



Finance Committee Report

City of Newton In City Council

Monday, May 9, 2016

Present: Councilors Gentile (Chair), Norton, Brousal-Glaser, Rice, Blazar, Fuller and Lappin

Absent: Councilor Ciccone

City staff present: Elizabeth Dromey (Director of Assessing), James Reardon (Treasurer/Collector), Nick Read (Chief Procurement Officer), and Maureen Lemieux (Chief Financial Officer/Chief of Staff)

BUDGET & CIP DISCUSSIONS:

Assessing

Treasurer

Purchasing

Executive/Sustainability

Referred To Finance and Appropriate Committees

#288-15

Submittal of the FY17 Capital Improvement Plan

HIS HONOR THE MAYOR submitting the FY 2017-FY 2021 Capital Improvement Plan pursuant to section 5-3 of the Newton City Charter. [10/01/15 @ 1:53 PM]

Referred To Finance and Appropriate Committees

#288-15(2)

Submittal of the FY 2017 Municipal/School Operating Budget

HIS HONOR THE MAYOR submitting in accordance with Section 5-1 of the City of Newton Charter the FY17 Municipal/School Operating Budget totaling \$378,969,244 passage of which shall be concurrent with the FY17-FY21 Capital Improvement Program (#288-15).[04/11/16@11:31 AM]

EFFECTIVE DATE OF SUBMISSION 04/19/16; LAST DATE TO PASS THE BUDGET 06/03/16

Referred To Finance and Appropriate Committees

#288-15(4)

Submittal of the FY 2017 – FY 2021 Supplemental Capital Improvement Plan

HIS HONOR THE MAYOR submitting the FY 2017 – FY 2021 Supplemental Capital Improvement Plan. [04/11/16 @ 11:31 AM]

ASSESSING DEPARTMENT

Director of Assessing Elizabeth Dromey presented the Assessing Department's recommended budget for Fiscal Year 2017. The Department's mission statement remains the same as last year. It is to value real and personal property efficiently, fairly and accurately in accordance with the laws of the Commonwealth, to administer motor vehicle excise, personal exemptions, and abatement programs for water, sewer, real estate, and excise taxes and to address concerns of members of the public

professionally, quickly and courteously. The Department works with residents, realtors, business, and developers daily to provide property tax and assessment information. The Department also defends property values before the Massachusetts Appellate Tax Board.

In the past year, the department valued over \$24.2 billion in property. The City's property tax is the major revenue source for the City. The Assessing Department met all the Department of Revenue requirements. In addition, the department valued new growth due to new construction and renovation that resulted in over \$5.1 million in new tax revenue. This is unlikely for next year but there will be new growth attributed to modernization of National Grid and Eversource infrastructure. The department administered over 500 personal exemption, deferrals, aid programs and tax work-offs and met a 2-day turn around on fully documented excise abatement applications. The process for abatement is fairly seamless and painless.

Less than 1% of the assessed values were contested this year, which is a very low filing rate. Ms. Dromey attributes the low rate to her staff's ability to explain to property owners how a valuation is determined. Very few residential property owners contest their valuation and the City has a 100% success rate defending residential values before the Appellate Tax Board. Some commercial property owners contest their valuation each year. The Assessing Department is reasonably successful in defending its commercial valuations. If the City were to lose a case at the Appellate Tax Board, there are funds set up to settle any judgements and awarded interest. Ms. Dromey does not yet know what the City's potential liability is for contested assessed values this year.

The desired outcomes for next fiscal year include timely, full, fair cash values that meet Massachusetts Department of Revenue Guidelines, accurate calculation of all property values for new growth or redevelopment, a highly trained staff, successful defense of valuations that are appealed to the Massachusetts Appellate Tax Board, and administration of all of the tax assistance programs.

