



Finance Committee **Budget Report**

City of Newton **In City Council**

Monday, May 8, 2017

Present: Councilors Gentile (Chair), Norton, Rice, 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), Andrew Savitz (Sustainability Director), and Maureen Lemieux (Chief Financial Officer/Chief of Staff)

BUDGET & CIP DISCUSSIONS:

Assessing

Treasurer

Purchasing

Executive/Sustainability

ASSESSING DEPARTMENT

Director of Assessing Elizabeth Dromey presented the Assessing Department's recommended budget for Fiscal Year 2018. State law sets virtually all of the requirements that the Assessing Department needs to meet each year. The Department met all of its Fiscal Year (FY) 2017 goals and expects to meet all of the FY 2018 goals, as listed in the 2018 Budget Book under the Assessing tab. There was a retirement in the Department and a person promoted from within the Assessing Department to fill that position resulting in a vacant Excise and Data Control Specialist position.

The City settled with Verizon New England, the landline company, on cases dating back to FY 2010. The settlement results in a 7% reduction in the original valuations for Verizon or about \$70,000 less per year for the seven years in tax payment. As part of the settlement Verizon agreed to waive the interest payments. The City had set aside a substantially larger amount of funding to cover awards that Verizon may have received if they prevailed. Ms. Dromey will provide the Committee with the exact amount set aside.

The landline companies assessed valuations are determined by the State's Commissioner of Revenue and municipal assessors must use the values set by the Commissioner. Verizon New England is stating that the company is dying because people are no longer using landlines. Municipalities and the landline companies can contest the values. Verizon New England would like to see a higher depreciation rate used on their property.

The Commissioner of Revenue, Verizon New England Representatives, and a small group of municipal assessors including Newton's assessor were involved in the negotiations and came up with a methodology for valuation that everyone involved agreed on for the next five years. In addition, the State will now share with the City the actual forms provided by companies to the State as part of the valuation process provided the City makes a request in writing. Before the agreement, municipalities would have to sue to get the information. This settlement is good for the City. Verizon was seeking a much larger settlement. The Committee asked that Ms. Dromey provide the original settlement request from Verizon to understand just how good the settlement is for the City.

The City is still in litigation with Verizon wireless regarding their valuations. In addition, there are cable companies and businesses contesting their valuations. It is part of the way those companies do business.

The department will undertake a full revaluation in FY 2019. The State has moved to a five-year cycle instead of a three-year cycle, which will start for Newton after the FY 2019 revaluation. 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 will address it on an annual basis.

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 staffing levels within the department remain the same at thirteen full-time employees. All of the staff is cross-trained in the different functions of the department. There is a small decrease in funding for personnel because of the retirement, as the retiree was at the higher end of the pay scale and the replacement is at the lower end of the pay scale. The expenses within the department are increasing slightly in FY 2018 due to software maintenance costs. With that, Councilor Lappin moved approval of the Assessing Department's budget at the recommended \$1,276,733. 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 reviewed the department's accomplishments over this fiscal year. In terms of FY 2017 and FY 2018, the emphasis has been on electronic banking methods. Mr. Reardon would like to see the Treasury Department continue with establishing new enhanced electronic banking and payment techniques. In the past fiscal year, the Department made good progress in reducing the lines at the Treasury Department. More citizens are using the online option and finding it more convenient. The Treasury made good progress in 2017 with making bills available online to the public through the City's website. People can now go onto the City's website and access a past due excise bill, which was not possible in FY 2016. The Treasurer wants to see this type of progress into FY 2018.

In FY 2017, the department implemented new payment options for municipal liens and redemption certificates. In the past, a person would have to come into City Hall to request a certificate and have it mailed if not paying in cash. The new option allows a person to pay for a certificate online through City Hall Systems and receive the certificate electronically.

One of the problems with online banking moving forward is that the credit card companies stagger their payments, which wreaks havoc with the Treasury's ability to reconcile payments to the correct accounts. It does not affect the payees recorded date of payment and they get full credit for the payment. The Treasury Department must always keep this issue in mind when considering implementing new payment options because it could create larger problems with reconciliation. It is impossible for the Treasury Department to determine which payments the credit providers hold for one or two days, as the Treasury only receives a daily total from the credit card providers with no breakdown of payments. The Treasury Department intends to work with a number of its banks to see if it is possible to develop anything in house to resolve the issue. City Hall Systems is very good about trying to customize anything that the City needs and is looking at how the Treasury can do the reconciliation and get reports that will break the payments down on the actual pay dates.

