

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
FISCAL YEAR 2013 BUDGET ANALYSIS

INTRODUCTION

The purpose of this document is to provide a summary level financial analysis of the Mayor's recommended 2013 **General Fund** budget. Information contained in this report is intended to supplement the program and financial information contained in the budget document.

BUDGET SUMMARY

The Mayor's recommended General Fund budget for the 2013 is \$313 million – \$11.1 million or 3.7% greater than the *original* current year budget. To provide some perspective, the following is a year by year summary of growth in *original* budgets over the past ten year period. Over the trailing ten year time frame, budgets have increased by an average of 4% per year.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2013	\$ 312,979,964	\$ 11,128,316	3.7%			
2012	301,851,648	10,241,663	3.5%	\$ 306,669,342	\$ 6,928,479	2.3%
2011	291,609,985	4,172,565	1.5%	299,740,863	6,000,009	2.0%
2010	287,437,420	12,352,042	4.5%	293,740,854	4,286,720	1.5%
2009	275,085,378	7,239,650	2.7%	289,454,134	10,691,632	3.8%
2008	267,845,728	12,682,487	5.0%	278,762,502	17,453,031	6.7%
2007	255,163,241	12,730,564	5.3%	261,309,471	13,351,027	5.4%
2006	242,432,677	7,434,590	3.2%	247,958,444	6,015,866	2.5%
2005	234,998,087	8,929,873	4.0%	241,942,578	6,731,262	2.9%
2004	226,068,214	3,752,692	1.7%	235,211,316	7,310,727	3.2%
2003	\$ 222,315,522	\$ 17,582,725	8.6%	\$ 227,900,589	\$ 17,156,397	8.1%

Given the fact that a number of amendments are made to the original budget each year, it is also worthwhile comparing the recommended 2013 budget to the current year budget, as amended. This has been particularly important in prior years because of the fact that the original budget has historically excluded funding for a number of recurring operating purposes. The following is a comparison of amendments to the original budget, for both the current fiscal year, and for fiscal year 2011.

Fiscal Year 2012 Supplemental Appropriations by Purpose

	FY 2012 YTD	FY 2011 Actual
Rainy Day Stabilization Fund	\$ 2,500,000	\$ 2,643,271
Snow & ice control	-	2,565,000
Capital outlay & improvements	529,793	1,437,437
Newton Public schools	670,292	821,664
Public safety overtime	-	325,000
Municipal Collective bargaining	737,917	10,000
All other	379,692	328,506
Total supplemental appropriations	<u>\$ 4,817,694</u>	<u>\$ 8,130,878</u>

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Funding for supplemental appropriations has been provided from the following sources.

	FY 2012 YTD	FY 2011 Actual
Revenue	\$ 238,830	\$ 858,568
Free cash	4,528,864	5,865,626
Overlay surplus	-	395,000
Transfers from other Funds	50,000	1,011,684
Total supplemental appropriations	<u>\$ 4,817,694</u>	<u>\$ 8,130,878</u>

The Mayor's recommended 2013 budget is \$6.3 million or 2.1% more than the current year *amended* budget. The following table summarizes the major components of the fiscal year 2013 budget financing plan along with the dollar and percentage change from the current year *amended* budget.

