

**CITY OF BEVERLY**

**FINANCIAL FORECAST**

**FY 2021 TO FY 2025**

Prepared by  
The Financial Forecasting Committee

December 2020

Committee Members

Scott Houseman, Chair  
Bryant Ayles, Vice Chair  
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## 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”.<sup>1</sup>

This has been a challenging year for elected and appointed municipal public policy officials. In the early part of calendar year 2020, the Covid-19 pandemic caused worldwide upheaval on society. The disease caused Beverly officials to change the way we as a community provide basic services to its citizens. There was a first large wave of the population who unfortunately caught the virus during the spring of 2020. The pandemic subsided during the summer, but was not eliminated. As of the writing of this report, the world has seen a second wave, even larger than the spring. The effects of this pandemic will have both short and long term impacts on the residents of Beverly. Some of these impacts include forecasting future revenues and expenditures, as required by local laws.

The administration of Mayor Michael Cahill made significant adjustments to the FY21 revenue and expenditure projections, which were voted upon by the Beverly City Council in June 2020. These downward revenue adjustments include new growth, state aid, PILOTS, motor vehicle and boat excise, local receipts, meals and room taxes, interest income, penalties and interest, etc. In building the FY21 budget, the City relied upon a one-time infusion of revenue from the stabilization fund in the amount of \$1,056,554.

During the work of the committee, and as of the writing of this report, the state FY21 budget is anticipated very shortly but has not been adopted. Accordingly this report does **not** incorporate the anticipated additional aid, and any resulting budget adjustments and appropriations. However, there is a high level of confidence additional state aid is coming to the City of Beverly for the FY21 budget. Specifically, local aid is projected to be level funded to FY20, and the Chapter 70 funds are anticipated to be increased due to enrollment increases in Beverly. Should this materialize, budgetary adjustments will be made at the request of the Mayor, subject to City Council appropriation approval.

The FY21 Committee intends to meet in January, 2021 to re-visit this report and file an

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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.]

addendum once additional appropriations have been approved. There are a number of items for which the anticipated additional funds are earmarked, which will aid in the service delivery in our schools and the City at large. The existence of the Covid-19 pandemic has made this no ordinary year with the result that an addendum seems appropriate to the FY21 Committee. The number of priorities in our community have not diminished in the pandemic, and in some cases have been exacerbated by it – including particularly access and equity for all learners in our school, health and wellbeing of our residents, and affordability of living in Beverly.

The aforementioned information is the backdrop for the deliberations of the Beverly Financial Forecast Committee. The Committee is committed to completing its regular work and this report on or before the end of the calendar year, consistent with the Beverly City ordinances. It is important for the reader of this document to understand that these findings are a snapshot in time, and in all probability will change as time progresses. The financial volatility of the Covid-19 pandemic requires flexibility for all elected and appointed public officials.

The FY21 Committee continues to produce a succinct report with the goal of making its findings of practical use to Beverly policy makers and all stakeholders. 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 revenues and expenditures only within the operating budget (excluding the enterprise funds). However, the Committee also explored, and does briefly discuss below, revenue sources outside the current operating budget.

Based upon its analysis provided in this report and attached spreadsheets, the Financial Forecast Committee estimates that at this point in building the budget, that the FY22 budget is in **deficit** in the amount of (\$4,570,205).

## **Revenues**

The Committee expects in FY22 that Beverly will 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 annually.

There was considerable discussion surrounding several revenue forecasting measures contained within the attached spreadsheets, including discussion of opportunities to increase Beverly revenues in new areas. These include marijuana sales revenue, increased user fees (like the trash fee), and a formal strategic revenue plan for encouraging growth in the commercial and industrial sector and efficiencies in the public sector.

Members of the FY21 Committee discussed the concept of the City developing a formal Revenue Plan to guide a pipeline of city projects and their budget impacts. A Revenue Plan could maximize our revenue stream in a strategic way to enhance and support our spending goals. It could:

1. Identify and prioritize revenue generating projects, like marijuana dispensaries, their timeframes and impacts on traffic, public safety and education needs;
2. Identify strategies to maximize Beverly's advantages in green, blue and biotech business technologies, and support a thriving downtown;
3. Identify efficiency opportunities like Solid Waste Reduction (pulling Fabric and Compost out of the waste stream) and paperless transactions for property taxes, water and others currently paper-based processes.

