$600,000 reduction for school building assistance (debt service on school projects) has been cut because the state claims it overpaid in previous years. A review of the state's claims by the City indicated that the state is correct because the City included ineligible costs for state reimbursement on school construction in the late 1960's and early 1970's.

In other areas, City revenues are off in those categories that are particularly sensitive to the economy. The two largest individual general fund revenue shortfalls can be found in Motor Vehicle excise taxes, off $300,000 and building permits, off $763,000. As the table below indicates, that the total revised non-property tax general fund revenue is projected to be off by approximately $800,000 for the year.

TABLE 1
FY91 REVISED GENERAL FUND REVENUE PROJECTIONS
(000's omitted)

Revenue Source	Original Estimate	Projection	Variance
Motor Vehicle Excise	2 600	2 300	(300)
Other Excise	2 400	2 400	-
Pen. & Int. on Taxes	365	485	120
In Lieu of Taxes	1 500	2 100	600
Sewer	9 600	9 600	-
Trash	150	150	-
Fees	274	246	(28)
Rentals	140	140	-
Schools	100	100	-
Libraries	51	51	-
Cemeteries	328	313	(15)
Recreation *	482	532	50
Other Departmental *	1 816	1 896	80
Fines & Forfeits	471	437	(34)
Investment Income	1 810	2 300	490
Parking Fund	10 741	10 741	-
From Other Available	3 692	3 692	-
License & Permits	3 789	3 062	(763)
State Revenue	39 500	38 500	(1,000)
Total	79,869	79,064	(800)

Fortunately, expenditures are projected to come in below budget to offset the estimated revenue shortfall. The primary categories where expenditures are under budget are in salary accounts because of a selective hiring freeze and employee health insurance. All told, I do not project a budget deficit for the current year although the potential for one is something that will have to be monitored closely over the last few months of the fiscal year.

HISTORICAL VIEW

The second table, **Table 2**, gives a five year history of the City's revenue from the state and its percentage of the overall City budget.

TABLE 2
State Aid as a Percentage of Budget
000's omitted

	STATE AID	% OF BUDGET	
FY88	44,187	22.3	Actual
FY89	42,722	19.7	Actual
FY90	42,836	18.7	Actual
FY91	39,477	16.0	Actual
FY92	35,529	13.7	Estimate

As can be seen from the numbers, state aid and its percentage of the total budget have been declining steadily since 1988. While the drop in state aid has been significant, it is important to note that a major reason Cambridge has not been as hurt by recent cuts as much as some other cities and towns is our relatively lower reliance upon state aid. Even in 1988 when state aid as a percentage of our budget was just over 22%, most cities of comparable size were relying upon the state to provide upwards of 50% of all revenue that their communities received.

Table 3 presents the annual property tax levy and its percentage of the annual budget since 1988. As can be expected, the steady decrease in state aid as a percentage of the City's budget is reflected in the steady increase in the property tax levy and its percentage of overall revenues.

TABLE 3
Tax Levy as a Percent of Budget

	TAX LEVY	% OF BUDGET	
FY88	86,893	43.4	Actual
FY89	94,490	43.3	Actual
FY90	109,510	45.9	Actual
FY91	117,995	47.1	Actual
FY92	130,000	49.6	Estimate

CITY OF CAMBRIDGE
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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

To The Honorable, The City Council,

As the City Council is aware, Governor William Weld has stated his intention to submit a state budget for FY92 that reduces state aid to cities and towns by 10%. In Cambridge, that cut translates into a reduction of approximately $4 million from our current year allocation of $39.5 million. This action, coupled with a virtual cessation of all new real estate development in the City, has serious implications for the City in FY92 and beyond, with the ramifications becoming more problematic as each year passes. Throughout the 1980's, Cambridge stood alone as the one Massachusetts municipality in sound fiscal condition. While our relative strength continues to this day, the next few years will see significant cuts in City services if existing revenue and expenditure projections come true. Cambridge achieved its position of fiscal strength through three means: support from state aid, unprecedented economic expansion of the tax base and the implementation and management of sound fiscal policies. Only our adherence to sound fiscal policies remains as we now deal with the double jeopardy of a shrinking local tax base and yet another decrease in state aid.

In order to assist the City Council in its policy formulation and inform our employees and citizens of the serious financial issues that face us, the Finance Department has prepared some historical information that traces our path to this point and a five year revenue and expenditure projection that very clearly highlights the problems that face us. Before discussing those two points however, it is important that the City Council be updated on the status of the current fiscal year.

