10 \$ 5.509 M
- The deficits are primarily a result of reduced Local Aid, and skyrocketing Employee Benefit cost.
- The City is not alone in projecting deficits. Many other municipalities are experiencing similar budgetary pressures and operating deficits.
- Local planning and management has resulted in the building of fund balance to offset deficits.

**Projected Deficits**  
amounts in millions



# Deficit Reduction Plan

FY'03 & FY'04 policies to be continued into FY'05 include:

- Hiring freeze with only essential positions to be back-filled.
- Elimination of out-of-state travel, except travel covered by grants.
- Elimination of tuition reimbursement.
- Further reduction in training accounts.
- Additional scrutiny of all expenditures over \$500.
- Elimination in "pay as you go" CIP appropriations.
- Reduction in the issuance of new debt.
- Continued prioritization of economic development and other efforts to seek additional, non-tax revenue source.
- Enactment of additional efficiencies in government and potential refinancing opportunities to reduce existing debt service costs.
- Management of Reserves to reduce the impact of the recession and allow the City to prosper during the economic recovery.

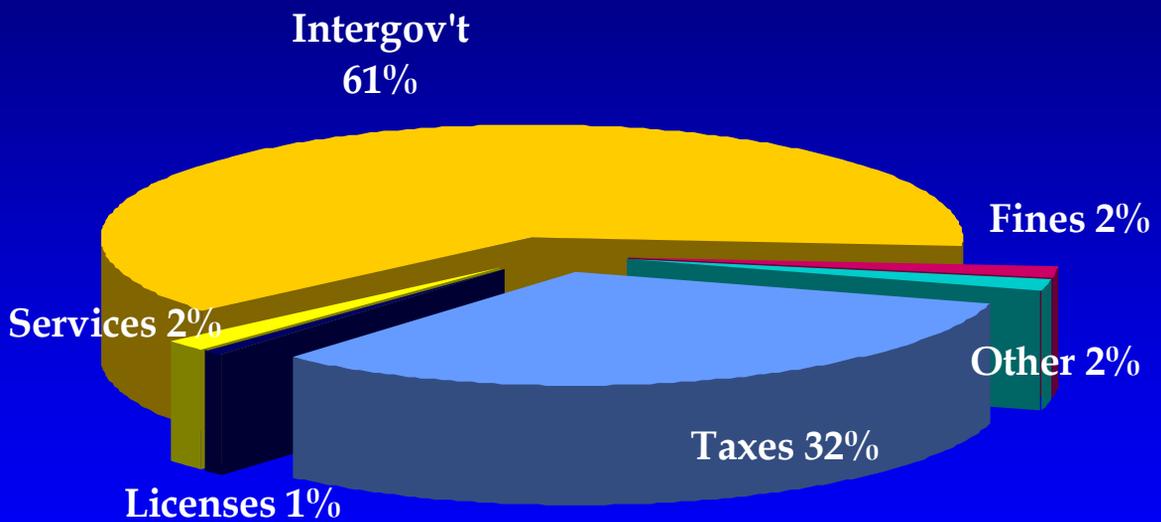
Additionally, the City will also propose the following actions for FY'05:

- Implement a plan to address top five tax delinquents.
- Increase in selected Charges, Fees and Permits.