Ms. Dromey discussed the overlay reserves with the Committee. The overlay reserve ensures that there are available funds for statutorily required interest payments, if the City were to lose a large property tax case. The Comptroller's Analysis of Property Tax Abatement and Exemption Reserve Activities as of March 31, 2016 and a comparison of Newton's overlay reserve and the state's overlay reserve that includes overlay as a percentage of the tax levy are attached. The overlay account for Fiscal 2016 contains over \$5,000,000 to address any abatements or exemptions that may be awarded to property owners that appeal to the Massachusetts Appellate Tax Board. In addition, the case before the Massachusetts Appellate Tax Boards that relates to whether certain personal property for businesses should be assessed at the residential rate is still pending. The Massachusetts Appellate Tax Board has heard the case but not made a decision. There would be a significant financial impact to the City if it is determined that the residential rate should be used. The overlay reserve is set aside for all exemptions and abatements that are brought before the Massachusetts Appellate Tax Board. Ms. Dromey expects to release some of the overlay funds for other purposes in the near future.

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 a few employees that were at the higher end of the pay scale retired and were replaced with employees that are at the lower end of the pay scale. The expenses within the department are level funded for FY 2017. With that, Councilor Lappin moved approval of the Assessing Department's budget at the recommended \$1,261,887. 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. He began by stating that the department made significant progress this fiscal year in the area of accepting credit card payments. The credit card payments system is now more accessible to taxpayers. Treasury has worked with a number of different departments on their cash and check processing to ensure that it is being done correctly. He continued with a review of the department's other accomplishments that include a new database to track the life of bonded equipment, as recommended by the City's external auditors and the Internal Revenue Service. The phone system in the Treasury has also been upgraded.

Outcomes for Fiscal Year 2017 include looking at new technology to improve revenue collection, efficiency, and customer service. Mr. Reardon expects to document and formalize fraud procedures and fraud protection policies. Mr. Reardon will also look at options to maximize the return on the City's investments. Additional outcomes include continuing improvements in the area of online payments for liens and betterment redemptions. A person would no longer have to come into City Hall to pay past due bills; it could all be done on-line. The City's on-line payment vendor, City Hall Systems, is working with the City to make e-payments available in the future. The goal is to have all City departments using the same software for on-line transactions through one website. Further details on both the department's accomplishments and desired outcomes can be found in the Fiscal Year 2017 Budget Book.

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. It was pointed out that it might be helpful to include the projected interest on a bonded project when the item is docketed before the City Council. Chief of Staff Maureen Lemieux explained that it would be difficult to provide this information ahead of the bond sale. There are negotiations like the length of a bond that take place at the time of the bond sales. In addition, the City occasionally opts to structure bonds with level payments or to structure bonds with level debt and declining interest. Ms. Lemieux generally assumes a rate of 10% interest per year on a 20-year bond. It is possible to give the Council a rough estimate on interest payments for the life of a bond, if requested.

It was pointed out that there are three items that are really driving the budget increase and one of them is the debt and interest payments, which is going up 14%. The City sold \$76 million in bonds of which \$20 million was advance refunding. Most of the bonds sold were for override projects, which

means the payments will come from the override funds. Ms. Lemieux is watching the bond rates to see if this is a good year to refund the 2009 bonds for Newton North High School. If the rates are the same as last year, the advance refunding of those bonds would result in \$10 million in savings from interest payments.

The changes to the department's budget next year include the transfer of the Parking Clerk to the Police Department payroll. There is a \$30,000 increase in the parking ticket collection line item to fund the new cell phone application to pay parking meters. The bond note sales costs have been moved out of the Treasurer's budget because the sale costs are going to be charged to the bond premium. The Treasurer's Department has 10 employees and a budget of \$1,251,696 for Fiscal Year 2017. Councilor Lappin moved approval of the department budget, which carried by a vote of seven in favor and none opposed.

