

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
FISCAL YEAR 2014 BUDGET ANALYSIS

INTRODUCTION

The purpose of this document is to provide a summary level financial analysis of the Mayor's recommended 2014 **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 2014 is \$331.1 million – \$18.1 million or 5.8% 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 3.5% per year.

| Fiscal Year | Original Budget | \$ Change Prior Year | % Change Prior Year | Amended Budget | \$ Change Prior Year | % Change Prior Year |
|-------------|-----------------------|----------------------|---------------------|----------------|----------------------|---------------------|
| 2014 | \$ 331,073,197 | \$ 18,093,233 | 5.8% | | | |
| 2013 | 312,979,964 | 11,128,316 | 3.7% | \$ 317,586,154 | \$ 9,960,331 | 3.2% |
| 2012 | 301,851,648 | 10,241,663 | 3.5% | 307,625,823 | 7,884,960 | 2.6% |
| 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% |

Given the fact that a number of amendments are made to the original budget each year, it is also worthwhile comparing the recommended 2014 budget to the current year budget, as amended. The following is a comparison of amendments to the original budget, for both the current fiscal year, and for fiscal year 2012.

Fiscal Year 2013 Supplemental Appropriations by Purpose

| | FY 2013 YTD | FY 2012 Actual |
|--|---------------------|---------------------|
| Rainy Day Fund contribution | \$ 1,850,000 | \$ 2,500,000 |
| Inclement weather | 812,000 | 90,862 |
| Interest on tax refunds | 672,858 | - |
| School SPED tuitions | 620,000 | 670,292 |
| Capital outlay & improvements | 485,053 | 1,161,949 |
| Collective bargaining | - | 737,917 |
| All other | 166,279 | 613,155 |
| Total supplemental appropriations | \$ 4,606,190 | \$ 5,774,175 |

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

| | FY 2013 YTD | FY 2012 Actual |
|--|---------------------|---------------------|
| Revenue | \$ (34,131) | \$ 238,830 |
| Free cash | 3,182,410 | 4,679,864 |
| Overlay surplus | 672,858 | 250,000 |
| Transfers from other Funds | 785,053 | 605,481 |
| Total supplemental appropriations | \$ 4,606,190 | \$ 5,774,175 |

The Mayor's recommended 2014 budget is \$13.5 million or 4.2% 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 2014 Budget Financing Plan

| | 2014 Budget Recommended | % | \$ Change from 2013 Amended Budget | % Change from 2013 Amended Budget |
|---|----------------------------|---------------|--|---|
| Property taxes (net of abatement reserve) | \$ 274,744,479 | 83.0% | \$ 18,184,716 | 7.1% |
| Motor excise taxes | 10,700,000 | 3.2% | 350,000 | 3.4% |
| Hotel/motel room occupancy tax | 2,100,000 | 0.6% | 418,000 | 24.9% |
| Meals tax | 1,425,000 | 0.4% | 37,000 | 2.7% |
| In lieu of tax payments | 409,000 | 0.1% | (1,000) | -0.2% |
| Interest & penalties | 1,020,000 | 0.3% | 20,000 | 2.0% |
| Total Taxes | 290,398,479 | 87.7% | 19,008,716 | 7.0% |
| Charges for service | 1,625,958 | 0.5% | 22,741 | 1.4% |
| Fines & forfeitures | 1,861,500 | 0.6% | (66,000) | -3.4% |
| Licenses & permits | 5,509,400 | 1.7% | 386,880 | 7.6% |
| Investment income | 175,000 | 0.1% | (65,000) | -27.1% |
| Other local revenue | 264,467 | 0.1% | 52,403 | 24.7% |
| Total non-tax local revenue | 9,436,325 | 2.9% | 331,024 | 3.6% |
| Cherry sheet aid | 22,323,788 | 6.7% | 801,148 | 3.7% |
| Other state & federal aid | 1,870,000 | 0.6% | 163,000 | 9.5% |
| Total Intergovernmental aid | 24,193,788 | 7.3% | 964,148 | 4.2% |
| Transfers from other funds | 6,744,605 | 2.0% | (695,829) | -9.4% |
| Fund balance | 300,000 | 0.1% | (6,121,016) | -95.3% |
| Total General Fund Revenue Budget | \$ 331,073,197 | 100.0% | \$ 13,487,043 | 4.2% |

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Property taxes: The \$274.7 million property tax revenue estimate includes a 2.5% increase in the prior year levy (\$6.5 million); \$3.2 million in anticipated new growth; \$8.4 million in new taxation resulting from the March 12 Proposition 2 ½ override; and a \$100,000 reduction in the allowance for abatements and exemptions to \$3.5 million.

