

Union Square DIF: Long-Range Forecasting

Projecting the City's fiscal health through FY27

City Staff

October 25th, 2017

Agenda

- Recap of October 11th presentation
- Long-term health of the General Fund and Water & Sewer Enterprise Funds
 - Model components and assumptions
 - Measures of fiscal health
 - Key model outputs

Where we left off...

- On October 11th the City along with RKG Associates presented:
 - DIF basics and terminology
 - The proposed Union Square DIF boundary
 - Proposed Union Square DIF infrastructure projects and costs
 - Captured increment basics and projections

The city has created a public-facing website, www.somervillema.gov/usqdif for presentation slides, supplemental information, and responses to questions during hearings.



Presentations &
Resources

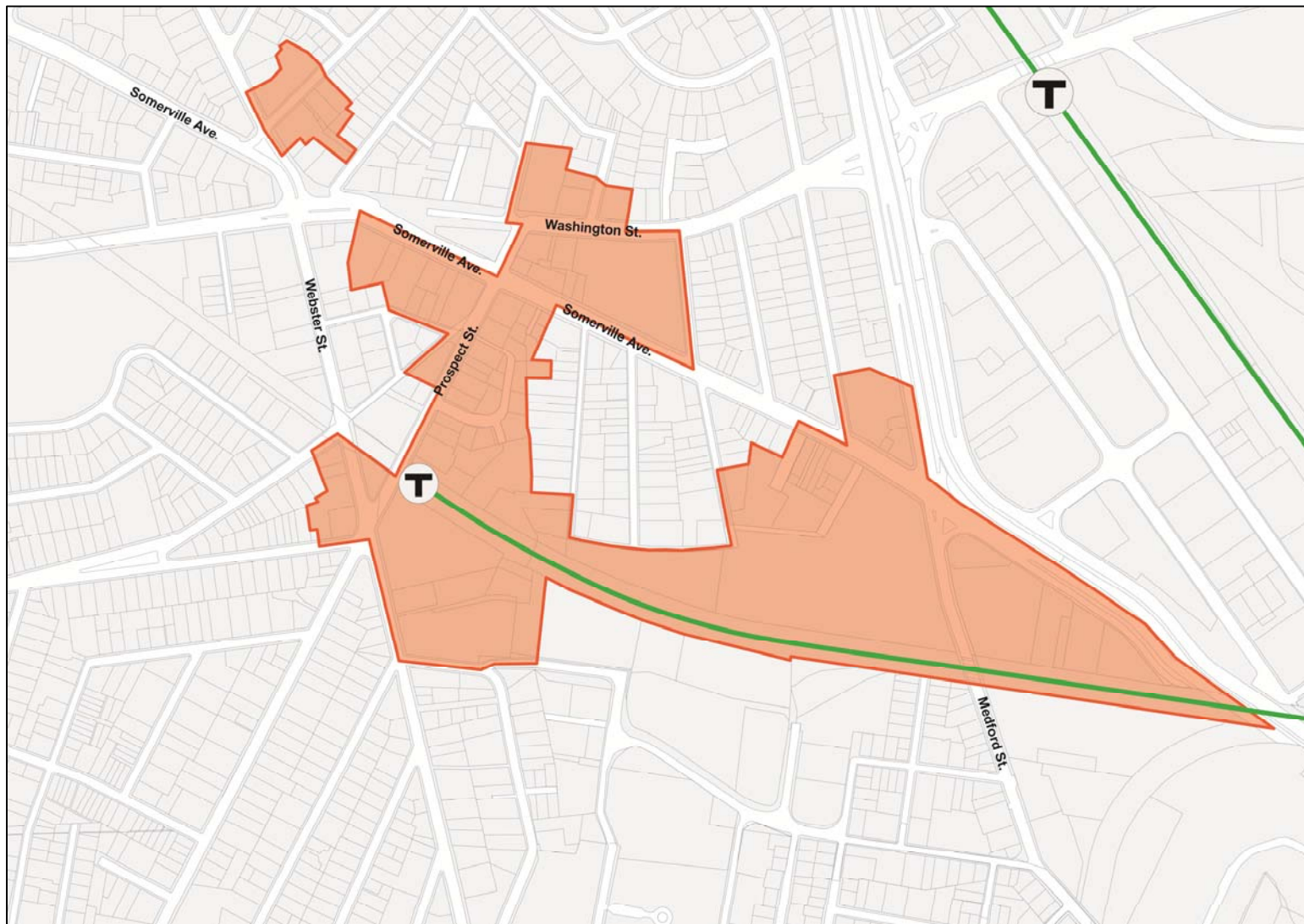


Documents

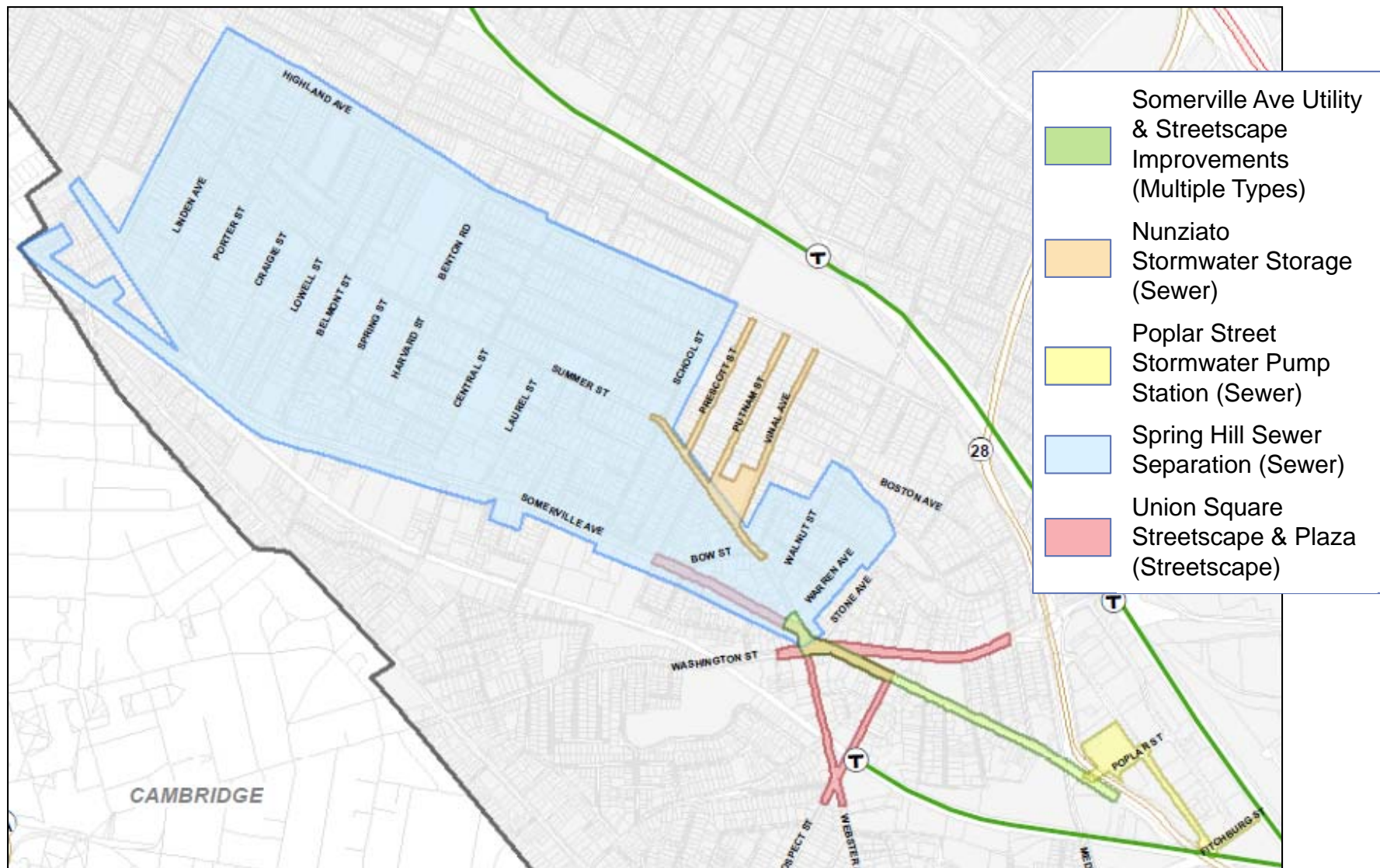


Secure Documents

Proposed USQ Development District



USQ DIF Infrastructure Projects



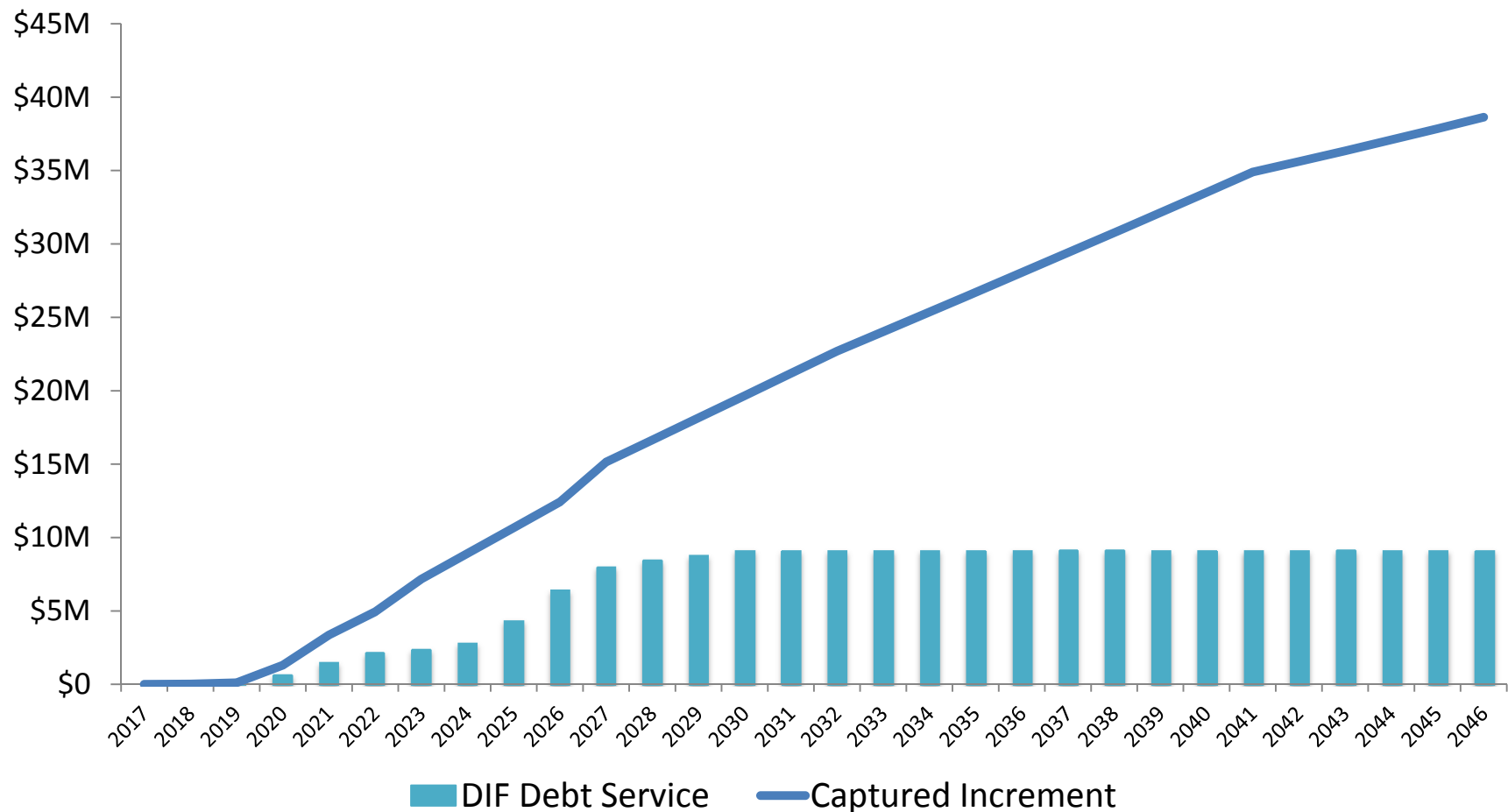
USQ DIF Infrastructure Projects

Estimated Costs and Sources

Project	Estimated Cost	Estimated Sources			
