

Revenue Assumptions:

A. Property tax levy is increased annually by 2.5% plus that amount allowed for new construction.

B. Residential Assessment increases as follows:

| | |
|--------|----|
| FY1986 | 7% |
| FY1987 | 7% |
| FY1988 | 5% |
| FY1989 | 5% |
| FY1990 | 5% |

C. Commercial Assessment increases as follows:

| | |
|--------|----|
| FY1986 | 3% |
| FY1987 | 3% |
| FY1988 | 3% |
| FY1989 | 3% |
| FY1990 | 3% |

D. New Development Comes on Line as follows:

| | |
|--------|-------------|
| FY1986 | 100,000,000 |
| FY1987 | 75,000,000 |
| FY1988 | 75,000,000 |
| FY1989 | 75,000,000 |
| FY1990 | 40,000,000 |

E. State Aid increases at flat 1,500,000 per year

F. Water Revenue is projected to match expenditures and includes the following rate schedule:

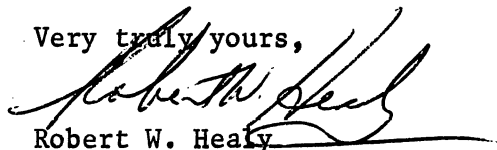
| FY | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> |
|------|-------------|-------------|-------------|-------------|-------------|-------------|
| Rate | .66 | .74 | .76 | .80 | .84 | 1.04 |

G. Hospital revenues are capped at 4% annually.

H. Neville Manor revenues are projected at an annual increase of 3%.

I. All other revenues remain fairly constant as they are not particularly responsive to the economy.

Very truly yours,


Robert W. Healy
City Manager

FY1986 Levy = (74,435,000 x 102.5%) + (100,000,000 x 3.469%) = 79,764,875
 FY1987 Levy = (79,764,875 x 102.5%) + (75,000,000 x 3.508%) = 84,389,997
 FY1988 Levy = (84,389,997 x 102.5%) + (75,000,000 x 3.512%) = 89,133,747
 FY1989 Levy = (89,133,747 x 102.5%) + (75,000,000 x 3.492%) = 93,981,091
 FY1990 Levy + (93,981,091 x 102.5%) + (40,000,000 x 3.473%) = 97,719,818

Expenditure Assumptions:

- A. City, School, Hospital, Neville Manor and Water Department operating expenses increase 5% annually.
- B. Health insurance increases 10% annually.
- C. Pension costs increase 10% annually.
- D. State charges increase 2.5% annually.
- E. City debt service reflects following Bond Sales:

Existing City Council Authorizations

| Project | Proposed Date of Sale | Amount | Term Years |
|-----------------------|-----------------------|-----------|------------|
| East Cambridge Garage | 7/1/85 | 2,100,000 | 10 |
| East Cambridge Garage | 7/1/85 | 2,663,475 | 10 |
| Hospital Equipment | 7/1/85 | 1,997,800 | 3 |
| Hospital Boiler Plant | 7/1/85 | 1,852,200 | 10 |
| Public Building Roofs | 7/1/85 | 1,500,000 | 3 |
| Lechmere Canal Park | 7/1/86 | 3,438,700 | 10 |

Proposed for City Council Authorization

| | | | |
|-------------------------|--------|------------------|----|
| Streets and Sidewalks | 7/1/86 | 5,000,000 | 10 |
| Open Space Improvements | 7/1/87 | 4,000,000 | 10 |
| Water Improvements | 7/1/88 | <u>9,000,000</u> | 10 |

Total Projected Capital Debt Issuance 31,552,175

- F. Overlay reserve account held constant.
- G. Pension Reserve held constant.
- H. Pay-As-We-Go Capital increases 10% annually.

