

CITY OF BEVERLY

FINANCIAL FORECAST

FY 2023 TO FY 2027

Prepared by
The Financial Forecasting Committee

December 2022

Committee Members

Kathleen Feldman, 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”.¹

The City of Beverly is coming out of the throes of the challenges associated with COVID-19. Due to strong financial planning, the establishment of appropriate reserves and improved internal controls, the City weathered the financial obstacles posed by this health threat. This exercise of conducting a Financial Forecast report for the policy makers and citizens of the community is a testament to the financial strength of Beverly.

The Financial Forecast Committee unanimously approved this report. Finance Director Bryant Ayles spent considerable time over the past year preparing historical financial data to assist the Committee in its deliberations.

Committee members were provided with two methodologies on how to conduct a Financial Forecast report from the Government Finance Officials Association (GFOA). The GFOA states in part:

“The first step in the forecasting process is to define the fundamental issues impacting the forecast. The results of this initial step will provide insight into which forecasting methods are most appropriate and will help create a common understanding among the forecasters as to the goals of the forecasting process. There are four key questions to consider when defining assumptions for the forecast:

¹ 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.]

1. What is the time horizon of the forecast?
2. What is the objective of the government's forecasting policy? For example, a "conservative" forecast underestimates revenues and builds in a layer of contingencies for expenditures. This might make it harder to balance the budget, but reduces the risk of an actual shortfall. On the other hand, an "objective" forecast seeks to estimate revenues and expenditures as accurately as possible, making it easier to balance the budget, but increasing the risk of an actual shortfall. Therefore, a government should be transparent concerning its own forecasting policy and underlying assumptions.
3. What are the political/legal issues related to the forecast? Be aware of current laws or expected changes in laws that affect forecasts.
4. What are the major revenues and expenditure categories?"

The Committee members unanimously voted on their revenue projections to approve a conservative methodology relating to this future category, while taking a more objective position regarding expenditures. It was the opinion of the Committee that utilizing this approach reduced the risk of causing future potential deficits.

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 FY23 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 FY24 budget is forecasted to be in **deficit** in the amount of **(\$878,175)**.

Revenues

The Committee expects in FY24 that Beverly will raise its tax levy by 2 ½ percent. It should be noted that Beverly only increased its levy limit by 2.3% in FY23, resulting in a \$1.4M excess levy capacity. This excess levy capacity will continue under the Committee's recommendations. This situation occurred due in large part of the favorable new growth approved at \$1,562,156 for the FY23 tax rate process. The Committee will continue to monitor this development moving forward.

The city's Financial Policies and Objectives sets a goal of maintaining free cash² 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, there are seven Enterprise Funds that provide certain services to the community³. 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

² 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.

³ Enterprise Fund accounting is allowed under Massachusetts General Laws Chapter 44, section 53F1/2.

Trust Funds bequeathed by individuals with stipulations on how the funds are to be spent, which are 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, which provide significant support to all municipal departments, especially the school budget. The COVID-19 pandemic has also created pandemic-specific revenues outside the Municipal and School budgets. Beverly received \$12.6M in American Rescue Plan Act (ARPA) funds, and has hired an analyst to oversee these proceeds.

The Committee projects that the City will collect, for the operating budget, general fund revenues of \$155,740,813 in FY24, or a 3.43% increase from the prior fiscal year. This increase is consistent with prior years.

Expenditures

The Municipal budget anticipates a total expenditure of \$81,987,050 in FY24, or a 3.87% increase from the prior fiscal year. Some of the reasons for this increase are attributable to collective bargaining agreements, various capital outlays, state assessments, and other categories as listed in the expenditure spreadsheet. The administration is also considering a \$2.5M expenditure for roads and sidewalks, a decrease from the prior year. 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 \$71,765,320 in FY24, or a 3.49% 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 Committee anticipates a 14% increase in certain special education costs, which must be addressed through the budget process.

The Vocational School Assessment anticipates a total expenditure of \$2,866,618, or a 24.33% increase from the prior fiscal year. This is a substantial increase from the prior fiscal year, due to a larger enrollment of 170 students. The 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 FY24, will increase to \$156,618,988 or 4.0% higher than the prior fiscal year. It should be noted within the Beverly Public School system, that while contracts within the bargaining units are known for FY24, significant unknowns are present in FY25 and FY26, as inflation and other factors will bring challenges for the School Committee and School Superintendent. One of the goals of school policy makers is to have an appropriate staffing level who have the talent and skills necessary to meet

the educational needs of the Beverly public school students. The school system wants to attract and retain highly qualified staff.

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 is required to be balanced. 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. The City has historically made the necessary adjustments in prior years when the forecast predicted a deficit.

It is important for the reader and policy makers to understand the underlying assumptions of this report, and that any variations to those assumptions may cause variations to the City’s spending and revenue outlook. Both the revenue and expenditure assumptions will change with time, and as they do, proposed budgets and long-range spending plans need to adapt accordingly.

Historical Data

The Committee further wished to provide some historical perspective on how the City closed their finances, and the fiduciary position therein. Two indicators of the financial health and position of funds which are closed at the end of each fiscal year are the undesignated fund balance and the general free cash certifications.

The Undesignated Fund Balance are monies in the various government funds as of June 30th that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.

The undesignated fund balance for the past four years within the City of Beverly are:

FY19	FY20	FY21	FY22
\$11,142,961	\$12,398,994	\$12,538,124	\$14,209,941

In layman’s terms, free cash is a net figure derived from calculations based on the Undesignated Fund Balance as certified by the Department of Revenue. Free Cash is the remaining, undesignated 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 30th, which is submitted by the community’s auditor, accountant, comptroller, or finance director. Free Cash is not available for appropriation until certified by the Department of

Revenue's Director of Accounts.

