

CITY MANAGER'S BUDGET MESSAGE

City of Cambridge

Richard C. Rossi • City Manager



Executive Department

Lisa C. Peterson • Deputy City Manager

April 27, 2015

To the Honorable, the City Council, and the residents and taxpayers of Cambridge:

I am pleased to submit for your consideration the proposed Operating and Capital Budgets for the City of Cambridge for FY16 as well as the proposed FY17-20 Operating and Capital Plans.

This Operating Budget of \$545,870,875 represents an increase of \$15,011,510, or 2.83%, over the FY15 Adjusted Budget. The proposed Capital Budget is \$85,276,290.

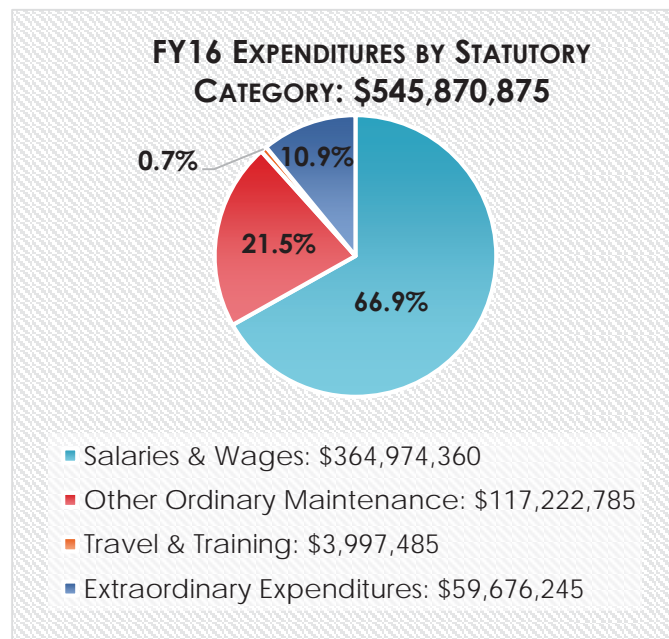
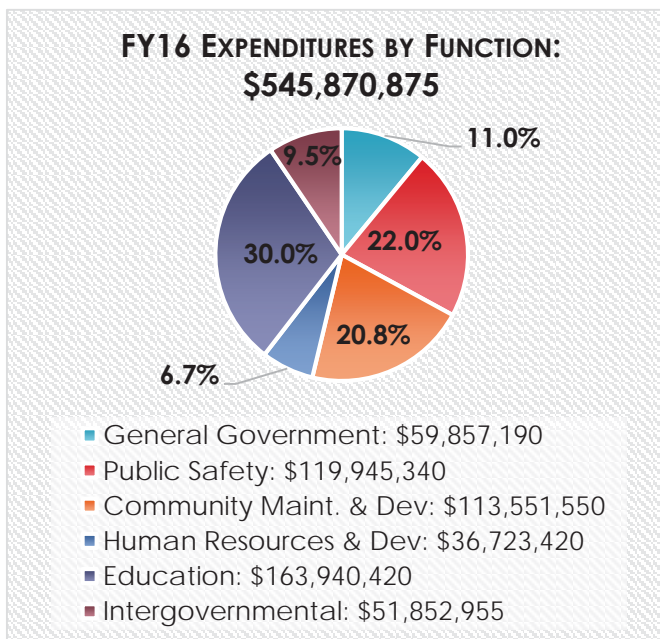
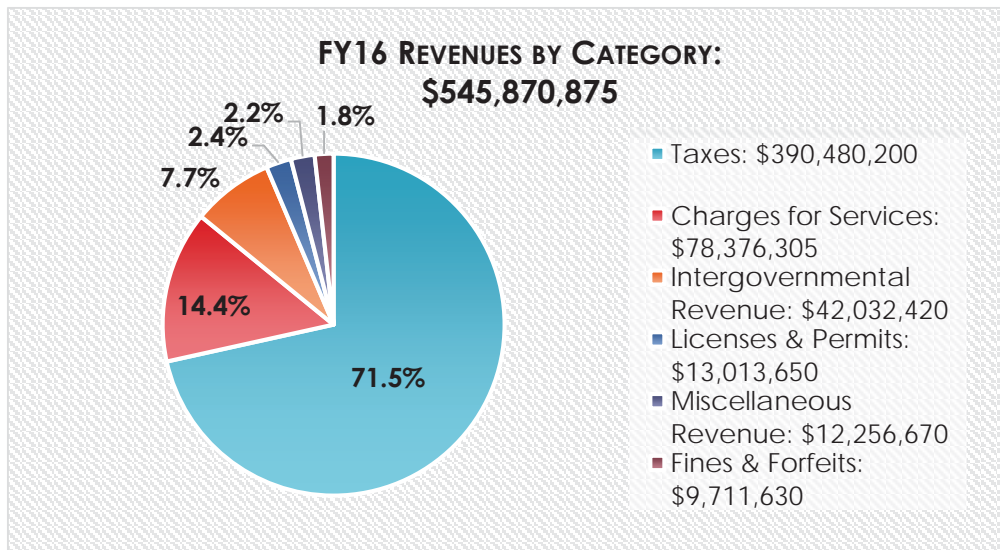
The FY16 Budget sets a bold agenda for the City that closely links with the priorities established by the City Council. In the pages that follow, you will find the City Council goals and the City's FY16 Key Initiatives, which highlight growth in programs and new initiatives such as expansion of curbside organics collection and a new STEAM Coordination Office. I encourage readers to review each department's budget narrative in detail to gain a deeper understanding of the department and its FY16 objectives and performance measures. Each capital project is also described in depth in the Public Investment section.

