



FY2021 Budget Retreat

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Fiscal Year Calendar

July

- Begin new fiscal year
- Close books from prior year

August

- Prior fiscal year report

September

- Audit

October

- Revenue forecast

November

- Free Cash certified
- Final Budget Amendments

December

- Set tax rate

January

- Budget & CIP guidelines to departments
- School Committee Budget Process
- Governor's budget

February

- Department Budget meetings begin

March

- Department Budget meetings continue

April

- Finish Budget meetings
- Estimates of revenue and expenditures are refined
- House Budget

May

- Print budget
- Retreat to review Budget Process
- Present budget to Council
- Hearings begin

June

- Budget hearings and Council vote
- Senate budget
- State budget
- Close fiscal year

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Budget Principles

- ▶ Budget must balance.
- ▶ Forecast conservatively - hope for the best, but plan for the worst.
- ▶ Match recurring revenue with recurring expenses and onetime revenue with onetime expenses.
- ▶ Pay attention to outside influences on revenue and expenses, whether positive or negative.
- ▶ Budget should reflect our community's needs, priorities, challenges and opportunities.
- ▶ Don't be afraid to evaluate functions, programs and activities to ensure they are meeting current priorities and challenges.

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FY21 Challenges & Trends Pre-COVID

- ▶ Infrastructure costs (this includes municipal roads, parks, buildings, seawalls)
- ▶ Fixed pension, OPEB, and retirement costs
- ▶ Healthcare costs
- ▶ Deficient Student Opportunity Act funding
- ▶ Unfunded charter reimbursements
- ▶ Anti-growth sentiment slowing new growth that could lessen tax burden
- ▶ Opioid crisis
- ▶ Housing Affordable for those who live and work in Salem
- ▶ Planning and Acting to address climate change challenges

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What could have been...

- ▶ Heading toward FY21 from a strong position:
 - ▶ Record stabilization account balances
 - ▶ Most union contracts settled
 - ▶ Higher than anticipated excise and parking receipts
 - ▶ Record AA bond rating, generating very low interest rates for borrowing needs
 - ▶ Strong new growth to help slow property tax impacts to residents
 - ▶ Low unemployment
 - ▶ Lowest average single-family tax bill increase in decades
 - ▶ Sizable levy capacity
 - ▶ Thriving downtown poised for a strong economic year

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New Challenges & Opportunities

Challenges

- ▶ COVID-19 revenue impacts
- ▶ COVID-19 expenses
- ▶ Unknown future costs/impacts
- ▶ Indirect impact of slowing economy

Opportunities

- ▶ Forced to innovate
- ▶ New policies could create greater productivity
- ▶ Lower interest rates

While the emergency state legislation authorizes municipalities to utilize “1/12th” budgets and amortize deficits from the crisis, Salem’s existing financial capacity was strong enough that those steps are not anticipated as being necessary here.

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State Aid & Assessments

- ▶ Net Cherry Sheet Receipts (state aid receipts minus state assessments)
- ▶ Revenues:
 - ▶ Chapter 70
 - ▶ Charter School
 - ▶ Unrestricted General Aid
- ▶ Assessments:
 - ▶ MBTA
 - ▶ School related (charter or school choice)
 - ▶ Essex Tech tuition
 - ▶ Other (mosquito control, etc.)

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Estimated State Local Aid to Salem

PROGRAM	FY2020 Cherry Sheet Estimate	FY2021 Governor's Budget Proposal	FY2021 House Budget Proposal	FY2021 Senate Budget Proposal	FY2021 Conference Committee
Education Receipts:					
Chapter 70	25,807,152	25,943,232			
School Transportation	0	0			
Charter Tuition Reimbursement	701,225	631,356			
Smart Growth School Reimbursement	0	0			
Offset Receipts:					
School Choice Receiving Tuition	118,561	157,112			
Sub-Total, All Education Items:	26,626,938	26,731,700			
General Government:					
Unrestricted Gen Govt Aid	7,325,200	7,530,306			
Local Share of Racing Taxes	0	0			
Regional Public Libraries	0	0			
Veterans Benefits	311,518	258,545			
Exemp: VBS and Elderly	116,830	117,119			
State Owned Land	61,597	61,269			
Offset Receipts:					
Public Libraries	64,067	64,015			
Sub-Total, All General Government:	7,879,212	8,031,254			
Total Estimated Receipts:	34,506,150	34,762,954			

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Estimated State Assessments to Salem