PURCHASING DEPARTMENT

Chief Procurement Officer Nicholas Read presented the Purchasing Department's Fiscal Year (FY) 2017 Budget. The staffing in the department is stable and a great working group. The department's budget is only increasing by 2.15%. Mr. Read began by highlighting the department's accomplishments this fiscal year, which include processing an estimated 135 bids, almost 200 quotes, and approximately 6,000 requisitions. The department tracks the savings over the course of the year, which is the computed saving, which is the difference between the high and low bid. The savings are approximately \$6 million a year, because of the bid process. Mr. Read published a new Purchasing and Procurement Policy and Procedures Handbook. He also drafted amendments to Article IV, Purchases and Contracts, Secs. 2-182 through 2-205, of the City ordinances to make the purchasing ordinances consistent with State law. The Law Department is currently reviewing the proposed amendments.

Mr. Read informed the Committee that the bid requirements instated in 2014 for housing and Community Preservation Act Fund projects are working out well. Several projects including the Golda Meir House, Taft Avenue Affordable Housing, and Allen House have negotiated the bid process without any incidents. The bid processes for these projects are not as rigorous as the City's process.

In the upcoming year, the department is planning to continue with the publication of the monthly newsletter and to issue a 2017 revised policy and procedures handbook. Mr. Read also will continue to meet with City departments on purchasing and to get feedback on the handbook. In addition, Purchasing will work to get all of the requisitions, vendor request numbers, and W9s in a digital format to make them searchable. Another goal is to improve the surplus property disposition.

The Purchasing Department will replace the City's postage meter and color copier, as both pieces of equipment are going out of service. The plan is to lease both the postage meter and copier for five years and turn back the equipment at the end of the lease. Further details on the department outcomes for FY 2017 are provided in the budget book under the Purchasing tab.

The Purchasing Department does keep a database of vendor related complaints. The database provides credibility when the City rejects of a low-bidder because of work performance. In addition, the Purchasing Department keeps a list of vendor evaluations submitted to D-Cam.

The \$484,021 budget for FY 2017 is slightly more than the FY 2016 budget, because of increases in salary compensation. 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 started the discussion of the Executive Department's budget by explaining that the budget is outcomes based, which is all driven from the Executive Office. She provided an overview of the following:

- The budget includes an increase of 8.75% in funding for pensions in order to fully fund the pensions by 2029. Last year, the City did not do well with the return on investments for the Pension Fund. The City has a choice of whether it wants to stay with the 2029 funding schedule and increase the funding by 9.6% in Fiscal Year 2018 or extend the fully funded date. If the return on interest improves, there is a possibility that the 9.6% funding percentage could be reduced after a couple of years.
- The Other Post-Employment Benefits (OPEB) funding plan 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 now at 3.25% for FY 2017. The OPEB appropriation for FY 17 is approximately 1.75 million. As the City brings on more new employees that receive insurance, the appropriation will grow until more than half the new employees are replacing employees that the City is already setting aside OPEB funding. The expectation is to fund OPEB by the Year 4042, if pensions are funding in 2029. The real challenge is to fund the pensions by 2029.
- The health insurance rates have increased by 5% across the board. The Executive Department met with the Insurance Advisory Committee, which is made up of representatives from the City's unions. The Committee voted to combine the two health insurance trust funds in FY 2017, which gives the City some latitude. When Ms. Lemieux met the unions during contract negotiations, it was made clear that the City would continue to monitor the State's Group Insurance Commission costs compared to the City's plan and if it were less expensive, the City could move to the GIC or change the employee contribution to health insurance. Changes to the contribution to Medicare Part B are also on the table for discussion.

- The City has settled the Fire Contract and will be requesting funding sometime in the next month to authorize the use of some of the FY 2016 Wage Reserve to fund the settlement. The Parking Control and Traffic Supervisor Contracts within the Police Department also recently settled. The only contracts that are not settled are the Engineers, the Police Superior, and the Police Patrol Officers. Ms. Lemieux added that the School Custodians have not settled but that contract is not part of the municipal budget. The City must put aside funding for the first and second year of any salary increases that employees of those unions would be expected to receive if the contracts were settled; therefore the FY 17 Wage Reserve is \$805,375.
- The FY 17 Budget includes \$150,000 in funding for the Rainy Day Stabilization Fund. In addition, the City Council recently approved the addition of \$654,000 to the Rainy Day Stabilization Fund, which will bring the balance in the fund up to 5% of the total operating budget for FY 17.
- The Fiscal Year 2017 Budget contains \$3.75 million for snow removal (\$2.75 million in the Comptroller's Budget and \$1 million in the DPW budget). There is also \$940,000 dedicated to inclement weather. Ms. Lemieux changed the goal of having the 5-year average cost of snow removal in the budget to a 4-year average because in 2012 the City spent less than \$1 million, which skews the average. The 4-year average is \$4.9 million for snow. The City is in very good shape for the upcoming fiscal year. Since 2010, the City has budgeted \$16 million for snow and spend \$27 million for snow. The City has had to find \$11 million for snow.