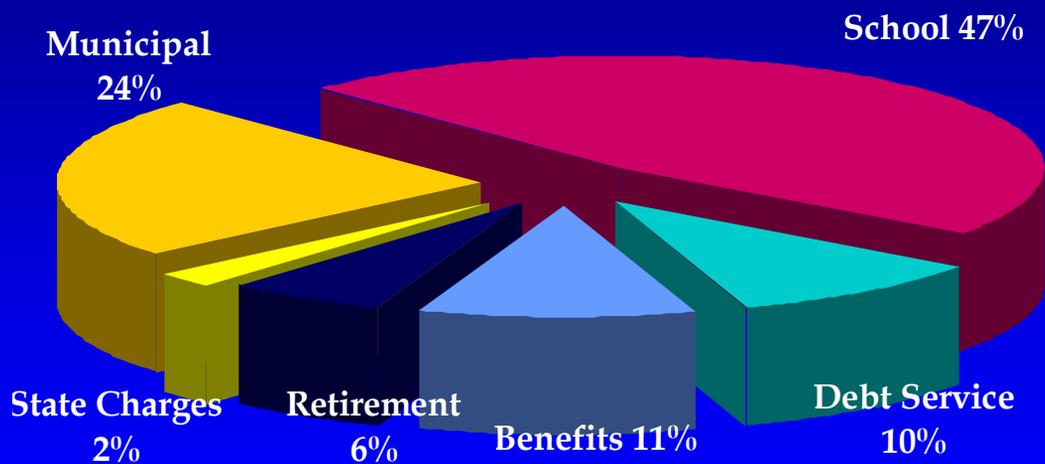
# Projected Use of Reserves

	<u>FY'05</u>	<u>FY'06</u>	<u>FY'07</u>	<u>FY'08</u>
<b>General Fund</b>				
Free Cash Certified at Start of Year	2,415,878	4,263,673	4,860,283	2,148,037
Free Cash Used for Budget Gap	0	(2,830,190)	(3,262,246)	(4,193,129)
Supplemental Appropriations from Free Cash	(490,700)	(250,000)	(250,000)	(250,000)
Accounting and Managerial Activities	1,538,495	2,876,800	0	0
Year's Net Activities Affecting Free Cash	800,000	800,000	800,000	800,000
Free Cash Estimated at Year End	4,263,673	4,860,283	2,148,037	(1,495,092)
<b>Stabilization Balance at start of year</b>				
General 7020	3,205,236	3,269,341	3,334,728	3,401,422
Capital 7022 & 5550	745,721	760,635	775,848	791,365
Planning & Development 7021	124,281	126,767	129,302	131,888
<b>Capital Project Balances at start of year</b>				
Fire Station Capital Project #55041013	2,876,800	0	0	0

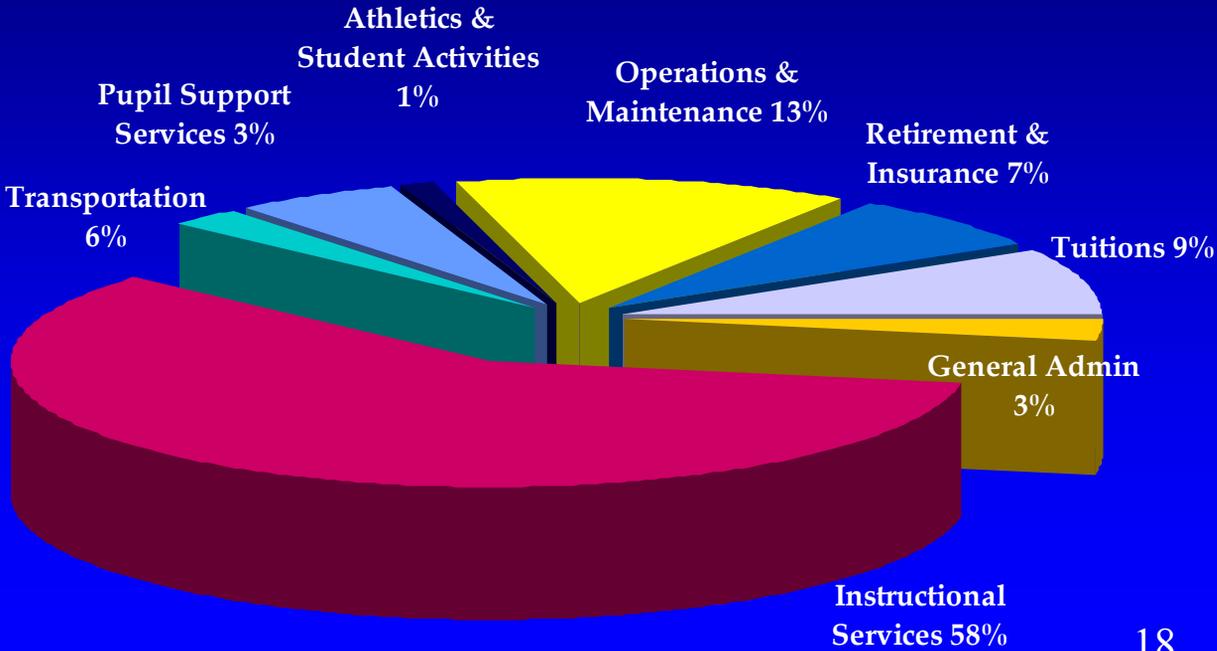
# FY'06 Budget General Fund Revenue Sources



