

CITY OF BEVERLY

FINANCIAL FORECAST

FY 2020 TO FY 2024

Prepared by
The Financial Forecasting Committee

February 2020

Committee Members

Scott Houseman, Chair
Bryant Ayles, Vice Chair
Stacy Ames
Lindsay Ducharme
Kelley Ferratti
Karen Fogarty
Paul Manzo
Jean Sherburne
Lorinda Visnick

Executive Summary

Introduction

The purpose of the Financial Forecast Committee is established by city ordinance. It “shall consider financial goals and objectives, conduct long-range financial planning, evaluate the City budget process, explore ways to acquire revenue, and advise City officials on these matters.” Also, “[t]he Committee shall file a report of its activities, projections, conclusions and recommendations with the City Clerk, the School Committee, the City Council and the Mayor by the end of each calendar year”.¹

The 2020 Committee has made a considerable effort to produce a succinct report with the goal of making its report more meaningful to Beverly policy makers and all stakeholders. Further, the Committee plans to begin next year’s deliberations in November of 2020 to meet the legal requirements of the City Ordinance to issue a report “by the end of each calendar year”. Finally, the Committee concentrated on reviewing both revenue and expenditure extrapolations for FY21, in particular, and beyond, to determine whether possible revenue or expenditure deficits existed. Attached at the end of this report are revenue and expenditure spreadsheets that incorporate the findings and analysis of the Committee. It is to be noted that this forecast reviews the general fund revenue and expenditure only within the operating budget. However, the Committee also explored, and briefly report, revenue sources outside the operating budget in an effort to provide greater transparency.

Based upon its analysis, provided in this report and attached spreadsheets, the Financial Forecast Committee estimates, that at this point in building the budget, the FY21 budget is in deficit in the amount of (\$1,362,748).

Revenues

The Committee expects in FY21 that Beverly raise its tax levy by 2 ½ percent, consistent with the allowable capacity under Proposition 2 ½. There has been discussion within the community whether property taxes should be raised by this amount every year, or whether to set the tax rate at less than 2 ½ for one or more years. The Committee has concluded that in order to provide a quality education, public safety, and maintain the infrastructure of the City, the responsible approach is to raise the levy limit by 2 ½ percent.

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Beverly City Ordinances establishes that the composition of the Financial Forecast Committee will be nine individuals: two members from the City Council and a citizen, appointed by the City Council President; two ward School Committee members and a citizen, appointed by the School Committee President; a citizen, who shall not be an elected official, appointed by the Mayor; the Finance Director; and the School Business Manager. The City Council Budget/Management Analyst shall be appointed as an ex-officio member. [Chapter 26-18, as amended on October 8, 2008.]

There was considerable discussion surrounding several revenue forecasting measures contained within the attached spreadsheets. Beverly Financial Policies dictate that free cash needs to be maintained at a range of 3% - 8% of the overall general fund. In order for the City to achieve this desired goal, it is prudent for City officials, when forecasting revenues, to adopt revenue projections that will have a “positive variance” in certain categories. In laymen’s terms, it is prudent to estimate revenues conservatively. A positive variance occurs when the Committee recommends a revenue projection that is less than traditionally received. If the City receives more revenue than projected, then the undesignated fund balance will be protected and free cash will meet financial policy goals. Forecasting in this manner allows for one-time expenditures for capital projects from free cash per Beverly’s financial policies and that protects the city’s bond rating. The categories in which revenue forecasting prudently can include positive variances are new growth, Payment in Lieu of Taxes (PILOT), Medicaid, motor vehicle & boat excise taxes, local receipts, meals & room taxes, interest income, other available funds (e.g. cemetery plot fees, certified copies from clerk’s office, etc.), and penalties & interest.

The Committee also wants to acknowledge that there are other revenue streams that both Municipal and School budgets receive, or effectively rely upon, which are outside the city operating budget, some of which can be considered material. On the Municipal side, there are seven Enterprise Funds that provide certain services to the community². The source of revenues for these funds are user fees which are specifically connected to the particular services for which each fund exists. The Enterprise Fund accounts are: water, sewer, recreation, sanitation, golf & tennis, airport, and senior citizens. Also, there are Trust Funds bequeathed by individuals with stipulations on how the funds are to be spent, which is administered by the City Treasurer. On the School side, other revenues are also received and posted. They are revolving funds, student activity accounts, PTO and other tax exempt organizations who regularly donate funds for school purposes with stipulations. In addition, both City and School budgets receive federal awards and grants.