Motor excise tax: The budget assumes a 3.2% increase in the current year revenue estimate. Revenue collections for the first nine months of the current year are 3.3% higher than total collections for the first nine months of fiscal year 2012. Total current year excise billings are 6.6% greater than total current year billings during the first nine months of fiscal year 2012.

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 2014 budget anticipates a \$455,000 (14.8%) increase in revenue from these two sources, 92% of which is projected from the hotel room tax. This is consistent with current year to date revenue collection experience.

Local non-tax revenue: The Mayor's budget assumes a \$331,024 (3.6%) increase in other local revenues. Inspectional services department permit revenue is projected to grow by \$320,000 to \$4.6 million. Total inspectional services department permit revenue for the first nine month of the current year is \$4.9 million.

Cherry sheet aid: The mayor's fiscal year 2014 local aid revenue estimate is \$22.3 million - \$0.8 million (3.7%) more than the current year revenue budget estimate and in line with the FY 2014 House Ways and Means budget proposal.

Other state and federal aid: The \$1.9 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 2014 budget calls for \$6.7 million in inter-fund transfer financing for the General Fund, \$2.1 million of which represents the remaining balance in Capital Stabilization Fund for North High School debt service. The 2014 budget also assumes use of the remaining \$448,000 balance in the City's Building Insurance Fund to finance 2014 building insurance premiums. The \$1.7 million in parking meter receipts that are dedicated to the funding of the 2014 budget represents the current available balance plus all funds that are expected to be collected between now and the time that the 2014 budget is adopted in late May.

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Fund balance: The recommended 2014 budget is balanced using \$300,000 in fund balance, of which \$250,000 represents overlay surplus and \$50,000 represents South High School MSBA reimbursements that state law requires the City to use to subsidize project debt service over the life of the debt that was incurred for the project. No free cash is being used as a financing source for the recommended original 2014 budget.

The following table summarizes the major appropriation components of the Mayor's recommended 2014 budget, along with dollar and percentage changes from the current year budget, as amended. The Mayor's FY 2014 Recommended budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2014 Recommended Annual Appropriations

| | 2014 Budget Recommended | % Total | \$ Change from 2013 Amended Budget | % Change from 2013 Amended Budget |
|--|----------------------------|---------------|--|---|
| Newton Public Schools | \$ 187,671,536 | 56.7% | \$ 8,890,291 | 5.0% |
| Municipal Departments | | | | |
| Salaries & wages | 57,231,955 | 17.3% | 2,058,867 | 3.7% |
| Benefits (excluding retirees) | 9,517,788 | 2.9% | 485,977 | 5.4% |
| Workers compensation | 700,000 | 0.2% | (350,643) | -33.4% |
| Capital outlay & equipment | 1,318,198 | 0.4% | 411,140 | 45.3% |
| All other | 19,451,163 | 5.9% | (3,129,974) | -13.9% |
| Total Municipal Departments | 88,219,104 | 26.6% | (524,633) | -0.59% |
| Budget reserve (including snow & ice) | 2,250,000 | 0.7% | 2,245,094 | 45762.2% |
| Retirement (including health benefits) | 27,684,873 | 8.4% | 1,554,224 | 5.9% |
| Transfer to other funds | 2,400,000 | 0.7% | 550,000 | 29.7% |
| Debt & interest | 17,057,491 | 5.2% | 792,873 | 4.9% |
| State assessments | 5,790,193 | 1.7% | (20,806) | -0.4% |
| Total General Fund appropriations | \$ 331,073,197 | 100.0% | \$ 13,487,043 | 4.2% |

{1} 2013 Budget excludes continued appropriations from 6/30/2012.