TABLE 7

Expenditure Projections, By Fund

| General Fund | FY1986 | FY1987 | FY1988 | FY1989 | FY1990 |
|-------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| State Charges | 9 204 150 | 9 434 254 | 9 670 110 | 9 911 863 | 10 159 659 |
| Pension | 9 302 200 | 10 232 423 | 11 255 665 | 12 381 231 | 13 619 355 |
| Pension Reserve | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 | 1 000 000 |
| City Debt | 3 552 837 | 3 870 110 | 5 009 280 | 5 140 788 | 4 724 316 |
| Overlay | 2 225 000 | 2 225 000 | 2 225 000 | 2 225 000 | 2 225 000 |
| Prior Year Overlay | 1 600 000 | 800 000 | 500 000 | 250 000 | 150 000 |
| School Department | 49 938 191 | 52 543 815 | 54 252 402 | 56 633 176 | 58 689 568 |
| City Operating Programs | 54 360 781 | 57 356 769 | 60 530 351 | 63 893 187 | 67 457 796 |
| Pay-As-We-Go Capital | 1 500 000 | 1 650 000 | 1 815 000 | 1 996 000 | 2 200 000 |
| Sub Total - General Fund | 132 683 159 | 139 112 371 | 146 257 808 | 153 431 245 | 160 225 694 |
| Water Fund | 4 633 369 | 4 821 302 | 5 018 632 | 5 325 828 | 6 703 385 |
| Hospital Fund | 33 298 532 | 35 784 688 | 37 614 158 | 39 554 909 | 40 978 143 |
| Neville Manor | 4 861 500 | 5 104 575 | 5 359 804 | 5 627 794 | 5 909 184 |
| Total Projected Expenditures | 175 476 560 | 184 822 936 | 194 250 402 | 203 939 776 | 213 816 406 |
| Total Projected Revenues | 175 476 560 | 184 142 964 | 191 909 936 | 200 187 081 | 208 492 431 |
| Projected Revenue Gap | | 679 972 | 2 340 466 | 3 752 695 | 5 323 975 |

Tax Levy Projections:

| Year | Projected Assessment | 2½ of Assessed Value | Projected Levy Limit | Levy Needed To Balance Budget | Projected Revenue Gap |
|-------------|----------------------|----------------------|----------------------|-------------------------------|-----------------------|
| Actual FY85 | 3 083 419 166 | 77 085 479 | 74 435 000 | 72 370 022 | |
| FY86 | 3 285 296 518 | 82 132 412 | 79 764 875 | 78 881 541 | |
| FY87 | 3 515 693 425 | 87 892 335 | 84 389 997 | 85 315 881 | 679 972 |
| FY88 | 3 716 925 402 | 92 923 135 | 89 133 747 | 91 255 396 | 2 340 466 |
| FY89 | 3 926 232 397 | 98 155 809 | 93 981 091 | 97 880 063 | 3 752 695 |
| FY90 | 4 108 958 563 | 102 723 964 | 97 719 818 | 103 772 479 | 5 323 975 |

