



Financial Presentation to Council – March 29, 2022

Speaking notes – Louise Miller, CFO

Revenue Projections for FY2023

FY2023 Sustainability: Recurring vs. Non-Recurring Revenue and Expenditures

Prior to any discussion of revenue or expenditures for FY2023, it is important to distinguish recurring and non-recurring revenue and recurring and non-recurring expenses.

Recurring revenue is revenue that is anticipated to be collected year after year. Non-recurring revenue is revenue that can only be counted on

in the year in which it is received either because the amount can vary or because it does not occur annually. The same applies to expenditures. Recurring expenditures are those that occur on an annual basis with little change. Non-recurring expenditures are one-time or periodic expenditures. One of the basic premises of sustainable budgets is to match revenue and expenditures as recurring and non-recurring, with sufficient recurring revenue to support recurring expenses and non-recurring revenue used only for non-recurring expenses.

Sustainable Budgeting

- *Recurring revenue covers recurring expenses*
- *Non-recurring revenue is used for non-recurring expenses only*

FY2023 – Return to Sustainable Operating Budgets

- *Eliminate one-time sources of funding*
- *Reduce reliance on non-recurring revenue with a multi-year approach to eliminating use of non-recurring revenue*

FY2023 will be a difficult year to manage fiscally. In both FY2021 and FY2022, tax levy revenue was substantially supplemented with non-recurring funding from Federal Coronavirus Relief Funds, commonly referred to as CARES and ARPA funding. The revenue has also been supplemented on an annual basis with other non-recurring sources of revenue.

Each of the City's revenue categories will be reviewed and the historical funding for each revenue category will be discussed, concluding with a proposal for a model of funding going forward.

Expenses associated with the COVID-19 pandemic have been reviewed and addressed with each City department. At this time, it does not appear that items of expenses associated with the pandemic will be needed. Should that change going forward, appropriate funding sources will need to be determined.

Financial Indicators

Framingham has Aa2 stable bond rating from Moody's thanks to the City's diverse economy that has resulted in a steady growth in its tax base. The City has also taxed substantially below its levy limit. For FY2022, the levy limit was \$235,742,790, with a total amount of \$200,061,161 raised from taxes on the FY2022 Tax Recap. This leaves approximately \$35 million in unraised tax levy.

Moody's AA2 stable bond rating

- *Diverse steadily growing tax base*
- *Taxing below levy limits*
- *Possible upgrade if grow reserves and liquidity, reduce debt burden, and strengthen resident income levels*

Framingham could see an upgrade in its Aa2 bond rating if there is a growth in reserves and liquidity, a significant decline in debt burden and strengthening of resident income levels.

On the other hand, there could be a downgrade if there is a decline in reserves and liquidity as a percent of revenue, a multi-year trend of tax base value declines, or there is continued growth in debt burden. At this time, Framingham is seeing a decline in its undesignated fund balance for the general fund and in retained earnings from the Enterprise Fund. The undesignated fund balance is the unreserved portion of the General Fund balance at fiscal year-end that has not been designated for specific purposes and is available for appropriation, as reflected in the audited financial statements of the City. Free cash is that portion of the undesignated fund balance that the Massachusetts Department of Revenue (MassDOR) certifies may be appropriated. In FY2022, the City's undesignated fund balance dropped significantly, and, with it, certified free cash. Unless the City begins generating excess revenue over expenses, the undesignated fund balance will continue to be substantially depleted and the City runs the risk of not having any Free Cash certified in the next few budget years. The Enterprise Fund undesignated fund balance represents the investment income and surplus after all expenses have been accounted for. Retained earnings are the amount certified by MassDOR that remains with the Enterprise Fund and may then be appropriated in the same way as free cash. The Enterprise Fund has operated at a deficit for the past few years, completely depleting all reserves and carrying forward into FY2023 a substantial Retained Earnings deficit, which MassDOR will require be rectified.

Beginning in FY2023, Framingham can restore its fund balances in the General Fund and the Enterprise Fund by ensuring continuing growth in revenue, and, in turn, by supporting continued tax levy growth through economic development, stabilizing the tax levy through modeling and raising taxes sustainably, setting fair rates to cover the Enterprise Fund expenses, and by stabilizing debt services levels in the General Fund and Enterprise Fund through adoption of a capital investment plan that meets the City's needs while being fiscally sensible.

FY2023 – Restoration of Fund Balances

- *Regenerate General Fund Free Cash*
- *Rebuild Enterprise Fund Retained Earnings*
- *Encourage economic development*
- *Stabilize tax levy through controlled tax increase*
- *Set realistic Enterprise Fund rates*
- *Establish fiscally sensible debt services level goals*

FY2023 Anticipated Budget Drivers

FY2023 Budget Increases

- *Collective Bargaining*
- *Inflation*
- *Regulatory Changes*
- *Health Insurance*
- *Debt Service*

There are two primary departmental budget drivers for FY2023 that will require careful balancing of governmental services: collective bargaining settlements, and inflation. During FY2022, the City has received an arbitration award and has settled a number of collective bargaining agreements. The remainder of the collective bargaining agreement are currently under negotiations, as is a review of non-union salaries and are expected to be determined before the end of FY2022. Some collective bargaining

agreements had expired in FY2021, others in FY2022, and yet others expire in FY2023. The effect for FY2023 will be that any incremental salary adjustments for FY 2021, FY2022, and FY2023 must be included in the operating budgets, resulting in some budgets reflecting substantial year over year budget increases for salaries that reflect multiple year increases. It should be noted that this raises a concern not only for the FY2023 budget but for FY2022, when the initial funding of the collective bargaining is due to take place, without a funding mechanism in the budget for those increases.