PROGRAM	FY2020 Cherry Sheet Estimate	FY2021 Governor's Budget Proposal	FY2021 House Budget Proposal	FY2021 Senate Budget Proposal	FY2021 Conference Committee
State Assessments and Charges:					
Retired Employees Health Insurance	0	0			
Retired Teachers Health Insurance	0	0			
Mosquito Control Projects	46,601	49,450			
Air Pollution Districts	12,525	12,840			
Metropolitan Area Planning Council	22,956	23,382			
Old Colony Planning Council	0	0			
RMV Non-Renewal Surcharge	130,500	132,400			
Sub-Total, State Assessments:	212,582	218,072			
Transportation Authorities:					
MBTA	970,999	975,651			
Boston Metro. Transit District	0	0			
Regional Transit	0	0			
Sub-Total, Transp Authorities:	970,999	975,651			
Annual Charges Against Receipts:					
Multi-Year Repayment Program	0	0			
Special Education	17,263	11,701			
STRAP Repayments	0	0			
Sub-Total, Annual Charges:	17,263	11,701			
Tuition Assessments:					
School Choice Sending Tuition	581,095	551,073			
Charter School Sending Tuition	7,368,738	7,292,805			
Sub-Total, Tuition Assessments:	7,949,833	7,843,878			
Total All Estimated Charges:	9,150,677	9,049,302			

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FY2021 Estimated Revenues

- ▶ Commonwealth now estimates that state tax receipts will be around 15% lower in FY21 than they had been forecast originally - a \$5.2m hit to Salem.
- ▶ Informal conversations with the state indicate local aid reductions may be in the 10-20% range.
- ▶ Current circumstances are very uncertain and hard to forecast
- ▶ This is an unprecedented time and the City is going to need to adopt a budget with imperfect information.
- ▶ It is possible additional Council actions may be necessary after the fiscal year begins.

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Municipal Revenue Sources

- ▶ Property Tax
- ▶ Local Receipts: Excise, Fees, Fines, and Taxes
- ▶ State Aid (“Cherry Sheet”)
- ▶ Other/Reserves (PILOTs, HCAs, etc.)
- ▶ Grants

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Prop. 2-1/2

- ▶ Proposition 2 ½ limits the annual growth in the tax levy.
- ▶ The tax levy is the total amount raised in property tax from all sources: residential, commercial, industrial, and personal property (business inventory). The limit is on the levy, not the rate, individual tax bills, or assessments.
- ▶ Overrides for operating and debt/capital are possible, but have never been needed in Salem.
- ▶ The maximum in property taxes that the City could raise in FY2021 is \$111,481,258. This is calculated by the FY2020 levy limit (\$107,591,472) x 2.5%, plus new growth, which is estimated at \$1,200,000 for FY2021.
- ▶ As will be shown on the next slide, the FY2021 budget does not impose the full levy. The difference between what is taxed and the levy limit is called the City’s levy capacity.

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Reserves & Capital

- ▶ Stabilization Fund: \$8,818,612.70
- ▶ OPEB Fund: \$3,265,547.79
- ▶ Short-Term Capital: \$1,633,673.47
- ▶ Overlay Reserve: \$1,330,048.90
- ▶ Salem's financial policy directs a percentage of free cash each year to reserve funds. Healthy reserve funds enables the City to meet unanticipated or emergency needs and also have a positive effect on bond ratings.
- ▶ Capital Improvement Plan: different than short-term capital, this plan is detailed in the annual budget and reflects both a specific spending plan for this year's capital projects, as well as a forecast on capital needs upcoming in future years.