Table 6

Revenue Projections, By Fund

| General Fund | FY1986 | FY1987 | FY1988 | FY1989 | FY1990 |
|-------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Property Taxes | 74 223 044 | 78 245 891 | 82 193 742 | 86 167 076 | 89 583 919 |
| Excise Taxes | 1 300 000 | 1 340 000 | 1 380 000 | 1 420 000 | 1 460 000 |
| License Fees | 1 010 000 | 1 010 000 | 1 010 000 | 1 010 000 | 1 020 000 |
| Fines | 380 000 | 380 000 | 390 000 | 400 000 | 425 000 |
| Gen. Govt. Fees | 500 000 | 500 000 | 500 000 | 500 000 | 500 000 |
| Protection of Persons & Prop. | 1 750 000 | 1 775 000 | 1 800 000 | 1 850 000 | 1 870 000 |
| Health Fees | 63 500 | 63 500 | 63 500 | 63 500 | 63 500 |
| Libraries | 52 000 | 52 000 | 52 500 | 52 500 | 52 500 |
| Cemetery Fees | 173 000 | 173 000 | 173 000 | 173 000 | 175 000 |
| Recreation Fees | 530 000 | 530 000 | 535 000 | 540 000 | 550 000 |
| Interest Earnings | 1 820 000 | 1 820 000 | 1 820 000 | 1 820 000 | 1 820 000 |
| In-Lieu-Of-Tax | 1 400 000 | 1 450 000 | 1 450 000 | 1 500 000 | 1 525 000 |
| Sewer Use | 3 410 000 | 3 470 000 | 3 520 000 | 3 590 000 | 3 670 000 |
| Gen. Rev. Sharing | 2 300 315 | 2 300 315 | 2 100 000 | 2 100 000 | 2 100 000 |
| State Aid | 36 775 000 | 38 275 000 | 39 775 000 | 41 275 000 | 42 775 000 |
| Block Grant | 1 350 000 | 1 350 000 | 1 350 000 | 1 350 000 | 1 350 000 |
| Parking Fines/Fees | 5 600 000 | 5 600 000 | 5 650 000 | 5 650 000 | 5 675 000 |
| Sub Total - General Fund | 132 636 859 | 138 334 706 | 143 762 742 | 149 461 076 | 154 614 919 |
| Hospital Fund | | | | | |
| Deficit (Property Taxes) | 4 432 203 | 5 763 706 | 6 392 337 | 7 084 215 | 7 208 621 |
| Hospital Receipts | <u>28 866 329</u> | <u>30 020 982</u> | <u>31 221 821</u> | <u>32 470 694</u> | <u>33 769 522</u> |
| Sub Total - Hospital | 33 298 532 | 35 784 688 | 37 614 158 | 39 554 909 | 40 978 143 |
| Water Fund | | | | | |
| Water Receipts | 4 633 369 | 4 821 302 | 5 018 632 | 5 325 828 | 6 703 385 |
| Neville Manor | | | | | |
| Deficit (Property Taxes) | 226 294 | 380 400 | 547 668 | 729 800 | 927 278 |
| Neville Manor Receipts | <u>4 681 506</u> | <u>4 821 868</u> | <u>4 966 736</u> | <u>5 115 468</u> | <u>5 268 706</u> |
| Sub Total - Neville Manor | 4 907 800 | 5 202 268 | 5 514 404 | 5 845 268 | 6 195 984 |
| GRAND TOTAL | 175 476 560 | 184 142 964 | 191 909 936 | 200 187 081 | 208 492 431 |

that the revenue gap could grow to approximately \$6,000,000 over the next five years.

As stated earlier, these projections are thought to be conservative in nature and assume no changes to existing expenditure practices will be made and that the annual percentage increases in State Aid will decrease from a 4.3% increase from 1985 to 1986 to a 3.6% increase from FY1989 to FY1990. If, for example, State Aid were to increase at a flat amount of 7% over each of the next five years, the projected revenue gap of \$6,052,000 in FY1990 would be eliminated.

Projections.

Tables 6 and 7 below detail revenue and expenditure projections over the next five years, while Table 8 projects total tax levy and tax levy caps over the same time period. Following these three tables is the list of assumptions used in developing these projections.

