

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
FISCAL YEAR 2015 BUDGET ANALYSIS

INTRODUCTION

The purpose of this document is to provide a summary level financial analysis of the Mayor's recommended 2015 **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 2015 is \$345 million – \$14 million or 4.2% 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, *original* budgets have increased by an average of 3.9% per year.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2015	\$ 345,044,967	\$ 13,971,770	4.2%			
2014	331,073,197	18,093,233	5.8%	336,771,707	16,344,868	5.1%
2013	312,979,964	11,128,316	3.7%	320,426,839	12,801,016	4.2%
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%

Given the fact that a number of amendments are made to the original budget each year, it is also worthwhile comparing the recommended 2015 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 2013.

Fiscal Year 2014 Supplemental Appropriations by Purpose

	<u>FY 2014 YTD</u>	<u>FY 2013 Actual</u>
Rainy Day Fund contribution	\$ 2,000,000	\$ 2,850,000
Inclement weather	2,000,000	1,300,000
Interest on tax refunds	-	1,108,368
Newton Public schools	536,749	739,426
Capital outlay & improvements	1,100,000	844,926
All other	61,761	604,155
Total supplemental appropriations	\$ 5,698,510	\$ 7,446,875

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

	FY 2014 YTD	FY 2013 Actual
Revenue	\$ (13,239)	\$ (34,131)
Free cash	4,536,749	4,818,286
Overlay surplus	-	1,622,858
Transfers from other Funds	1,175,000	1,039,862
Total supplemental appropriations	\$ 5,698,510	\$ 7,446,875

The Mayor's recommended 2015 budget is \$8.3 million or 2.5% more than the current year *amended* budget. The following table summarizes the major components of the fiscal year 2015 budget financing plan along with the dollar and percentage change from the current year *amended* budget.

FY 2015 Budget Financing Plan

	2015 Budget Recommended	%	\$ Change from 2014 Amended Budget	% Change from 2014 Amended Budget
Property taxes (net of abatement reserve)	\$ 286,813,970	83.1%	\$ 11,647,730	4.2%
Motor excise taxes	11,700,000	3.4%	867,800	8.0%
Hotel/motel room occupancy tax	2,200,000	0.6%	117,200	5.6%
Meals tax	1,500,000	0.4%	125,000	9.1%
In lieu of tax payments	444,000	0.1%	35,000	8.6%
Interest & penalties	985,000	0.3%	1,000	0.1%
Total Taxes	303,642,970	88.0%	12,793,730	4.4%
Charges for service	1,639,644	0.5%	13,686	0.8%
Fines & forfeitures	1,673,000	0.5%	(188,500)	-10.1%
Licenses & permits	5,853,500	1.7%	1,157,550	24.6%
Investment income	200,000	0.1%	33,000	19.8%
Other local revenue	301,221	0.1%	110,263	57.7%
Total non-tax local revenue	9,667,365	2.8%	1,125,999	13.2%
Cherry sheet aid	24,526,269	7.1%	1,673,031	7.3%
Other state & federal aid	1,388,200	0.4%	(318,800)	-18.7%
Total Intergovernmental aid	25,914,469	7.5%	1,354,231	5.5%
Transfers from other funds	4,225,033	1.2%	(3,694,572)	-46.7%
Fund balance	1,595,130	0.5%	(3,306,128)	-67.5%
Total General Fund Revenue Budget	\$ 345,044,967	100.0%	\$ 8,273,260	2.5%

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Property taxes: The \$286.8 million property tax revenue estimate includes a 2.5% increase in the prior year levy (\$7 million); \$3.8 million in anticipated new growth; \$283,962 in debt service related to the Angier school debt exemption project; and a \$3.5 million allowance for abatements and exemptions (\$565,210 or 13.9% less than the current year allowance). Median annual new growth for the trailing ten year period is \$2.7 million, however, median annual new growth has amounted to \$3.1 million for the trailing three year time frame. The median annual tax collection rate (thru March 31) for the past ten year time frame is 100.38%.

Motor excise tax: The budget assumes an \$867,800 or 4.2% increase in the current year revenue estimate. Revenue collections for the first nine months of the current year are \$9.5 million - 87.8% of the current year budget estimate and \$971,106 or 11.8% higher than total collections for the first nine months of last fiscal year. Total current year excise billings are 5.1% greater than total current year billings at this point last fiscal year.

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 2015 budget anticipates a \$242,200 (7%) increase in revenue from these two sources. This is consistent with current year to date revenue collection experience.