Inflation will affect the FY2023 budget on the operating expense side, with marked increases in the cost of gasoline, contracted services, and costs of materials. The initial draft of the FY2023 budget will include certain assumptions about inflation which will be refined as the budget process progresses.

In addition, some regulatory changes may result in possible departmental budget increases. These regulatory changes will be highlighted in each budget.

The primary unclassified budget drivers for FY2023 are health insurance and debt service. The anticipated increase in health insurance will be significant, both from increases in health insurance premiums and increased enrollment. The debt service increase is primarily for excluded debt that requires an equal increase in revenue outside of the tax levy.

FY2023 Projected Revenue

For consistency with required State reporting, projected City revenues are divided into MassDOR categories. Over the past 10 years, the City has relied less on the tax levy and more on State Aid and Local Receipts to fund its operating budget. The reliance on both State Aid and Local Receipts can be problematic since they are sources of funding that the City cannot control. The table below illustrate the direction in which the City has moved with the various categories of revenue.

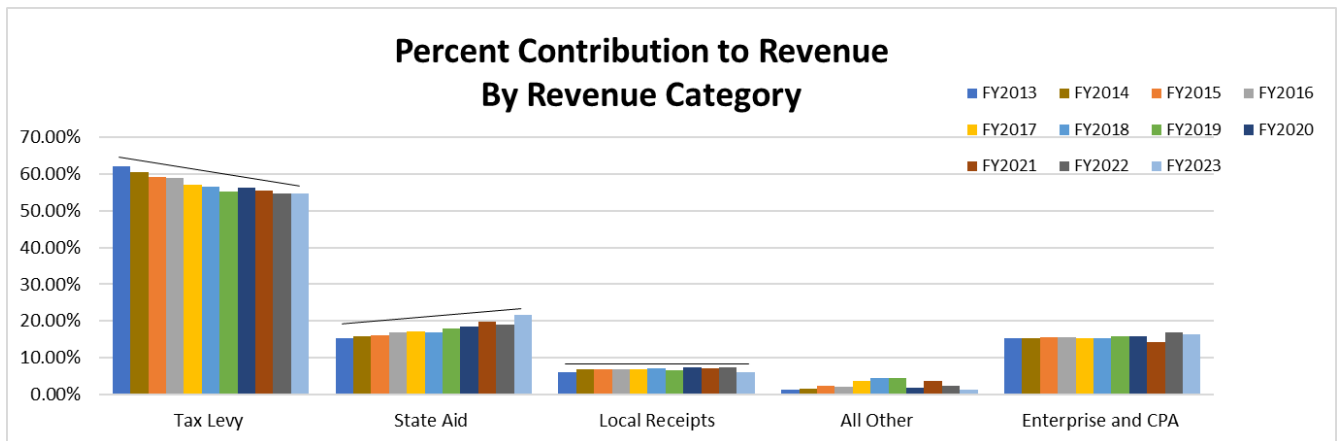
Revenue By Category - Percent Contribution to Total						
Fiscal Year	Tax Levy	State Aid	Local Receipts	All Other	Enterprise and CPA	
FY2013	62.26%	15.17%	5.92%	1.31%	15.35%	
FY2014	60.63%	15.88%	6.79%	1.44%	15.26%	
FY2015	59.36%	16.03%	6.75%	2.28%	15.59%	
FY2016	58.90%	16.88%	6.87%	1.93%	15.42%	
FY2017	56.98%	17.24%	6.79%	3.66%	15.34%	
FY2018	56.58%	16.76%	7.02%	4.39%	15.25%	
FY2019	55.30%	17.79%	6.63%	4.46%	15.82%	
FY2020	56.42%	18.53%	7.29%	1.84%	15.92%	
FY2021	55.51%	19.67%	7.01%	3.58%	14.22%	
FY2022	54.65%	19.05%	7.20%	2.35%	16.75%	
FY2023	54.66%	21.60%	6.05%	1.30%	16.39%	

FY2023 Revenue Budget Adjustments

- Account for increased State Aid
- Decrease reliance on Free Cash and other non-recurring sources of funding
- Project Local Receipts realistically
- Increase Tax Levy to replace FY2022 one-time revenue
- Return Enterprise Fund to financial viability

FY2023 projected revenue continues the same trend in reduced reliance on the tax levy versus other sources of revenue, with some caveats. The increase in State Aid reliance is based on the State’s commitment to continued increased State aid to help cover school budgets. The decrease in reliance on Free Cash and other sources of funding reduces the City’s reliance on non-

recurring funding. In FY2022, the City also relied on one-time funding from ARPA which will not be available in FY2023, and which will need to be replaced by tax levy. The decrease in reliance on local receipts for FY2023 reflect adjustments made to provide a more predictable revenue projection for future years. Local receipts have not been projected accurately in the past resulting in MassDOR notifying the City that the FY2023 budget would need to include realistic projections when the tax rates are set. Finally, the FY2023 budget reflects the return to financial sustainability for the Enterprise Fund. The graph below illustrates the trends in the contribution of each category of revenue to the City’s overall revenue budget.



