

School Construction Advisory Group:

Municipal Finance Review

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Committee Presentation
July 14, 2025

City of Somerville - Mayor Katjana Ballantyne



Agenda

01. Re-Introduction

Set up and road map

02. Proposition 2 ½

Refresher: Prop 2 1.2 and funding sources

03. From Capital Projects to Operating Costs

Design, build, borrow, and maintain

04. Capital Planning

How do school projects impact the operating budget and residents?

05. Mechanics & Risks

Exclusions and Overrides

06. The Squeeze

Uncertainty and reduced new growth

07. Key Takeaways + Question & Answer

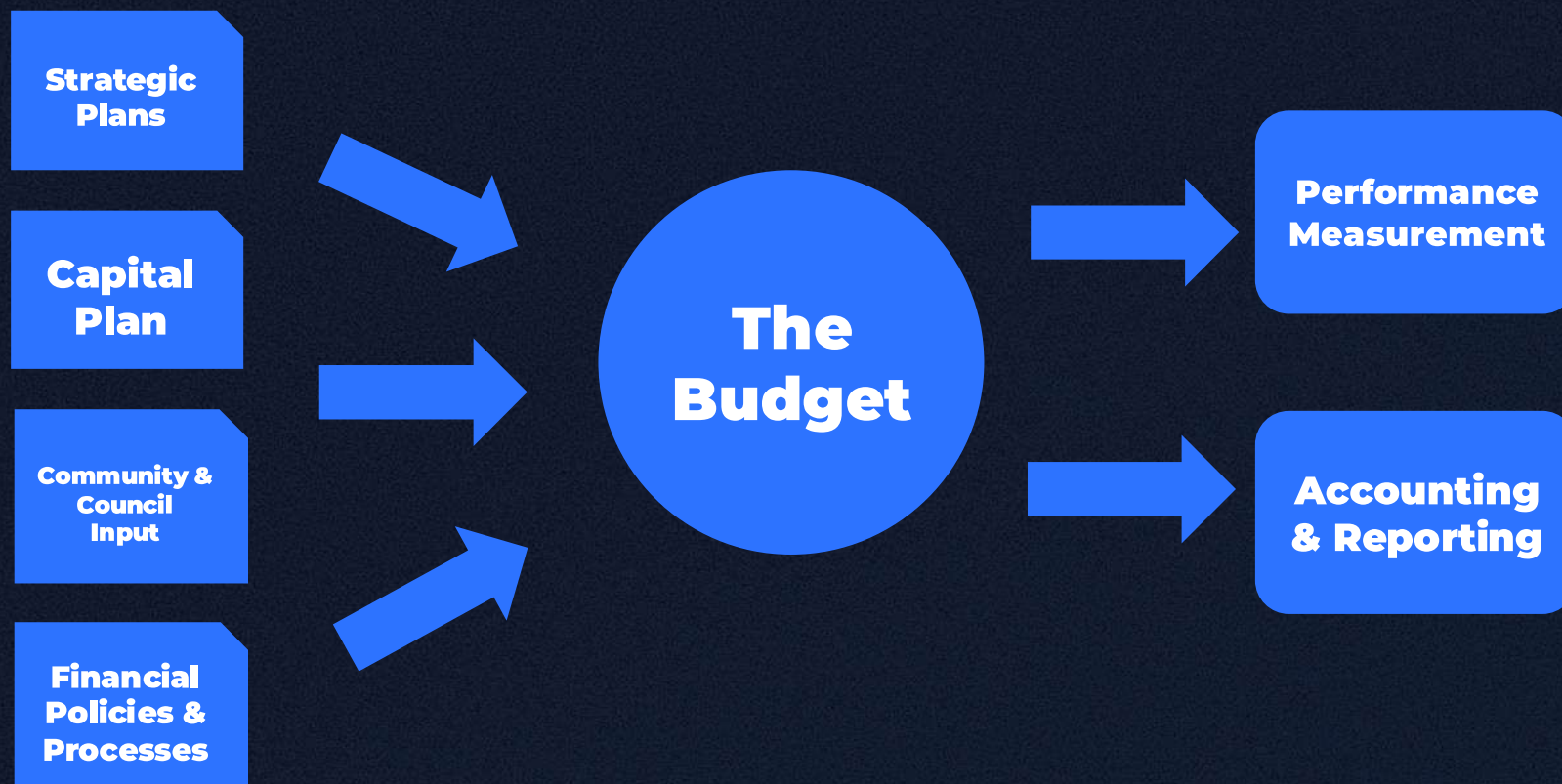


Section 1

Reintroduction

School Construction Advisory Group –
Funding the Pipeline, July 2025

A budget informed by priorities



Section 2

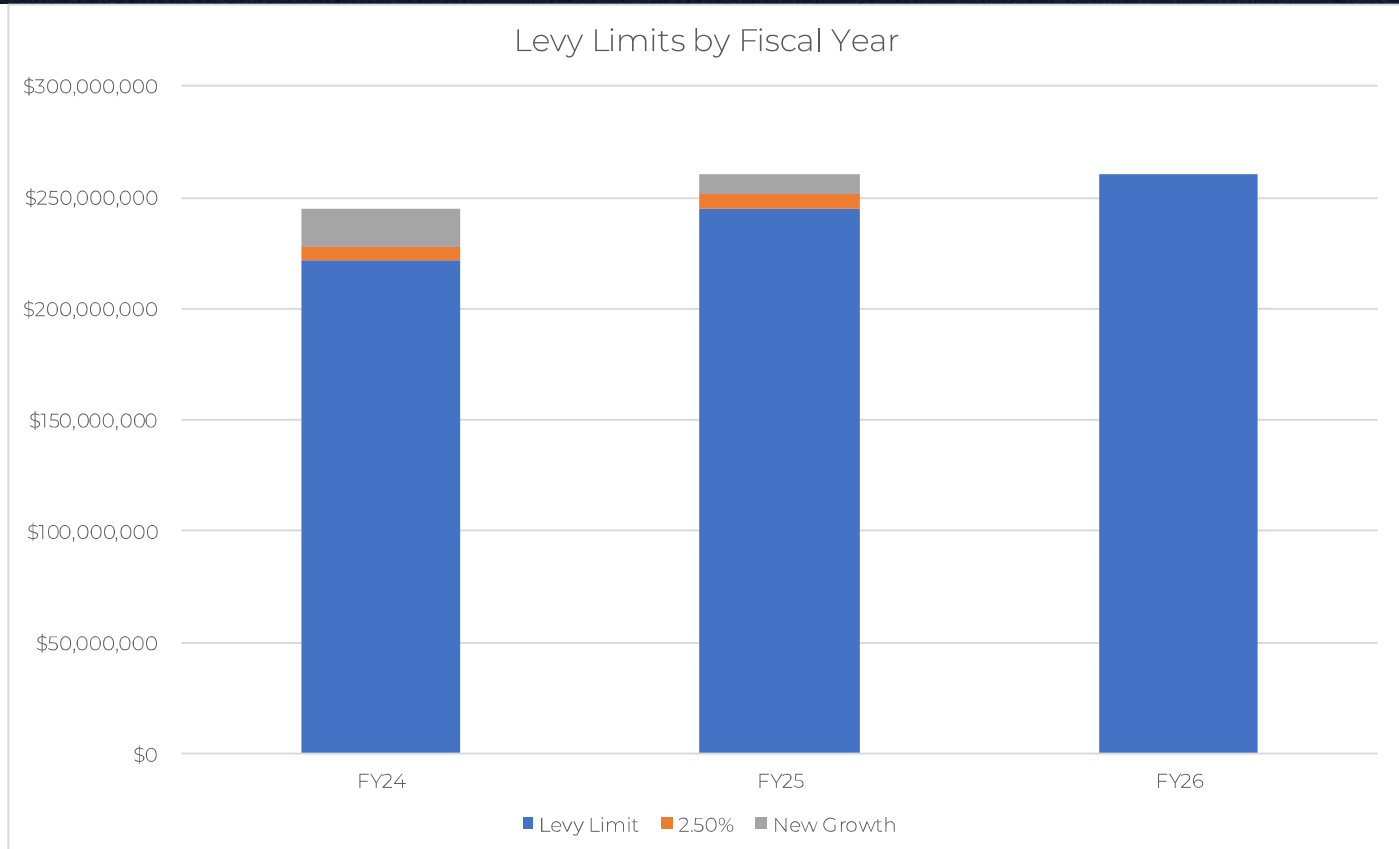
Proposition 2 ½

Funding Sources

Property Taxes & Proposition 2 ½

1. Proposition 2½ limits the total property tax levy a municipality can raise to 2.5% over the prior year's levy, plus taxes on new growth.
2. A city can only exceed this levy limit if voters approve an **override** (for operating expenses) or a **debt exclusion** (for a specific capital project).

	Levy Limit	2.50%	New Growth
FY24	\$221,859,450	\$5,546,486	\$17,763,972
FY25	\$245,169,908	\$6,129,248	\$9,000,000
FY26	\$260,299,156		



There are tools that cities can use to increase the property tax levy.

Recent examples of exclusions and overrides by our neighbors in Medford include one exclusion vote and two override votes



Debt Exclusion

1. A temporary increase in property taxes to pay debt service on a specific capital project (e.g., a new school).
2. The additional tax levy for that debt is excluded from Proposition 2½ limits.
3. Ends when the bond is fully repaid, and taxes revert downward.