THE CURRENT FISCAL YEAR

While Governor Weld has pledged not to cut state aid to the City during the current year, the previous administration took steps that will result in the City receiving approximately $1 million less in state revenue during the current year than was originally allocated to us. Those reductions come in police career incentive payments, a cut of $350,000, and school building assistance payments which is a reduction of just over $600,000. The state simply underfunded career incentive payments to the City while the

While **Table 3** clearly points out the significant increase in the tax levy (35.7% between FY88 and FY91 and a projected 49.6% increase between FY88 and FY92), it is important to note that the vast percentage of that increase was born by newly constructed commercial properties as they came on the tax rolls. Thus, annual tax increases to the average residential and commercial owner were kept to a minimum. **Table 4** shows a five year history of taxes paid by new construction in their first year as a percentage of that year's tax levy increase.

TABLE 4
New Construction as a Percent of Levy Increase

	LEVY INCREASE	$ AMOUNT	% PAID BY NEW CONSTRUCTION
FY88	$ 4,211	$ 4,176	99 %
FY89	7,597	5,929	78
FY90	15,020	7,079	47
FY91	8,485	5,245	62
FY92	12,005 (est.)	1,582	13

The estimated taxes to be paid by newly constructed properties in FY92 is projected to equal only 13% of the total increase, a percentage much diminished from the percentage paid in the four previous years. The result of this is that existing property will see a significant increase in their annual tax bill if in fact the City's tax levy increases to $130 million. This tax increase will come despite significant drops in the value of their property.

FUTURE VIEW

The first three tables indicate that from a revenue perspective, Cambridge has 2 major problems as it faces the first half of this decade. The combined reduction in state aid and the sharp drop off in economic expansion means that Cambridge will essentially reach its levy limit in FY92. As a result of this, the City is projected to be able to increase its tax levy by approximately $4 million annually in FY93, 94, and 95. This $4 million annual increase compares with an average annual increase of $11.8 million in the previous 3 years. Additional cuts in state aid would serve to further exacerbate the situation.

In an effort to indicate the impact of the City being at its levy limit, the Finance Department prepared the following 5 year revenue and expenditure projections. The projections are based upon the following assumptions which were drawn from historical occurrences and economic expectations.

EXPENDITURES:
* City operating programs increase by 5% annually
* City debt service reflects five year capital plan
* School operating programs increase by 6% annually
* School debt service reflects five year capital plan
* State charges increase by legal limit of 2.5% annually

REVENUES:
* State Aid decreases by 10% in FY92, holds constant for FY93, then increases by 3% annually thereafter
* Motor Vehicle Excise Taxes fall off by $100,000 in FY92, then increase slightly in out years
* Hotel/Motel Tax holds steady for FY92 and then increases by 2% thereafter
* Charges for sewer increase to fully cover all projected sewer related costs
* Licenses and permits decrease by $750,000 in FY92 to reflect sharp drop in building permits then gradually increase in out years
* Hospital receipts increase to hold tax support at $9.6 million
* Neville receipts increase to hold tax support at $800,000
* Water receipts increase to cover all water related operating and debt service costs
* New construction and Legal Levy Limit increase as follows:

000's omitted

YEAR	2 1/2 INCREASE	NEW CONSTRUCTION INCREASE	TOTAL INCREASE
FY92	3,134	1,600	4,734
FY93	3,252	800	4,052
FY94	3,353	600	3,953
FY95	3,452	1,000	4,452

* Levy increase based upon construction as follows:

YEAR	VALUE (000's omitted)
FY92	80,000
FY93	40,000
FY94	30,000
FY95	50,000

EXPENDITURE PROJECTIONS
(000'S)

GENERAL FUND	FY91 Budget	FY92 Estimated	FY93 Estimated	FY94 Estimated	FY95 Estimated
City Operating Programs	$90,128	$94,634	$99,366	$104,334	$109,551
Non-Contrib. Pensions	$2,045	$2,000	$1,950	$1,900	$1,850
City Debt Service	$6,205	$6,306	$6,312	$5,519	$5,291
School Operating	$63,936	$67,772	$71,838	$76,149	$80,718
School Debt Service	$4,837	$3,978	$4,115	$4,148	$2,831
Overlay	$2,995	$3,000	$2,500	$2,500	$2,500
Prior Year Overlay	$59	$100	$100	$100	$100
Water/Sewer Authority	$7,426	$8,169	$8,985	$9,884	$10,872
State Charges	$6,339	$6,497	$6,660	$6,826	$6,997
Offset Items	$941	$940	$940	$940	$940
SUBTOTAL:	$184,911	$193,396	$202,766	$212,300	$221,650
HOSPITAL					
Hospital Operating	$48,918	$51,853	$54,964	$58,262	$61,758
Hospital Debt Service	$3,020	$2,873	$2,445	$2,993	$2,812
SUBTOTAL:	$51,938	$54,726	$57,409	$61,255	$64,570
NEVILLE MANOR	$7,857	$8,328	$8,828	$9,358	$9,919
WATER					
Water Operating	$4,122	$4,328	$4,544	$4,771	$5,010
Water Debt Service	$1,560	$2,434	$2,314	$2,216	$2,119
SUBTOTAL:	$5,682	$6,762	$6,858	$6,987	$7,129
GRAND TOTAL:	$250,388	$263,212	$275,861	$289,900	$303,268