Overall the projected FY2023 Revenue budget increases revenue by 5.67%. The largest total dollar increase is in State Aid at \$13M, accounting for 62.57% of the total revenue budget increase for FY2023. Please note that the amount of projected net State Aid is almost \$1M less totaling \$12M, after

accounting for increases in State Assessments. The table below show the FY2023 projected revenue budget and includes historical information to FY2017.

	FY 2023 Projected	FY2022 Tax Recap	FY2021 Actual	FY2020 Actual	FY2019 Actual	FY2018 Actual	FY2017 Actual
Total Tax Levy	\$209,319,603	\$200,061,161	\$195,618,399	\$196,153,144	\$191,224,338	\$188,453,913	\$182,403,845
Tax Levy (w/o excl debt)	\$203,453,207	\$195,011,670	\$191,849,499	\$192,612,967	\$187,673,291	\$184,913,733	\$178,900,118
New Growth	\$3,500,000	\$3,566,245	\$3,346,826	\$3,227,116	\$3,224,491	\$3,202,598	\$3,155,119
Excluded Debt	\$2,366,396	\$1,483,246	\$422,074	\$313,061	\$326,556	\$337,582	\$348,608
State Aid (Cherry Sheet)	\$82,707,592	\$69,729,344	\$69,312,996	\$63,102,775	\$59,095,692	\$53,682,420	\$53,043,013
Local Receipts	\$23,162,459	\$26,368,052	\$22,399,466	\$22,582,660	\$28,510,604	\$25,014,451	\$23,091,600
Free Cash	\$3,000,000	\$6,514,282	\$9,788,361	\$5,500,668	\$6,596,983	\$11,148,613	\$8,401,893
All Other	\$2,000,000	\$2,099,613	\$2,842,898	\$912,826	\$8,825,850	\$3,482,613	\$3,308,083
Enterprise	\$60,755,750	\$59,332,378	\$50,113,678	\$55,344,577	\$54,726,645	\$50,793,074	\$49,092,186
CPA	\$2,000,000	\$2,000,000	\$0	\$0	\$0	\$0	\$0
TOTAL	\$382,945,404	\$366,104,830	\$350,075,798	\$343,596,650	\$348,980,112	\$332,575,084	\$319,340,620

Analysis of FY2023 Projected Revenue by Revenue Category

1. Community Preservation Act Surcharge

- a. Community Preservation Act is a new tax surcharge that is separate from the General Fund and is expended upon the recommendation of the Community Preservation Committee for the specific purposes authorized by state statute (preservation of open space, affordable housing, historic preservation, and certain types of recreation). The Community Preservation surcharge in Framingham is 1% of the tax levy subject to certain exclusions. For the FY2023 Revenue projection, the Community Preservation Act Surcharge is level funded. A final number for the budget will be determined in the coming weeks.
- b. Looking ahead: the Community Preservation Committee will be developing guidelines and an application process for funding of projects within the scope of the CPA. Recommendations for possible CPA eligible projects will be developed as part of the 5-year Capital Investment Plan.

CPA

- *Level budget – depends on tax levy*

2. Enterprise Fund

- a. The Water and Sewer Enterprise Fund is currently operating at a deficit, and the fund’s retained earnings are also at a deficit. MassDOR has allowed to City to amortize its FY2020 deficit of \$1.3M over 3 years beginning in FY2022. However, because the Enterprise Fund is still showing a deficit and the deficit increased in FY2021, MassDOR will not allow the amortization in FY2023. The budget for

Enterprise Fund – return to sustainability

- *Bring capital funded positions into operating budget*
- *No new debt service for FY2023*
- *Budget full repayment of deficit*
- *Eliminate reliance on non-recurring revenue*

the Enterprise Fund includes a full repayment of the deficit as of the end of FY2021 totaling \$3.3M. A continuing revenue to expenditure gap was anticipated in FY2022, which was bridged with one-time ARPA funding totaling \$6.35M, bringing the total anticipated revenue shortfall for FY2023 at \$10M. Beginning in FY2023, the City must operate the Enterprise Fund at a surplus and recover the retained earnings deficit through water and sewer rates. Otherwise, MassDOR will require that the City raise the deficit from the Tax Levy. To that end, the draft Enterprise Fund expenditures budget will be level funded - including assuming no increase in debt service for FY2023 - with two exceptions. First the Enterprise Fund budget will reflect the transfer of positions that are currently funded through capital projects into the operating budget. These positions are currently being funded through debt rather than the tax levy, a practice that the City should consider ending. The second exception is the full repayment of the deficit. If rates are raised to match the expenditures budget, the City should be able to bring the Enterprise Fund out of deficit and have sufficient room for gradual increases in rates in coming years. The required rate increase will also depend on the FY2022 realized revenue, which is still being projected.

- b. Looking ahead: Projected rates and a revenue model for the Enterprise Fund will be addressed separately from this discussion. A forecast for predictable and sustainable budgets and rates will be developed, and a rate hearing will be scheduled later in the Spring.