The city's Financial Policies and Objectives sets a goal of maintaining free cash<sup>2</sup> 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 layman's terms, it is prudent to estimate revenues conservatively. A positive variance occurs when the Committee recommends a revenue projection that is less than the revenue traditionally received. If the City receives more revenue than projected, then the difference between projected and actual revenues, known technically as the undesignated fund balance, will be protected and result in free cash that will meet financial policy goals.

Forecasting in this manner creates the opportunity to make one-time expenditures for capital projects from free cash per Beverly's financial policies. This will protect the city's bond rating, which in turn reduces municipal borrowing costs, the savings from which can be spent to deliver services to the taxpayers. The categories where revenue forecasting should include an analysis that incorporates positive variances include 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,

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Free Cash defined: Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller.

there are seven Enterprise Funds that provide certain services to the community<sup>3</sup>. 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 Covid-19 pandemic has also created pandemic-specific revenues outside the Municipal and School budgets. The City has received \$3.7M in CARES Act funds, as well as \$555,939 in ESSER education funds due to Covid-19 matters. Both state and local officials are closely monitoring these funds.

The Committee projects that the City will collect, for the operating budget, general fund revenues of \$139,018,906 in FY22, or a 1.9% increase from the prior fiscal year. Due to Covid-19 considerations, this is a significantly lower revenue projection compared to previous forecast years.

## **Expenditures**

The Municipal budget anticipates a total expenditure of \$76,794,800 in FY22, or a 6.7% increase from the prior fiscal year. Some of the reasons for this increase are attributable to collective bargaining agreements, various capital outlays, state assessments, school/municipal debt, and most other categories as listed in the expenditure spreadsheet. The debt alone is anticipated to increase by over \$1.4M, mostly attributable to the new middle school. There will be a substantial increase in sanitation costs (primarily increased recycling costs) due to new market realities. Sanitation costs are paid for by a combination of general operating budget funding and a trash fee. The administration is also considering a \$2.0M expenditure for roads and sidewalks. Fixed costs such as 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 \$64,846,519 in FY22, or a 3.9% increase from the prior fiscal year. 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 members of the FY21 Committee from the School Committee, as well as the Director of Finance, discussed the needs that the district intended to address with Student

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

Opportunity Act (SOA) funding in FY21 which have not disappeared, but have grown during the pandemic. Some of these items will be funded by one-time grants in FY21, and possibly in FY22, but likely future operating budgets will bear these expenses. An example is the School District's position of Director of Opportunity, Access, and Equity, which is funded for a limited time through a grant to the district.

The Vocational School Assessment anticipates a total expenditure of \$2,082,792, or a 3.0% 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 FY22, will increase to \$143,724,111, or 5.3% higher than the prior fiscal year.

### **Projections and Actuals – The Track Record of Committee Reports**

The financial forecast is based on known expense and revenue budget levels and attempts to make reasonable assumptions regarding many unknown factors and decisions that have yet to be made. It is common for forecasts to result in projected deficiencies, and it is precisely those projections that aid policy makers in their spending, contractual and policy decisions.

By law, the Mayor's annual proposed budget must make expenses and revenue sources to balance. As a result, it is necessary for the Administration to make spending and/or revenue projection adjustments when submitting the annual budget, particularly when facing a projected deficit, as illustrated by the following examples.

The FY2019 forecast showed a projected shortfall for FY2020 of \$2.2M with projected revenues of \$133.4M and projected expenditures of \$135.6M. Subsequently in June 2019, the Mayor proposed a balanced FY2020 budget of \$134.6M. This was possible by reducing the forecast expenditure level by roughly \$800K and increasing the forecasted revenue levels by roughly \$1.2M. The revenue adjustments were comprised of \$300K in tax levy, \$100K in motor vehicle excise and an additional \$800K in state Ch70 aid as a result of the state budget. The forecasted levels of expenditures were decreased in the areas of debt service due to extended permanent borrowing time lines and employee and retiree health care contributions by a less than forecasted premium rate increase. Most other areas remained reasonably close to forecasted levels.