FY 2013 Budget Financing Plan

	2013 Budget Recommended	%	\$ Change from 2012 Amended Budget	% Change from 2012 Amended Budget
Property taxes (net of abatement reserve)	\$ 256,997,731	82.1%	\$ 9,465,714	3.8%
Motor excise taxes	10,300,000	3.3%	300,000	3.0%
Hotel/motel room occupancy tax	1,700,000	0.5%	50,000	3.0%
Meals tax	1,350,000	0.4%	50,000	3.8%
In lieu of tax payments	410,000	0.1%	(20,000)	-4.7%
Interest & penalties	975,000	0.3%	(35,000)	-3.5%
Total Taxes	<u>271,732,731</u>	<u>86.8%</u>	<u>9,810,714</u>	<u>3.7%</u>
Charges for service	1,602,973	0.5%	61,817	4.0%
Fines & forfeitures	1,895,000	0.6%	(16,392)	-0.9%
Licenses & permits	5,108,320	1.6%	233,500	4.8%
Investment income	240,000	0.1%	(30,000)	-11.1%
Other local revenue	320,443	0.1%	(467,028)	-59.3%
Total non-tax local revenue	<u>9,166,736</u>	<u>2.9%</u>	<u>(218,103)</u>	<u>-2.3%</u>
Cherry sheet aid	21,202,368	6.8%	2,730,269	14.8%
Other state & federal aid	1,657,000	0.5%	19,603	1.2%
Total Intergovernmental aid	<u>22,859,368</u>	<u>7.3%</u>	<u>2,749,872</u>	<u>13.7%</u>
Transfers from other funds	6,655,381	2.1%	(2,002,425)	-23.1%
Fund balance	<u>2,565,748</u>	<u>0.8%</u>	<u>(4,029,436)</u>	<u>-61.1%</u>
Total General Fund Revenue Budget	<u>\$ 312,979,964</u>	<u>100.0%</u>	<u>\$ 6,310,622</u>	<u>2.1%</u>

{1} 2012 Budget excludes continued appropriations from 6/30/2011.

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Property taxes: The budget assumes a 2.5% increase in the base levy; \$2.5 million in new growth; and an allowance for abatements and exemptions of \$2.6 million (1% of the gross tax levy).

The average amount of annual new growth over the past decade is \$2.5 million. The City currently has prior year abatement and exemption reserves totaling \$6.6 million, most of which are being held for abatement exposure (principally telecommunications company personal property appeals). In addition, a total of \$2.7 million of the original \$3.2 million fiscal year 2012 abatement reserve remains unused.

Motor excise tax: The budget assumes a 3% increase in the current year revenue estimate for this source, which is consistent with the increase in the first excise tax billing of the current fiscal year (compared with the first billing of fiscal year 2011).

Local option hotel and meals tax: The City implemented the 0.75% local meals tax effective January 1, 2010 and increased the room and occupancy tax rate from 4% to 6% effective October 1, 2009.

The FY 2013 budget projects a \$50,000 increase in revenue from each of these sources. Current fiscal year to date revenue collections from these taxes are sufficient to support both increases for 2013.

Local non-tax revenue: The Mayor's budget assumes a \$218,103 (2.3%) decrease in these revenue sources, principally in recognition of the fact that the current year revenue budget includes \$521,738 in non-recurring revenue from unclaimed checks (tailings). Modest growth in recurring fees and charges and ISD permits off-set the projected decline in non-recurring revenues.

Cherry sheet aid: The mayor's fiscal year 2013 local aid revenue estimate is based upon the amount of local aid included in the Governor's recommended fiscal year 2013 state budget, which calls for Newton to receive \$2.7 million in new education aid funding.

Other state and federal aid: The \$1.7 million included in the Mayor's recommended budget represents sums anticipated from the federal government for Medicare Part D reimbursements and school special education Medicaid reimbursements.

Transfers from other funds: The 2013 budget calls for \$6.7 million in inter-fund transfer financing for the General Fund, \$2.7 million of which represents Capital Stabilization Fund resources being used to support 2013 debt service. This represents a \$2.1 million reduction from the amount of Capital Stabilization Fund support in the current year. Following this transfer, the Capital Stabilization Fund will have \$2.1 million in total resources available for future year debt service subsidies. The budget also anticipates the use of \$1.7 million in parking meter receipts, for operating purposes.

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This will consume all existing meter receipt resources along with revenue collections anticipated for the month of April. Parking meter receipt collections for the first nine months of fiscal year 2012 are \$1,255,260 - \$185,453 or 17.3% greater than total collections for the first nine months of last fiscal year.