Newton Public Schools: The recommended \$187.7 million appropriation for the support of the Newton Public Schools represents an increase of \$8.9 million or 5% over the current year budget, as amended. This sum includes all funds designated as transfers to other funds (workers compensation and school athletics program). The total appropriation for the schools does not, however, include school project debt service

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(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.

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

Benefits: The 2014 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 2014 benefit budget amounts to 16.6% of municipal payroll, which is up slightly from the current fiscal year benefit budget of 16.3% of payroll.

The amount budgeted for 2014 active employee health insurance benefits is \$17.4 million, which is \$576,527 (3.4%) more 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, 2013, the Tufts Health plan had a fund balance of \$8.5 million – 3.3 months of average paid claims, while the Harvard-Pilgrim health plan's fund balance was \$6.1 million – 6.1 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 2014 is \$150,000 – \$10,000 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 \$54,398.

Workers Compensation: The City's 2014 contribution towards the cost of the self insured workers compensation benefit program is funded at \$700,000. This is \$350,643 or 33% less than the current year appropriation.

A total of \$150,000 of the 2014 workers compensation appropriation is earmarked for police and fire injured on duty medical bills and the remaining \$550,000 for statutory workers compensation benefit obligations. Earnings on workers compensation self-insurance fund assets and the transfer of surplus salary funds from departments with employees on prolonged workers compensation status will be used to fund the difference between the City's 2014 obligations and the \$550,000 contribution. The invested assets of the self-insurance fund are expected to generate approximately \$450,000 per year in income that can be used to reduce employer contributions to the fund.

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Capital outlay and equipment: A total of \$1,318,198 is included in the 2014 budget for capital outlay and equipment. A summary of the purposes is presented below:

| | |
|--|---------------------|
| Board of Aldermen audio visual equipment | \$ 3,498 |
| City Clerk office equipment | 10,000 |
| Information technology - hardware & software | 120,000 |
| Conservation grounds improvements | 25,000 |
| Public Building computer hardware | 4,500 |
| Public Building buildings improvements | 150,000 |
| Public Buildings housekeeping equipment | 18,700 |
| Police vehicle replacement | 350,000 |
| Police communication equipment replacement | 200,000 |
| Police fire arms replacement | 8,000 |
| Fire computer hardware | 5,000 |
| Fire alarm equipment replacement | 25,000 |
| Fire communications equipment | 50,000 |
| Fire housekeeping equipment replacement | 3,000 |
| Fire vehicle replacement | 60,000 |
| Fire training equipment | 25,000 |
| DPW computer software replacement | 10,000 |
| DPW office furniture replacement | 2,500 |
| DPW used vehicle purchases | 41,000 |
| DPW construction equipment replacement | 120,000 |
| DPW garage equipment | 6,000 |
| DPW trash receptacles | 10,000 |
| DPW transportation other equipment | 5,000 |
| Library pc hardware replacement | 6,000 |
| Parks vehicle replacement | 60,000 |
| Total - capital by department | <u>\$ 1,318,198</u> |

All other: The \$3.1 million reduction in “*All other*” 2014 municipal appropriations is principally a result of the fact that inclement weather reserves are budgeted in the budget reserve account for 2014, but have been transferred out to the DPW and Parks budgets in 2013.

Snow & ice: The table below summarizes combined Parks and Public Works snow and ice control expenditures for fiscal year 2013 and the three prior complete fiscal years.

| | 2013 YTD | 2012 | 2011 | 2010 |
|-------------------------------|---------------------|-------------------|---------------------|---------------------|
| | Expended | Expended | Expended | Expended |
| Salaries & wages | 912,575 | \$ 291,412 | \$ 954,733 | \$ 676,099 |
| Private contractors | 2,020,891 | 164,441 | 2,054,732 | 1,221,403 |
| Sand & salt | 497,096 | 245,234 | 782,121 | 808,690 |
| All other | 143,147 | 242,830 | 184,626 | 136,093 |
| Total snow & ice expenditures | <u>\$ 3,573,709</u> | <u>\$ 943,917</u> | <u>\$ 3,976,212</u> | <u>\$ 2,842,285</u> |

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The recommended fiscal year 2014 snow budget includes \$1 million in the Public Works Department budget and another \$1.75 million in budget reserve for snow and ice control, for a total of \$2.75 million. The median snow and ice control expenditure for the trailing three complete fiscal years is \$2.8 million and the median for the trailing five years is \$3.4 million.