		Grant Funding	Sewer Enterprise	Water Enterprise	General Fund
Somerville Ave. Utility & Streetscape Improvements	\$63M	\$13M	\$32.5M	\$4M	\$13.5M
Nunziato Stormwater Storage	\$14.5M		\$14.5M		
Poplar St. Stormwater Pump Station	\$19.5M		\$19.5M		
Spring Hill Sewer Separation	\$13M		\$13M		
USQ Streetscape & Plaza Improvements	\$31.5M				\$31.5M
Total	\$141.5M	\$13M	\$79.5M	\$4M	\$45M

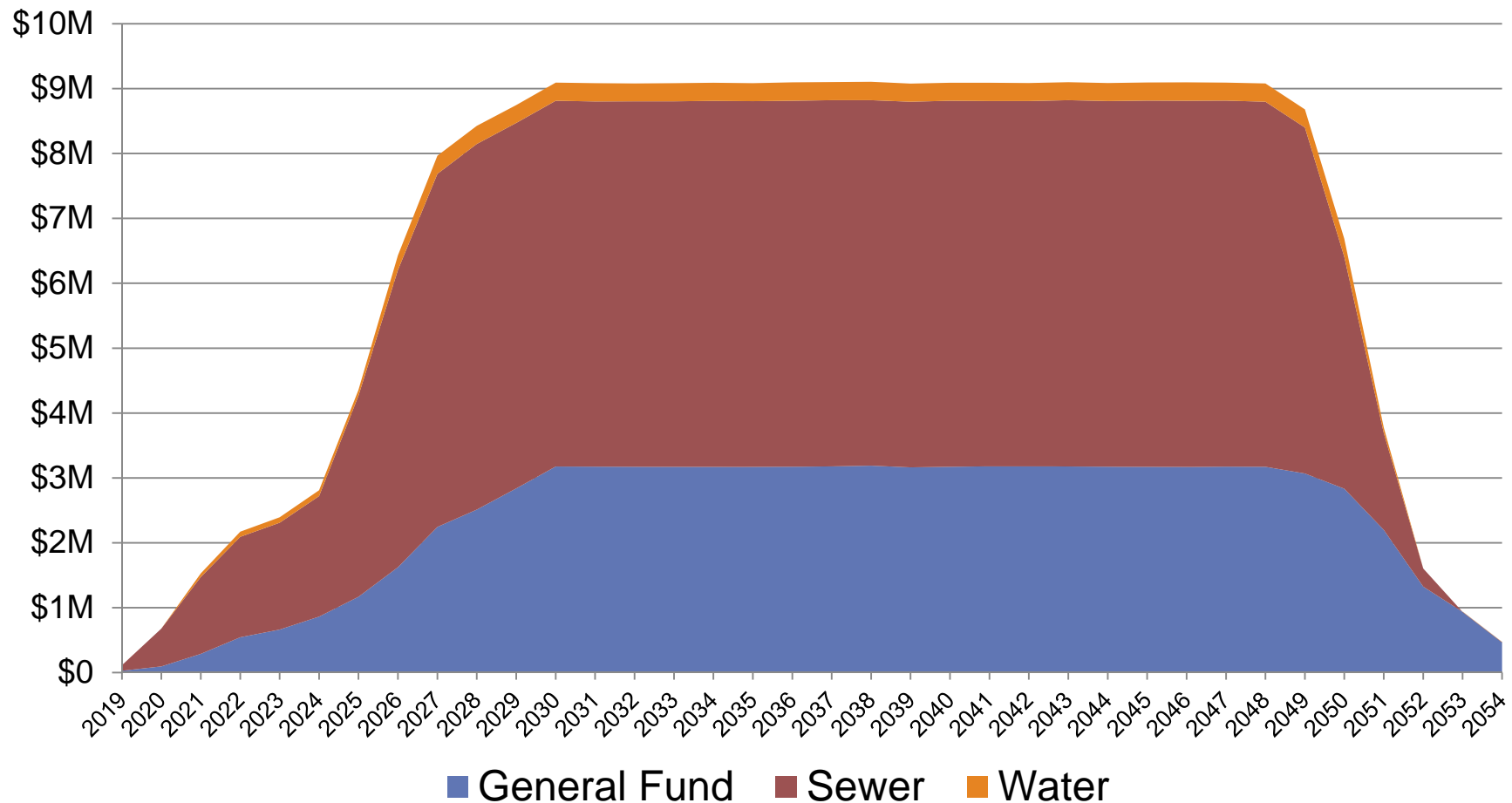
This is conservative and does not reflect potential grant opportunities, expected developer contributions, use of reserves, or sale of assets.