3. All Other

- a. The All Other revenue line captures the Public Access fees from the cable companies that provide service in Framingham and which total approximately \$800k to \$900k. The other elements of this revenue line vary greatly.

	FY 2023 Projected	FY2022 Tax Recap	FY2021 Actual	FY2020 Actual	FY2019 Actual	FY2018 Actual	FY2017 Actual
All Other	\$2,000,000	\$2,099,613	\$2,842,898	\$912,826	\$8,825,850	\$3,482,613	\$3,308,083

In FY2022 and FY2023, the balance of the \$2 million will be comprised of Health Insurance Trust monies, which will be used in FY2023 but will then be exhausted as a funding source.

- b. Looking ahead: Beginning in FY2024, this revenue line will be limited to the Public Access fees, creating a revenue shortfall that will need to be bridged in FY2024.

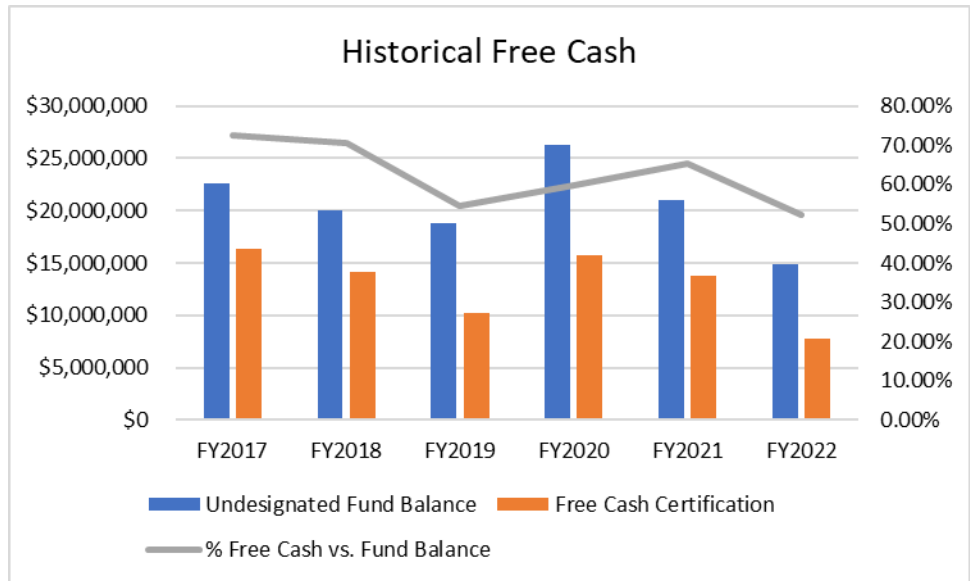
All Other
Last Year for Health Insurance Trust monies

4. Free Cash

- a. The City’s reliance on Free Cash to balance the operating budget has been uneven over the past few years. In addition, the amount of Free Cash certified by MassDOR has also been uneven depending on the amount of undesignated fund balance. The chart below shows historical fluctuation in undesignated fund balance and in Free Cash. The City generally shows declining Free Cash, with a boost in FY2020 due to 2 one-time revenue boosts: an increase in building permit fees for some large projects and state reimbursements for old grant funded projects.

Free Cash

- Depleted fund balance with no source of replenishment
- Anticipate significantly reduced Free Cash certification for FY2023
- Budget conservative revenue and realistic expenses



In FY2022, the operating budget expenses are supported by \$6M in Free Cash. The FY2022 Free Cash certification was \$7.8M. Some of the \$7.8M will need to be used in FY2022 to purchase needed operational and capital items and to supplement the FY2022 operating budget. The FY2022 operating budget did not include funding for salary increases. Most employees had not received raises for two fiscal years. In addition, the City was in arbitration with one union. The arbitration outcome and settlement of collective bargaining agreements will result in a need to use Free Cash in FY2022 beyond the amounts already appropriated in FY2021 as part of the budget process.

Free Cash results from higher than estimated revenue, one-time revenue, and operational surplus at the end of the year. Based on the level of undesignated fund balance at the end of FY2021, which is significantly less than prior years and the

projections regarding revenue surplus FY2022 unbudgeted expenditures, Framingham should anticipate a much smaller level of Free Cash certified and must reduce its Free Cash use for FY2023. Accordingly, the FY2023 budget projects Free Cash use at \$3M, a 3M reduction from FY2022.

- b. Looking ahead: Given the undesignated fund balance at the end of FY2021 and the lack of anticipated revenue or budgetary surplus to replenish the fund by the end of FY2022, the City should anticipate a significantly reduced amount of Free Cash in FY2023. This

