

# Town of Marblehead



FY 2021

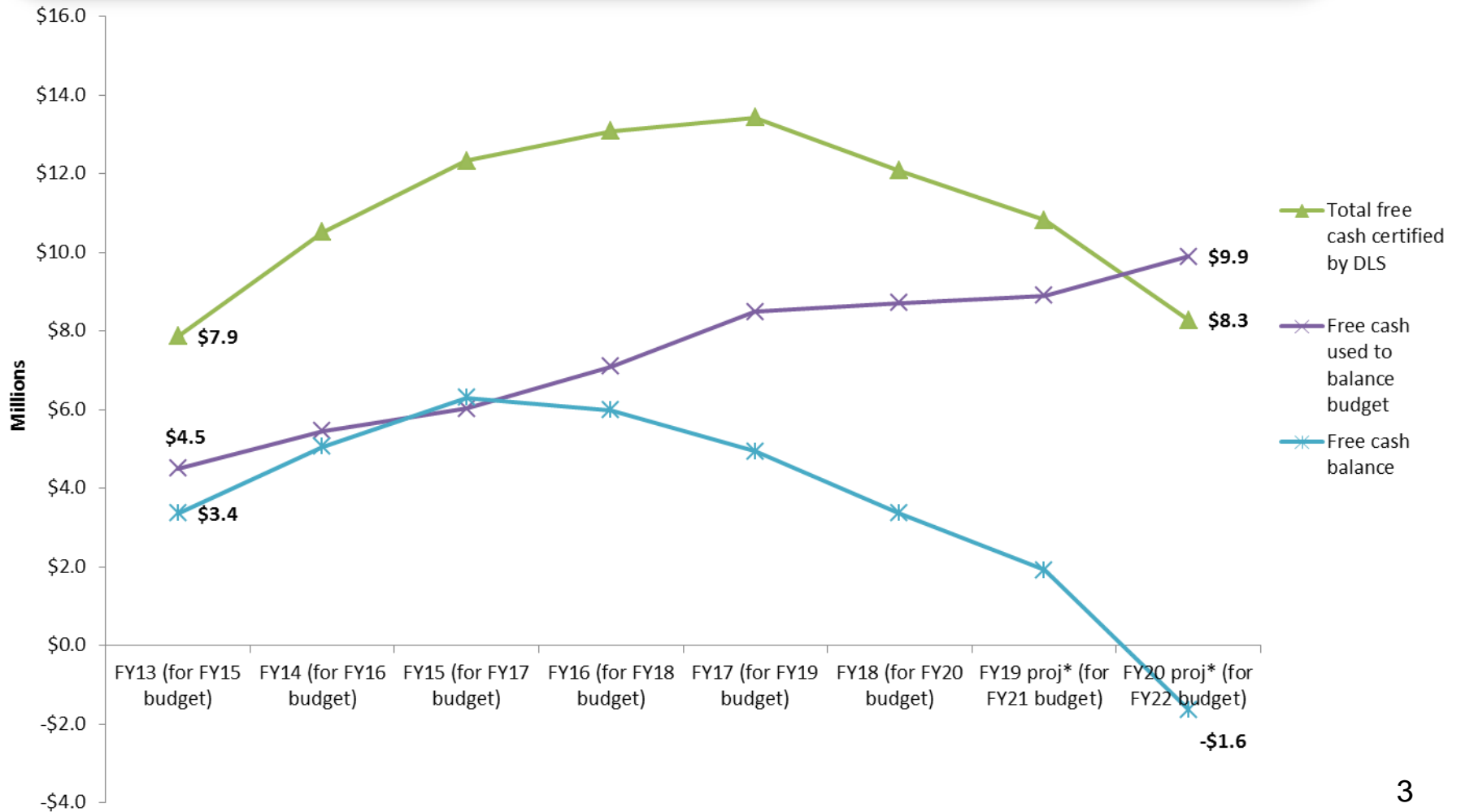
Financial

Outlook

# Overview of FY20 and Planning for FY21

- The Town is facing increased financial difficulties as FY20 progresses and planning for FY21 begins
  - The Town's historical reliance on free cash to support the operating budget is no longer sustainable
  - The Town must make reductions to salary/operating budgets and/or increase sources of revenue to support the budget
- As in previous years, there are other unresolved issues that will likely have further impact on the FY21 budget process. These include:
  - Resolution of the FY21 state budget and the impact on state aid
  - Actual increase in rates for the Town's GIC health insurance plans
  - Final charter school enrollment from Marblehead
  - Final assessment from Essex North Shore Agricultural & Technical School

# Free Cash Projections



# Difficult Budget Decisions made in FY20

- Reductions in both full-time and part-time staff
- Full-time positions reduced to part-time
- Moving staff onto funding sources other than the General Fund
- Leaving positions vacant after retirements and/or terminations

# Positive Factors

- Health insurance costs continue to be less volatile since transfer to state's Group Insurance Commission (GIC) in FY13; the Town's current agreement with the GIC covers FY19 - FY24
- Town's bond rating was reaffirmed at AAA this past August by S&P for the 11<sup>th</sup> year in a row
  - Helps with borrowing costs, but Town must continue to work to maintain rating
  - For 2018, Marblehead was 1 of 69 MA communities with S&P's highest credit rating