Outcomes for Fiscal Year 2018 include continuing to look at new technology to improve revenue collection, efficiency, and customer service. The department will also work with Information Technology to evaluate software and provide training for the department. Mr. Reardon expects to keep the Department running at a high-level of competence and professionalism. Chief of Staff Maureen Lemieux pointed out that in the seven years that she has been in Newton this is the department that has seen the biggest turnaround. The City made an effort to hire people with the ability to work in a 21st Century Treasury Office.

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, 5 and 6 of the Treasurer's budget reflect the principal payments and Pages 7, 8 and 9 reflect interest payments. It appears that a few of the principal and interest line items are increasing, which is due to bond refunding or how the City structured a bond. 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.

A Committee member pointed out that the debt and interest payments are going up by over \$2.5 million in FY 2018 and asked if the amount of the payments would stabilize in the near future. Expectation is that the debt service payments will level off in the next few years. Ms. Lemieux explained that the City is expecting to sell a couple of million dollars of bonds for Zervas Elementary School and the Fire Station 3 Project. Most of the bonds sold were for override projects except for the Cabot School, which she expects to sell \$25 million in bonds. The bond payments for the override project will come from the override funds. The Chair pointed out that the City has guidelines for debt

service. The City bonded a large number of capital projects to improve the City's infrastructure but the debt service has not exceeded 6% of the General Fund Operating Budget.

There are no vacant positions within the Treasury Department and there are no changes to the personnel levels in the Department. The proposed FY 2018 Treasury budget is \$30,397,681, which is a 7.8% increase over the FY 2017 budget. Councilor Fuller moved approval, which carried by a vote of five in favor, none opposed and one not voting.

PURCHASING DEPARTMENT

Chief Procurement Officer Nicholas Read presented the Purchasing Department's Fiscal Year (FY) 2018 Budget. Mr. Read began by highlighting the department's accomplishments this fiscal year, which include processing an estimated 102 bids for \$52 million including the \$28 million school bus bid and \$917,000 in CDBG and CPA bids. In addition, the department processed approximately 4,400 requisitions for a total of \$15 million. The department tracks the computed savings over the course of the year, which is the difference between the high and low bid. The savings are approximately \$8.2 million a year, because of the bid process.

One of the goals for this Fiscal Year is to convert vendor number forms and purchase orders to electronic versions. The requisition process is fine internally but the City mails all the requisitions and purchase orders to vendors. It would be less expensive and more efficient to e-mail the requisitions and purchase orders to the vendors. The Purchasing Department was unable to complete the goal due to the upgrade to FinancePlus and the hope is to accomplish it in FY 2018. The Purchasing Department oversees the print shop operations. Much of the equipment in the print shop came from the School Department in 2012 and all of it needed replacement along with the postage meter. The Purchasing Department upgraded the equipment and the postage meter in FY 2017. In the upcoming year, there is funding to replace one of the black and white printers in the print shop.

Mr. Read is working on publishing a new Purchasing and Procurement Policy and Procedures Handbook this fiscal year. Mr. Read is still teaching at the Inspector General's Office and serves on a panel for the Massachusetts Association of Public Purchasing Officials. In the upcoming year, the department is planning to continue with the publication of the monthly newsletter. Mr. Read also will continue to meet with City departments on purchasing and to get feedback on the handbook.

The Purchasing Department handles all contracts except professional contracts like attorney and design services, which the Law Department handles. The professional contracts are qualifications based instead of price based and the City could solely base the contract award on qualifications. The Purchasing Department handles the School Department contracts, as well.

The Committee members discussed the new school bus contract. One of the problems with the bus contract is that there is polarization because garaging is such an important component of the bid. Once a bus company gets in a certain geographic area, other bus companies do not bid. The City only

received one bid on the contract. The City could have gone back out to bid but would have run the risk of getting no bids or the same bidder at a higher price. The next time the bus contract is up for bid, Mr. Read would start the process six months ahead in order to research the market. It may make sense to make direct contact with bus companies to let them know that the City is releasing a bid.

Liam Hurley of the School Department was aggressive about negotiating a lower price based on getting garaging in Newton. It is a big bid for a significant amount of money that has not gone out to bid in five years. The Purchasing Department did some research with other cities and towns and found that the cost of the bus bids has gone up a significant amount everywhere. The City's new bus contract is 22% higher than the last contract but the average increase in other municipalities was 30%.

For further information on the FY 2018 outcomes, refer to the budget book under the Purchasing tab. The number of personnel for the Department is unchanged at five positions. The \$503,741 budget for FY 2018 is slightly more than the FY 2017 budget, because of increases in salary compensation and funding for the new copier. The Department has no Capital Improvement Plan projects. Councilor Lappin moved approval of the recommended budget, which carried unanimously.

