



Finance Committee **Budget Report**

City of Newton **In City Council**

Monday, May 14, 2018

Present: Councilors Gentile (Chair), Ciccone, Norton, Cote, Blazar, Fuller and Lappin

Absent: Councilors Ciccone and Brousal-Glaser

City staff present: Sue Dzikowski (Comptroller), Elizabeth Dromey (Director of Assessing), James Reardon (Treasurer/Collector), Nick Read (Chief Procurement Officer), Ann Berwick (Sustainability Director), and Maureen Lemieux (Chief Financial Officer)

BUDGET & CIP DISCUSSIONS:

Purchasing

Assessing

Treasurer

Executive/Sustainability

PURCHASING DEPARTMENT

Chief Procurement Officer Nicholas Read presented the Purchasing Department's Fiscal Year (FY) 2019 Budget. The Purchasing Department oversees procurement of goods and services for the City. The Department follows all state laws and city policies related to procurements. In addition, the Purchasing Department oversees the City's print shop and mailroom.

Mr. Read gave a brief review of the department's accomplishments this fiscal year, which include processing an estimated 5,200 requisitions, 106 bids totaling \$20 million, and \$15 million in purchase orders. Mr. Read also published a procedural booklet for departmental purchasing, which he has done since he came to the City in 2003. He provides the booklet to all City departments and offers training on procurement processes and procedures.

One of the goals for this fiscal year is to convert to digital purchase orders. The conversion will result in postage savings, as the City will not need to send hard copies of purchase orders to vendors. The plan is to continue to make improvements to the department's website in order to provide clear and accessible information. The department will continue to work to provide quality goods and services for the best price.

Mr. Read informed the Committee of the different ways that the City uses to purchase goods and services, which include solicitation of quotes, sole source procurement, state contract list, collective contracts with other communities, emergency contracts, invitations to bid, request for

proposals, request for qualifications, and no bid procurement for services of professionals exempted by M.G.L. c. 30B, §2.

For further information on the FY 2019 outcomes, refer to the budget book under the Purchasing tab. There are no predicted increases or decreases in the department budget. The number of personnel for the department remains unchanged for the upcoming year at five positions. The \$520,703 budget for FY 2019 is slightly more than the FY 2018 budget, because of increases in salary compensation and minor increases in the department's expenses. The Department has no Capital Improvement Plan projects. Councilor Ciccone moved approval of the recommended budget, which carried unanimously.

ASSESSING DEPARTMENT

Director of Assessing Elizabeth Dromey presented the Assessing Department's recommended budget for Fiscal Year 2019. State law sets most of the requirements that the Assessing Department needs to meet each year. The Department met all of its Fiscal Year (FY) 2018 goals and intends to meet all of the FY 2019 goals, as listed in the 2019 Budget Book under the Assessing tab.

The department will undertake a full revaluation in in the upcoming fiscal year. The State has moved to a five-year cycle instead of a three-year cycle. A representative from the Department of Revenue audits the assessments and Newton's process in developing its assessments, as part of the revaluation process. Although each municipality uses the same concepts to develop assessments, they each use different models. Assessments are based on area sales, location, size and quality of the property. The department has a revaluation budget funded through the tax levy that pays any necessary consultants or expert witness. Newton is still required to look at the values every year. If it is not a revaluation year and sales are going up or down, the Assessing Department addresses it on an annual basis.

Ms. Dromey reviewed the Overlay Account with the Committee. Overlay accounts are accounts set up to fund any potential abatements and personal exemptions. The funds for Overlay are raised through the annual tax levy. Previously the overlay funds were set aside each year to address any potential abatements or exemptions given by the Board of Assessors or Appellate Tax Board for that year. The Municipal Modernization Act changed the practice of an overlay account for each year to a one single overlay account. The single Overlay Reserve allows the city to avoid deficits that previously occurred if an abatement or exemption was awarded that exceeded the balance in the overlay account for that year. Ms. Dromey feels that it is an easier way to deal with possible exposure.

Ms. Dromey analyzes the City's possible exposure each year to ensure that there is enough funding in the Overlay Reserve. If she determines that there is excess funding in the Reserve, she makes a "Declaration of Overlay Surplus," which the Board of Assessors certifies. Any funds declared surplus are available to be appropriated that fiscal year. If the overlay surplus is not used in the fiscal year it is declared surplus, it becomes surplus revenue, which once certified becomes Free Cash. Ms.

Dromey is very careful to ensure that there is always enough in the Overlay Reserve to cover the City's potential exposure.