The proposed **Operating Budget** of \$545,870,875 includes the following:

- A total property tax levy of \$356,962,375 to support the General Fund Operating and Capital Budget. This is an increase of \$15,516,920, or 4.54%, from the FY15 property tax levy. The actual tax levy is determined in the fall as part of the property tax and classification process. In addition, the City can make adjustments to budgeted revenues as part of the process. As in past years, it is anticipated that the City may be able to use increased non-property tax revenues at a higher level than what is included in the FY16 Budget, once actual FY15 receipts and final state aid figures are known.
- \$2,000,000 in overlay surplus balances accumulated from prior fiscal years will again be used to lower the tax levy increase.
- A 2.4% cost of living adjustment (COLA) for all non-union employees and for those unions with settled contracts. A 0% increase in health insurance, 0% increase in dental, and 5.85% increase related to pensions. The 0% increase in health insurance is due to fewer high-cost, chronic claims and employees taking advantage of preventative programs.
- Twelve full-time positions have been added to the FY16 budget that will allow for appropriate operating growth to meet additional program needs throughout the city. Many of these positions are highlighted in the Key Initiatives section that follows.
- An OPEB contribution of \$2,000,000, which is consistent with the FY15 allocation.
- The Health Claims Trust Fund is providing \$8,800,000, an increase of \$100,000, to support the health insurance budget.

CITY MANAGER'S BUDGET MESSAGE

- Collaboration between the City and School fiscal staffs resulted in a successful school budget process. Recognizing the importance of this process, and my commitment to public education, the Superintendent and I worked closely to balance the School's budget. The City increased property tax support to schools to 6.27%. The School Committee adopted the School Department budget of \$163,940,420.
- A 0% increase in the water rate and a 6.8% increase in the sewer rate, resulting in a 4.9% increase in the combined rate. This is the fifth consecutive year that the City has been able to produce a 0% increase in the water rate.
- Parking Fund revenues will provide \$8,682,860 to support the operating budgets of various departments.
- The City Debt Stabilization Fund will provide \$1,300,000 to cover debt service costs.
- The City will recommend using \$9,000,000 in free cash to lower the property tax levy increase, which is consistent with the City's financial plan.