REVENUE PROJECTIONS
(0000'S)

	FY91 Budget	FY92 Estimated	FY93 Estimated	FY94 Estimated	FY95 Estimated
GENERAL FUND					
Real and Personal	$107,732	$120,003	$128,002	$135,532	$142,059
Motor Vehicle Exc.	$2,600	$2,500	$2,500	$2,600	$2,700
Hotel/Motel Exc.	$2,400	$2,400	$2,450	$2,450	$2,500
Interest on Taxes	$365	$365	$400	$425	$450
Charges for Sewer	$9,330	$10,073	$10,889	$11,133	$12,121
Fees	$275	$275	$275	$275	$275
Rentals	$141	$140	$140	$140	$140
School Revenue	$100	$100	$100	$100	$100
Library Revenue	$51	$50	$50	$50	$50
Cemetary Revenue	$329	$320	$320	$320	$320
Recreation Revenue	$588	$590	$600	$610	$620
Other Dept. Revenue	$1,710	$1,710	$1,720	$1,730	$1,740
Licenses/Permits	$3,789	$3,000	$3,250	$3,500	$3,750
Fines/Forfeits	$471	$470	$470	$470	$470
Investment Income	$1,810	$2,000	$2,100	$2,200	$2,300
Parking Fund	$10,742	$10,700	$10,800	$11,000	$11,200
State Aid	$39,478	$35,400	$35,400	$36,465	$37,555
Free Cash	$1,500	$1,500	$1,500	$1,500	$1,500
In-Lieu-Of Taxes	$1,500	$1,800	$1,800	$1,800	$1,800
SUBTOTAL:	$184,911	$193,396	$202,766	$212,300	$221,650
HOSPITAL					
Hospital Receipts	$42,371	$45,126	$47,809	$51,655	$54,970
Taxes	$9,567	$9,600	$9,600	$9,600	$9,600
SUBTOTAL:	$51,938	$54,726	$57,409	$61,255	$64,570
NEVILLE MANOR					
Patient Receipts	$7,156	$7,528	$8,028	$8,558	$9,119
Taxes	$701	$800	$800	$800	$800
SUBTOTAL:	$7,857	$8,328	$8,828	$9,358	$9,919
WATER RECEIPTS	$5,682	$6,762	$6,858	$6,987	$7,129
GRAND TOTAL:	$250,388	$263,212	$275,861	$289,900	$303,268
PROJECTED LEVY LIMIT	$125,363	$130,097	$134,149	$138,102	$142,554
PROJECTED LEVY	$117,995	$130,403	$138,402	$145,932	$152,459
EXCESS LEVY CAPACITY	$7,368	($306)	($4,253)	($7,830)	($9,905)

City of Cambridge

The Committee on Finance conducted a public hearing on Tuesday, February 26, 1991 beginning at 7:12 p. m. in the Sullivan Chamber, City Hall for the purpose of discussing impacts relative to the close of fiscal year tax revenues for fiscal year 1991 as well as the likely impact on the proposed reductions in local aid for fiscal year 1992.

Members present were: Councillor Ed Cyr, Councillor Walter Sullivan, Councillor Timothy Toomey, Councillor Jonathan Myers, Councillor Sheila Russell, Vice Mayor Kenneth Reeves, Councillor William Walsh and City Clerk Joseph Connarton.

Councillor Ed Cyr, Chair of the Committee, stated he had scheduled this hearing as a response to the growing crises of revenue collection for the city. Furthermore, he stated, he believed it was crucial that the city develop long range and creative plans for dealing with, not only the balance of this fiscal year, but the future fiscal years.