Ms. Lemieux then focused on the City's sustainability projects. The Sustainability Director and Executive Office are trying to move the solar projects forward, particularly the Rumford Avenue solar project. Ms. Lemieux was told that because of the issue with the State issue with SRECs for the solar, the tight timeline and whether or not the quadrant that Newton is a part of is reaching its maximum capacity, Ameresco would like language in the contract that states if the Rumford Avenue site is prepared for solar and the solar credits are not available, the City will pay for the site preparations. The estimated cost of the site preparation is \$1.4 million. Ms. Lemieux's response was to let Ameresco know that it is not a City priority to crush the rock at Rumford Avenue to level the site. The City would consider negotiation with Ameresco but not for the full cost of the site preparations. Ms. Lemieux would come back to the Council before any decision regarding funding any of the site preparations. It is important to the Executive Office that Ameresco have some skin in the game to ensure that they are working hard to get Newton's project gets the SREC credits. The Preferred Vendor Program is moving on and continuing with electrical upgrades at City buildings. The other solar projects are moving forward.

The City just locked in the prices for electricity and natural gas. The City's current rate for natural gas is \$8.39 per dekatherm. The new natural gas price is locked in from November 2017 to November 2017 at \$6.78, which is a great rate. The new electricity rate is locked in from November 2016 to November 2018 at \$.11094, which is slightly higher than the previous year. The City also

signed a net metering agreement where the City is purchasing net metering credit from other communities. The electricity is coming with 2020 Class 1 RECS to help, primarily, New England generate more clean energy. The Executive Department will not be considering municipal aggregation for at least two years.

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 \$1,024,119. There are no proposed capital improvement projects in the Executive Office. Councilor Norton moved approval, which carried unanimously.

All other items before the Committee were held without discussion and the Committee adjourned at 9:55 pm.

Respectfully submitted,

Leonard J. Gentile, Chair

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
ANALYSIS OF PROPERTY TAX ABATEMENTS AND EXEMPTION RESERVE ACTIVITY and AVAILABLE BALANCES
April 30, 2016

	<u>Fiscal Year 2016 Levy</u>	<u>Fiscal Year 2015 Levy</u>	<u>Fiscal Year 2014 Levy</u>	<u>Fiscal Year 2013 Levy</u>	<u>Fiscal Year 2012 Levy</u>	<u>Fiscal Year 2011 Levy</u>
Original Allowance for Abatements & Exemptions	\$ 5,923,542	\$ 5,075,909	\$ 4,058,035	\$ 3,615,573	\$ 3,249,822	\$ 2,955,334
Deficits Raised	-	-	-	-	-	-
Abatements & Exemptions thru June 30, 2015	-	(417,436)	(378,861)	(668,767)	(1,023,971)	(1,587,068)
Senior Work Program Credits thru June 30, 2015	-	(26,215)	(35,122)	(40,924)	(42,384)	(32,682)
Overlay Surplus Declarations thru June 30, 2015	-	-	(1,600,000)	(1,400,000)	(427,365)	(810,789)
June 30, 2015 Balances	-	4,632,258	2,044,052	1,505,882	1,756,102	524,795
FY 2016 Abatements & Exemptions	(497,316)	(185,954)	(54,591)	(62,777)	(60,391)	-
FY 2016 Senior Work Program Credits	(28,154)	-	-	-	-	-
FY 2016 Overlay Surplus Declarations	-	(600,000)	(426,114)	(212,366)	-	(80,042)
Total Abatements & Exemptions thru April 30, 2016	(497,316)	(603,390)	(433,452)	(731,544)	(1,084,362)	(1,587,068)
Total Senior Work program credits thru April 30, 2016	(28,154)	(26,215)	(35,122)	(40,924)	(42,384)	(32,682)
Total Overlay Surplus declarations thru April 30, 2016	-	(600,000)	(2,026,114)	(1,612,366)	(427,365)	(890,831)
April 30, 2016 Available Balances	\$ <u>5,398,072</u>	\$ <u>3,846,304</u>	\$ <u>1,563,347</u>	\$ <u>1,230,739</u>	\$ <u>1,695,711</u>	\$ <u>444,753</u>