# What does AAA rating mean and what is it based on?

- AAA rating by S&P indicates that the town's ability to meet its debt obligation is strong and at limited risk of being affected by adverse economic conditions
- S&P bases its rating on:
  - Local & Regional Economy
  - Property Values & Income Levels
  - Management's Financial Practices & Policies
  - Debt Position & Liquidity
  - Budget Performance & Flexibility

# Marblehead compared to other AAA rated communities

Community	2018 Population	2017 Per Capita Income	2018 Per Capita EQV	FY19 GO Bonded Debt Outstanding	FY18 U/A Gen Fund Balance
Acton	23,738	\$59,012	\$193,695	\$22.4 million	\$6,667,927
Belmont	26,330	\$61,122	\$298,160	\$74.4 million	\$18,660,499
Concord	19,237	\$68,012	\$342,119	\$49.9 million	\$13,011,996
Hingham	19,211	\$69,709	\$309,659	\$54.5 million	\$31,251,431
Marblehead	20,634	\$64,757	\$299,634	\$64.5 million	\$12,763,640
Reading	25,337	\$51,615	\$202,985	\$32.6 million	\$13,852,018
Westford	24,296	\$51,526	\$196,511	\$46.2 million	\$11,253,727
Winchester	22,851	\$74,405	\$336,137	\$137.2 million	\$11,820,608
<b>AVERAGE</b>		<b>\$62,520</b>	<b>\$272,363</b>	<b>\$60.2 million</b>	<b>\$14,910,231</b>

# FY21 Budget Assumptions

## Key FY21 Budget Assumptions:

- Property Tax Levy increases 2 ½ % plus projected new growth
- State Aid assumes level funding from FY20 (except charter school reimbursement, which is based on a state formula driven by enrollment)
- Health Insurance budget assumes increase of 3%
- Existing contractual obligations funded
- Continue to fund energy and utility reserves
- Debt based on schedules as of August 2019 issuance
- Assume 3% increase in other state assessments
- Multi-year approach taken with all budget decisions



# Projected FY21 Revenue

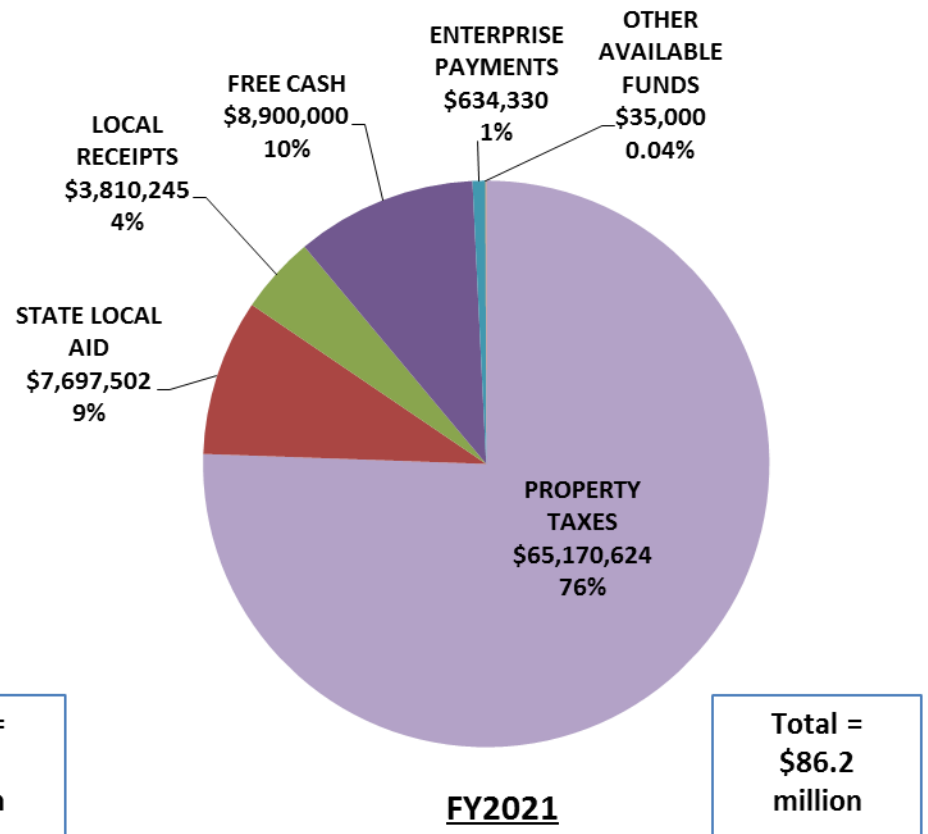
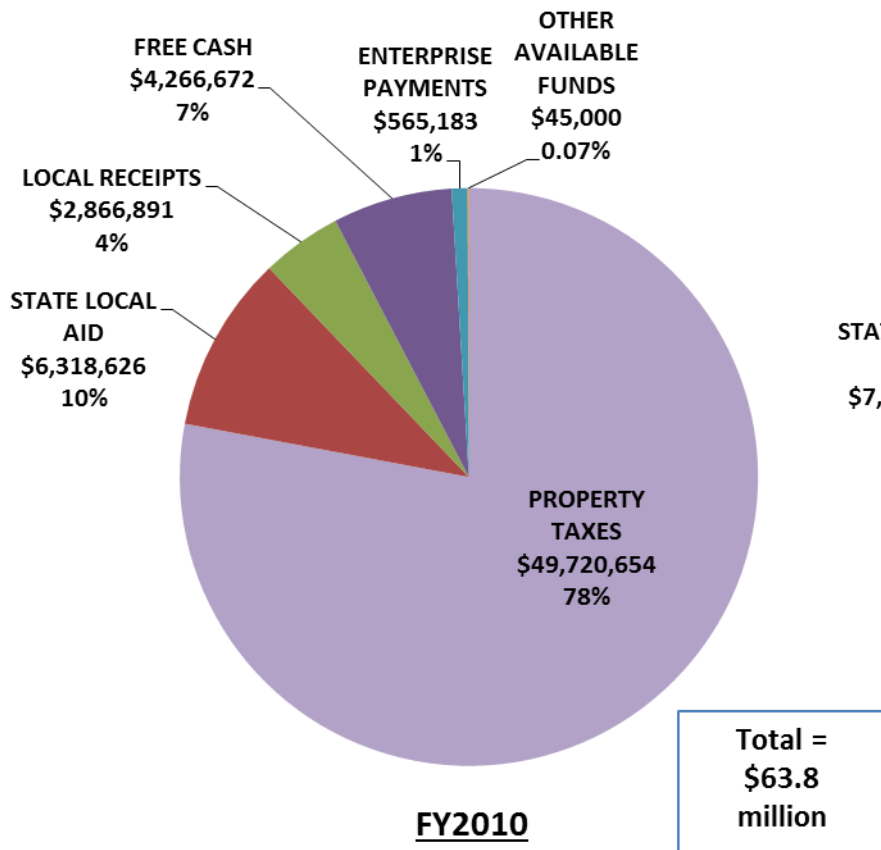
Property Taxes	\$65,170,624
Estimated State Aid	7,697,502
Local Estimated Receipts	3,810,245
Free Cash & Enterprise Payments	9,534,330
Other Available Funds	35,000
<b>Total Estimated Revenues</b>	<b>\$86,247,701</b>