The income levels for tax assistance programs for personal exemptions are set through the state, home rule legislation or acceptance of a local option. The Assessing Department does not set the income levels for these types of programs. Chief Financial Officer Maureen Lemieux added that the Mayor is currently working on a docket request for home rule legislation to modify the existing income cap of \$60,000 set in 2004 for the tax deferral program for seniors. The Mayor's Office with input from Ms. Dromey is working on determining what the appropriate income cap should be. Ms. Lemieux expects that the Mayor will docket the item with the Council in the next few weeks. If the Council approves the request, it will still require approval from the State.

There are some large ongoing commercial assessment appeals. The utility companies routinely appeal their assessments. Eversource has open cases with the Appellate Tax Board that date back to 2012. The City's exposure if it loses these cases is smaller than the appealed assessment because Eversource did not pay the full amount of their tax bill. Ms. Dromey feels that the City is likely to win the cases, which would result in Eversource paying the full amount of each of the assessments that they appealed. The City settled with Verizon for five years but when that agreement is up, Ms. Dromey expects them to appeal regarding their valuations. The City has also settled with the Marriott Hotel.

Less than 1% of the assessed values resulted in a contested valuation this fiscal year, which is a very low filing rate. It is likely that the low rate is attributable to the Assessing staff's ability to explain to property owners how a valuation is determined. Very few property owners contest their valuation and the City has a very high success rate defending the values before the Appellate Tax Board.

The Assessing Department handles the excise tax abatements but is not involved in collection. A Committee member requested that the City look at where Verizon is paying excise tax for vehicles it appears to garage at its Rowe Street property. Ms. Dromey agreed to look into it but pointed out that Verizon may be paying excise taxes to the municipality where the vehicles are registered. There was also a request that Ms. Dromey investigate whether it is possible for the City to acquire land from a utility company as settlement for unpaid taxes. Ms. Dromey will consult with the Law Department regarding this and get back to the Committee.

The staffing levels within the department remain the same at thirteen full-time employees. There is a small decrease in funding for personnel because of the retirements, as the retirees were at the higher end of the pay scale and the replacements are at the lower end of the pay scale. The expenses within the department are increasing by \$1,200 in FY 2019 due to software maintenance costs. With that, Councilor Lappin moved approval of the Assessing Department's budget at the recommended \$1,252,091. The motion for approval carried unanimously.

TREASURER'S DEPARTMENT

City Treasurer and Collector Jim Reardon presented the department's budget for next year. Mr. Reardon explained that the Treasurer/Collector is responsible for billing and collecting taxes and fees due to the city. The Treasury disburses all municipal payrolls and payable warrants to vendors. The Treasurer is also responsible for reconciling all City accounts and the issuance of authorized debt.

The Treasury Department's budget is similar to last year. There are small increases in the banking services fees and the parking ticket contract. In addition, there is an increase in postage budget line for the upcoming year. There is a decrease in the bond sale costs line item as the premiums from the annual bond sale are used to cover those sale costs. Positions in the department have been upgraded to attract highly qualified candidates to fill the positions in the Treasury. It is a high stress office, which results in a high rate of turnover.

The Treasurer is expecting to add six additional departments to the list of departments that have the ability to process credit cards in the upcoming fiscal year. It is much easier for people if they can get what they need and pay for it one place. Credit card processing also allows people to order and pay for things on-line without ever having to come to City Hall.

The Village Bank continues to handle all of the coin generated through parking meter payments. The City raises approximately \$1.2 million in parking meter receipts per year. There is reduction of about \$300,000 in coin due to phone app payments. People's use of the app is lower than anticipated but still helpful in reducing coin.

The City will be converting to Munis financial software over the next eighteen months. The Treasury currently works with Munis software but other departments, like the Comptroller's Office, use FinancePlus resulting in the need to create software bridges to transfer data between software. The conversion will eliminate the need for the bridges; however, the conversion will require a rewrite of all general ledger codes, which is a significant amount of work.

The City will approach the 18-month Munis implementation process in phases. Some of the City departments are already working on pieces of the conversion. The Purchasing and Human Resources Departments are currently scrubbing their data for migration of vendor numbers and payroll information. Some of the departments involved in the Munis implementation may require temporary personnel to handle some of the day-to-day operations of the department.

The Treasurer's budget includes a list of the City's debt maturities that include the payments on principal and the payments on interest on the long-term debt. Pages 4 through 6 of the Treasurer's budget reflect the principal payments and Pages 7, 8 and 9 reflect interest payments. The city opts to structure bonds with level payments or with level debt and declining interest. The City works with its financial advisor to best determine how to structure bond payments.