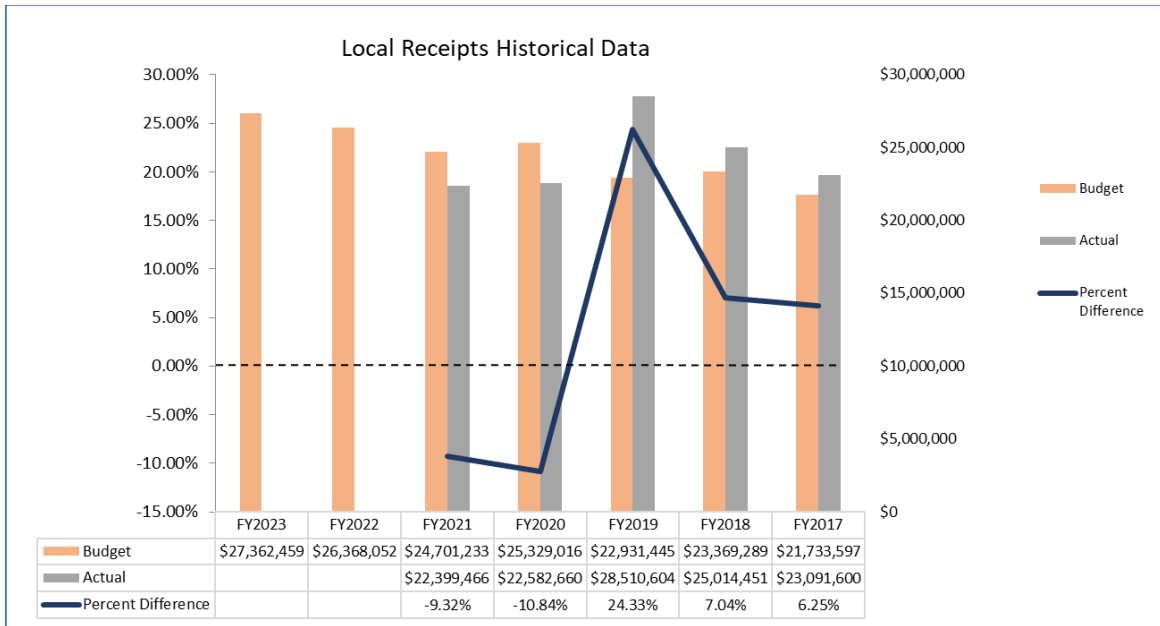
	Undesignated Fund Balance	Free Cash Certification
FY2017	\$22,647,008	\$16,395,114
FY2018	\$19,996,935	\$14,144,287
FY2019	\$18,767,339	\$10,253,247
FY2020	\$26,226,418	\$15,701,938
FY2021	\$21,058,290	\$13,750,675
FY2022	\$14,923,272	\$7,823,173

will affect the FY2024 budget which is projected to rely on no Free Cash. Beginning in FY 2023, the City should budget revenue

conservatively to avoid further revenue shortfalls. Operational expenses should be budgeted realistically, which will generally result in 2% and 3% of the budget as Free Cash annually. This would place Free Cash between \$7 million and \$11 million. Once Free Cash is stabilized, it can be looked at as a source of funding the City’s Capital Improvement Plan and as a funding source for specific items that are classified as capital and included in the CIP but are either not truly capital items (e.g., Fire Department turnout gear) or are recurring (e.g., roads infrastructure investment). Free Cash could also become a source for reserves for larger projects, allowing the City to reduce excluded debt service burden. In addition, changes to capital planning should provide for a higher level of capital investment in the future. Some changes will require increases to the operating budget. For instance, those items that are not capital but currently funded through the capital budget should be moved to the operating budget in the long term. For those items that are truly capital but are recurring, the City should consider moving to paying for those items with cash rather than borrowing. The advantages of this approach will be discussed in further detail during the CIP review.

5. Local Receipts

- a. The City overestimated Local Receipts in FY2020 and FY2021. In years prior to FY2020, Local Receipts exceeded budget by at least 5% resulting in revenue surplus that contributed to the undesignated fund balance. FY2019 Local Receipts exceeded budget significantly due to a particular high year for issuing building permits. This was a one-year bump only, however. FY2020 and FY2021 assumed higher than average building permits as well as high assumptions in other categories that resulted in revenue shortfalls. In addition, the COVID-19 pandemic contributed to loss of revenue in Local Receipts, primarily related to Meals Tax and Room Tax.



The table below show the history of local receipts budgeted versus actual by line.