# FY21 Property Tax Revenue

- Current FY20 Tax Levy Limit Before Capital & Debt Exclusions
- Plus 2 ½ %
- Plus Projected New Growth
- FY21 Tax Levy Limit Before Capital & Debt Exclusions

	\$63,288,414
\$1,582,210	
\$300,000	
	\$65,170,624

# Revenue Sources for Budget: FY2010 vs. FY2021



# Estimated FY21 Spending

Projected FY21 Budget Appropriations	\$82,332,256
Other State Charges (i.e. MBTA)	647,642
Charter School Tuition Assessment	2,644,968
State Offsets (from State Aid)	23,287
Potential Deficits (Snow & Ice)	225,000
Overlay (potential abatements & exemptions)	300,000
<b>Total Amount Needed for FY21</b>	<b>\$86,173,153</b>

# Projected FY21 Significant Increases over FY20 Funding Levels

- Health Insurance - \$351,433
- Existing Contractual Obligations – Total of \$1,847,837
  - Schools - \$1,459,997
  - Other Town Departments - \$387,840
- Retirement Funding - \$260,279 (based on PERAC schedule)
- Essex North Shore Tech School Assessment - \$120,000
- Curbside Trash & Recycling Collection - \$22,000
- Employer Share of Medicare Tax - \$20,000

# Major Revenue Increases vs. Major Expense Increases

Fiscal Year	Major Revenue Drivers			Major Expense Increases			Total Large Budget Drivers	Difference bet Major Revenues vs. Major Expenses
	2 1/2% Tax Incr	New Growth	Total Tax Incr plus New Growth	Salaries	Health Ins	Retirement		
FY 2017	1,396,880	507,739	1,904,619	1,827,902	552,690	189,577	2,570,169	(665,550)
FY 2018	1,444,495	368,624	1,813,119	2,147,101	393,364	243,880	2,784,345	(971,226)
FY 2019	1,489,823	317,431	1,807,254	1,980,206	60,000	224,254	2,264,460	(457,206)
FY 2020	1,535,004	303,231	1,838,235	1,962,528	344,627	226,062	2,533,217	(694,982)
FY 2021*	1,582,210	300,000	1,882,210	1,847,837	351,433	260,279	2,459,549	(577,339)
FY2022*	1,629,266	300,000	1,929,266	1,838,249	361,976	281,101	2,481,326	(552,060)
FY2023*	1,677,497	300,000	1,977,497	1,877,331	372,835	303,590	2,553,756	(576,259)