Similarly the FY2020 forecast showed a projected deficit for FY2021 of \$1.4M with projected revenues of \$140.5M and projected expenditures of \$141.8M. The City's FY2021 balanced budget calls for spending and revenue levels of \$136.4M, a considerable variance from the forecast levels. Due to potential revenue loss, forecasted levels for state aid, motor vehicle excise, room and meals tax and building permit revenue all were reduced to responsible levels and the forecasted expenditure levels in all areas were reduced by varying degrees.

These examples illustrate the importance for the reader and policy makers to understand the underlying assumptions of this report and of drawing connections to the impact any variations to those assumptions may cause to the City's spending and revenue outlook. Both the revenue and expenditure assumptions change with time and as they do, proposed budgets and long range spending plans need to adapt accordingly.

### **The Forecast as a Tool**

The FY21 Committee had a robust discussion about its mission, which discussion continues. Financial forecast reports are one planning tool for achieving institutional financial resilience and stability. How to create that tool, to be most useful for the City Council and the Administration, is the question. The Chair thinks a succinct report is a foundational requisite in that goal. The content and format are open questions in the discussion, and the Committee welcomes the input of the City Councilors, School Committee Members, and the Administration in answering that question.

### **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 the FY22 budget is in **deficit** in the amount of (\$4,570,205). The main reasons for this deficit are the 6.7% estimated expenditure increase for municipal services, and a 3.9% estimated increase for the Beverly Public School District. Total expenditures are estimated to increase by approximately 5.3%. Total revenue projections indicate a 2.0% increase for FY22. Both revenue and expenditure extrapolations incorporate Covid-19 considerations. The Committee understands that difficult choices will have to be made when taking all this information into consideration when building the FY22 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. As described above, the Committee looks forward to providing an addendum to this report in January 2021.

City of Beverly - General Fund Revenues  
DRAFT Forecast FY 21 to FY 25

**REVENUES:**

	<b>FY21 Budget</b>	<b>FY22 Forecast</b>	<b>FY23 Forecast</b>	<b>FY24 Forecast</b>	<b>FY25 Forecast</b>
<b>A</b> PROPERTY TAX: PRIOR FY LEVY LIMIT	\$108,035,190	\$111,936,070	\$115,609,471	\$119,374,708	\$123,334,076
<b>B</b> Plus 2 1/2 % Increase	\$2,700,880	\$2,798,402	\$2,890,237	\$2,984,368	\$3,083,352
<b>C</b> Plus "New Growth"	\$1,200,000	\$875,000	\$875,000	\$975,000	\$975,000
<b>D</b> LEVY	\$111,936,070	\$115,609,471	\$119,374,708	\$123,334,076	\$127,392,428
<b>E</b> Less: Overlay (Provision for Abatements)	\$0	-\$600,000	-\$600,000	-\$600,000	-\$600,000
<b>F</b> TAX REVENUE NET OF OVERLAY	<b>\$111,936,070</b>	<b>\$115,009,471</b>	<b>\$118,774,708</b>	<b>\$122,734,076</b>	<b>\$126,792,429</b>
<b>G</b> State Aid (to General Fund) net school choice reimb	\$13,272,051	\$13,539,772	\$13,675,169	\$13,811,921	\$13,950,040 1% annual increase
<b>H</b> School Construction Reimbursement	\$868,132	\$868,132	\$0	\$0	\$0
<b>I</b> PILOTS	\$150,000	\$225,000	\$225,000	\$225,000	\$225,000
<b>J</b> Medicaid	\$530,000	\$530,000	\$530,000	\$530,000	\$530,000
<b>K</b> Medicare D	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
<b>L</b> Motor Vehicles, Boat Excise	\$3,935,000	\$4,185,000	\$4,435,000	\$4,685,000	\$4,685,000
<b>M</b> Local Receipts	\$1,616,250	\$1,616,250	\$1,866,250	\$2,116,250	\$2,116,250
<b>N</b> Meals and Room Tax	\$378,903	\$400,000	\$700,000	\$800,000	\$860,000
<b>O</b> Interest Income	\$95,000	\$95,000	\$95,000	\$95,000	\$95,000
<b>P</b> Land / Building Rental	\$300,000	\$350,000	\$350,000	\$350,000	\$350,000
<b>Q</b> Transfers from Enterprise Funds	\$1,238,535	\$1,238,535	\$1,238,535	\$1,238,535	\$1,238,535
<b>R</b> Other Available Funds (Special Rev. transfers)	\$1,556,554	\$296,746	\$496,746	\$496,746	\$496,746 stabilization draw in FY21 not recurring
<b>S</b> Penalties and Interest	\$250,000	\$250,000	\$250,000	\$250,000	\$250,000
<b>T</b> One Time Revenue Remaining	\$0	\$250,000	\$0	\$0	\$0 Remaining McKay school proceeds