The Committee projects that the City will collect, for the operating budget, general fund revenues of \$140,462,511 in FY21, or a 4.0% increase from the prior fiscal year.

Expenditures

The Municipal budget anticipates a total expenditure of \$75,461,450 in FY21, or a 4.8% increase from the prior fiscal year. Some of the reasons for this increase are attributable to collective bargaining agreements, additional firefighters, dispatch staffing, capital outlay including a new Fire Department ladder truck, and most other categories as listed in the expenditure spreadsheet. The Administration is also considering an additional \$250,000 expenditure for roads and

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Enterprise Fund accounting is allowed under Massachusetts General Laws Chapter 44, section 53F1/2.

sidewalks. Fixed costs such as debt, health/property/casualty insurance, and retirement, will have to be funded with no ability to reduce these expenditures. These expenditure categories, and an explanation why the increases occurred, are also listed in the spreadsheet.

The School District anticipates a total expenditure of \$64,341,456 in FY21, or a 5.4% increase from the prior fiscal year. This increase includes \$1,005,168 of additional Chapter 70 funds due to the Student Opportunity Act (SOA). The reasons articulated for this request are increases in student enrollment, projected collective bargaining agreements, normal inflationary factors for goods and services provided, special education costs, health care benefits, utilities, transportation, and increased teacher salaries for steps and columns.

The Vocational School Assessment anticipates a total expenditure of \$2,022,352, or a 2.9% increase from the prior fiscal year. This assessment is calculated by multiplying the tuition per student times the number of Beverly students who attend the vocational school.

The Committee anticipates that total Municipal and School expenditures, as requested at this point in time for FY21, will increase to \$141,825,259, or a 5.09% from the prior fiscal year.

Conclusions

As with any financial forecast, projections are a preliminary review of budgetary measures, subject to modification when the actual budget is built. Financial forecast reports are a tool to assist policy makers, finance officials, and all stakeholders to better understand the challenges municipalities face when attempting to provide basic services. All cities and towns within the Commonwealth of Massachusetts are required by law to submit a balanced budget for approval by the Massachusetts Department of Revenue.

Based upon the review of the Financial Forecast Committee at this point in time, it is estimated that FY21 budget is in deficit in the amount of (\$1,362,748). The main reasons for this deficit are the 4.8% estimated increase for municipal services, and the 5.4% estimated increase for the Beverly Public School District. Total revenue projections indicate a 4.0% increase for FY21, yet total estimated expenditures increase to 5.09%. The Committee understands that difficult choices will have to be made when taking all this information into consideration building the FY21 budget.

The Committee wants to thank all the elected and appointed officials who assisted in their deliberations. In closing, we hope this report improves transparency surrounding the financial information for the City of Beverly.

City of Beverly - General Fund Revenues
 DRAFT Forecast FY 20 to FY 24

	FY20 Budget	FY21 Forecast	FY22 Forecast	FY23 Forecast	FY24 Forecast
REVENUES:					
A	\$103,596,036.45	\$108,035,189.36	\$111,736,069.10	\$115,479,470.82	\$119,316,457.59
B	\$2,589,901	\$2,700,880	\$2,793,402	\$2,886,987	\$2,982,911
C	\$1,250,000	\$1,000,000	\$950,000	\$950,000	\$950,000
D	\$107,435,937	\$111,736,069	\$115,479,471	\$119,316,458	\$123,249,369
E	-\$675,000	-\$700,000	-\$700,000	-\$700,000	-\$700,000
F	\$106,760,938	\$111,036,069	\$114,779,471	\$118,616,458	\$122,549,369
FY21 forward includes uncaptured FY20 new growth in excess of budget					
G	\$16,064,027	\$17,293,651	\$17,466,588	\$17,641,253	\$17,817,666
H	\$868,132	\$868,132	\$868,132	\$0	\$0
I	\$236,667	\$236,667	\$236,667	\$236,667	\$236,667
J	\$530,000	\$530,000	\$530,000	\$530,000	\$530,000
K	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
L	\$4,747,000	\$4,747,000	\$4,747,000	\$4,747,000	\$4,747,000
M	\$2,565,816	\$2,565,816	\$2,565,816	\$2,565,816	\$2,565,816
N	\$860,000	\$860,000	\$860,000	\$860,000	\$860,000
O	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
P	\$1,127,538	\$1,127,538	\$1,127,538	\$1,127,538	\$1,127,538
Q	\$477,588	\$477,588	\$477,588	\$477,588	\$477,588
R	\$320,050	\$320,050	\$320,050	\$320,050	\$320,050
S	\$0	\$0	\$250,000	\$0	\$0
					Remaining McKay school proceeds
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	134,957,756	140,462,511	144,628,849	147,522,370	151,631,694