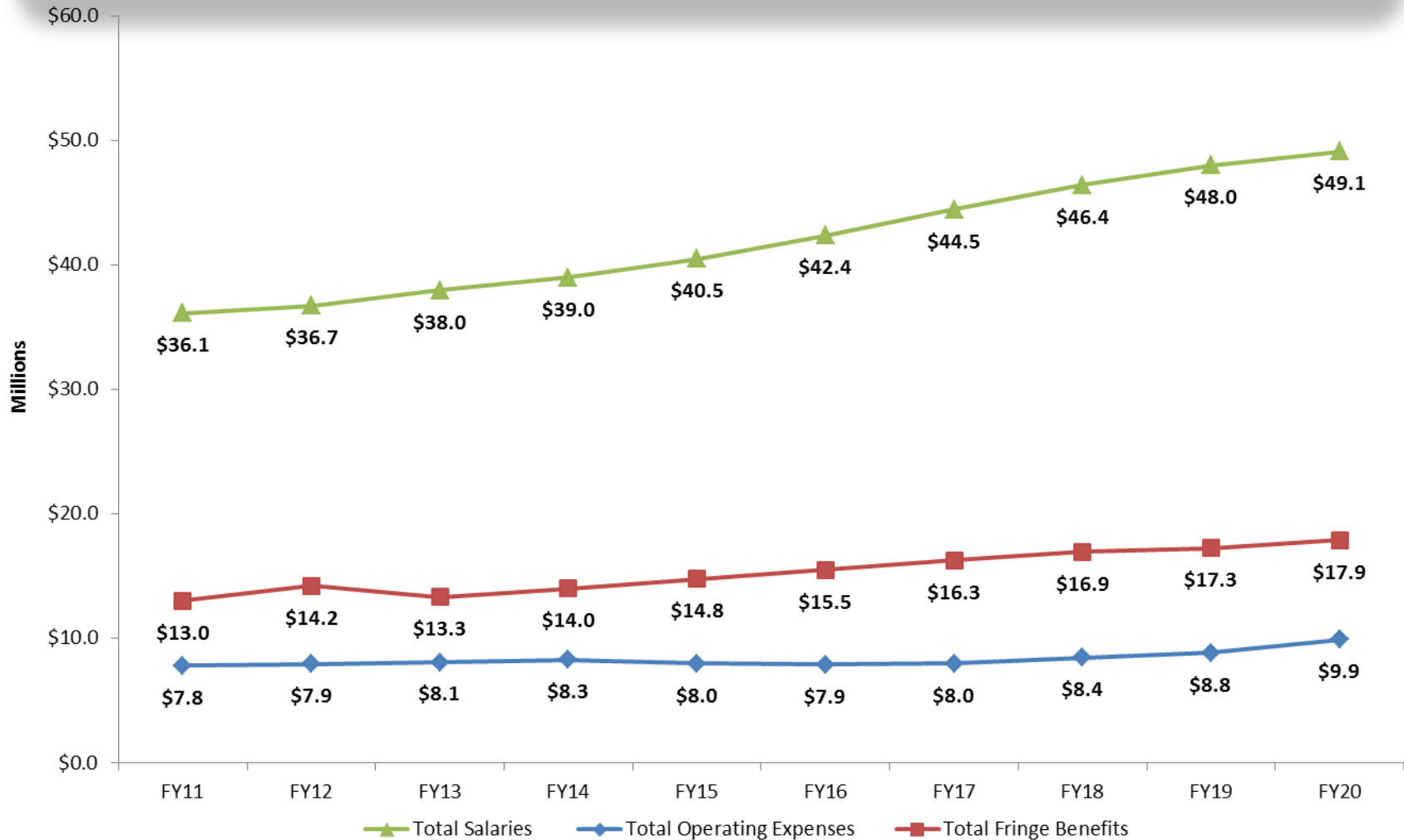
\*projections

# 10-Year Budget Trends

## FY11 – FY20

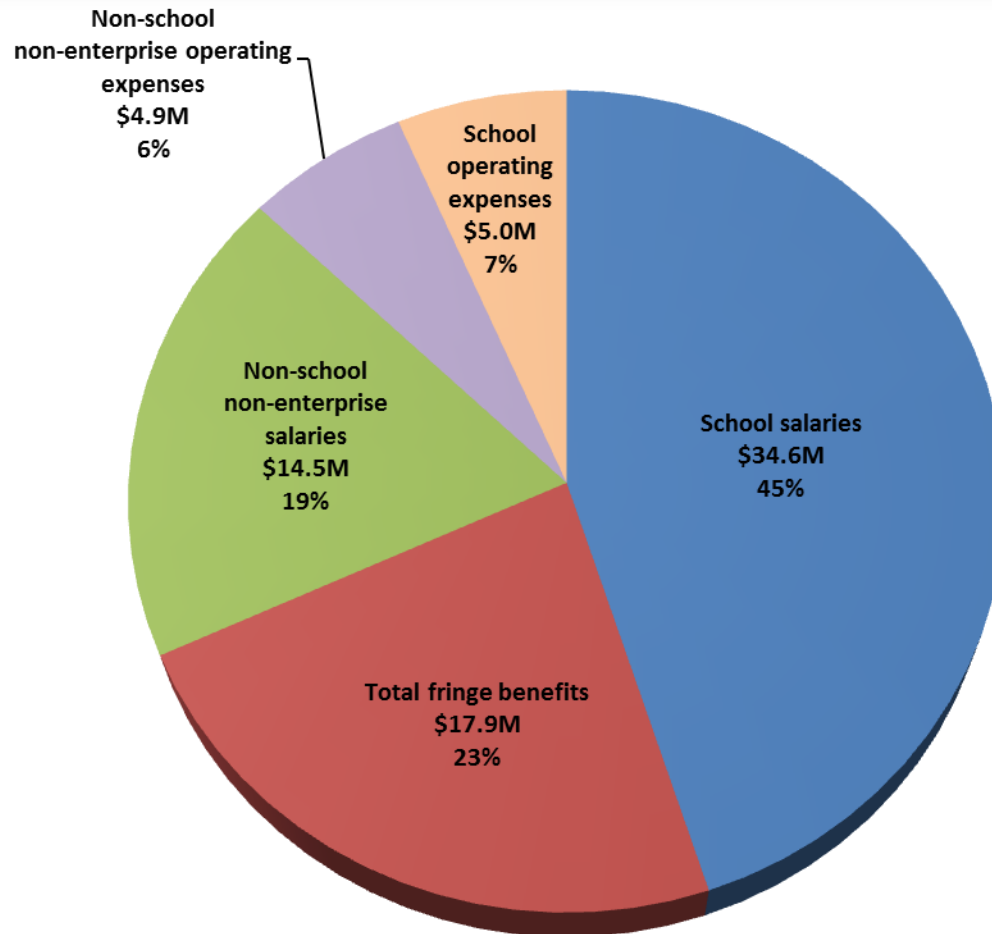
- Over a 10-year period:
  - Town (non-school/non-enterprise) salary and operating budgets increased 25.5% or about 2.5% per year.
  - Fringe benefits increased 37.4% or approximately 3.7% annually on average.
  - The Town's school appropriation increased 39.3% or 3.9% annually on average.
  - Net charter school assessments have grown approximately 89.8% or 8.9% annually on average
  - The Town's tax levy limit before capital debt exclusion increased 33.8% or 3.4% per year