Captured Increment vs. Debt Service



Source: RKG Associates, City of Somerville DIF Consultant
& FirstSouthWest, City of Somerville Financial Advisor

Projected DIF Debt Service by Fund



Source: FirstSouthwest, City of Somerville Financial Advisor

Main Takeaways from October 11th

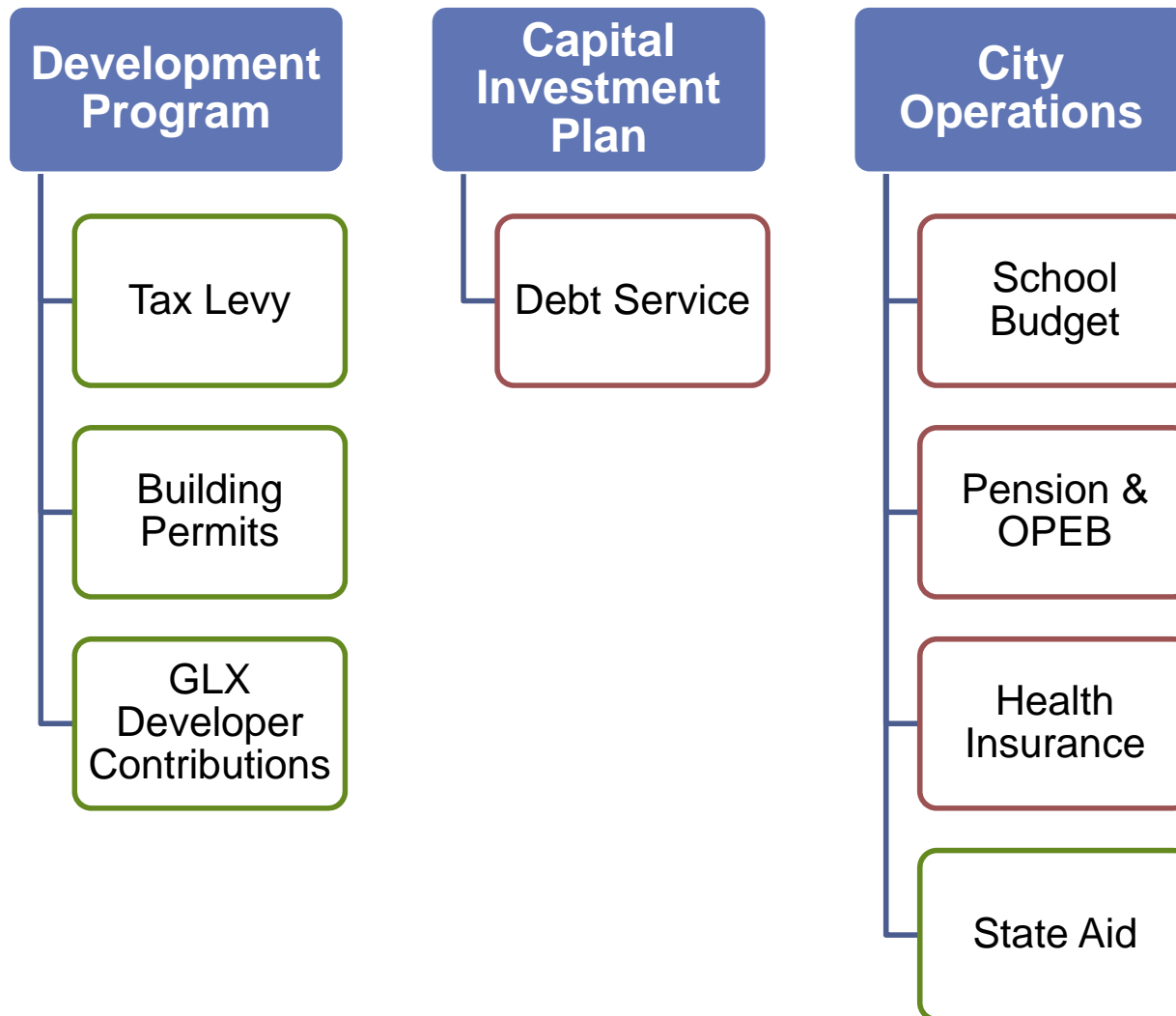
- **DIF is a tool that allows for favorable borrowing terms, with up to five years of interest-only payments**
- Union Square infrastructure projects directly benefit at least 60% of Somerville residents
- Union Square infrastructure projects also unlock significant development in the neighborhood
- Using very conservative assumptions, projected captured increment is 1.9 to 2.5 times greater than debt service
- The administration will ultimately submit to the BOA for approval five infrastructure projects to be financed through the DIF

Forecasting Fiscal Health Through FY27

- General Fund
 - Projected surpluses are healthy
 - Debt service costs are manageable
 - New growth provides flexibility
- Water & Sewer Enterprise Funds
 - Fund balances are high
 - Debt service and anticipated MWRA costs are manageable
 - Combined volumetric rate increases are in line with expectations set in FY17-FY21 rate study