Operating Override

1. A permanent increase in the levy limit to fund ongoing operating expenses (teacher salaries, facility maintenance, etc.).
2. Stays in effect indefinitely and increases at 2.5% annually in subsequent years.



Section 3

From Capital Project to Operating Budget

Design, Build, Borrow, and Maintain

Debt impacts budgets for decades

Debt service is a fixed cost and legally requires payment in advance of every other need.

Debt Service as a Fixed Cost: Like pension or healthcare obligations, debt service must be paid before discretionary items.

When debt grows, it can limit the city's flexibility to fund other services—libraries, road repairs, or school programs—because those expenditures compete for what's left after fixed costs.

Without a debt exclusion, these repayments come from the existing tax levy, often forcing budget cuts or shifting resources away from other priorities.

With a debt exclusion, the city can **raise additional revenue specifically to cover the new debt service**, helping preserve the operating budget for ongoing services.



Section 4

Capital Planning

How does the MSBA project impact other investments?

Context: How much do things cost?

01



Fire House

The Fire Station rehabilitation plan currently includes 4 projects each costing \$25M

02



Park Renovation

Lincoln Park cost \$12M
Smaller renovations can be done for \$2-3M

03



School HVAC

A primary focus of the current CIP is school HVAC improvements costing \$15-25M each

04



School Buildings

Imperative in school projects is maximizing MSBA reimbursement

*informational purposes only



Current CIP First Priorities

01



City Assets

City and school building investments

02



Mobility

Annual Street Resurfacing Plan

Bike Network implementation

ADA Upgrades

03



School HVAC

A primary focus of the current CIP is school HVAC improvements costing \$15-25M each

04



MSBA Project

Imperative in school projects is maximizing MSBA reimbursement

*informational purposes only



Section 6

Overrides & Exclusions

How do we get these done?

How do you get these approved?

The mechanics/strategy/tactics of an override or exclusion are complicated. ([info](#))

1. For an **MSBA project**, must have specific language that the MSBA approves, therefore we can't move ahead of this process.
2. A **debt exclusion** covers debt service on the amount of borrowing authorized or contemplated for the stated purpose at the time of the election. Debt service includes payments of principal on permanent debt and interest on permanent and temporary debt.
3. A **2/3 vote of the board or council** is needed to place an exclusion question on the ballot. G.L. c. 59, § 21C(i½), (j) and (k).
4. Proposition 2½ specifies the form of each type of ballot question. This **exact language** must be used to properly place a question before the voters.

Debt Exclusion (G.L. c. 59, § 21C(k)):

Shall the (city/town) of _____ be allowed to exempt from the provisions of proposition two and one-half, so-called, the amounts required to pay for the bond issued in order to (state the purpose or purposes for which the monies from the local issue will be used)?

Yes _____ No _____



How to think about risk

[takeaway]

Single Comprehensive Exclusion

One campaign
Predicable impact
Align with MSBA schedule

Multiple Piecemeal Exclusions

“Tax fatigue”
Rating agency flags
No change to go back re:
MSBA
Smaller impacted groups



Section 7

Financial Uncertainty

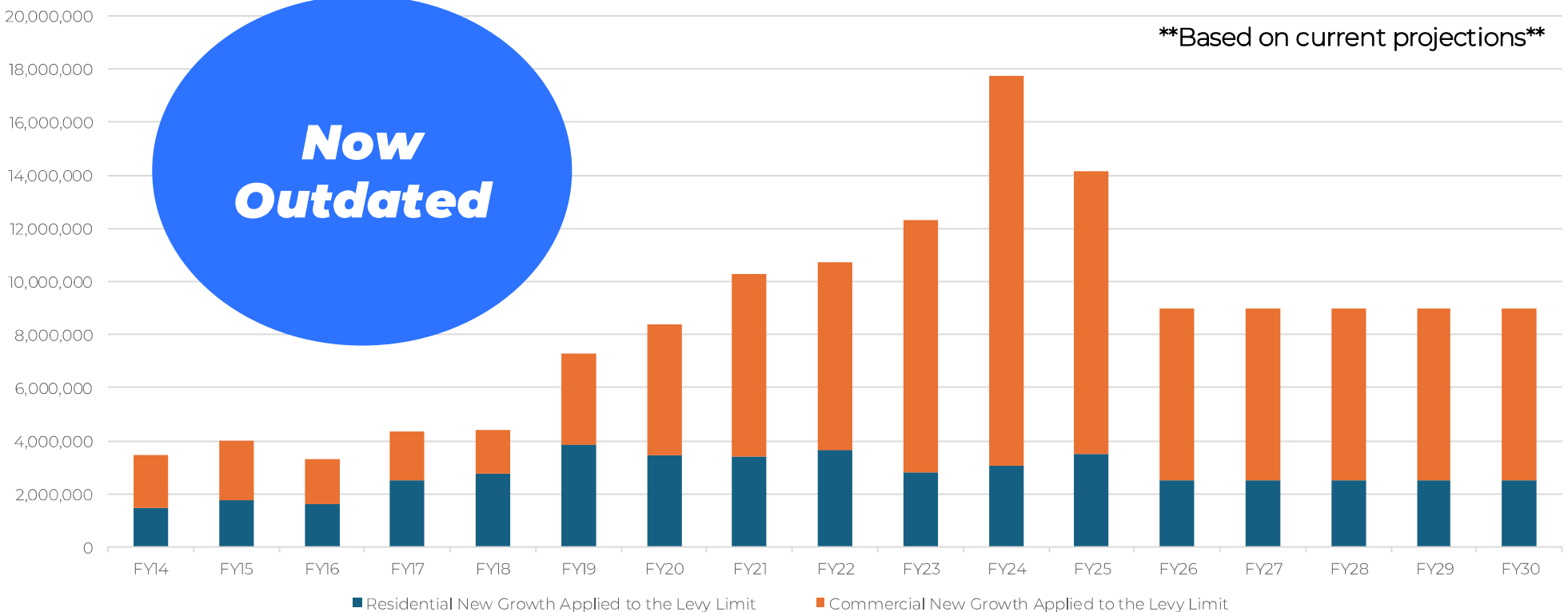
How do changes in economic outlook impact our long-term forecast?