# General Fund Budgets FY11 – FY20





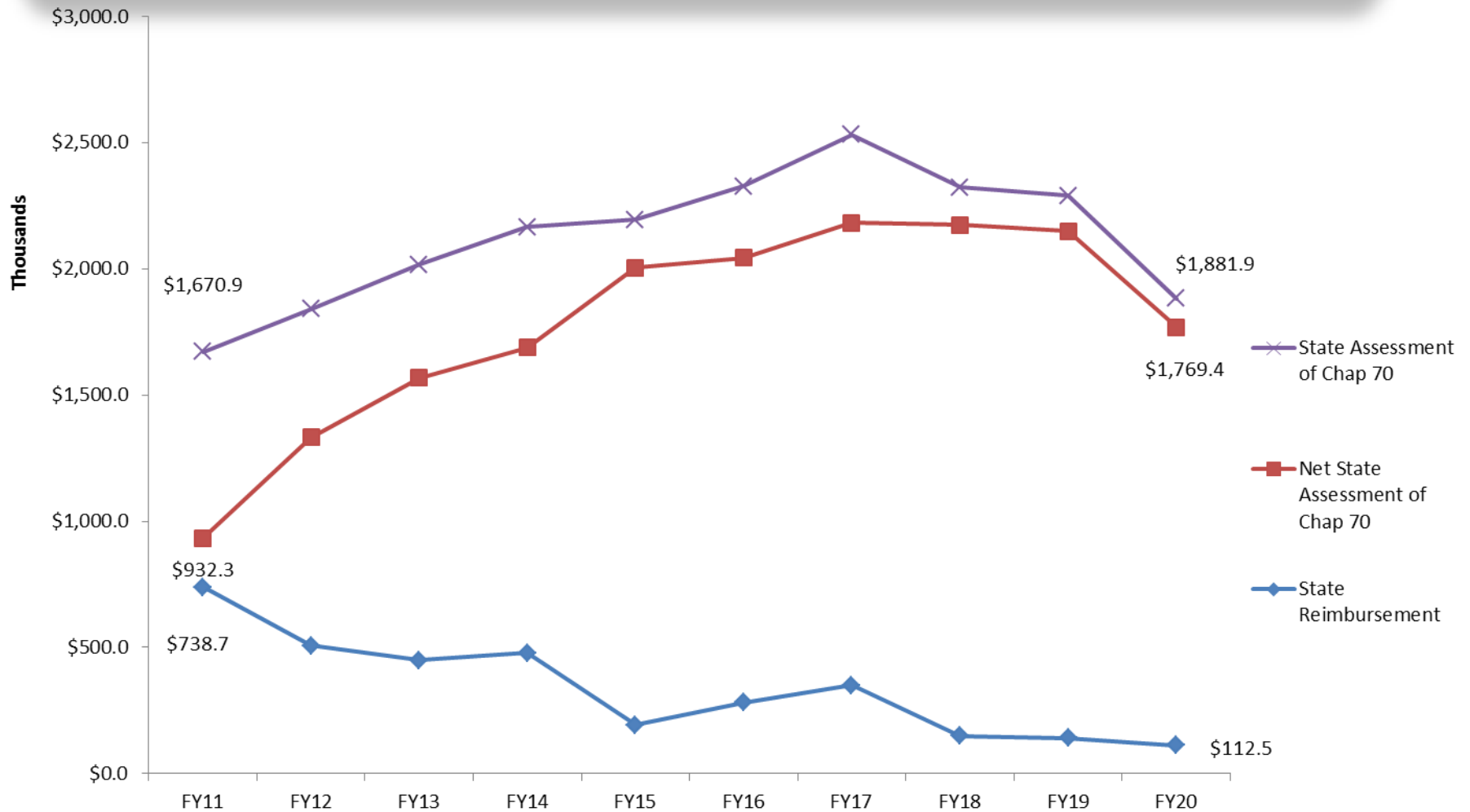
# FY20 General Fund Salary and Operating Budget Breakdown