	FY2021 Budget	FY2021 Actual	FY2020 Budget	FY2020 Actual	FY2019 Budget	FY2019 Actual	FY2018 Budget	FY2018 Actual	FY2017 Budget	FY2017 Actual
MOTOR VEHICLE EXCISE	8,675,000	8,322,896	8,573,024	8,430,661	8,470,400	8,573,025	8,520,000	8,586,689	8,135,000	8,519,812
OTHER EXCISE	0	0	0	0	0	0	0	0	0	0
a Meals	1,208,167	1,044,805	1,527,405	1,405,231	1,411,255	1,527,407	1,411,255	1,511,223	1,455,000	1,411,255
b Room	440,000	316,382	1,475,089	1,180,790	1,490,725	1,475,090	1,490,725	1,546,947	1,610,000	1,490,725
c Other	230,000	224,330	209,640	231,668	220,000	223,691	213,800	221,323	220,000	213,834
d Cannabis	350,000	408,693	0	0	0	0	0	0	0	0
PENALTIES AND INTEREST ON TAXES AND EXCISES	1,091,344	1,122,023	970,439	958,472	1,415,701	970,439	867,340	1,379,950	1,142,000	867,405
PAYMENTS IN LIEU OF TAXES	657,949	562,229	657,949	479,660	671,564	694,814	727,912	677,441	667,084	727,920
CHARGES FOR SERVICES - SOLID WASTE FEES	311,500	355,126	288,505	214,863	276,184	288,505	257,151	290,742	250,000	257,155
OTHER CHARGES FOR SERVICES	750,000	555,552	635,775	748,313	142,600	767,720	156,659	141,202	150,000	156,659
FEES	802,100	544,798	791,518	691,274	489,316	791,517	581,421	737,933	735,000	581,423
a Cannabis Impact Fee	50,000	50,000	50,000	100,000	0	0	0	0	0	0
RENTALS	178,723	181,076	166,816	170,277	159,532	166,816	158,778	163,748	176,100	158,779
DEPARTMENTAL REVENUE - SCHOOLS	500,000	500,000	755,000	500,000	800,000	755,000	800,000	762,500	800,000	800,000
DEPARTMENTAL REVENUE - LIBRARIES	25,000	751	36,650	24,380	30,000	36,650	31,355	36,089	30,000	31,355
DEPARTMENTAL REVENUE - CEMETERIES	180,000	0	0	0	0	0	0	0	0	0
DEPARTMENTAL REVENUE - RECREATION	450,000	334,795	456,045	466,003	535,062	456,045	463,095	431,337	465,000	463,096
OTHER DEPARTMENTAL REVENUE	100,000	147,684	114,898	101,746	76,204	114,898	237,447	131,628	98,000	247,500
LICENSES AND PERMITS	4,100,000	3,824,813	4,969,497	3,371,788	3,605,015	6,921,130	3,502,645	3,764,466	3,112,000	3,502,658
FINES AND FORFEITS	400,050	306,743	320,936	362,414	404,855	320,936	447,075	372,501	425,000	447,075
INVESTMENT INCOME	560,000	496,140	296,534	572,073	61,778	647,460	182,528	321,433	100,000	182,528
MEDICAID REIMBURSEMENT	1,500,000	936,389	1,517,959	1,042,100	2,100,000	1,517,959	1,700,000	2,005,528	1,450,000	1,770,952
MISCELLANEOUS RECURRING	301,600	202,946	305,923	235,159	308,358	305,923	190,510	314,075	217,792	190,511
MISCELLANEOUS NON-RECURRING	1,839,800	1,961,295	1,209,414	1,295,788	262,896	1,955,579	1,429,593	1,617,696	495,621	1,070,948
TOTAL	24,701,233	22,399,466	25,329,016	22,582,660	22,931,445	28,510,604	23,369,289	25,014,451	21,733,597	23,091,600

- b. For FY2023, a budget is recommended based on the average of FY2017 through FY2021. The next table shows the projected revenue for Local Receipts by line for FY2023 and references the change from the FY2022 budget.

	FY2023 Proposed	Difference Between FY2022 and FY2023 Budget	FY2022 Budget	Average Budget FY2017-FY2021	Average Actual FY2017-FY2021	Average Percent Difference FY2017-FY2021
MOTOR VEHICLE EXCISE	8,500,000	24,500	8,475,500	8,474,685	8,486,617	0.20%
OTHER EXCISE						
a.Meals	1,500,000	1,500,000	1,400,000	1,402,616	1,379,984	-1.84%
b.Room	900,000	300,000	600,000	1,301,308	1,201,987	-10.55%
c.Other	224,000	0	224,000	218,688	222,969	2.09%
d.Cannabis	800,000	300,000	500,000	70,000	81,739	3.35%
PENALTIES AND INTEREST ON TAXES AND EXCISES	1,000,000	-448,200	1,448,200	1,097,365	1,059,658	1.04%
PAYMENTS IN LIEU OF TAXES	604,302	0	604,302	676,492	628,413	-7.20%
CHARGES FOR SERVICES - SOLID WASTE FEES	360,000	0	360,000	276,668	281,278	1.77%
OTHER CHARGES FOR SERVICES	475,000	-288,875	763,875	367,007	473,889	84.94%
FEES	675,000	-115,400	790,400	679,871	669,389	-4.61%
a.Cannabis Impact Fee	0	-213,667	213,667	20,000	30,000	20.00%
RENTALS	165,000	-13,897	178,897	167,990	168,139	0.25%
DEPARTMENTAL REVENUE - SCHOOLS	500,000	100,000	400,000	731,000	663,500	-8.82%
DEPARTMENTAL REVENUE - LIBRARIES	0	0	0	30,601	25,845	-17.74%
DEPARTMENTAL REVENUE - CEMETERIES	0	0	0	36,000	0	-20.00%
DEPARTMENTAL REVENUE - RECREATION	400,000	43,500	356,500	473,840	430,255	-9.09%
OTHER DEPARTMENTAL REVENUE	150,000	-83,970	233,970	125,310	148,691	39.00%
LICENSES AND PERMITS	3,800,000	-38,800	3,838,800	3,857,831	4,276,971	14.63%
FINES AND FORFEITS	360,000	-27,100	387,100	399,583	361,934	-8.52%
INVESTMENT INCOME	499,157	0	499,157	240,168	443,927	237.64%
MEDICAID REIMBURSEMENT	1,000,000	-451,000	1,451,000	1,653,592	1,454,588	-11.31%
MISCELLANEOUS RECURRING	250,000	-41,865	291,865	264,837	249,723	-0.86%
MISCELLANEOUS NON-RECURRING	1,000,000	-2,350,819	3,350,819	1,047,465	1,580,261	157.37%
TOTAL	23,162,459	-1,805,593	26,368,052	23,612,916	24,319,756	2.99%