TABLE 4

Expenditure Categories As A Percentage Of Total Budget

| Category | FY1981 % | FY1982 % | FY1983 % | FY1984 % | FY1985 % |
|----------------------|------------|------------|------------|------------|------------|
| State Charges | 6.7 | 7.4 | 6.6 | 5.8 | 5.5 |
| City Pensions | 5.0 | 5.4 | 5.8 | 5.5 | 5.1 |
| Pension Reserve | N.A. | N.A. | N.A. | .7 | .6 |
| City Debt | 3.2 | 2.9 | 3.8 | 3.1 | 2.4 |
| Overlay | 1.4 | 1.4 | 1.3 | 1.5 | 1.4 |
| Prior Year Overlay | .5 | .4 | .5 | .3 | .5 |
| Schools | 28.3 | 26.7 | 27.6 | 28.7 | 28.3 |
| City Operating | 33.8 | 32.3 | 29.8 | 30.1 | 31.4 |
| Pay-As-We-Go Capital | N. A. | N.A. | N.A. | N.A. | .8 |
| Water | 2.7 | 3.3 | 2.6 | 2.8 | 2.3 |
| Hospital | 16.6 | 18.2 | 19.6 | 18.9 | 18.9 |
| Neville Manor | <u>1.8</u> | <u>2.3</u> | <u>2.4</u> | <u>2.5</u> | <u>2.8</u> |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Note: Apparent errors due to rounding.

FY1986 - FY1990

Summary.

The expenditure and revenue projections that follow provide the City Council with an overview of the possible direction of the City's finances over the next five years. As all projections should be, they are conservative in nature and based upon a myriad of assumptions. The primary factors used in the development of assumptions were past performance, economic expectations and statutory constraints.

The most obvious fact which emerges from the numbers is that while the City has been successful in meeting the restrictions imposed by Proposition 2½, it is likely that the City will continue to have difficulties in complying with the mandates of the law unless one or more of the following occurs:

1. State Aid must continue to increase at the rate of the past few years (considered unlikely).
2. New local taxing options are granted to the City (considered possible as a result of steps to be taken by the City of Boston).
3. Program reductions.

If none of the above takes place, and if past expenditure patterns hold true, the City faces a possible revenue gap of approximately \$926,000 as early as FY1987, which is only one budget year from now. It is possible

TABLE 2 (Cont'd.)

| Hospital | FY81 | FY82 | FY83 | FY84 | FY85 |
|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Taxes | 3 304 739 | 3 625 766 | 3 274 912 | 4 325 541 | 4 274 738 |
| Receipts | <u>18 677 542</u> | <u>20 810 351</u> | <u>24 015 042</u> | <u>24 212 036</u> | <u>26 813 455</u> |
| Hospital Total | 21 982 281 | 24 436 117 | 27 289 954 | 28 537 577 | 31 088 193 |
| Water Receipts | 3 173 691 | 4 409 230 | 4 788 280 | 4 512 109 | 4 204 385 |
| Neville Manor | | | | | |
| Taxes | 495 078 | (96 804) | 14 261 | (251 155) | 40 000 |
| Receipts | <u>1 948 701</u> | <u>3 139 318</u> | <u>3 286 197</u> | <u>4 045 332</u> | <u>4 590 000</u> |
| Neville Manor Total | 2 443 779 | 3 042 514 | 3 300 458 | 3 794 177 | 4 630 000 |
| GRAND TOTAL | 133 597 196 | 130 131 821 | 147 420 782 | 155 998 042 | 164 306 478 |

Expenditures:

The following two tables present expenditure information on the years FY1981 to FY1985. Table 3 is a history of expenditures by major category, while Table 4 presents each category's percentage of the total budget for each of the five years in question:

TABLE 3

Expenditures, By Category, FY1981-FY1985

| General Fund | FY81 | FY82 | FY83 | FY84 | FY85 |
|-------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| State Charges | 8 813 515 | 9 917 076 | 9 228 661 | 8 892 731 | 8 979 659 |
| Pensions | 6 598 344 | 7 257 001 | 8 029 360 | 8 409 121 | 8 456 548 |
| Pension Reserve | 0 | 0 | 0 | 1 000 000 | 1 000 000 |
| City Debt | 4 180 997 | 3 853 685 | 5 262 471 | 4 803 367 | 3 994 160 |
| Overlay | 1 838 822 | 1 838 822 | 1 838 822 | 2 356 889 | 2 223 539 |
| Prior Year Overlay | 646 338 | 168 348 | 804 569 | 486 501 | 747 445 |
| Schools | 37 501 355 | 35 886 454 | 38 492 850 | 43 724 648 | 46 557 525 |
| City Operating Expenses | 44 717 333 | 43 343 539 | 41 605 610 | 46 022 514 | 51 531 524 |
| Pay-As-We-Go Capital | | | | | <u>1 268 000</u> |
| Total | <u>104 296 704</u> | <u>102 264 925</u> | <u>105 262 343</u> | <u>115 695 771</u> | <u>124 758 400</u> |
| Water Fund | 3 591 767 | 4 420 559 | 3 624 848 | 4 334 420 | 3 829 885 |
| Hospital Fund | 21 982 281 | 24 436 117 | 27 289 954 | 28 853 459 | 31 088 193 |
| Neville Manor | <u>2 443 779</u> | <u>3 042 514</u> | <u>3 300 458</u> | <u>3 794 177</u> | <u>4 630 000</u> |
| GRAND TOTAL | 132 314 531 | 134 164 115 | 139 477 603 | 152 677 827 | 164 306 478 |

revenue detail, by fund, for the same period.

TABLE 1

Summary: Major Revenue Sources, Combined All Funds

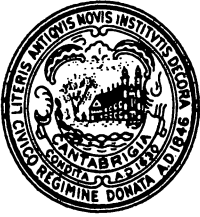
FY1981 to FY1985
(ooo's omitted)

| Revenue Source | FY81 | % | FY82 | % | FY83 | % | FY84 | % | FY85 | % |
|-----------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|--------------|-------------|
| Property Taxes | 79 961 | 59.9 | 67 967 | 52.2 | 67 967 | 46.1 | 69 617 | 44.6 | 72 370 | 44.0 |
| Excise Taxes | 1 491 | 01.1 | 1 124 | 00.9 | 1 241 | 00.8 | 1 483 | 01.0 | 1 265 | 00.8 |
| Water/Sewer | 5 103 | 03.8 | 7 318 | 05.6 | 8 583 | 05.8 | 8 470 | 05.4 | 7 574 | 04.6 |
| Hospital | 18 274 | 13.7 | 22 036 | 16.9 | 23 103 | 15.7 | 24 289 | 15.6 | 27 321 | 16.6 |
| Neville Manor | 1 949 | 01.5 | 3 139 | 02.4 | 3 286 | 02.2 | 4 045 | 02.6 | 4 590 | 02.8 |
| Revenue Sharing | 2 547 | 01.9 | 2 547 | 02.0 | 2 547 | 01.7 | 3 185 | 02.0 | 2 300 | 01.4 |
| State Aid | 15 507 | 11.6 | 17 183 | 13.2 | 26 175 | 17.8 | 29 157 | 18.7 | 35 275 | 21.5 |
| Parking Related | 2 370 | 01.8 | 3 173 | 02.4 | 5 272 | 03.6 | 6 068 | 03.9 | 5 622 | 03.4 |
| All Others | <u>6 395</u> | <u>04.7</u> | <u>5 645</u> | <u>04.4</u> | <u>9 247</u> | <u>06.3</u> | <u>9 684</u> | <u>06.2</u> | <u>7 989</u> | <u>04.9</u> |
| | 133 597 | 100.0 | 130 132 | 100.0 | 147 421 | 100.0 | 155 998 | 100.0 | 164 306 | 100.0 |

