City of Cambridge

The Finance Committee held a public meeting on October 26, 1994, beginning at 5:35 p.m. in the Sullivan Chamber for the purpose of receiving a report from the City Manager and his staff on the five year financial projections for the City.

Present at the hearing were Councillor Michael A. Sullivan, Chair of the Committee, Councillor Kathleen L. Born, Councillor Francis H. Duehay, Councillor Jonathan S. Myers, Vice Mayor Sheila T. Russell, Councillor William H. Walsh and City Clerk D. Margaret Drury. Also present were City Manager Robert W. Healy, Assistant City Manager for Finance James Maloney, Budget Director Louis DePasquale, City Auditor James Lindstrom and Frederick Santani, Budget Assistant.

Councillor Sullivan convened the hearing and announced that the meeting would be moved to the Ackermann Room. Upon reconvening in the Ackermann Room, Councillor Sullivan explained the purpose of the hearing. He requested that Robert W. Healy provide a rundown on the written projections submitted to the City Council on October 24, 1994 (Attachment A).

Robert W. Healy noted that the difference in the two sections is the assumption of a 2% growth in state aid in one and an assumption of no growth in the other. Robert W. Healy noted that there is an assumption of a decrease in funding reimbursement for Neville Manor through the loss of the preferential medicaid rate, and thus a assumption of a need to increase tax support.

Councillor Duehay asked whether the state decision had been made to eliminate the rate. Robert W. Healy said that although the decision had been made, there has been substantial political pressure brought to bear to continue the rate, and the ending date for the rate is not clear.

Councillor Born asked how many cities have municipally-funded nursing homes. Robert W. Healy stated that there are not many.

Mr. Maloney said that there are also changes in the marketplace, with more elders being kept at home and more private competition.

Mr. Healy said that he plans to report the financial issues regarding Neville Manor to the Council for referral to appropriate Council committees for extensive discussions. For purposes of five year projections, the assumption is that the rate ends and the deficit is replaced by tax dollars.

Councillor Sullivan asked if there were also plans to look at potential additional revenue through provision of services. Robert W. Healy stated that this would be looked at. Jim Maloney pointed out that there can be increased costs associated with this. Robert W. Healy stated that he intended to provide further reporting on this issue in threee to four weeks.

Councillor Born asked whether the medicaid rate is solely a state issue, and Robert Healy said that it is. There are only six other nursing homes that have this rate.

Councillor Duehay asked whether the expenditures listed in the projection scenarios include state and federal revenues.

Mr. Maloney said that grants are not included.

Councillor Duehay asked how much additional funding the grants provide.

Mr. DePasquale said about $5 million, not including the schools, and the grants to the schools amount to much more. Robert W. Healy stated that at budget time, grant money the City knows about are included in the budget.

Councillor Duehay asked if they appear in the fiscal audit and Jim Maloney said that they do.

Robert Healy noted that the City is assuming a 0%-0%-3% increase in the pay structure. He added that the firefighters are in arbitration now.

Councillor Sullivan asked why the numbers look better than a year ago.

Mr. Maloney stated that the reasons are the health insurance conversion and a change in the wage projections. Instead of 0-2-2, this year the projection is 0-0-3.

Councillor Sullivan asked what the budget message to departments will be. Jim Maloney said that it is still being formulated but would include:

- freezes on salaries and positions; and
- 2% increase for non-salary.

Mr. Maloney said that this year the schools went up approximately 3 1/2% and Massachusetts Water Resource Authority went up approximately 5%. City department budgets were up about 1%.

Councillor Born asked about the schools and state aid.

Councillor Sullivan asked about the projection for a new school. Robert Healy said that there are many programmatic issues to be addressed in this decision.

Councillor Born asked why there are two scenarios for state aid. Jim Maloney said that the amount of future state aid represents the biggest question mark in the projections.

Councillor Born asked whether the amount of state aid is dependent on the lobbying done for it. Robert Healy said that the lobbying that is important is lobbying to support the concept of as much local aid as possible. The formula itself is fair to Cambridge.