Fund balance: The recommended 2013 budget is balanced using \$2.6 million in fund balance, of which \$2 million is free cash, \$500,000 is overlay surplus, and \$65,748 is fund balance reserved for South High School debt service retirement. During the current fiscal year, a total of \$2.1 million in fund balance was used to support the original budget along with \$4.5 million in supplemental appropriations voted from free cash through April 2, 2012. A total of \$2.5 million or slightly more than half of the supplemental funding from free cash has been used to add to the City's "Rainy Day" Stabilization Fund (which has a current balance of \$5.2 million).

After accounting for the free cash and overlay surplus recommended to fund the 2013 budget and \$86,000 in appropriations currently pending before the Board of Aldermen, the City has \$179,000 in unobligated free cash remaining from the July 1, 2011 certification.

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The following table summarizes the major appropriation components of the Mayor's recommended 2013 budget, along with dollar and percentage changes from the current year budget, as amended. The Mayor's FY 2013 Recommended budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2013 Recommended Annual Appropriations

	2013 Budget Recommended	%	\$ Change from 2012 Amended Budget	% Change from 2012 Amended Budget
Newton Public Schools	\$ 178,781,245	57.12%	\$ 6,490,953	3.8%
Municipal Departments				
Salaries & wages	55,247,970	17.65%	1,027,304	1.9%
Benefits (excluding retirees)	9,031,805	2.89%	(437,398)	-4.6%
Workers compensation	950,000	0.30%	142,714	17.7%
Capital outlay & equipment	851,300	0.27%	(243,363)	-22.2%
All other	17,882,240	5.71%	(197,678)	-1.1%
Total Municipal Departments	83,963,315	26.83%	291,579	0.35%
Budget reserve	2,000,000	0.64%	638,775	46.9%
Retirement (including health benefits)	25,932,818	8.29%	908,228	3.6%
Transfer to other funds	197,838	0.06%	(2,477,370)	-92.6%
Debt & interest	16,259,618	5.20%	202,918	1.3%
State assessments	5,845,130	1.87%	255,539	4.6%
Total General Fund appropriations	\$ 312,979,964	100.00%	\$ 6,310,622	2.1%

{1} 2012 Budget excludes continued appropriations from 6/30/2011.

Newton Public Schools: The recommended \$178.8 million appropriation for the support of the Newton Public Schools represents an increase of \$6.5 million or 3.8% over the current year budget, as amended. This sum includes all funds designated as transfers to other funds (workers compensation; school lunch program; school athletics program; and federal grant matching funds). The total appropriation for the schools does not, however, include school project debt service (included in debt and interest); pension funding and retiree health care for school participants in the Newton Contributory Retirement System (included in retirement); and several educational cost (school health services; school crossing guards; school property insurance; and school building water and sewer charges) which are included within the Municipal department component of the budget.

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Municipal Salaries and Wages: Municipal salaries and wages are funded in accordance with existing collective bargaining contracts and the City's management pay plan.

Firefighting overtime, an area where recurring supplemental funding requirements have been required in prior years, is funded at \$824,000 for fiscal year 2013. This represents a \$16,390 (2%) increase over the current year overtime budget and is \$246,252 less than the average annual expenditure for this purpose over the previous three complete fiscal years. As of this date, a total of \$153,012 of the current year fire overtime budget of \$807,610 remains unexpended.

Total police department overtime is recommended for funding in the amount of \$420,039 for 2013. This represents a \$232,961 (35.7%) decrease in the amount currently allocated for this purpose in the fiscal year 2012 budget, and is significantly below the \$569,215 median annual expenditure for overtime over the last three complete fiscal years.

Salaries of the Mayor and Board of Aldermen are funded in accordance with existing City ordinances governing elected official compensation.

Benefits: The 2013 benefit appropriations include funding for active employee contributory health, life, and dental benefits; the City's Medicare payroll tax match; and unemployment compensation. The recommended 2013 benefit budget amounts to 16.3% of municipal payroll, which is down slightly from the current fiscal year benefit budget of 17.5% of payroll.