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FY2021 Estimated Revenues

REVENUES	% INC/DEC FY19-FY20	% INC/DEC FY20-FY21	FY19 RECAP	FY20 BUDGETED	FY21 PROJECTED
PROPERTY TAXES					
PRIOR YEAR LEVY LIMIT			95,321,557	99,208,719	107,591,391
AMENDED GROWTH			3,204	0	0
PROPOSITION 2.5 INCREASE TO LEVY			2,383,039	2,480,218	2,689,785
NEW GROWTH (Footprint shift from Local Receipts)				4,000,000	0
NEW GROWTH			1,500,919	1,902,454	1,200,000
TOTAL: LEVY LIMIT (not included in total)	8.45%	3.62%	99,208,719	107,591,391	111,481,176
REVENUES					
ACTUAL REAL ESTATE AND PERSONAL PROPERTY TAX LEVY	8.97%	3.80%	95,083,826	103,616,867	107,554,308
LOCAL RECEIPTS					
MOTOR VEHICLE	-1.22%	1.23%	4,100,000	4,050,000	4,100,000
HOTEL MOTEL TAX	-6.25%	-25.00%	640,000	600,000	450,000
MEALS TAX	-10.00%	-50.00%	1,000,000	900,000	450,000
BOAT EXCISE TAX	0.00%	0.00%	30,000	30,000	30,000
CANNABIS EXCISE	0.00%	400.00%	0	100,000	500,000
CANNABIS AGMT. (Medical & CBA)	-47.37%	300.00%	190,000	100,000	400,000
INTEREST ON TAXES	-7.72%	-1.48%	440,000	406,028	400,000
CHAPTER 121A	0.00%	0.00%	500,000	500,000	500,000
IN LIEU OF TAXES	-11.43%	20.97%	700,000	620,000	750,000
OTHER DEPARTMENTAL REVENUES	-19.15%	-21.05%	2,350,000	1,900,000	1,500,000
PARKING FEES	-8.06%	-50.00%	3,100,000	2,850,000	1,425,000
LICENSES AND PERMITS	-10.00%	-25.00%	500,000	450,000	337,500
FINES & FORFEITS	0.00%	-25.00%	800,000	800,000	600,000
INVESTMENT INCOME	14.50%	-25.00%	200,000	229,000	171,750
MISC. RECURRING (INCLUDES MEDICAID/MEDICARE D)	-11.11%	-15.63%	900,000	800,000	675,000
MISC. NON-RECURRING	-100.00%		3,750,000	0	0
TOTAL: LOCAL RECEIPTS	-25.34%	-14.27%	19,200,000	14,335,028	12,289,250

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Revenue (continued)

REVENUES	% INC/DEC FY19-FY20	% INC/DEC FY20-FY21	FY19 RECAP	FY20 BUDGETED	FY21 PROJECTED
CHERRY SHEET REVENUE	13.25%	-14.37%	30,468,308	34,506,150	29,548,511
SCHOOL BLDG ASSISTANCE	0.00%	-100.00%	732,824	732,824	0
OTHER FINANCIAL SOURCES (OFS) - RECURRING					
R/R - WITCH HOUSE	9.73%	-48.91%	272,058	298,516	152,500
R/R - GOLD COURSE	-8.97%	-8.45%	780,000	710,000	650,000
R/R - HARBORMASTER	-19.30%	-21.74%	285,000	230,000	180,000
OFS - RECURRING	-7.37%	-20.67%	1,337,058	1,238,516	982,500
OTHER FINANCIAL SOURCES (OFS) - NON-RECURRING					
OVERLAY SURPLUS			200,000		
STABILIZATION FUND					
FREE CASH - for a particular purpose					
FREE CASH - level the tax rate			1,700,000		
FREE CASH - debt proceeds to offset FY16 debt					
OFS - NON RECURRING	-100.00%	#DIV/0!	1,900,000	0	0
ENTERPRISE FUNDS					
SEWER ENTERPRISE FUND REVENUE	7.93%	2.14%	9,698,976	10,468,335	10,692,107
WATER ENTERPRISE FUND REVENUE	4.38%	5.00%	5,251,131	5,481,367	5,755,436
TRASH ENTERPRISE FUND	34.54%	-23.41%	869,683	1,170,053	896,100
PEG ACCESS CABLE (FY20 1st Yr)	0.00%	31.35%	0	526,250	691,250
TOTAL ENTERPRISE FUND REVENUE	11.54%	2.20%	15,819,790	17,646,005	18,034,893
TOTAL REVENUES	0		164,541,806	172,075,390	168,409,462

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FY2021 Estimated Expenditures

- ▶ General Government/Public Safety/Public Works \$1.3m est. FY21 increase
- ▶ Education (2% increase/level of service is +4.5%) \$1.2m est. FY21 increase
- ▶ Gen. Govt fixed costs (health insurance, pension, debt) \$2.3m est. FY21 increase
- ▶
- ▶ Estimated Expenditure Increases in FY21 \$4.8 million
- ▶ Enterprise
- ▶ Water, Sewer, Trash (4.2% increase) \$774,000 FY21 increase

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FY2021 Estimated Revenues

- ▶ Property Tax Levy \$3.7m est. FY21 increase
- ▶ Local Receipts (\$3.2m decrease)
- ▶ Local Aid (\$5.2m decrease)

- ▶ **Estimated FY2021 Deficit \$8.4m budget gap**

- ▶ **Closing this gap will require a combination of budget cuts, use of savings and enhancement of revenues**