Forecasting the General Fund

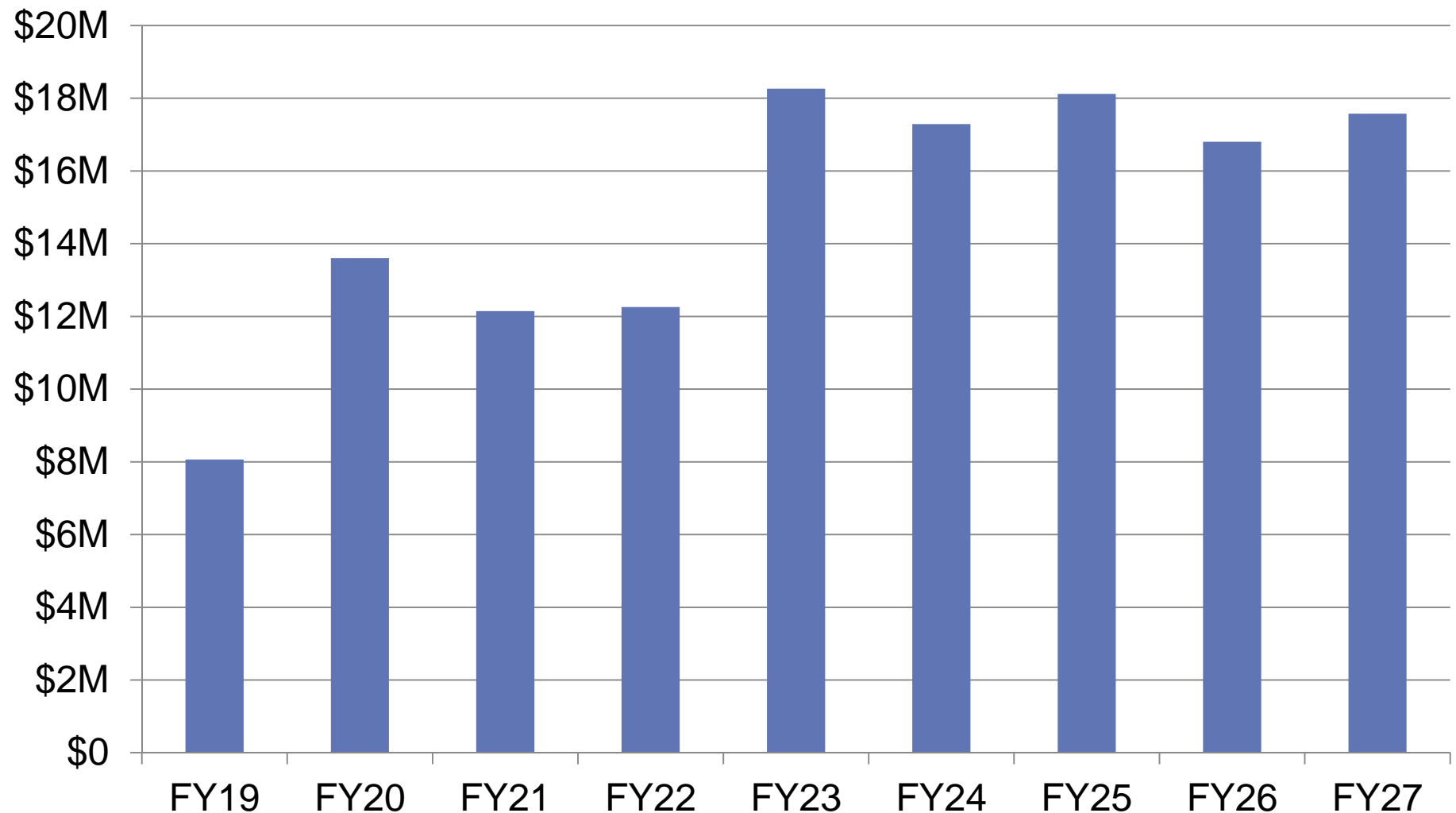
Modeling the General Fund: Key Factors



General Fund Projection Table

	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
General Government	20,969,331	21,522,114	22,090,394	22,674,612	23,275,226	23,892,704	24,527,530	25,180,200	25,851,225
Public Safety	43,313,804	44,567,110	45,857,158	47,185,034	48,551,856	49,958,774	51,406,972	52,897,672	54,432,128
Culture & Recreation	4,077,639	4,188,332	4,302,131	4,419,126	4,539,407	4,663,069	4,790,209	4,920,927	5,055,324
Public Works	27,783,490	28,406,441	29,044,143	29,696,962	30,365,273	31,049,463	31,749,926	32,467,069	33,201,307
Debt Service	9,935,490	10,136,041	12,028,215	14,719,695	15,224,648	18,320,998	20,092,918	22,269,668	23,980,314
Pension & Fringe	41,896,486	43,013,303	44,436,107	46,289,577	48,225,763	50,248,515	52,361,872	54,570,062	56,877,519
Other	2,925,745	2,978,198	3,034,466	3,094,427	3,157,982	3,225,048	3,295,559	3,369,463	3,446,722
School	72,002,889	75,603,033	79,383,185	83,352,344	87,519,962	91,895,960	96,490,758	101,315,296	106,381,060
State Assessments	14,377,972	14,521,752	14,666,969	14,813,639	14,961,775	15,111,393	15,262,507	15,415,132	15,569,284
Overlay Reserve	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
OPEB Contribution	-	-	4,567,296	4,664,376	4,760,942	4,856,749	4,951,529	5,044,992	5,136,826
Expenditure Total	238,882,846	246,536,325	261,010,064	272,509,793	282,182,835	294,822,673	306,529,780	319,050,480	331,531,710
Property Taxes	153,927,363	163,876,489	175,938,933	188,462,589	199,545,263	210,469,340	223,805,520	233,901,981	245,512,386
Excise Taxes	9,438,372	10,223,365	10,370,700	10,520,771	11,110,706	11,275,233	11,442,918	11,613,852	11,788,128
Penalties and Interest	824,241	832,483	840,808	849,216	857,708	866,285	874,948	883,698	892,535
PILOT Payments	1,578,556	1,811,916	1,845,829	1,880,504	1,915,960	1,952,214	1,989,273	2,027,187	2,065,943