**ESTIMATED REVENUES**

<b>136,426,495</b>	<b>139,153,906</b>	<b>142,936,409</b>	<b>147,632,528</b>	<b>151,889,000</b>
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City of Beverly - General Fund Expenditures  
DRAFT Forecast FY 21 to FY 25

VERSION 1

**EXPENDITURES:**

	FY21 Original Budget	FY22 Forecast	FY23 Forecast	FY24 Forecast	FY25 Forecast
<b>A</b> SALARIES & WAGES	\$25,143,086.43	\$25,645,948.16	\$26,158,867.12	\$26,682,044.46	\$27,215,685.35
Four additional FF (Grant) phased in	inc. above	\$134,262.62	\$199,679.10	\$203,672.68	\$207,746.14
Dispatch Staffing (assumes no attrition of police net of FF dispatch savings)					2% place holders in FY22, FY23, FY24 and FY25
<b>B</b> EXPENSES	\$0.00	\$336,991.00	\$343,730.82	\$350,605.44	\$357,617.55
<b>C</b> CAPITAL OUTLAY	\$6,942,910	\$7,047,054	\$7,152,759	\$7,260,051	\$7,368,952
<b>D</b> PROPERTY/CASUALTY INSURANCE	\$705,500	\$750,000	\$768,750	\$787,969	\$807,668
	\$855,000	\$920,650	\$948,270	\$976,718	\$1,006,019
<b>E</b> SANITATION	\$1,301,000	\$1,901,000.00	\$1,981,000.00	\$2,061,000.00	\$2,141,000.00
<b>F</b> RETIREES)	\$11,187,802	\$11,523,436	\$11,869,139	\$12,225,213	\$12,591,970
<b>G</b> Total Debt per Cap ex schedules	\$9,684,146	\$11,158,106	\$9,994,724	\$9,764,902	\$11,046,104
<b>J</b> RETIREMENT ASSESSMENT	\$11,595,354	\$12,117,145	\$12,662,416	\$13,232,225	\$13,827,675
<b>Ja</b> OPEB trust contribution	\$70,000	\$71,400	\$72,828	\$74,285	\$75,770
<b>K</b> WORKERS COMP, PAYROLL TAX, LIFE INS.	\$666,000	\$679,320	\$692,906	\$706,765	\$720,900
<b>L</b> STATE/COUNTY ASSESSMENTS	\$1,742,067	\$1,759,488	\$1,777,083	\$1,794,853	\$1,812,802
<b>M</b> RESERVES (UNFORESEEN, Retirements, 53rd pay week)	\$693,560	\$750,000	\$750,000	\$750,000	\$750,000
<b>N</b> ROADS AND SIDEWALKS	\$1,400,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
<b>Total Projected Municipal Expenditures</b>	<b>\$71,986,425</b>	<b>\$76,794,800</b>	<b>\$77,372,153</b>	<b>\$78,870,302</b>	<b>\$81,929,909</b>
<b>Q</b> SCHOOL FUNDING	\$62,417,942	\$64,846,519	\$66,817,954	\$68,849,531	\$70,940,026
<b>R</b> VOCATIONAL SCHOOL ASSESSMENT	\$2,022,128	\$2,082,792	\$2,145,276	\$2,209,634	\$2,275,923
<b>GRAND TOTAL</b>	<b>\$136,426,495</b>	<b>\$143,724,111</b>	<b>\$146,335,382</b>	<b>\$149,929,467</b>	<b>\$155,145,858</b>
<b>ESTIMATED REVENUES</b>	<b>\$136,426,495</b>	<b>139,153,906</b>	<b>142,936,409</b>	<b>147,632,528</b>	<b>151,889,000</b>
<b>Potential Surplus / (Deficit)</b>	<b>-</b>	<b>(4,570,205)</b>	<b>(3,398,974)</b>	<b>(2,296,939)</b>	<b>(3,256,858)</b>

ESTIMATED REVENUES

Potential Surplus / (Deficit)