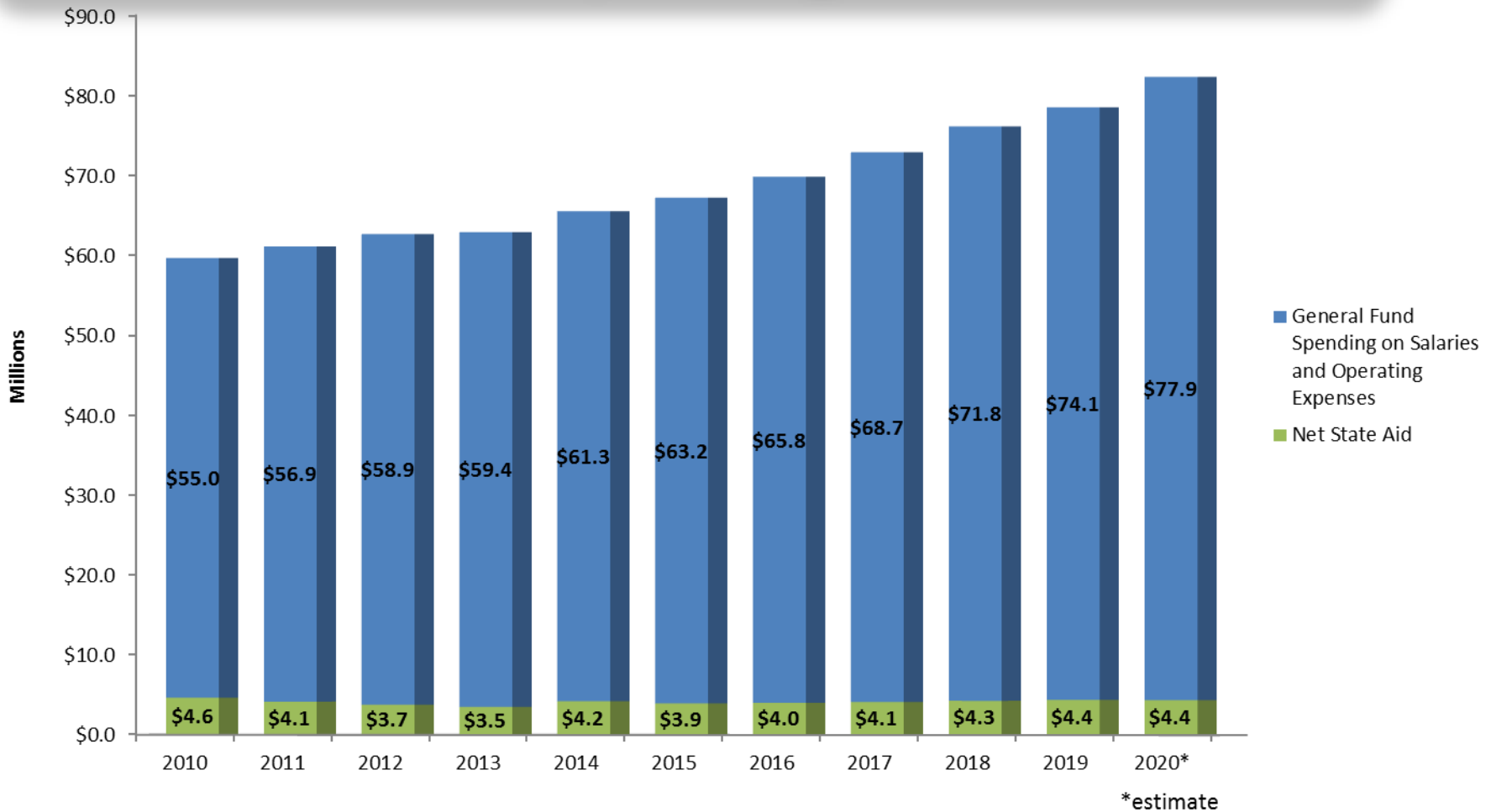
# Charter School Assessments

Fiscal Year	State Assessment of Chapter 70 School Aid	State Reimbursement	Net State Assessment of Chapter 70 School Aid	Net Assessment Incr/Decr Over Prior Year	Net % Incr/Decr	MHD CS Enroll
FY11	\$1,670,915	\$738,655	\$932,260	\$120,807	14.9%	156
FY12	\$1,840,553	\$508,044	\$1,332,509	\$400,249	42.9%	163
FY13	\$2,017,464	\$449,592	\$1,567,872	\$235,363	17.7%	174
FY14	\$2,166,053	\$477,433	\$1,688,620	\$120,748	7.7%	185
FY15	\$2,195,910	\$191,738	\$2,004,172	\$315,552	18.7%	187
FY16	\$2,327,090	\$282,002	\$2,045,088	\$40,916	2.0%	189
FY17	\$2,533,163	\$349,590	\$2,183,573	\$138,485	6.8%	198
FY18	\$2,323,038	\$150,808	\$2,172,230	(\$11,343)	-0.4%	174
FY19	\$2,290,866	\$140,402	\$2,150,464	(\$23,574)	-1.1%	164
FY20*	\$1,881,889	\$112,521	\$1,769,368	(\$381,906)	-17.7%	120
<b>Inc/Decr FY11 – FY20</b>	<b>\$210,974</b>	<b>(\$626,134)</b>	<b>\$837,108</b>		<b>89.8%</b>	<b>-36</b>