Charges - Trash	90,250	85,738	81,451	77,378	73,509	69,834	66,342	63,025	59,874
Fees	1,474,321	1,456,271	1,439,124	1,422,833	1,407,358	1,392,656	1,378,689	1,365,421	1,352,816
Rentals	90,844	90,844	90,844	90,844	90,844	90,844	90,844	90,844	90,844
Other Departmental Revenue	120,500	120,500	120,500	120,500	120,500	120,500	120,500	120,500	120,500
Licenses and Permits	11,657,983	13,357,703	13,443,149	13,478,949	15,584,320	15,620,840	13,620,432	13,657,686	13,695,312
Fines and Forfeits	5,810,043	5,710,969	5,613,879	5,518,736	5,425,500	5,334,135	5,249,605	5,166,873	5,085,906
Investment Income	285,000	295,000	305,000	315,000	325,000	335,000	345,000	355,000	365,000
Miscellaneous Recurring	1,174,962	1,174,962	1,174,962	1,174,962	1,174,962	1,174,962	1,174,962	1,174,962	1,174,962
State Revenue	48,723,944	49,437,770	50,162,305	49,762,216	50,508,649	51,266,279	52,035,273	52,815,802	53,608,039
Other Financing Sources	5,487,397	4,987,397	4,487,397	3,987,397	3,987,397	3,987,397	3,987,397	3,987,397	3,987,397
Revenue Total	240,683,776	253,461,407	265,914,880	277,661,896	292,127,677	303,955,519	316,181,703	327,224,227	339,799,641
GLX Stabilization Fund Draw									500,000
GLX Developer Contributions	333,818	553,698	868,587	450,462	1,422,765	946,540	967,712	817,480	1,186,575
Appropriation Turnbacks	5,932,071	6,123,408	6,371,069	6,656,135	6,895,547	7,209,148	7,499,456	7,810,137	8,119,872
Other Revenue Total	6,265,889	6,677,106	7,239,657	7,106,597	8,318,313	8,155,688	8,467,169	8,627,617	9,306,447
Surplus / Gap	8,066,819	13,602,189	12,144,473	12,258,700	18,263,155	17,288,533	18,119,092	16,801,364	17,574,379

General Fund Projected Budgetary Surplus FY19-FY27



General Fund Model Results:

Key Metrics

According to First Southwest, a healthy General Fund in a AA-rated City is defined as having:

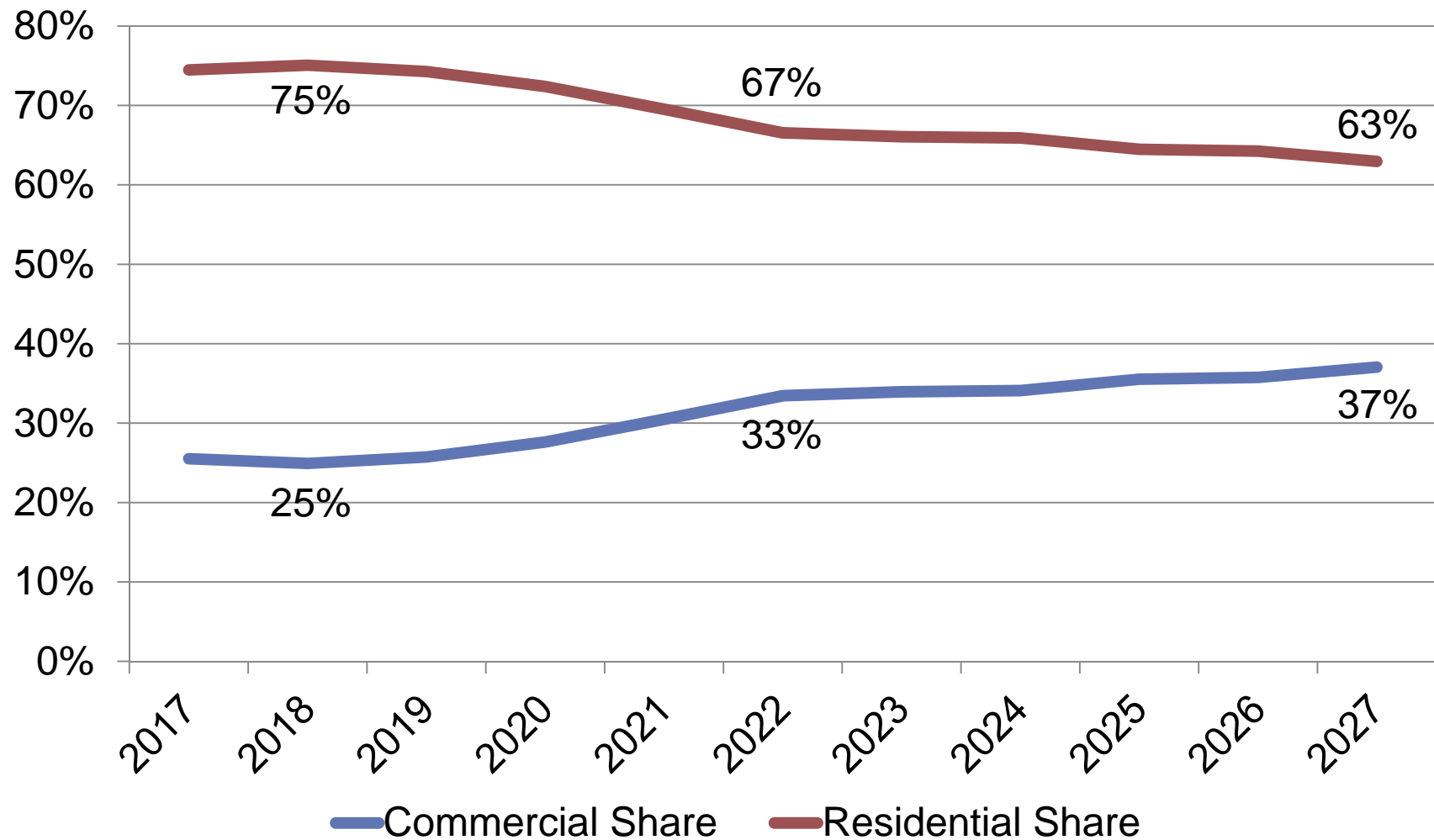
1. A ratio of revenue to expenditures between 102% and 105%

Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Revenue / Expenditures	103.4%	105.5%	104.7%	104.5%	106.5%	105.9%	105.9%	105.3%	105.3%

2. A ratio of debt service to expenditures between 5% and 10%
 - Less than 8% is considered “strong” by Standard & Poors

Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Debt Service / Revenue	4.2%	4.1%	4.6%	5.4%	5.4%	6.2%	6.6%	7.0%	7.0%

Commercial/Residential Tax Levy Share



Source: City of Somerville Assessing Dept

Potential Strategies To Mitigate

- Use of reserves to net down debt service payments
 - Use of reserves will support City Debt Financing by infusing funds into critical years to align ratios with benchmarks
 - The City can apply \$19 million of the over \$34 million already in reserves to support debt relief
 - Continue annual appropriation to GLX, High School, Street Reconstruction Stabilization Funds
 - Invest stabilization funds to get an investment return
 - Every dollar of infrastructure costs we pay in with reserves rather than borrow saves approximately \$2
 - A \$1 million reduction in principal borrowing saves taxpayers millions in interest over a 30 year time period

Potential Strategies to Mitigate

- Further development of commercial sector
 - Expand opportunity in the remaining transformative areas: Boynton, Inner Belt, Brickbottom
 - Encourage additional investment in squares & corridors: Davis and Assembly
- Further grant opportunities
- Developer contributions above and beyond GLX payments
- Sale of building assets

Forecasting Enterprise Funds

W&S Model Assumptions

- Developed by Woodard & Curran as part of the FY17-FY21 rate study and updated each fiscal year during the budget process
- Key Expenditures
 - MWRA projections
 - Debt service (based on CIP)
 - Departmental operations
- Key Revenue
 - Annual consumption estimated using 3-year rolling averages
 - New volumetric revenue projected based on development program

Water Enterprise Fund Budget Tables

Water Expenditures	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Personal Services	1,630,504	1,687,572	1,746,637	1,807,769	1,871,041	1,936,527	2,004,306	2,074,457	2,147,063
Ordinary Maintenance	666,193	689,510	713,643	738,620	764,472	791,229	818,922	847,584	877,249
Capital Outlay	2,277,000	1,885,356	1,951,343	2,019,640	2,090,328	2,163,489	2,239,212	2,317,584	2,398,699
MWRA Assessment	8,434,965	9,117,986	9,421,341	9,734,789	10,058,666	10,393,318	10,739,103	11,096,393	11,465,570
Indirect Costs	653,805	676,689	700,373	724,886	750,257	776,516	803,694	831,823	860,937
Debt Service	1,321,578	874,459	1,191,699	1,471,219	1,529,639	1,648,050	1,895,550	2,141,350	2,430,050
Expenditure Total	14,984,045	14,931,571	15,725,036	16,496,924	17,064,402	17,709,129	18,500,786	19,309,191	20,179,568

Water Revenue	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Monthly Charges	940,848	940,848	940,848	940,848	940,848	940,848	940,848	940,848	940,848
Volumetric Charges	12,938,138	13,570,826	14,118,748	14,471,717	14,833,510	15,204,348	15,584,456	15,974,068	16,373,419
DIF Subsidy	-	-	-	-	-	-	-	-	-
Other Revenues	1,245,000	1,249,354	1,454,485	1,532,940	1,722,014	1,829,914	1,937,814	2,009,834	2,081,855
Revenue Total	15,123,986	15,761,028	16,514,081	16,945,505	17,496,372	17,975,109	18,463,118	18,924,750	19,396,122

Sewer Enterprise Fund Budget Tables

Sewer Expenditures	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Personal Services	1,424,632	1,474,494	1,526,102	1,579,515	1,634,798	1,692,016	1,751,237	1,812,530	1,875,969
Ordinary Maintenance	1,235,384	1,278,623	1,323,375	1,369,693	1,417,632	1,467,249	1,518,603	1,571,754	1,626,765
Capital Outlay	1,614,600	1,336,889	1,383,680	1,432,109	1,482,233	1,534,111	1,587,805	1,643,378	1,700,896
MWRA Assessment	17,616,262	19,042,738	19,676,290	20,330,920	21,007,330	21,706,244	22,428,411	23,174,604	23,945,623
Indirect Costs	702,403	726,987	752,432	778,767	806,024	834,235	863,433	893,653	924,931
Debt Service	528,927	978,676	1,883,476	2,603,926	2,771,879	3,109,884	4,476,634	6,037,284	6,995,494
Expenditure Total	23,122,209	24,838,408	26,545,355	28,094,930	29,119,895	30,343,738	32,626,121	35,133,203	37,069,677