Local receipts were particularly questioned by MassDOR in FY2022 and need to be projected conservatively. By presenting a conservative recommendation, the City will benefit two-fold. First, the City will avoid a revenue deficit, which would then need to be covered in the following year through the Levy or through service cuts. Second, revenue surplus will revert to Free Cash in the following fiscal year, allowing for a healthy cycle of Free Cash that can then be used to supplement the budget to provide for non-recurring services or be incorporated in capital planning. Two primary changes between FY2022 Local Receipts budget and the FY2023 Local Receipts budget is the drop in miscellaneous non-recurring revenue, which represent the use of \$2.4M of ARPA funds in FY2022 to replace revenue loss from the COVID-19 pandemic. All other adjustments in the budget reflect the average collection of receipts for specific line items.

Local Receipts

- Return to conservative estimates to avoid revenue shortfalls

- c. Looking ahead: Certain line items in Local Receipts will not longer be collected by the City beginning in FY2024, such as the rent for the Farley School Building totaling \$400,000. Other line items will need to be reviewed, such as the Impact Fee for Marijuana establishments. Those revenue sources may result in a readjustment to the base level for Local Receipts

6. State Aid

- a. State Aid distributions to Framingham have generally increased in the recent past. The increases, however, have not been uniform year over year. As the State Aid amounts have increased, the City's reliance on State Aid, has also increased.

State Aid

- Substantial increase proposed in the Governor's Budget
- Unreliability in year over year increases cautions against full use of increase to support operating expenses

Total Cherry Sheet State Aid By Year

	Fiscal Year	Final	Net Final	% Increase
Receipts	2017	\$53,043,013	\$46,225,314	
Charges/Assessments		\$6,817,699		
Receipts	2018	\$53,682,420	\$46,081,726	-0.31%
Charges/Assessments		\$7,600,694		
Receipts	2019	\$59,095,692	\$51,191,336	11.09%
Charges/Assessments		\$7,904,356		
Receipts	2020	\$63,102,775	\$54,860,807	7.17%
Charges/Assessments		\$8,241,968		
Receipts	2021	\$69,312,996	\$60,635,902	10.53%
Charges/Assessments		\$8,677,094		
Receipts	2022	\$69,729,344	\$60,800,050	0.27%
Charges/Assessments		\$8,929,294		
Receipts	2023			19.81%
Charges/Assessments				

The FY2023 Proposed Governor's State Aid includes a \$12M increase in State Aid, primarily in the Chapter 70 (School Aid) line. The Proposed Governor's State Aid increase accounts for more than half of the increase in projected revenue for FY2023. As seen in the table below, past experience shows that the Governor's budget is a good approximation of the final State Aid budget.

	Fiscal Year	Governor's	Net Governor's	House Preliminary	Net House	Senate Preliminary	Net Senate	Final	Net Final
Receipts	2017	\$51,543,014	\$44,787,592	\$51,238,532	\$44,341,976	\$52,951,632	\$46,055,076	\$53,043,013	\$46,225,314
Charges/Assessments		\$6,755,422		\$6,896,556		\$6,896,556		\$6,817,699	
Receipts	2018	\$53,479,723	\$46,137,715	\$53,636,253	\$46,136,973	\$53,647,394	\$46,135,132	\$53,682,420	\$46,081,726
Charges/Assessments		\$7,342,008		\$7,499,280		\$7,512,262		\$7,600,694	
Receipts	2019	\$58,237,963	\$50,580,099	\$58,500,768	\$50,681,547	\$59,095,507	\$51,275,146	\$59,095,692	\$51,191,336
Charges/Assessments		\$7,657,864		\$7,819,221		\$7,820,361		\$7,904,356	
Receipts	2020	\$62,039,064	\$53,641,482	\$62,266,369	\$54,013,578	\$63,087,630	\$54,808,294	\$63,102,775	\$54,860,807
Charges/Assessments		\$8,397,582		\$8,252,791		\$8,279,336		\$8,241,968	
Receipts	2021	\$69,112,379	\$60,612,399	\$69,192,671	\$60,692,691	\$69,202,133	\$60,702,153	\$69,312,996	\$60,635,902
Charges/Assessments		\$8,499,980		\$8,499,980		\$8,499,980		\$8,677,094	
Receipts	2022	\$69,807,623	\$60,729,970	\$69,589,642	\$60,719,517	\$69,580,645	\$60,792,879	\$69,729,344	\$60,800,050
Charges/Assessments		\$9,077,653		\$8,870,125		\$8,787,766		\$8,929,294	
Receipts	2023	\$82,707,592	\$72,845,367		\$0		\$0		
Charges/Assessments		\$9,862,225							

Note: FY2021 had a preliminary and revised Governor's Budget and the Final Budget differed from Conference. This analysis looks at the revised Governor's and the Final Budgets. A number of fiscal years had a Final Budget that Differed from Conference. This analysis uses the Final Budget rather than Conference.