The free cash certification for the past four years within the City of Beverly are:

FY19	FY20	FY21	FY22
\$7,307,453	\$9,236,610	\$9,934,181	\$11,215,185

The Forecast as a Tool

The FY23 Committee continued having 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 FY24 budget is in **deficit** in the amount of **(\$878,175)**. The main reasons for this deficit are the 3.87% estimated expenditure increase for municipal services, a 3.49% estimated increase for the Beverly Public School District, and a 24.33% increase in vocational education. Total expenditures are estimated to increase by approximately 4.0%. Total revenue projections indicate a 3.4% increase for FY24. The Committee understands that challenges exist when preparing an annual municipal budget, and anticipates both the Administration and City Council will rise to the occasion during the spring of 2023.

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 23 to FY 27

REVENUES:

	FY 23 Budget	FY 24 Forecast	FY 25 Forecast	FY 26 Forecast	FY 27 Forecast
A PROPERTY TAX: PRIOR FY LEVY	\$115,210,687	\$119,169,086	\$123,226,445	\$127,385,238	\$131,648,002
B Plus potential additional levy capacity (\$1,125,287)	\$2,908,399	\$3,007,359	\$3,108,793	\$3,212,763	\$3,319,332
C Plus 2 1/2 % Increase of Levy Limit	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000
D LEVY Plus "New Growth"	\$119,169,086	\$123,226,445	\$127,385,238	\$131,648,002	\$136,017,334
E Less: Overlay (Provision for Abatements)	-\$653,404	-\$500,000	-\$500,000	-\$500,000	-\$500,000
F TAX REVENUE NET OF OVERLAY	\$118,515,682	\$122,726,445	\$126,885,238	\$131,148,002	\$135,517,334
G State Aid (to General Fund) net school choice reimb	\$20,491,731	\$21,058,216	\$21,640,850	\$22,240,096	\$22,856,431
H PILOTS	\$240,000	\$243,877	\$243,877	\$243,877	\$243,877
I Medicaid	\$320,000	\$400,000	\$400,000	\$400,000	\$400,000
J Medicare D	\$310,000	\$310,000	\$310,000	\$310,000	\$310,000
K Motor Vehicles, Boat Excise	\$4,915,000	\$5,013,300	\$5,113,566	\$5,215,837	\$5,320,153
L Local Receipts	\$2,567,050	\$2,678,387	\$2,795,248	\$2,917,909	\$3,046,657
M Meals and Room Tax	\$900,000	\$931,500	\$964,103	\$997,847	\$1,032,772
N Interest Income	\$90,000	\$90,000	\$90,000	\$90,000	\$90,000
O Land / Building Rental	\$300,000	\$303,000	\$306,030	\$309,090	\$312,181
P Transfers from Enterprise Funds	\$1,277,469	\$1,277,469	\$1,277,469	\$1,277,469	\$1,277,469
Q Other Available Funds (Special Rev. transfers)	\$300,000	\$350,000	\$350,000	\$350,000	\$350,000
R Penalties and Interest	\$355,068	\$358,619	\$362,205	\$365,827	\$369,485
	150,582,000	155,740,813	160,738,586	165,865,953	171,126,359
ESTIMATED REVENUES					
		3.43%	3.21%	3.19%	3.17%

5 year average abatement is \$456K will increase due to utility PP.
-\$500,000 increase due to utility PP.
\$135,517,334

3% chapter 70 increase, 2.5% UGGA increase, 3% library aid increase all other flat
\$22,856,431 flat
\$243,877 last 5 year average actual
\$400,000
\$310,000
\$5,320,153 2% average annual increase
\$2,917,909
\$997,847 3.5% annual growth
\$90,000
\$312,181 1%
\$1,277,469
\$350,000 increase due to parking meter revenues
\$369,485

City of Beverly - General Fund Expenditures
DRAFT Forecast FY 23 to FY 27

	FY23 Budget	FY24 Forecast	FY25 Forecast	FY26 Forecast	FY27 Forecast
EXPENDITURES:					
A	28,543,566	29,191,354	29,934,755	30,698,726	31,483,863
B	7,671,695	7,786,771	7,903,572	8,022,126	8,142,458
C	891,180	913,460	936,296	959,703	983,696
D	955,000	983,650	1,013,160	1,043,554	1,074,861
E	2,205,000	2,346,895	2,484,248	2,624,711	2,771,695
F	11,038,690	11,369,851	11,710,946	12,062,275	12,424,143
G	8,696,762	10,031,224	11,291,711	13,082,149	12,726,711
J	12,547,434	13,112,069	13,702,112	14,318,707	14,963,048
Ja	76,500	78,413	80,373	82,382	84,442
K	778,500	794,070	809,951	826,150	842,673
L	2,060,239	2,111,343	2,163,813	2,217,688	2,273,008
M	767,952	767,952	767,952	767,952	767,952
N	2,700,000	2,500,000	2,500,000	2,500,000	2,500,000
Total Projected Municipal Expenditures	78,932,519	81,987,050	85,298,889	89,206,124	91,038,550
Q	69,343,934	71,765,320	74,194,630	76,746,592	79,399,882
R	2,305,547	2,866,618	2,952,617	3,041,195	3,132,431
GRAND TOTAL	150,582,000	156,618,988	162,446,136	168,993,912	173,570,863
ESTIMATED REVENUES					
	\$150,582,000	\$155,740,813	\$160,738,586	\$165,865,953	\$171,176,359
Potential Surplus / (Deficit)	(0)	(878,175)	(1,707,550)	(3,127,958)	(2,444,505)