EXECUTIVE DEPARTMENT/SUSTAINABILITY

Chief of Staff Maureen Lemieux introduced Sustainability Directors Ann Berwick and Andy Savitz. They are job sharing the position of Sustainability Director. Mr. Savitz and Ms. Berwick reviewed six key sustainability initiatives that they are currently working on implementing.

- Municipal electricity aggregation – The first steps to implement an aggregation program have started. A group that includes two Councilors will begin interviewing brokers and consultants in the upcoming week.
- Newton Energy Savers Program – The program is a residential energy savings program. The program was very successful last year in getting 1,000 assessments but the bad news is that there were not enough people taking the follow-up steps. Only about 20% of the participants moved to the next steps. This year's goal is to get a thousand assessments and convert at least 40% of those to the follow-up actions like weatherization and insulation.
- Business Energy Savers Program – The program involves getting small businesses to get energy audits and implement the recommendations in the audit. In many cases, the auditors will switch out incandescent and compact fluorescent light bulbs for LED lights free of charge. There are often recommendations for insulation. Restaurants can often realize significant savings by upgrading refrigeration equipment. The conversions are at low cost or no cost to the businesses. It can be difficult to get businesses to sign up due to time constraints on their part.
- Solar Development – The City is about to initiate the third phase of the solar development project. There are thirteen buildings, land and parking lot sites in the City with solar panels. There is a list of 30 to 35 municipal parcels that could be possible

- solar sites. The City is about to issue a request for proposals to find consultants, who will identify which sites are viable options for solar panels. At the end of Phase III, the City should have 5.5 megawatts of municipally developed solar power, which is a high percentage given the City's population and size.
- Gas Leaks – The Sustainability Directors are working very hard on gas leaks. Newton has hundreds of gas leaks under the street because of deteriorating steel or iron gas lines. The City continues to be successful in working with National Grid to facilitate the repair of the Tier 2 gas leaks. The City is about to start a pilot project with the Department of Utilities and National Grid on the Tier 3 leaks. Any leak that not considered explosive is a Tier 3 leak, which there is no requirement to address. At the end of the legislature's last session, they passed a law that requires National Grid to consider the environmental impacts of the Tier 3 leaks. These leaks could be emitting large amounts of methane into the environment for years. Methane is an extremely potent greenhouse gas. There is speculation that 50% of the gas is coming from 7% of the leaks. The pilot project will identify the City's super emitters and repair them using the latest technology. The pilot will benefit Newton and help the Department of Environmental Protection develop new regulations to address and define what is environmentally significant.
 - Metro Mayors' Group – As part of the Mayor's participation in the Metro Mayors' Group, the City is doing a climate change vulnerability assessment. The Metropolitan Area Planning Council is facilitating the assessment and providing grant funding. The assessment will primarily look at Newton's flooding risk and the heat island effect from long periods in the summer where the temperature never goes below 90 degrees. Even in the one year that the Sustainability Directors have worked on the assessment, the data changed in the wrong direction. For example, the City is now vulnerable to flooding from the Charles River due to sea level and predictions on precipitation are dramatic. The assessment includes solutions to the flooding like depaving, permeable concrete, and development of an emergency plan. There will be public hearings this September to report and update the community on the assessment.

The Council will continue to hear about these initiatives particularly municipal aggregation and Phase 3 Solar in the upcoming fiscal year. Ms. Berwick is working with the Planning Department on zoning reform to look at zoning that could aid in environmental protection and sustainability. Committee members suggested that it would be beneficial for Mr. Savitz and Ms. Berwick to submit FY 2017 accomplishments and FY 2018 goals to incorporate into the FY 2018 Budget Book.

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. When Ms. Lemieux presents the budget, she likes to highlight some of the global budget information:

- More often than not, there are 52.2 weeks in any given year because the fiscal budget goes from July 1 to June 30, which results in an extra day in the fiscal year. In the upcoming fiscal year there is not an extra day making it a 52-week budget. When you look at the salary

increases throughout the book, it looks like employees are getting a 2.6% increase; however, everyone is getting a 3% increase.