TABLE 2

Revenue History, By Fund FY1981-FY1985

| General Fund | FY81 | FY82 | FY83 | FY84 | FY85 |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|
| Property Taxes | 76 161 608 | 64 438 250 | 64 678 039 | 65 542 825 | 68 055 284 |
| Excise Taxes | 1 491 209 | 1 124 323 | 1 240 996 | 1 483 276 | 1 265 000 |
| License Fees | 502 130 | 799 683 | 975 650 | 1 010 576 | 1 003 610 |
| Fines | 129 971 | 229 517 | 286 849 | 408 191 | 375 500 |
| Gen. Govt. Fees | 236 886 | 680 308 | 414 118 | 506 729 | 496 660 |
| Protection of Persons & Prop. | 285 059 | 722 717 | 1 709 399 | 2 183 059 | 1 731 525 |
| Health Fees | 19 109 | 18 545 | 94 088 | 62 372 | 63 500 |
| Libraries | 26 526 | 35 845 | 51 313 | 51 437 | 51 600 |
| Cemetery Fees | 61 616 | 89 785 | 142 787 | 177 129 | 172 650 |
| Recreation Fees | 127 821 | 200 136 | 271 382 | 297 698 | 529 845 |
| Interest Earnings | 2 271 984 | 1 138 258 | 1 661 058 | 2 257 915 | 1 491 230 |
| In-Lieu-Of-Tax | 1 079 880 | 1 901 310 | 1 553 051 | 1 673 665 | 1 400 000 |
| Sewer Use | 1 928 508 | 2 908 626 | 3 794 261 | 3 957 647 | 3 357 590 |
| Gen. Rev. Sharing | 2 546 560 | 2 546 560 | 2 546 560 | 3 185 315 | 2 300 315 |
| State Aid | 15 507 078 | 17 183 462 | 26 175 359 | 29 157 295 | 35 078 361 |
| Block Grant | 1 252 000 | 1 053 880 | 1 175 000 | 1 131 500 | 1 389 750 |
| Parking Fines/Fees | <u>2 369 500</u> | <u>3 172 755</u> | <u>5 272 180</u> | <u>6 067 550</u> | <u>5 621 480</u> |
| Sub Total | 105 997 445 | 98 243 960 | 112 042 090 | 119 154 179 | 124 383 900 |



CITY OF CAMBRIDGE

CAMBRIDGE, MASSACHUSETTS 02139
Tel. 498-9011

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

December 17, 1984

To the Honorable, the City Council:

With respect to City Council Order No. 9 of October 1, 1984, the Finance Department has prepared a five-year history and a five-year projection of City revenues and expenditures. For the purposes of this report, expenditures have been broken into twelve categories which enables the City Council to review major areas of expenditures. The twelve categories are:

| | |
|--------------------|-------------------------|
| State Charges | School Department |
| Pension | City Operating Programs |
| Pension Reserve | Pay-As-We-Go Capital |
| City Debt | Water Fund |
| Overlay | Hospital |
| Prior Year Overlay | Neville Manor |

Revenues are presented in the twenty categories used by the City when submitting the tax rate recapitulation sheet to the Department of Revenue for the purpose of establishing an annual tax rate.

The one significant difference between the manner in which information is presented in the report and the way in which the City Council adopts the annual budget is in the Hospital figures. Historically, the City has budgeted some Hospital costs (particularly health insurance and pensions) in the General Fund, resulting in the understatement of full Hospital costs. For the purposes of this report, the full cost of all Hospital operations, including health insurance and pensions, are shown in the Hospital budget.

FY1981 to FY1985

Revenues:

As the figures in Table 1 indicate, there have been two major changes in the City's revenue stream over the past five years. First, as a result of Proposition 2½, the City's reliance upon the property tax has fallen from 59.9% of all revenues in FY1981 to 44.0% in FY1985. At the same time, the amount of State aid as a percentage of total revenues has risen from 11.6% in FY1981 to 21.5% in FY1985. All other changes in revenues as a percentage of the total have been rather insignificant.

Table 1 is an analysis of major revenues, combined for all funds for fiscal years 1981 through 1985. Following the summary is the

F 435

Re: presentation to the Council as per Order No.9 of October 1, 1984 a projection of income from all sources, with history of income and expenditures since Proposition 2½ advent.

*copy to be sent to Councilman Pirehany,
Chairman, Committee on Finance in his
next Council package on Friday, January 5, 1985*

In City Council,

December 17, 1984

12/17/84-

*L. Wolf
Motion to Refer
to Finance Committee
Carried -*