ESTIMATED REVENUES

City of Beverly - General Fund Expenditures
DRAFT Forecast FY 20 to FY 24

	FY 20 Budget	FY 21 Forecast	FY 22 Forecast	FY 23 Forecast	FY 24 Forecast
EXPENDITURES:					
A	\$24,749,236.17	\$25,667,967.07	\$26,181,326.42	\$26,704,952.94	\$27,239,052.00
SALARIES & WAGES					2.5% in FY21, 2% in FY22, FY23 and FY24
Four additional FF (Grant)	\$74,503.39	\$142,499.39	\$276,762.01	\$342,178.49	\$349,022.06
Dispatch Staffing (assumes no attrition of police)	\$100,000.00	\$225,000.00	\$229,500.00	\$234,090.00	\$238,771.80
B	\$7,221,387	\$7,329,708	\$7,439,653	\$7,551,248	\$7,664,517
EXPENSES					1.5% annual increase
C	\$538,769	\$1,152,238	\$1,181,044	\$1,210,570	\$1,240,835
CAPITAL OUTLAY					2.5% annual increase
D	\$785,000	\$808,550	\$872,807	\$898,991	\$925,960
PROPERTY/CASUALTY INSURANCE					3% annual adjustment + \$40K for new police station
E	\$1,231,500	\$1,591,500	\$1,951,500.00	\$2,011,500.00	\$2,071,500.00
SANITATION					\$60K increase annually (increased recycling cost in new contract)
F	\$10,615,296	\$10,933,755	\$11,261,768	\$11,599,621	\$11,947,609
HEALTH INSURANCE (CITY SIDE & RETIREES)					3% annual increase
G	\$10,279,779	\$10,454,859	\$11,493,978	\$9,628,139	\$10,053,235
Total Debt per Cap ex schedules					per most recent cap ex schedules
J	\$11,034,128	\$11,525,147	\$12,038,016	\$12,573,707	\$13,133,237
RETIREMENT ASSESSMENT					Assumption of 4.45% funding increase annually per PERAC funding schedule
Ja	\$70,000	\$71,750	\$73,185	\$74,649	\$76,142
OPEB trust contribution					increases proportional to payroll
K	\$1,045,500	\$1,066,410	\$1,087,738	\$1,109,493	\$1,131,683
WORKERS COMP, PAYROLL TAX, LIFE INS.					2% increase
L	\$1,722,706	\$1,742,067	\$1,759,488	\$1,777,083	\$1,794,853
STATE/COUNTY ASSESSMENTS					1% growth based on historical average
M	\$758,560	\$750,000	\$750,000	\$750,000	\$750,000
RESERVES (UNFORESEEN, Retirements, 53rd pay week)					
N	\$1,750,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
ROADS AND SIDEWALKS					
Total Projected Municipal Expenditures	\$71,976,364	\$75,461,450	\$78,596,765	\$78,466,222	\$80,616,417
Q	\$61,017,942	\$64,341,456	\$66,474,760	\$68,770,454	\$70,898,299
SCHOOL FUNDING					per last years school estimates
R	\$1,963,449	\$2,022,352	\$2,083,023	\$2,145,514	\$2,209,879
VOCATIONAL SCHOOL ASSESSMENT					assumes 3% annual increase
GRAND TOTAL	\$134,957,755	\$141,825,259	\$147,154,548	\$149,382,190	\$153,724,595
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ESTIMATED REVENUES	134,957,756	140,462,511	144,628,849	147,522,370	151,631,694
Potential Surplus / (Deficit)	1	(1,362,748)	(2,525,699)	(1,859,820)	(2,092,901)
	5.09%		3.76%	1.51%	2.91%