The amount budgeted for 2013 active employee health insurance benefits is \$345,003 (4.1%) less than the amount budgeted for this purpose in the current fiscal year. Health insurance appropriations are used to pay premiums to one of the City's self insured health plans.

At March 31, 2012, the Tufts Health plan had a fund balance of \$7.7 million – 2.7 months of average paid claims, while the Harvard-Pilgrim health plan's fund balance was \$5.8 million – 6.3 months of average paid claims. The City's fund balance policy for the group health self-insurance fund is 1.5 to 2 months of monthly paid claims. Any excess is available to reduce employer and employee premiums.

The recommended unemployment compensation budget for 2013 is \$160,000 – \$80,000 (33%) less than the amount included in the current year budget. The City is self-insured for unemployment compensation purposes and reimbursements to the Commonwealth for the first eight months of the current year have amounted to \$154,446.

Workers Compensation: The City's 2013 contribution towards the cost of the self insured workers compensation benefit program is funded at \$950,000. This is \$142,714 more than the current year appropriation.

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A total of \$150,000 of the 2013 workers compensation appropriation is earmarked for police and fire injured on duty medical bills and the remaining \$800,000 for statutory workers compensation benefit obligations. The increase in 2013 funding for the workers compensation benefit program is the result of reduced investment earnings in the self-insurance fund thus far this fiscal year.

Capital outlay and equipment: A total of \$851,300 is included in the 2013 budget for capital outlay and equipment. A summary of the purposes is presented below:

Information technology - hardware & software	\$ 105,000
Human resources - office equipment	16,800
Public Building computer hardware	4,500
Public Building equipment	8,500
Police vehicle replacement	200,000
Police communication equipment replacement	175,000
Fire computer hardware	3,000
Fire alarm equipment replacement	25,000
Fire communications equipment replacement	50,000
Fire housekeeping equipment replacement	5,000
Fire vehicle replacement	50,000
Fire training equipment	25,000
DPW computer software replacement	10,000
DPW used vehicle purchases	15,000
DPW construction equipment replacement	135,000
DPW fleet maintenance equipment replacement	10,000
DPW trash receptacles	8,000
Library pc hardware replacement	5,500
Total - capital by department	<u>\$ 851,300</u>

Snow & ice: Beginning in fiscal year 2011, snow and ice funding previously divided between the Public Works and Parks Department budgets was merged into a single cost center in the Public Works Department budget. The table below summarizes combined Parks and Public Works snow and ice control expenditures for fiscal year 2012 and the past three complete fiscal years.

Snow & Ice Control Expenditure Trends

2012	2011	2010	2009
Expended	Expended	Expended	Expended
\$ 288,732	\$ 954,733	676,099	\$ 1,251,528
312,426	2,054,732	1,221,403	1,730,731
245,234	782,121	808,690	1,607,630
56,083	184,626	136,093	147,706
<u>\$ 902,475</u>	<u>\$ 3,976,212</u>	<u>2,842,285</u>	<u>\$ 4,737,595</u>

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The recommended fiscal year 2013 budget includes \$1 million in the Public Works Department budget and another \$1.5 in budget reserve for snow and ice control, for a total of \$2.5 million. The median snow and ice control expenditure for the trailing three complete fiscal years is \$4 million, meaning that the first \$1.5 million in July 1, 2012 free cash will need to be earmarked for this risk exposure.

Legal: The City does not purchase commercial insurance for liability risk exposures, but rather funds claims and settlements from resources included in the annual operating budget. The 2013 budget includes \$100,000 for legal settlements – exactly the same amount that is included in the current budget. The following is a summary of actual expenditures for this purpose for fiscal year 2012 and the past three complete fiscal years.