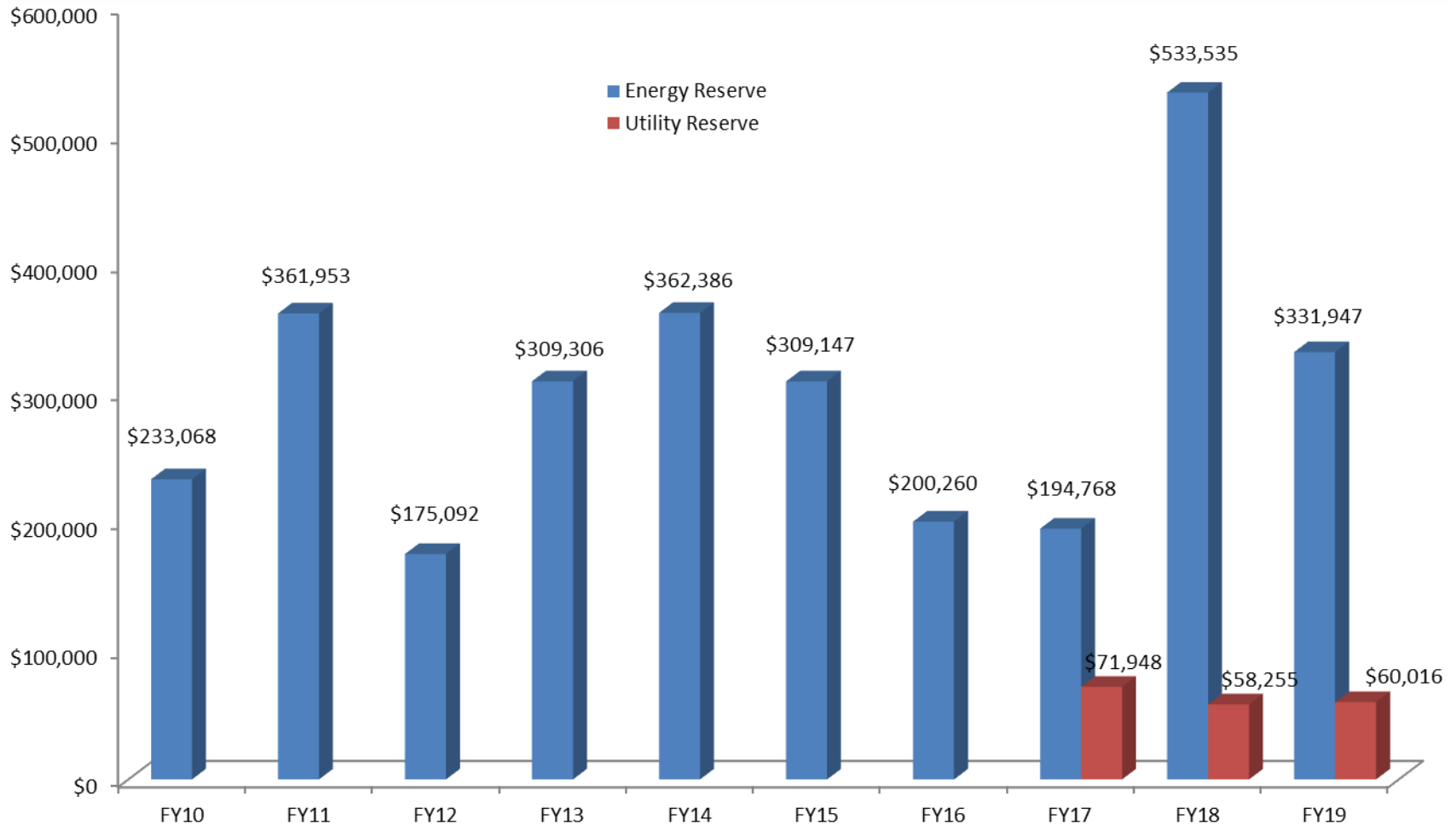
# Charter School Assessments



# History of State Aid vs. General Fund Spending



# Energy & Utility Reserve Use



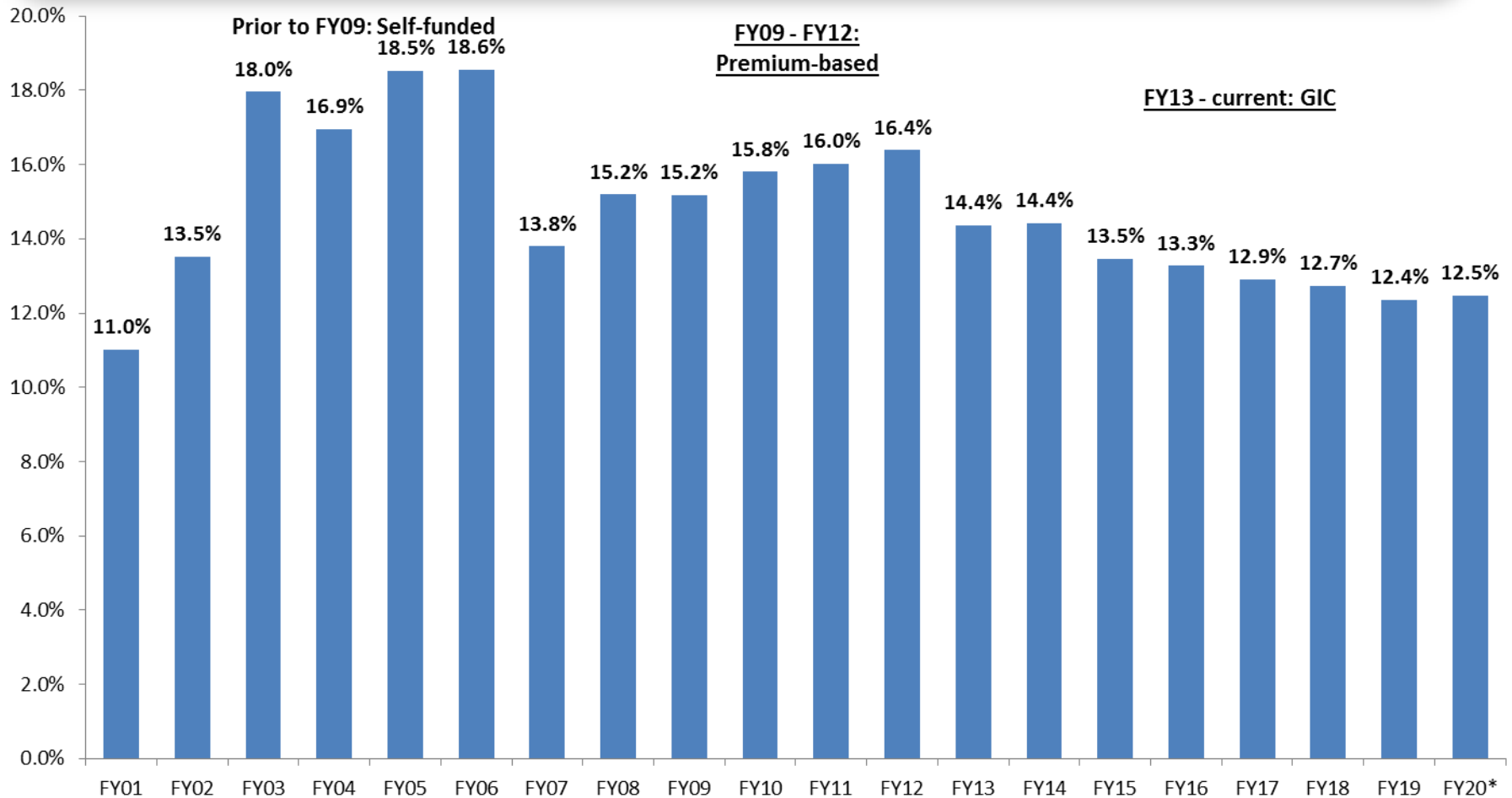
# Managing Debt Service as a Percentage of Tax Levy

Fiscal Year	Total Net Debt Service	% of Total Tax levy
2012	\$4,724,145	8.81%
2013	\$4,089,817	7.47%
2014	\$4,328,247	7.63%
2015	\$4,916,563	8.33%
2016	\$5,477,832	8.93%
2017	\$6,208,216	9.71%
2018	\$6,726,011	10.14%
2019	\$6,441,114	9.50%
2020	\$6,570,804	9.41%
<i>2021 est.</i>	<i>\$7,230,556</i>	<i>10.0%</i>
<i>10-year weighted avg.</i>		<i>9.15%</i>

# Health Insurance Costs

- Prior to FY09, the Town self-funded its health insurance fund, which created large and unpredictable increases in the budget
- On July 1, 2008, the Town switched to a premium-based health insurance plan and costs began to stabilize
- On July 1, 2012, the Town became part of the Group Insurance Commission (GIC), which further reduced the Town's exposure to swings in health care costs and stabilized the budget
- The Town and the Public Employee Commission negotiated another 6- year agreement with the GIC, which covers FY2019 through FY2024
- As a result of switching to a premium-based plan, the Town has experienced a 10-year increase in health care costs of 7.6%, or an average annual increase of 0.8%, between FY10 and FY19

# Health Insurance Spending as a Percent of General Fund Budget





# OPEB Liability

- Other Post Employment Benefits (OPEB) – Non-pension benefits earned by retirees and their survivors; primarily health insurance
- Current liability based on actuarial analysis is approximately \$207.7M (from most recent actuarial report completed in September 2019)
- Town took initial step to fund this liability in FY14 by appropriating \$250,000 into trust and investing with the state; the Water & Sewer department also began transferring funds for OPEB beginning in FY18
- Current cumulative balance in fund as of June 30, 2019 is \$2,303,658

# Conclusion

- While the Town is currently in good financial health, difficult decisions will need to be made for FY21 and beyond to ensure continued fiscal stability
  - Consider alternative sources of revenue to support future operations
  - Implement budget reductions where possible while maintaining a high level of service
  - Reduce reliance on free cash to support the operating budget
- Several variables need to be monitored for changes prior to the start of the new fiscal year
  - State aid
  - GIC health insurance rates
  - Charter school enrollment