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 2014 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 2013 and the three prior complete fiscal years.

Legal Settlement Expenditure Trends

| | 2013 YTD Expended | 2012 Expended | 2011 Expended | 2010 Expended |
|----------------------|----------------------|------------------|------------------|------------------|
| Claims & settlements | \$ 72,750 | \$ 58,504 | \$ 160,732 | 250,453 |

Energy and utilities: The total budget for this purpose is \$3 million, which represents a \$348,283 (10.4%) decrease the amount budgeted for the current year. The following table compares the recommended 2014 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 \$411,000 of the \$616,689 recommended for fiscal year 2014.

Energy and Expenditure Trends

| | 2014 Budget | 2013 Budget | 2013 YTD Expended | 2012 Expended | 2011 Expended |
|----------------------------|----------------|----------------|----------------------|------------------|------------------|
| Electricity | 1,039,343 | \$ 1,118,964 | \$ 734,963 | \$ 1,040,227 | \$ 1,084,048 |
| Natural gas | 298,089 | 372,313 | 221,149 | 301,601 | 467,155 |
| Water & sewer | 616,689 | 622,988 | 340,698 | 591,104 | 166,939 |
| Heating oil | 188,318 | 226,752 | 182,792 | 206,409 | 229,930 |
| Gasoline | 518,306 | 595,921 | 355,652 | 518,509 | 462,907 |
| Diesel | 346,738 | 418,828 | 242,732 | 310,605 | 300,329 |
| Total energy and utilities | \$ 3,007,483 | \$ 3,355,766 | \$ 2,077,986 | \$ 2,968,455 | \$ 2,711,308 |

Budget Reserve: The 2014 budget includes a \$2.25 million budget reserve - \$500,000 for extraordinary and unforeseen purposes and \$1.75 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 but \$4,906 of which has been used to date. A schedule summarizing all current year budget reserve uses is included at the end of this report.

Retirement: Retirement and retiree health benefit appropriations have increased by \$1.5 million or 5.9% from the current year budget.

The City's actuarially required contribution to the defined benefit pension plan amounts to \$17.4 million, 62.7% of the total retirement appropriation. This contribution represents a \$1.5 million (9.2%) increase over the current year appropriation. The City's contribution represents approximately 21.9% of covered payroll.

The 2014 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the City's January 1, 2012 actuarial valuation of plan assets and liabilities and incorporates updated mortality tables that are expected to minimize future year actuarial losses resulting for increased life expectancies. The January 1, 2013 valuation, which will be used for the fiscal year 2015 plan contribution is expected to be delivered within the next month.

Retiree health and life benefit appropriations amount to \$10.1 million – \$101,934 (1%) more than the current year budget for retiree health benefits. This sum is principally for pay-as-you-go funding requirement for retiree health benefits for the fiscal year beginning on July 1, 2013, but also includes \$149,196 in projected OPEB contributions for new employees.

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 \$2.4 appropriation represents the City's planned contribution to the Capital Stabilization Fund for capital project funding that was included in the \$8.4 million March 12, 2013 Proposition 2 ½ override vote.

Debt service: Fiscal year 2014 appropriation for bond maturities and interest (debt service) total \$17.1 million, 5.1% of the budget and \$792,873 more than the current year debt service appropriation. North High School project debt service accounts for \$9.5 million, or 56% of the total debt service budget.

State assessments: The budget includes an estimate of \$5.8 million for state assessments, principally MBTA service. The 2014 budget estimate is in line with the assessments included in both the House Ways and Means budget proposal and the Governor's recommended 2014 state budget.

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