# FY'06 Budget General Fund Expenses

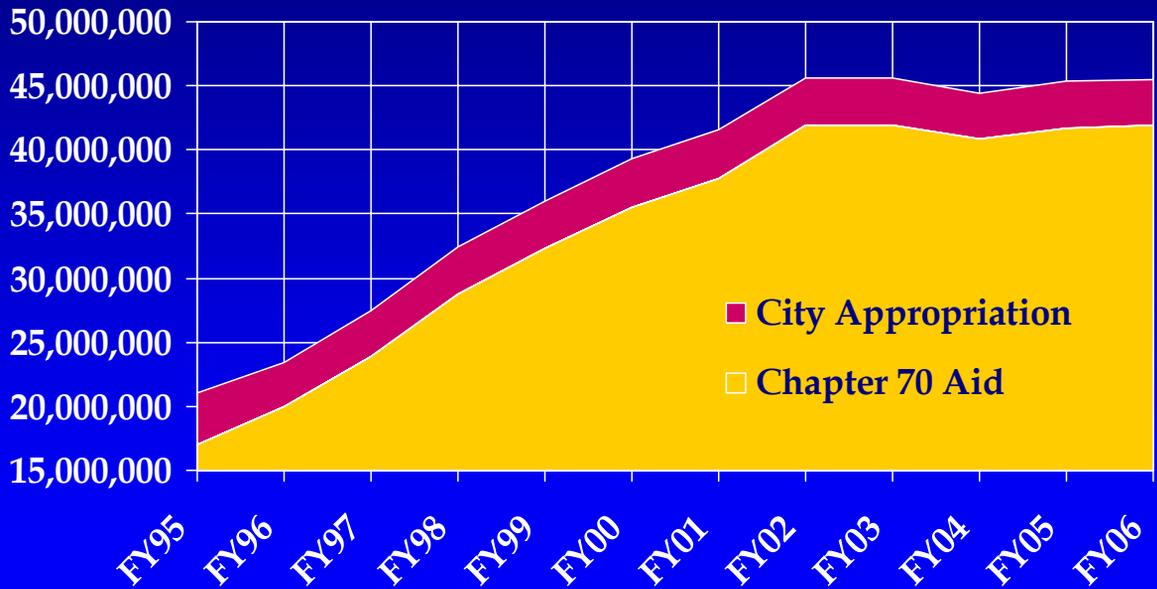


# Cumulative School Department Spending Increases FY'94-FY'03



# School Department Funding

Exclusive of Indirect Costs



# Conclusion

- The current municipal finance environment, one that many consider to be the most severe in more than a half century, threatens the viability of municipalities throughout the commonwealth and country.
- Out year issues continue to be impacted by growth in non-discretionary spending areas, most notably, Health Insurance and Retirement, and restricted revenue growth.
- With approximately 60% of the City's revenue coming from Local Aid, the prolonged State budget crisis is continuing to negatively impacting the City's budget.
- The City saved in "good times" to have Reserves to help fund municipal operations in the "bad times." Those Reserves will be tapped, but only after other financial techniques have been exhausted and only in a manner that allows the City to utilize Reserves in multiple years.
- Through cuts, revenue increases and use of Reserves, the City will seek to outlast the budget pressures while preserving core municipal services.
- By outlasting the troubling fiscal times, the City will seek to take advantage of a future change in the municipal finance environment, potential new revenue sources and other "upside" opportunities to again strengthen the City's financial base.