Given the size of the increase for Framingham and some pushback from communities that are receiving smaller increases or no increase to State Aid, the City should proceed cautiously in assuming that the full amount as proposed by the Governor will be

available for appropriation. While development of the General Fund is still in process, use of the full amount of the State Aid increase to support recurring expenses is not currently anticipated. The amount recommended for operating expenses may change as the legislative review of the Governor’s budget and the House and Senate budget recommendation for State Aid are made.

- b. Looking ahead: The City should be cautious. To the extent that FY2023 State Aid is significantly higher than in FY2022, the expenditure budget recommendation for the increase should be evaluated to determine the level of confidence that the budget will be supportable going forward and the effect on revenue or services if State Aid is not increased commensurate with maintenance of the services going forward.

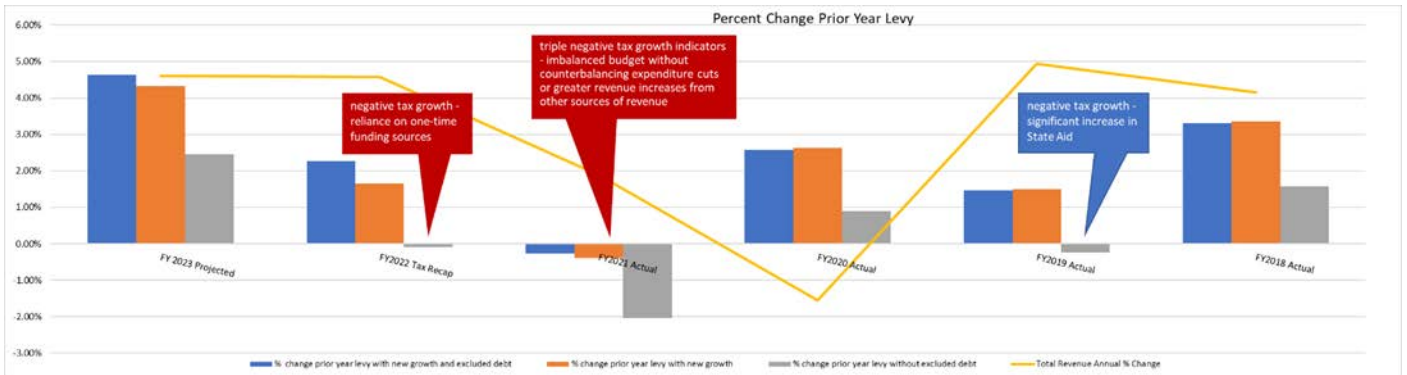
7. Tax Levy

- a. New Growth: New growth has been stable at just under 1% of the levy for each of the past 5 years, including during the COVID-19 pandemic. The New Growth projection for FY2023 is in line with prior year New Growth.

New Growth as a Percent of Prior Year Levy

FY 2023 Projected	FY2022 Tax Recap	FY2021 Actual	FY2020 Actual	FY2019 Actual	FY2018 Actual
0.91%	0.97%	0.96%	0.94%	0.92%	0.96%

- b. Year-over-year tax levy: the City has not maintained consistent year-over-year tax levies, with 3 of the last 5 years showing a negative levy after accounting for New Growth and for excluded debt. While reducing the tax levy can be beneficial because it maintains unraised tax levy, the City may wish to consider the level of the unraised tax levy and the consequences to the operating budget of tax levy decreases. Of the last 5 fiscal years, Framingham had 3 years with effective tax levy decreases. In FY2019, the City experienced a negative tax levy, relying on a significant State Aid increase to balance its budget. In FY2021, the City faced potential fiscal consequences of the COVID-19 pandemic. FY2021 showed tripled tax growth indicators. This means that, even taking into consideration the effect of excluded debt and new growth, the City cut its tax revenue. In FY2021, there were cuts made to the expenditures budget and there was a strong reliance on one-time funding to balance the budget. In FY2022, the City once again showed a negative year over year tax levy and once again relied on one-time sources of funding to balance the budget.



The FY2023 projected revenue raises the tax levy by the allowable 2.5%, accounts for New Growth, and increases taxes to meet the authorized excluded debt. Balancing the FY2023 budget will be difficult even with a 2.5% increase in the levy, because of the elimination of one-time revenue and the reduction in non-recurring revenue to fund operations.

<p><u>Tax Levy</u></p> <ul style="list-style-type: none"> • 1% projection for New Growth • 2.5% increase in tax levy

- c. Looking ahead: a strong economic development plan is necessary to provide for consistent New Growth. In addition, formulating multi-year expense projections will help with more predictable tax levies.

8. Projected Increase in Dollars Available for General Fund Appropriation

The projected increase in dollars available for General Fund Appropriation are \$15,615,016.

Tax Levy Increase:	\$4,875,292
New Growth:	\$3,500,000
Local Receipts Decrease:	-\$1,805,593
State Aid:	\$12,045,317
Free Cash:	-\$3,000,000
Total Increase:	\$15,615,016

Next Steps

The next steps in the budget process will be to review the expense budget requests and to review the capital plan. Once they have been reviewed, the expense budget will be developed. At that time, the City’s CFO and Assistant CFO will work with the School Committee and School Department to prepare a balanced budget. Concurrently, the Water and Sewer Enterprise Fund Budget will be reviewed and the water and sewer rates set for FY2023, following a public hearing.