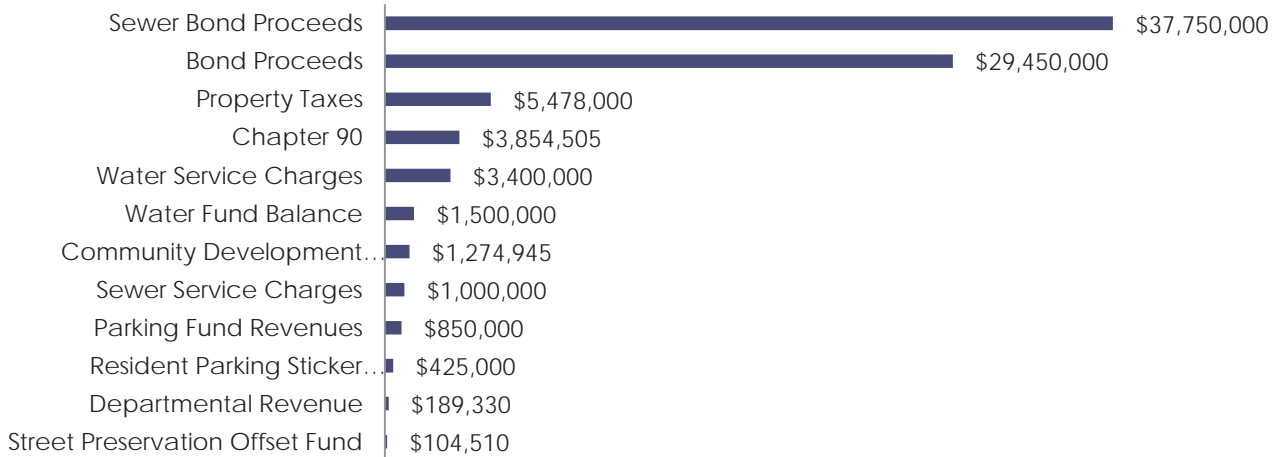


CITY MANAGER'S BUDGET MESSAGE

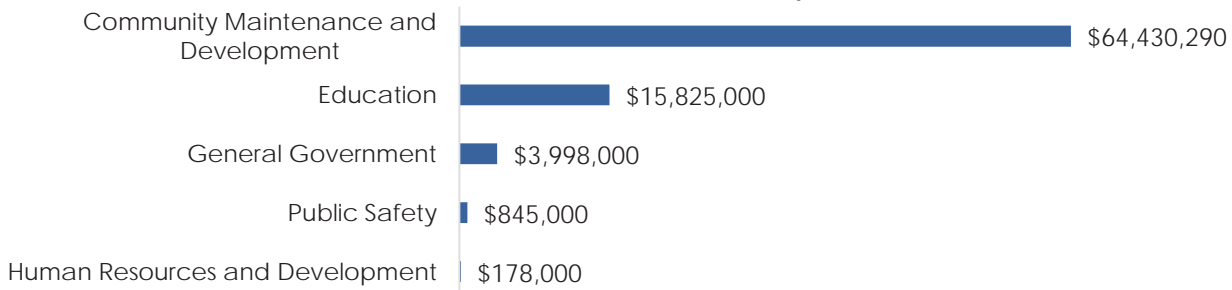
The proposed **Capital Budget** of \$85,276,290 includes the following:

- The continuation of sewer and stormwater projects at Agassiz (\$2,500,000), Alewife (\$6,450,000), and Cherry Street (\$25,000,000); remedial construction (\$1,000,000) and capital repairs (\$3,000,000); streets and sidewalks (\$7,959,015); reconstruction of “The Eliot Loop” in Harvard Square (\$4,000,000); and the comprehensive City buildings/facilities improvement plan (\$5,000,000).
- Bond proceeds of \$11,000,000 will be used to fund design and construction services for the King Open and Cambridge Street Upper School & Community Complex and replacement of the Kennedy Longfellow School roof (\$4,200,000).
- A \$5,478,000 Pay-As-You-Go/property tax allocation, which includes \$3,450,000 in IT projects as part of the IT E-Gov initiative and \$528,000 for the winning Participatory Budgeting projects. The City will recommend using \$3,450,000 in Free Cash to lower the property tax levy increase directly related to the IT projects.
- Water service charges of \$4,900,000 to cover all water-related capital.
- On March 3, 2015, the City sold \$75,465,000 in General Obligation Bonds to finance capital projects such as the King Elementary School (Putnam Ave.) renovation, open space improvements, street reconstruction, Cambridge Common renovations, and Kendall Square surface improvements. The City’s AAA bond rating allowed the City to sell these bonds at the true interest cost of 2.3%. The \$75,465,000 included \$23,985,000 in sewer bonds.

FY16 CAPITAL FINANCING PLAN \$85,276,290



FY16 CAPITAL APPROPRIATION PLAN: \$85,276,290



CITY MANAGER'S BUDGET MESSAGE

OUTLOOK AND CONCLUSION

FY14 was another remarkable year financially for the City. Our sound financial practices have left the City with substantial reserves, including \$160,500,000 in free cash, \$134,000,000 in excess levy capacity, \$15,600,000 in Parking Fund Balance, and \$9,700,000 in Water Fund Balance. It is anticipated that the City will also end FY15 in a very strong financial position.

The City has used \$33,430,000 in free cash to date. Major appropriations include \$12,650,000 to lower the property tax rate, a \$12,000,000 transfer to the Debt Stabilization Fund, \$6,000,000 to cover winter 2014-2015 snowstorm expenses, and \$1,500,000 for the feasibility study at the King Open and Cambridge Upper Street School. The City is also looking into acquiring land for a Public Works / municipal facility, which will be funded through free cash.

The biennial citizen survey was conducted in September 2014. Survey results show that 89% of respondents indicated the "overall quality of life" as either excellent or good and 92% of respondents indicated that Cambridge was either an excellent or good "place to live."

We will continue to use our five-year financial and capital plan, debt, and reserve policies and the City Council goals as a guide in our long-term planning to maintain stability and predictability in our budgeting and financial planning processes. Our financial projections indicate that we will be able to produce future budgets that will reflect a moderate growth in the property tax levy, which is our primary revenue stream. In addition, the City is projecting stable valuations in the near term with moderate increases in the out years based on new construction, appreciation in values of existing property, and major rehabilitations.

Major priorities that will impact the budget in the near-term include construction of the King Open Elementary/Cambridge Street Upper School, Citywide planning efforts, redevelopment of the Foundry Building, and recommendations from the Early Childhood and Net Zero Task Forces.

While overall economic conditions are steady, there are some uncertainties we will be watching in the next fiscal year – most notably, the impact of possible federal and state budget reductions. The long-term outlook for Cambridge continues to be very strong as long as we continue to efficiently manage operations. This has been confirmed by our continued AAA bond rating. We have been able to absorb operating and programmatic costs associated with expanding services, cover increased salary and fringe benefit costs, and manage debt service costs with an aggressive capital plan.

The City Council and City Administration understand that choices made today impact future spending decisions. Our effective short and long-term financial, economic, and programmatic planning strategies will help ensure that Cambridge can continue to provide the level of services that residents desire while maintaining the modest tax implications taxpayers have come to expect. I believe that the initiatives and spending priorities recommended in this budget submission reflect not only the goals of the City Council, but also the priorities of the residents and taxpayers of Cambridge.

Very truly yours,



Richard C. Rossi
City Manager