Cherry sheet aid: The mayor's fiscal year 2015 local aid revenue estimate is \$24.5 million - \$0.7 million (2.8%) less than the amount recommended in the Governor's FY 2015 local aid budget recommendation.

Transfers from other funds: The 2015 budget calls for \$4.2 million in inter-fund transfer financing for the General Fund, a \$3.7 million or 46.7% reduction from the level of transfers used to support the current year budget. Two non-recurring transfers account for 86.5% of the reduced funding from this source. During fiscal year 2014 the City used the remaining \$2.1 million in North High School debt service reserves held in the Capital Stabilization Fund for North High debt service, along with \$1.1 million in accumulated CATV capital franchise reserves for fiber network purposes.

Fund balance: The recommended 2015 budget is balanced using \$1.6 in fund balance, of which \$1.5 million represents available free cash, and the remainder represents MSBA debt service reserves that must by law be used for future for North and South High School capital construction debt service financing. A total of \$741,210 in July 1, 2013 free cash remains unobligated at this date.

The following table summarizes the major appropriation components of the Mayor's recommended 2015 budget, along with dollar and percentage changes from the current year budget, as amended. The Mayor's FY 2015 Recommended budget document provides a programmatic description of changes in municipal department budgets.

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Fiscal Year 2015 Recommended Annual Appropriations

	2015 Budget Recommended	%	\$ Change from 2014 Amended Budget	% Change from 2014 Amended Budget
Newton Public Schools	\$ 195,129,819	56.6%	\$ 6,921,534	3.7%
Municipal Departments				
Salaries & wages	59,865,560	17.4%	2,037,353	3.5%
Benefits (excluding retirees)	9,779,661	2.8%	274,336	2.9%
Workers compensation	1,200,000	0.3%	323,330	36.9%
Capital outlay & equipment	1,330,375	0.4%	(1,236,769)	-48.2%
All other	19,937,403	5.8%	(2,652,831)	-11.7%
Total Municipal Departments	92,112,999	26.7%	(1,254,581)	-1.34%
Budget reserve (including snow & ice)	2,500,000	0.7%	2,263,924	959.0%
Retirement (including health benefits)	29,479,115	8.5%	1,793,794	6.5%
Transfer to other funds	2,460,000	0.7%	(1,980,000)	-44.6%
Debt & interest	17,493,096	5.1%	435,605	2.6%
State assessments	5,869,938	1.7%	92,984	1.6%
Total General Fund appropriations	\$ 345,044,967	100.0%	\$ 8,273,260	2.5%

Newton Public Schools: The recommended \$195.1 million appropriation for the support of the Newton Public Schools represents an increase of \$6.9 million or 3.7% 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 (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: All municipal collective bargaining agreements are subject to renegotiation at the end of the current fiscal year. The recommended salary and wage appropriation includes funding for 9.65 new municipal positions.

Benefits: The 2015 benefit appropriations include funding for active employee contributory health, life, and dental benefits; the City's Medicare payroll tax match; and

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unemployment compensation. The recommended 2015 benefit budget amounts to 16.3% of municipal payroll, which is down slightly from the current fiscal year benefit budget of 16.4% of payroll.

The amount budgeted for 2015 active employee health insurance benefits is \$18.1 million, which is \$503,682 (2.9%) 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, 2014, the Tufts Health plan had a fund balance of \$5.8 million – 2 months of average paid claims, while the Harvard-Pilgrim health plan's fund balance was \$7.2 million – 7 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.

Workers Compensation: The City's 2015 contribution towards the cost of the self insured workers compensation benefit program is funded at \$1.2 million - \$323,330 or 36.9% more than the amount included in the current year budget. Investment income earnings on accumulated fund assets that have previously been available for funding current benefit obligations are no longer available until such time as a June 30, 2013 fund deficit is closed. The June 30, 2013 fund deficit resulted from the recognition of new long term liabilities for workers compensation cases that had not previously been classified as permanent and total disabilities.

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 \$1,050,000 for statutory workers compensation benefit obligations.

Capital outlay and equipment: A total of \$1.3 million is included in the 2015 budget for capital outlay and equipment. The reduction from the current year level of funding is principally the result of the fact that the City appropriated \$1.1 in non-recurring CATV franchise fee revenue for fiber network improvements during the current year. A summary of the 2015 capital purposes is presented below:

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Elections - election furniture	\$ 5,000
Information technology - hardware & software	200,000
Conservation grounds improvements	25,000
Public Building computer hardware & software	4,500
Public Building buildings improvements	150,000
Public Buildings other equipment	12,875
Public Building vehicle replacement	60,000
Police vehicle replacment	350,000
Police communications equipment replacement	100,000
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 used vehicle purchases	101,000
DPW construction equipment replacement	60,000
DPW garage equipment	5,000
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>\$ 1,330,375</u>

All other: The \$2.7 million reduction in “*All other*” 2015 municipal appropriations is principally a result of the fact that inclement weather reserves are budgeted in the budget reserve account for 2015, but are reported in the DPW budget, following transfer by vote of the Mayor and Board of Aldermen in the current year.