# Water and Sewer Enterprise Funds

- As Enterprise Funds, all costs associated with Water and Sewer services shall be recouped through Water and Sewer revenues.
- The largest revenue source for the Funds are user fees, which account for 94% of the \$11,545,051 that will be raised in FY'06.
- The largest expense for the Funds in the annual MWRA Assessment, a formula driven charge. Preliminary Assessments indicate a 2.50% combined increase. The MWRA Assessments comprise 62% of expenses for the funds, for a total of \$7,122,660.
- Other charges to the funds include Direct expenses to pay RH White maintenance contract and other charges, Indirect Expenses to pay for other employee allocation costs of the General Fund, and debt services to pay for the continuing update of water and sewer infrastructure.
- The FY'06 combined rate increase is 2.5%.
- The city projects that future rate increases should be approximately the same as MWRA Assessment increases for FY'07-FY'10. These increases are projected to average 2.49% for Sewer and 2.49% for water for a combined average increase of 2-3%.

# Water and Sewer Enterprise Funds

## Five Year Forecast and Rate Projection

<b>Revenues:</b>	Projected 2006	Projected 2007	Projected 2008	Projected 2009	Projected 2010
Water & Sewer Fees	10,852,551	11,161,784	11,475,282	11,789,911	12,094,316
Interest	62,500	62,500	62,500	62,500	62,500
Liens/Miscellaneous	630,000	630,000	630,000	630,000	630,000
<b>Total Revenues</b>	<b>11,545,051</b>	<b>11,854,284</b>	<b>12,167,782</b>	<b>12,482,411</b>	<b>12,786,816</b>
 <b>Expenditures:</b>					
Direct Expenses	1,585,790	1,631,264	1,678,060	1,726,217	1,726,217
MWRA Assessments	7,122,660	7,336,340	7,556,430	7,783,123	7,783,123
Capital	263,096	278,703	368,100	363,100	579,842
Debt Service	1,300,124	1,237,645	1,171,247	1,192,556	1,192,556
Reserve	145,476	219,869	220,472	220,472	0
Indirect Expenses	1,127,906	1,150,464	1,173,473	1,196,943	1,505,079
<b>Total Expenditures</b>	<b>11,545,051</b>	<b>11,854,284</b>	<b>12,167,782</b>	<b>12,482,411</b>	<b>12,786,816</b>
Combined Rate T1	\$7.65	\$7.84	\$8.03	\$8.23	\$8.44
% Change	2.50%	2.48%	2.42%	2.49%	2.55%

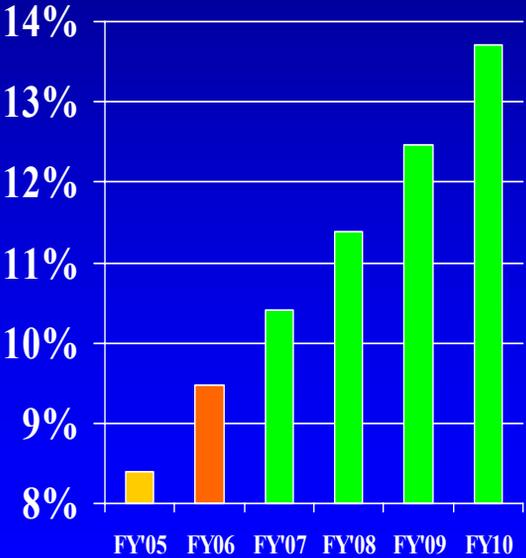
# Health Insurance

### Health Insurance Costs

amounts in millions



### Health Insurance as Percent of Total Budget



# Health Insurance