Councillor Duehay stated that the Mass Municipal Association has, as part of its campaign work, received assurances from both gubernatorial candidates that lottery money will not be diverted from state aid. The big issue would be increasing income tax funding going to state aid.

Councillor Myers asked whether the $320 million figure in the projections was last year's budget amount. Jim Maloney stated that it was not; it is FY '96 projected. Councillor Myers asked what Robert Healy is looking at to cut the deficit in the case of the scenario without increased state aid. Robert Healy noted that the problem would occur in FY '97 and would be dealt with through consolidation and perhaps some revenue enhancements. He stated, however, that he believes that there is reason for some optimism with regard to state aid.

Councillor Sullivan asked about increases in the building fees which were previously approved by the City Council. Robert Healy said that they are already accounted for in the FY '95 budget.

Councillor Duehay noted that many communities are having a very bad time trying to conform with the spending requirements of the Education Reform Act. Cambridge does not face this problem, because it spends more on education than many communities.

James Maloney cautioned that since Cambridge is at levy limit, there is a need to be very careful about expenditures.

Councillor Sullivan asked about the potential for tax savings.

Robert Healy said that for a tax increase to be noticeable it would have to be over a $4 million cut. Councillor Sullivan pointed out that the Education Reform Act would prohibit much of the cut coming from the schools.

Robert Healy said that in 1988 when there was a $12.5 million loss of state aid, the City did not require the schools to absorb any of that; thus the proportion of taxes as revenue support to the schools has grown.

In response to a question from Councillor Born, Jim Maloney said that the best way to keep taxes down is by having new construction to add to the tax base. Councillor Born asked whether building permits and start up figures support the projections for new construction. Jim Maloney explained the basis for this projection. He added that he expects a substantial part to come from renovations.

Councillor Duehay asked about the assumptions about school population. Jim Maloney stated that a steady growth is assumed.

Councillor Duehay said that he would like to see the school projections. Councillor Sullivan asked Robert Healy to obtain a copy as soon as it is done.

Vice Mayor Russell asked why the tax bills do not have a breakdown of how much is spent for education. Jim Maloney said that it is no longer required by law.

Councillor Born asked whether there could be an illustration of how each dollar of new construction impacts existing residential taxes. Jim Maloney said that it can be done, although certain assumptions about the budget must be made. Robert Healy noted that historical analysis of what the effect was in past years could be done. He noted the importance of striking a balance with the quality of life issues. Jim Maloney added that for the next two years each dollar increase above $35 million in new construction per year could be used to result in a 60 cent increase in residential taxes. The Council would also have the choice of using the additional taxes for increased expenditures.

Regarding capital investment, James Maloney noted that there will be $120 million in capital investment over the next 5 years for hospital, water and sewer improvements through revenue supported debt.

Robert Healy noted there are space needs for the library and the police station. He said that the Crime Bill makes minimal provision for bricks and mortar.

Jim Maloney said that if the City can maintain its rapid debt retirement, there will be funds for capital improvement through tax-supported debt. The City issues 10 year bonds.

Councillor Walsh stated that the taxes are getting to the point of croaking people. He observed that the Hospital and Neville Manor can both turn these projections into a nightmare. The worst that can happen is if businesses leave because of taxes.

Robert Healy noted that the projected growth in City operating program expenses is less than $400,000 on $82 million.

Councillor Sullivan stated that he would like to have the presentation which will be going to the School Council made to the Finance Committee. He added that he would like the Committee to consider what budget process is most helpful to the Council.

Councillor Sullivan asked about current year revenues. Robert W. Healy said that they will be looking closely at parking revenues; all others appear to be as expected.

The meeting was adjourned at 6:56 p.m.

For the Committee,

Councillor Michael A. Sullivan
Chair

S-467

Committee Report #1

A communication was received from D. MArgaret Drury, City Clerk, transmitting a report from Councillor Michael A. Sullivan , Chair of the Finance Committee, for a public meeting held on October 26, 1994 for the purpose of receiving a report from the City Manager and his staff on a five year financial projection for the City.

In City Council October 31, 1994

Report accepted
Placed on file
On motion of
Councillor Duehay