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
ANALYSIS OF PROPERTY TAX ABATEMENTS AND EXEMPTION RESERVE ACTIVITY and AVAILABLE BALANCES
April 30, 2016

	<u>Fiscal Year 2010 Levy</u>	<u>Fiscal Year 2009 Levy</u>	<u>Fiscal Year 2008 Levy</u>	<u>Fiscal Year 2007 Levy</u>	<u>Fiscal Year 2006 Levy</u>	<u>Fiscal Year 2005 Levy</u>	<u>Fiscal Year 2004 Levy</u>
Original Allowance for Abatements & Exemptions	\$ 2,828,818	\$ 2,771,614	\$ 2,101,831	\$ 2,900,130	\$ 2,806,623	\$ 2,673,282	\$ 2,612,377
Deficits Raised	-	-	-	-	-	-	-
Abatements & Exemptions thru June 30, 2015	(1,346,425)	(1,725,867)	(1,541,955)	(1,489,397)	(1,086,411)	(1,389,954)	(902,906)
Senior Work Program Credits thru June 30, 2015	(30,668)	(33,814)	(28,763)	(24,255)	(25,357)	(24,802)	(8,964)
Overlay Surplus Declarations thru June 30, 2015	<u>(981,516)</u>	<u>(974,300)</u>	<u>(450,793)</u>	<u>(1,324,658)</u>	<u>(1,644,023)</u>	<u>(1,221,332)</u>	<u>(1,672,329)</u>
June 30, 2015 Balances	470,209	37,633	80,320	61,820	50,832	37,194	28,178
FY 2016 Abatements & Exemptions	-	-	-	-	-	-	-
FY 2016 Senior Work Program Credits	-	-	-	-	-	-	-
FY 2016 Overlay Surplus Declarations	-	-	-	-	-	-	-
Total Abatements & Exemptions thru April 30, 2016	(1,346,425)	(1,725,867)	(1,541,955)	(1,489,397)	(1,086,411)	(1,389,954)	(902,906)
Total Senior Work program credits thru April 30, 2016	(30,668)	(33,814)	(28,763)	(24,255)	(25,357)	(24,802)	(8,964)
Total Overlay Surplus declarations thru April 30, 2016	(981,516)	(974,300)	(450,793)	(1,324,658)	(1,644,023)	(1,221,332)	(1,672,329)
April 30, 2016 Available Balances	\$ <u>470,209</u>	\$ <u>37,633</u>	\$ <u>80,320</u>	\$ <u>61,820</u>	\$ <u>50,832</u>	\$ <u>37,194</u>	\$ <u>28,178</u>

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
ANALYSIS OF PROPERTY TAX ABATEMENTS AND EXEMPTION RESERVE ACTIVITY and AVAILABLE BALANCES
April 30, 2016