Legal Settlement Expenditure Trends

	2012	2011	2010	2009
	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Claims & settlements	47,689	\$ 160,732	250,453	\$ 100,509

Energy and utilities: The total budget for this purpose is \$3.4 million, which represents a \$141,882 (4.4%) increase the amount budgeted for the current year. The following table compares the recommended 2013 budget totals to current year budget totals; year to date actual expenditures, and actual expenditures for the two prior complete fiscal years. Beginning in fiscal year 2012, school building water and sewer charges have been budgeted and accounted for within the operating budget of the Public Building Department. School building water and sewer charges account for \$420,000 of the \$623,573 recommended for fiscal year 2013.

Energy and Expenditure Trends

	2013	2012	2012	2011	2010
	<u>Budget</u>	<u>Budget</u>	<u>YTD</u>	<u>Expended</u>	<u>Expended</u>
Electricity	\$ 1,145,508	\$ 1,140,291	\$ 756,315	\$ 1,084,048	\$ 1,094,683
Natural gas	383,815	433,453	233,787	467,155	438,919
Water & sewer	623,573	585,523	330,893	166,939	139,035
Heating oil	213,232	186,335	149,181	229,930	181,706
Gasoline	571,546	571,673	411,037	462,907	340,783
Diesel	453,093	331,610	228,607	300,329	236,884
Total energy and utilities	<u>\$ 3,390,767</u>	<u>\$ 3,248,885</u>	<u>\$ 2,109,820</u>	<u>\$ 2,711,308</u>	<u>\$ 2,432,010</u>

Budget Reserve: The 2013 budget includes a \$2 million budget reserve - \$500,000 for extraordinary and unforeseen purposes and \$1.5 million for snow and ice control purposes. Transfers from the budget reserve account require prior approval of the Mayor

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and Board of Aldermen. The current year budget included an original appropriation of \$500,000 for the budget reserve, all of which has been used to date (primarily for emergency tree maintenance activities).

Retirement: Retirement and retiree health benefit appropriations have increased by \$908,228 or 3.6% from the current year budget.

The City's actuarially required contribution to the defined benefit pension plan amounts to \$15.9 million, 61.3% of the total retirement appropriation. This contribution amounts to a \$432,552 million (2.8%) increase over the current year appropriation. The City's contribution represents approximately 20.6% of covered payroll. In addition to the actuarially required contribution, the City also expects to fund \$282,189 in non-contributory retirement benefits for World War II era veterans who are retired from City service.

The 2013 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the City's January 1, 2010 actuarial valuation of plan assets and liabilities. The January 1, 2012 valuation, which will be used for the fiscal year 2014 plan contribution is expected to be delivered within the next month.

Retiree health and life benefit appropriations amount to \$9.7 million – \$551,583 (6%) more than the current year budget for retiree health benefits. This sum represents an estimate of the pay-as-you-go funding requirement only for retiree health benefits for the fiscal year beginning on July 1, 2012.

The Retirement budget includes funding for both municipal and public school participants while the school budget contains funding for the health benefits for former employees retired from the Massachusetts Teachers' Retirement System. The Commonwealth funds the employer share of the Teachers Retirement System.

Transfers to other funds: The \$197,838 appropriation represents the City's planned contribution to the Other Post Retirement Benefit (OPEB) fund for fiscal year 2012. This is 2% of projected new employee base compensation. The City's actuary's estimate of actual normal cost is 12.4% of base compensation.

Debt service: Fiscal year 2013 appropriation for bond maturities and interest (debt service) totals \$16.3 million, 5.2% of the budget and \$202,918 more than the current year debt service appropriation. North High School project debt service accounts for \$9.6 million, or 59% of the total debt service budget.

State assessments: The budget includes an estimate of \$5.8 million for state assessments – a \$255,539 (4.6%) increase over the current year state assessment total. The 2013 budget estimate is based upon the assessments included in the Governor's recommended state budget. The entire increase in Newton's 2013 state assessments is for MBTA service.

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