The City has benefitted from record new growth since FY20, but projections show a slow down

New Growth Applied to Levy Limit by Fiscal Year

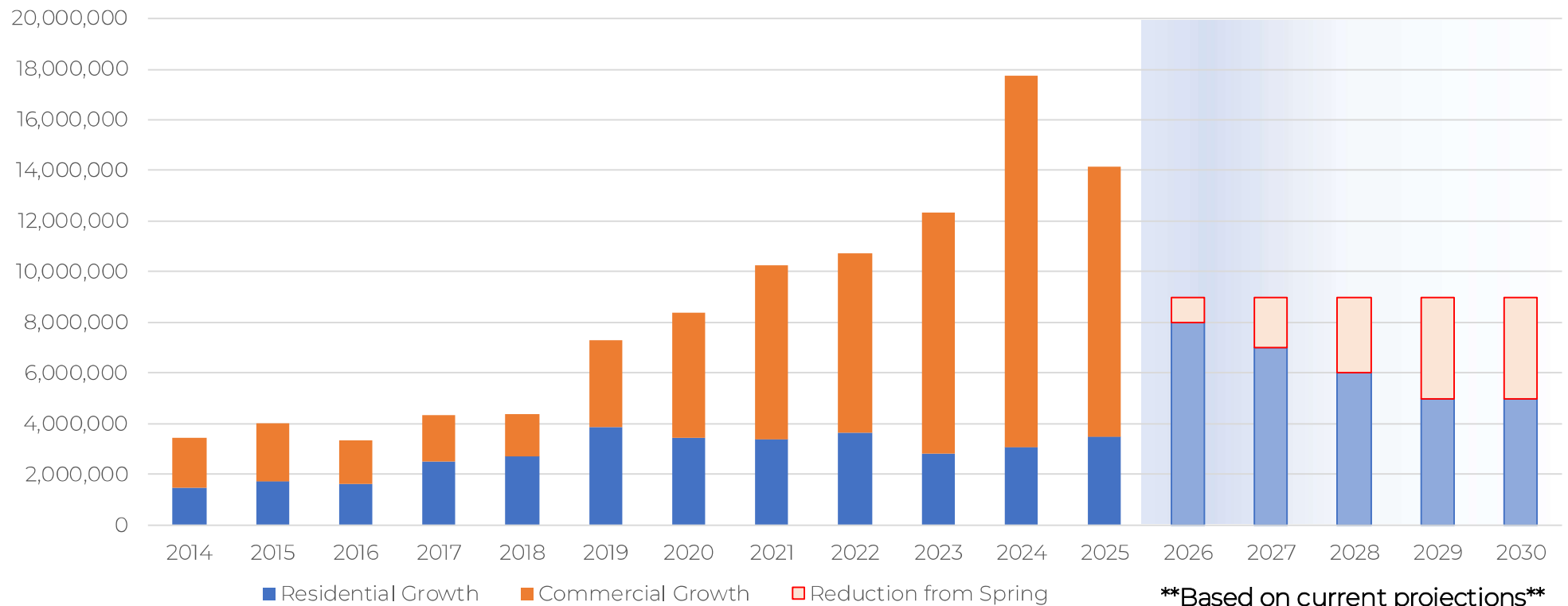
****Based on current projections****

**Now
Outdated**



The City has benefitted from record new growth since FY20, but projections show a slow down

New Growth Applied to the Levy Limit: FY02-FY25





Question & Answer