	<u>Fiscal Year 2003 Levy</u>	<u>Fiscal Year 2002 Levy</u>	<u>Fiscal Year 2001 Levy</u>	<u>Fiscal Year 2000 Levy</u>	<u>Fiscal Year 1999 Levy</u>	<u>Fiscal Year 1998 Levy</u>	<u>Fiscal Year 1997 Levy</u>	<u>Fiscal Year 1996 Levy</u>
Original Allowance for Abatements & Exemptions	\$ 2,518,172	\$ 2,156,379	\$ 2,191,114	\$ 2,000,817	\$ 2,011,777	\$ 2,489,459	\$ 2,406,769	\$ 3,619,523
Deficits Raised	-	-	-	-	-	-	-	-
Abatements & Exemptions thru June 30, 2015	(712,135)	(695,199)	(458,132)	(544,084)	(765,056)	(558,186)	(637,372)	(1,172,019)
Senior Work Program Credits thru June 30, 2015	-	-	-	-	-	-	-	-
Overlay Surplus Declarations thru June 30, 2015	<u>(1,743,792)</u>	<u>(1,451,347)</u>	<u>(1,725,264)</u>	<u>(1,453,344)</u>	<u>(1,232,483)</u>	<u>(1,924,413)</u>	<u>(1,763,902)</u>	<u>(2,442,414)</u>
June 30, 2015 Balances	62,245	9,833	7,718	3,389	14,238	6,860	5,495	5,090
FY 2016 Abatements & Exemptions	-	-	-	-	-	-	-	-
FY 2016 Senior Work Program Credits	-	-	-	-	-	-	-	-
FY 2016 Overlay Surplus Declarations	-	-	-	-	-	-	-	-
Total Abatements & Exemptions thru April 30, 2016	(712,135)	(695,199)	(458,132)	(544,084)	(765,056)	(558,186)	(637,372)	(1,172,019)
Total Senior Work program credits thru April 30, 2016	-	-	-	-	-	-	-	-
Total Overlay Surplus declarations thru April 30, 2016	(1,743,792)	(1,451,347)	(1,725,264)	(1,453,344)	(1,232,483)	(1,924,413)	(1,763,902)	(2,442,414)
April 30, 2016 Available Balances	\$ <u>62,245</u>	\$ <u>9,833</u>	\$ <u>7,718</u>	\$ <u>3,389</u>	\$ <u>14,238</u>	\$ <u>6,860</u>	\$ <u>5,495</u>	\$ <u>5,090</u>

<u>Overlay Reserves</u>					
DOR Code	Municipality	Fiscal Year	Overlay Reserve	Tax Levy	Overlay as a % of Levv
207	Newton	2003	2,518,172	180,170,220	1.40
207	Newton	2004	2,612,377	187,384,725	1.39
207	Newton	2005	2,673,282	194,189,921	1.38
207	Newton	2006	2,806,623	201,238,041	1.39
207	Newton	2007	2,900,130	208,504,128	1.39
207	Newton	2008	2,101,831	215,772,425	0.97
207	Newton	2009	2,771,614	224,896,509	1.23
207	Newton	2010	2,828,818	233,300,284	1.21
207	Newton	2011	2,955,334	241,707,854	1.22
207	Newton	2012	3,249,822	250,781,839	1.30
207	Newton	2013	3,615,573	260,175,336	1.39
207	Newton	2014	4,058,035	279,224,275	1.45
207	Newton	2015	5,075,909	291,889,879	1.74
207	Newton	2016	5,923,542	305,327,821	1.94

Totals by Year - Overlay Reserves*

Fiscal Year	Overlay Reserve	Tax Levy	Overlay Reserve as a % of Tax Levy
2003	159,516,810	8,494,021,114	1.88
2004	176,125,441	9,016,234,137	1.95
2005	176,373,288	9,483,452,707	1.86
2006	168,200,515	9,983,073,116	1.68
2007	178,258,591	10,488,784,344	1.70
2008	171,756,577	10,992,118,126	1.56
2009	179,106,695	11,552,794,390	1.55
2010	171,430,051	12,024,477,443	1.43
2011	174,847,073	12,484,899,126	1.40
2012	185,487,711	12,976,230,959	1.43
2013	201,163,402	13,443,751,414	1.50
2014	190,696,299	13,974,969,173	1.36
2015	196,009,672	14,554,077,347	1.35
2016	195,033,988	15,179,235,672	1.28

*For approved tax rates only