- The Police Superiors Union has not had a contract since June 2014. All of the AFSME Union groups are up on June 30, 2017. There is a \$1.2 million wage reserve in the Comptroller's Budget to settle the contracts. Ms. Lemieux expects to request a transfer or appropriation to fund the retroactive portion of the Police Superiors Union contract.
- The Fiscal Year 2018 Budget contains \$5 million for snow removal (\$3 million in the Comptroller's Budget, \$1 million in the DPW Budget and \$1 million in the Inclement Weather Account), which is a \$250,000 increase over FY 2017 funding. The average cost of snow operations is \$5 million. The City is getting closer to funding the average snow costs for any given year without the Inclement Weather Fund. Soon the City will not have to use its Free Cash to fund snow removal costs.
- In 2012, the City established the Other Post-Employment Benefits (OPEB) Liability Trust Fund to begin to address the OPEB liability. The unfunded liability is around \$700 million. The plan to fund the liability includes a goal that the City set aside a percentage of the salary of all insured employees that started with the City on or after July 1, 2012. The City has been increasing the percentage set aside, which started at 2.5% and is currently at 3.25%, as there is an increase in the number of employees covered. The Fiscal Year 2018 OEPB contribution is going to be approximately \$2 million. OPEB is a City expense. The City is \$1 million ahead of the projection from 2012. The City is using the same actuary for both the OPEB and pension liabilities for Fiscal Year 2018.
- When the Administration negotiated the 2011 union contracts, the contracts included language that increased newly insured employees contribution rate. There are now 1,020 people or 40% of the workforce is paying more than 20% of their health insurance cost. The City is having a health year, which means that the projected costs for insurance are lower resulting in a large reserve. The City will be doing a health insurance holiday in the fall for the City and Schools. The City will benefit by approximately \$800,000 in savings. The plan is to continue with the pay as you go for OPEB liabilities and when the pension liability is funded, direct those funds to the remaining OPEB liability.
- The City continues to add funding to the pension account but it still losing ground on funding the liability. The Retirement Board will be hearing from the actuary on three different possible funding schedules. The City added a 9.6% increase to the pension appropriation this fiscal year and lost \$10 million from where the actuary projected where the fund would be at this time. It has become increasingly clear that the discount rate is too high. According to the actuary, the City would need to increase the pension appropriation by 10.15 % to fully-fund the pension liability by 2029. The City has the same number of active employees insured as it did in 2005; however, the number of retirees has grown by 300. If the City has to go out beyond 2029, the rating agencies are okay with the City doing that rather than using reserves to fund the liability by 2029.

A Councilor commented that the economic development statement under the Executive Summary in the FY 2018 Budget Book is misleading. Development that brings additional residential

units with children, it costs the City money instead of generating money. Ms. Lemieux responded that it depends on the type of residential development and the size of the units. The Administration recently docketed an item to hire a consultant to develop an economic development strategy.

There is also concern that the Administration and City Council do not understand how crowded the schools are when approving residential development. There is a real cost to the School Department in terms of programming and space. In addition, it does not seem necessary to add additional Teacher Aides to implement a full-day kindergarten program. It would be great if the Administration pushes back on the idea to add more aides, as it is one of the largest School Department's cost drivers.

The City has spent over a ½ billion renovating or reconstructing six schools. The enrollment increase is 15% over 15 years but there is an 80% increase in the School Budget over that same 15 years. It does not seem to be sustainable. Ms. Lemieux reminded the Committee that when thinking about the increase in the budget, they needed to factor in the 3% or 3.5 % the budget would have increased each year regardless of enrollment.

The School Department is using some of the health holiday savings to fund a renovation of Ed Center space for the Central High School. The Chair of Finance would like to see that funding moved to the Public Buildings Department for the management of the project to ensure that the project stays within its budget. Ms. Lemieux will check with the Law Department to see how to handle the request.

A Committee member suggested that the Administration form something similar to a citizen advisory group to look at the pension and OPEB liabilities to develop different funding strategies and bring it forward to the public. The Committee discussed the pros and cons of forming this type of group, but as there will be a new Administration in eight months and the new Mayor may have his or her own thoughts on how to fund the liabilities the Committee tabled the discussion.

The Committee discussed the planned health care holiday. Ms. Lemieux explained that there is approximately between \$15 and \$16 million in the Health Care Reserves, which is more than enough to do a two-week health care holiday. There is a possibility that the Administration will be back at the start of the fiscal year to request a third week for the health holiday, as there is too much money in the reserves. Committee members requested that the Comptroller provide the actual dollars in the reserve accounts for health care.

The Executive Department did not do an accomplishments or outcomes page for the Executive Department's budget because the budget and Capital Improvement Plan is what the Executive Office intends to accomplish each year. The Executive Office's budget is virtually unchanged. The total recommended budget for the Executive Office is \$1,043,009. There are no proposed capital improvement projects in the Executive Office. Councilor Norton moved approval, which carried by a vote of six in favor and none opposed.

Respectfully submitted,
Leonard J. Gentile, Chair