Snow & ice: The table below summarizes combined Parks and Public Works snow and ice control expenditures for fiscal year 2014 and the three prior complete fiscal years.

	2014 YTD	2013	2012	2011
	Expended	Expended	Expended	Expended
Salaries & wages	1,034,484	\$ 941,115	\$ 291,412	\$ 954,733
Private contractors	2,185,551	2,074,386	164,441	2,054,732
Sand & salt	1,202,109	510,565	245,234	782,121
All other	379,932	168,059	242,830	184,626
Total snow & ice expenditures	<u>\$ 4,802,076</u>	<u>\$ 3,694,125</u>	<u>\$ 943,917</u>	<u>\$ 3,976,212</u>

The fiscal year 2015 recommended budget includes a total of \$3 million for snow and ice control purposes, \$1 million in the DPW budget, and another \$2 million in budget reserve, to be transferred if needed by vote of the Mayor and Board. The median annual expenditure for snow and ice control over the previous five years is \$3.7 million.

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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 2015 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for this purpose for fiscal year 2014 and the three prior complete fiscal years.

Legal Settlement Expenditure Trends

	2014 YTD Expended	2013 Expended	2012 Expended	2011 Expended
Claims & settlements	\$ 46,277	\$ 128,854	\$ 58,504	160,732

Energy and utilities: The total budget for this purpose is \$2.9 million, which represents a \$135,336 (4.5%) decrease the amount budgeted for the current year. The following table compares the recommended 2015 budget totals to current year budget totals and actual expenditures for the three 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 \$450,000 of the \$668,018 recommended for fiscal year 2015.

Energy and Expenditure Trends

	2015 Budget	2014 Budget	2013 Expended	2012 Expended	2011 Expended
Electricity	868,312	\$ 1,028,307	\$ 1,023,583	\$ 1,040,227	\$ 1,084,048
Natural gas	330,272	341,671	362,893	301,601	467,155
Water & sewer	668,018	581,879	568,766	591,104	166,939
Heating oil	232,500	236,739	232,546	206,409	229,930
Gasoline	523,500	514,410	465,458	518,509	462,907
Diesel	274,160	329,092	320,526	310,605	300,329
Total energy and utilities	\$ 2,896,762	\$ 3,032,098	\$ 2,973,772	\$ 2,968,455	\$ 2,711,308

Budget Reserve: The 2015 budget includes a \$2.5 million budget reserve - \$500,000 for extraordinary and unforeseen purposes and \$2 million for snow and ice control purposes. Transfers from the budget reserve account require prior approval of the Mayor and Board of Aldermen. The current year budget included an original appropriation of \$500,000 for the budget reserve, all but \$92,000 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 \$1.8 million or 6.5% from the current year budget.

The City's actuarially required contribution to the defined benefit pension plan amounts to \$18.8 million, 63.7% of the total retirement appropriation.

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This contribution represents a \$1.5 million or 8.5% increase over the current year appropriation and amounts to approximately 22.7% of covered payroll.

The 2015 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the City's January 1, 2013 actuarial valuation of plan assets and liabilities.

As of January 1, 2013 the funded status of the plan stood at 52.3% and the current funding plan anticipates full funding in the year 2037. The funded status of the Newton plan declined from 67.1% in 2009 to 52.3% principally as a result of \$80.8 million in 2009 investment losses, which amounted to 28% of the plan's accumulated assets.

The January 1, 2014 valuation, which will be used for the fiscal year 2016 plan contribution, is expected to be delivered within the next month.

Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$286,684 for fiscal year 2015.

Retiree health and life benefit appropriations amount to \$10.4 million – \$306,323 (3%) 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, 2014, but also includes \$227,722 in projected OPEB contributions.

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 \$2.5 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 2015 appropriation for bond maturities and interest (debt service) total \$17.5 million, 5.1% of the budget. This sum includes \$283,962 in year #1 debt service on the Angier Elementary school new construction project. North High School project debt service accounts for \$9.4 million, or 54% of the total debt service budget.

State assessments: The budget includes an estimate of \$5.9 million for state assessments, principally MBTA service.