Sewer Revenue	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Monthly Charges	1,881,696	1,881,696	1,881,696	1,881,696	1,881,696	1,881,696	1,881,696	1,881,696	1,881,696
Volumetric Charges	22,864,044	23,207,005	24,497,314	25,477,207	26,496,295	27,556,147	28,658,393	29,804,729	30,996,918
DIF Subsidy	-	-	-	-	-	-	-	-	-
Other Revenues	500,000	507,822	876,386	1,017,349	1,357,061	1,550,927	1,744,793	1,874,194	2,003,594
Revenue Total	25,245,740	25,596,523	27,255,396	28,376,252	29,735,052	30,988,770	32,284,882	33,560,618	34,882,208

Enterprise Fund Model Results:

Key Metrics

- Debt as a percentage of revenue below 20%

Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Water:									
Debt / Revenue	8.7%	5.5%	7.2%	8.7%	8.7%	9.2%	10.3%	11.3%	12.5%
Sewer:									
Debt / Revenue	2.1%	3.8%	6.9%	9.2%	9.3%	10.0%	13.9%	18.0%	20.1%

- Reserve balance as a percentage of annual budget between 15% and 30%

Fiscal Year	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27
Water: Reserve balance / budget	30.0%	35.7%	38.9%	39.8%	41.0%	41.0%	39.1%	35.4%	30.0%
Sewer: Reserve balance / budget	49.9%	49.5%	49.0%	47.3%	47.7%	47.9%	43.5%	36.0%	28.2%

Enterprise Fund Model Results: Volumetric Rate Projections

- Combined Water & Sewer projected volumetric rate increases through FY21 consistent with expectations set in FY17-FY21 rate study
 - **No proposed net increase in combined water and sewer bills beyond recommendations in FY17-FY21 rate study**

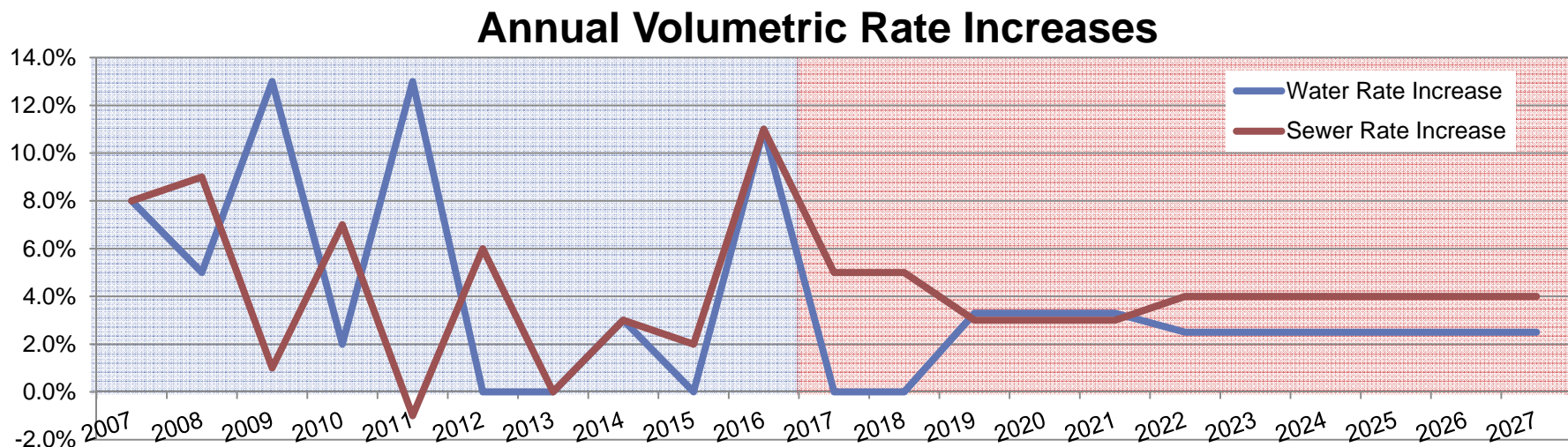
	Rate Study Recommendation	October 2017 Proposal	
	FY19-FY21	FY19-FY21	FY22 – FY27
Water	0%	3.3%	2.5%
Sewer	5%	3.0%	4.0%
Combined	3.13%	3.13%	3.44%

- The model uses projected rate increases for FY22-FY27 time period set to achieve goals for debt and reserves

Volumetric Rate Projections in Context

- Future projected Water & Sewer volumetric rate increases are favorable compared to historical trends

Average Annual Increase		
	FY07-FY16 (actual)	FY17-FY27 (projected)
Water	5.5%	2.3%
Sewer	4.6%	3.9%



Mitigating Water & Sewer Rates

- Controlling our costs
 - Capitalizing on the opportunity that the Poplar St. Pump Station affords the City to send stormwater to the Charles River as opposed to Deer Island for processing
- Using Inflow & Infiltration (I/I) Fund dollars to remove additional stormwater from our system
 - I/I contributions are projected to total \$4 million by FY27
- Subsidizing the W&S Enterprise Funds from the General Fund

Next Steps

- Items before the Board of Aldermen:
 - Union Square DIF Development District request (submitted 10/12)
 - Union Square DIF Development Program request (to be submitted 10/26)
 - Somerville Ave. Utility & Streetscape Improvements appropriation and bond authorization request (submitted 10/12)
- At the BOA's request, follow-up presentations by City and consultants with responses to questions regarding General Fund and Water & Sewer Enterprise Fund projections.
 - DIF: RKG Associates
 - Enterprise funds: Woodard & Curran