City Manager, Robert W. Healy, outlined to the committee a historical overview of the fiscal condition of the city during the 1980's during which the city enjoyed increased financial assistance from the Commonwealth, an economic expansion of the tax base and the implementation of sound fiscal principles. Furthermore, he stated, that out of the three key criteria just mentioned the only one remaining was sound fiscal practices. He stated that former Governor Dukakis administration, because of budget constraints, had caused a process to develop which will provide $1 million less in state revenue for Cambridge which had previously been anticipated for the current fiscal year; that coupled with revenue from excise tax and building permit fees being down represents a $2 million deficit. All of this, he continued, will cause an $800,000 shortfall in the revenue projection for fiscal year 1991. Mr. Healy further stated that he and the Assistant City Manager for Fiscal Affairs will be looking very carefully at all expenditures although there are approximately two dozen vacancies at the Police Department, he said, he is currently considering not filling them and establishing a reserve list from which he could appoint at a later time when the fiscal situation is more stable. Furthermore, he stated, that fiscal year 1992 will be very difficult and that at least 50% of the budget will be funded from the property tax.

The committee then heard from James P. Maloney, Assistant City Manager for Fiscal Affairs, who outlined in more detail a memorandum submitted by the City Manager which provides the budgetary historical perspective as well as the assumptions used in projecting fiscal year 1992 expenditure and revenue streams, a copy of which is attached and incorporated herein by reference. Mr. Maloney stated that the revenue shortfall has been created mainly because of local aid cuts from the Commonwealth and the severe reduction in the contribution of residential and commercial property which had been expanding the city's tax base. He further stated that last year the city raised $108 million from the property tax and one out of every four dollars came from new construction

Councillor Myers stated he just found it hard to believe that in one year the city went from heaving a multi-million dollar cash surplus to finding itself in a deficit situation and questioned whether the City Manager had anticipated this problem.

The City Manager responded by stating he will have a balanced budget as he is required to do by law and that the $800,000 shortfall will be made up from reductions in other areas. Furthermore, he stated, that the shortfall is driven by expenditures and the need for the city to pick up more of the cost to maintain programs.

Councillor Cyr stated it is imperative that the City Council be creative and helpful in terms of offering budget reductions.

Councillor Myers stated he does not want to see all reductions taking place within the human services area.

Councillor Walsh and Councillor Russell both indicated it was time to evaluate agencies, boards and commissions to determine whether or not any duplication exists. They stated it is time to get back to basics in government.

Councillor Cyr questioned what the current work force is within the City.

The City Manager responded by stating the work force is down 8% from 1980 figures with the Police, Fire and Public Works Department taking the largest loss. Furthermore, Mr. Healy stated he anticipated reductions will be made in personnel at the Hospital and Neville Manor as the fiscal crisis continues.

Councillor Cyr stated he was very concerned with the school budget and stated that they need to understand it is not business as usual in terms of seeking additional funds from the City Council.

Both the City Manager and Mr. Maloney responded by stating the School Department is in the process of making some changes and corrections in this fiscal year's budget and will have to have some reduction in their next years budget.

Councillor Reeves stated he didn't understand why the city wasn't receiving any additional tax revenue from new development given the fact that the Galleria Mall just came on line as well as a series of recent sales of auctioned condominiums.

Mr. Maloney responded by stating the Galleria has provided some revenue, but most of it in the early years will depend on the growth of the retail stores. Relative to the condo sales, he stated that the city is getting less real estate tax because the units were all sold under the assessed valuation.

The Vice Mayor questioned what the comparative data was in terms of the ratio for the number of police officers for every 1000 residents and stated he believed Cambridge was above the figure.

The City Manager responded by stating he did not have that data at this time, but believed it was 1.8 per 1000 people and Cambridge was somewhere between 2 and 2.3.

The Vice Mayor stated that based on information he had there were times when the city either has a deployment problem or not enough resources.

The Vice Mayor questioned if cuts were made from the Capital Budget what would be effected?

Mr. Maloney responded by stating the cuts would probably be made in the following areas:

- playground renovation
- fire equipment
- street/sidewalk repair
- building renovation

The Vice Mayor further questioned whether or not there was a likelihood of local aid being increased at sometime in the future.

The City Manager stated that at some point down the line he believed the Governor will address that issue cut doesn't know how.

Councillor Toomey stated he is opposed to reductions in police or fire personnel. He stated that such an action would place the people at risk.

The hearing was adjourned at nine o'clock and fifteen minutes p. m.

For the Committee,

Councillor Ed Cyr,
Chairman

3. F-140

COMMITTEE REPORT

Report from the Committee on Finance for a hearing held Feb. 26, 1991 regarding the impact of the close of the fiscal year tax revenues for fiscal year 1991 as well as the impact on the proposed reductions in local aid for fiscal year 1992.

In City Council,

March 4, 1991.

Report accepted.
Placed on File.