There are 11 positions within the Treasury Department and there are no changes to the personnel levels in the Department. The proposed FY 2019 Treasury budget is \$31,621,167, which is a 3.31% increase over the FY 2018 budget. Councilor Noel moved approval, which carried by a vote of seven in favor and none opposed.

EXECUTIVE DEPARTMENT/SUSTAINABILITY

Chief of Staff Maureen Lemieux and Director of Sustainability Ann Berwick joined the Committee to discuss the budget for the Executive Office.

Ms. Berwick began by stating that she works with a number of City departments and the group of people she works with in those departments is impressive. She reviewed some of the key sustainability initiatives that she is working with City departments to implement.

The City is developing a municipal electricity aggregation program named Newton Power Choice. Municipal electricity aggregation uses bulk-buying power to provide increases in renewable energy in the electricity supply, price stability and additional consumer protection to a community. The City, some businesses and residents currently purchase their electricity through Eversource but Newton is forming the Newton Power Choice Program to give people electricity choices. Newton Power Choice will allow people to have greater control over the amount of renewable energy in their electricity supply.

The program includes more renewable energy than what Eversource currently supplies. As part of the program, the City will decide what portion of the energy supply should be renewable as the base level of the electricity supply. The aggregation will be able to offer consumers the opportunity to purchase higher levels of renewable energy including a 100% option. The decision on the base renewable level is expected in the fall. It is the Mayor's decision but she will be working with the City Council to make the decision.

All Eversource Basic Service customers in Newton will be automatically enrolled in Newton Power Choice but can opt out of the program and continue with Eversource or another electricity supplier. Ms. Berwick is currently working on education programs to inform the community about the program. It is critical to try to reach every Eversource Basic Service customer in the City to explain the program. It is important that everyone understands that there may be an increase in their electricity bills because they are now part of the aggregate program that provides cleaner energy. Even a small increase in a bill can be very difficult for people on fixed incomes. Ms. Berwick added that there is a possibility that electricity costs will be lower through the aggregate program depending on the contract pricing. The Executive Office is planning a media campaign, community meetings, and mailings to reach as many people as possible.

Additional sustainability programs are planned for Fiscal Year 2019 including the continuation of solar installations at a number of locations, replacing City passenger vehicles with electric vehicles

and adding an electric vehicle charging station at Newton South High School. Ms. Berwick is working with the Planning & Development Department and the Energy Advisory Committee to develop a Climate Action Plan. Additional initiatives and further detail on all of the sustainability projects can be found on Page 2 of the budget for the Mayor's Office.

Chief of Staff Maureen Lemieux started the discussion of the Executive Department's budget by explaining that the Executive Department's budget does not change much from year to year. When Ms. Lemieux presents the budget, she likes to highlight some of the global budget information:

The City's health insurance increased by 4% this year, which is on trend with the increases over the past several years. The Health Insurance Fund is healthy but it is too early to determine if there will be a health holiday in the upcoming fiscal year. For stability of the budget, it is critical to raise the rates each year to ensure that the City is keeping up with the medical trend rates. By keeping it at a modest increase each year, the rate increases have remained stable over the past several years. Health insurance program costs approximately \$65 million, of which, employees contribute approximately \$15 million to the cost. Pension funding increased by 9.6% in order to maintain 2030 funding of the pension liability.

There is a \$2 million wage reserve in the Comptroller's budget to fund contract negotiations and to settle outstanding contracts. Many of the City's contracts are expiring on June 30, 2018 and will need to be negotiated. The Superior Officers' Union has been without a contract since June 30, 2014 and NEMA, which is now the Teamsters' Union has been without a contract since June 30, 2017, which once settled will require retroactive payments as part of the settlements. Ms. Lemieux expects to come to the Council with a funding request to settle the Teamsters' contract extension to June 30, 2018 in the next few weeks.

The Snow Reserve in the Comptroller's budget contains \$2.75 million and the Public Works' budget contains \$1.5 million for snow. Ms. Lemieux increases snow removal funding by \$250,000 each year. The goal is to increase the snow budget to the average cost of snow removal over a five-year period, which is currently \$5.5 million, instead of relying on Free Cash.

The Executive Department overarching goals for Fiscal Year 2019 are listed under the Executive tab in the budget book. There is a decrease in Executive Office's budget because of the reduction of one part-time position. There are 8.5 positions in the Mayor's Office. The total recommended budget for the Executive Office is \$985,093. There are no proposed capital improvement projects in the Executive Office. Councilor Ciccone moved approval, which carried by a vote of seven in favor and none opposed.

Respectfully submitted,

Leonard J. Gentile, Chair