

CITY OF NEWTON, MASSACHUSETTS  
GENERAL FUND  
FISCAL YEAR 2016 BUDGET ANALYSIS

**INTRODUCTION**

The purpose of this document is to provide a summary level financial analysis of the Mayor's recommended 2016 **General Fund** budget. Information contained in this report is intended to supplement the information contained in the budget document.

**BUDGET SUMMARY**

The Mayor's recommended General Fund budget for fiscal year 2016 is \$362 million – \$16.8 million or 4.9% greater than the *original* current year budget. The following is a year by year summary of growth in *original and final amended* budgets over the past ten year period. Over the trailing ten year time frame, *original and final amended* 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
2016	\$ 361,997,264	\$ 16,778,700	4.9%			
2015	345,218,564	14,145,367	4.3%	353,870,074	16,168,281	4.8%
2014	331,073,197	18,093,233	5.8%	337,701,793	17,274,954	5.4%
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%

The following table summarizes the nature of amendments to the original budget, for both the current fiscal year (2015) and for fiscal year 2014.

**Fiscal Year 2015 Supplemental Appropriations by Purpose**

	FY 2015 YTD	FY 2014 Actual
Rainy Day Fund contribution	\$ 3,236,420	\$ 2,500,000
Snow & ice control (including capital )	3,825,000	2,000,000
Municipal wages/salaries	126,500	200,000
Newton Public schools	744,662	536,749
Capital outlay & improvements	441,464	1,288,876
All other - Municipal	277,464	102,971
<b>Total supplemental appropriations</b>	<b>\$ 8,651,510</b>	<b>\$ 6,628,596</b>

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

	FY 2015 YTD	FY 2014 Actual
Revenue	\$ 752,503	\$ (13,239)
Free cash	4,691,777	5,277,959
Overlay surplus	3,000,000	-
Debt exclusion bond premiums	98,964	-
Transfers from other Funds	108,266	1,363,876
<b>Total supplemental appropriations</b>	<b>\$ 8,651,510</b>	<b>\$ 6,628,596</b>

The Mayor's recommended 2016 budget is \$8.1 million or 2.3% more than the current year *amended* budget. The following table summarizes the major components of the recommended fiscal year 2016 budget financing plan along with the dollar and percentage change from the current year *amended* budget.

**FY 2016 Budget Financing Plan**

	2016 Budget Recommended	%	\$ Change from 2015 Amended Budget	% Change from 2015 Amended Budget
Property taxes (net of abatement reserve)	\$ 299,564,701	82.8%	\$ 12,750,731	4.4%
Motor excise taxes	12,700,000	3.5%	750,000	6.3%
Hotel/motel room occupancy tax	2,400,000	0.7%	200,000	9.1%
Meals tax	1,800,000	0.5%	300,000	20.0%
In lieu of tax payments	435,963	0.1%	2,963	0.7%
Interest & penalties	1,055,000	0.3%	59,000	5.9%
<b>Total Taxes</b>	<b>317,955,664</b>	<b>87.8%</b>	<b>14,062,694</b>	<b>4.6%</b>
Charges for service	1,675,847	0.5%	36,203	2.2%
Fines & forfeitures	1,691,000	0.5%	100	0.0%
Licenses & permits	5,878,450	1.6%	24,950	0.4%
Investment income	210,000	0.1%	19,400	10.2%
Other local revenue	775,000	0.2%	482,279	164.8%
<b>Total non-tax local revenue</b>	<b>10,230,297</b>	<b>2.8%</b>	<b>562,932</b>	<b>5.8%</b>
Cherry sheet aid	25,797,410	7.1%	518,638	2.1%
Other state & federal aid	1,488,700	0.4%	350,500	30.8%
<b>Total Intergovernmental aid</b>	<b>27,286,110</b>	<b>7.5%</b>	<b>869,138</b>	<b>3.3%</b>
Transfers from other funds	4,929,565	1.4%	422,669	9.4%
Fund balance	1,595,628	0.4%	(7,790,243)	-83.0%
<b>Total General Fund Revenue Budget</b>	<b>\$ 361,997,264</b>	<b>100.0%</b>	<b>\$ 8,127,190</b>	<b>2.3%</b>

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**Property taxes:** The following is a comparison of the budgeted tax levies for both fiscal year 2016 and the current fiscal year.

	2016 Budget	2015 Actual
Prior year levy limit	\$ 291,627,432	\$ 279,241,788
2.5% annual increase	7,290,686	6,981,045
New growth	3,000,000	5,404,599
Debt exclusion debt service	1,296,583	283,962
Overlay (abatements & exemptions)	(3,650,000)	(5,075,909)
Unused levy capacity	-	(23,530)
Net tax levy	<u>\$ 299,564,701</u>	<u>\$ 286,811,955</u>

The median annual tax collection rate over the last ten complete fiscal years is 99.5% during the original year of the levy and 100.3% thru March 31, 2015.

**Motor excise tax:** The budget assumes a \$750,000 or 6.3% increase in the current year revenue estimate to \$12.7 million. Revenue collections for fiscal year 2014 were \$12.2 million. Current year to date collections are \$9.7 million - 81.1% of the current year budget estimate and \$173,651 or 1.8% higher than total collections for the first nine months of last fiscal year. Based upon prior year collection trends thru the first nine months of the year, fiscal year 2015 motor excise tax collections are projected to be approximately \$12.4 million.

**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 2016 budget anticipates a \$500,000 (13.5%) increase in revenue from these two sources. This is consistent with current year to date revenue collection experience.

**Intergovernmental:** The mayor's fiscal year 2016 cherry sheet local aid revenue estimate is \$25.8 million - the amount recommended in the Governor's FY 2016 local aid budget recommendation. Additional revenues of \$300,000 from special education Medicaid reimbursements and \$50,000 from Medicare Part D reimbursements are included in the Mayor's recommended financing plan.

**Transfers from other funds:** The 2016 budget anticipates \$4.9 million in inter-fund transfer financing for the General Fund, a \$422,669 or 9.4% increase from the current year. Water and sewer fund administrative overhead and indirect cost recovery transfers account for \$2.6 million or 53.1% of anticipated transfers. Anticipated parking meter receipt transfers account for another \$1.6 million or 32.7%. The parking meter receipt transfer is \$136,398 more than currently on hand in the fund, so this may require revision prior to final adoption of the budget.

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**Fund balance:** The recommended 2016 budget is balanced using \$1.6 in fund balance, of which \$1.5 million represents available free cash, and the remainder represents MSBA reimbursements that must, by law, be used for future North and South High School project debt service financing. This amount is unchanged from the 2015 budget. A total of \$229,032 in July 1, 2014 free cash remains unappropriated at this date. A complete accounting of free cash uses in 2015 is included at the back of this report. July 1, 2015 certified free cash is expected to be available for appropriation during September 2015.

The following table summarizes the major appropriation components of the Mayor's recommended 2016 budget, along with dollar and percentage changes from the current budget, as amended. The Mayor's FY 2016 Recommended budget document provides a programmatic description of changes in municipal department budgets.

**Fiscal Year 2016 Recommended Annual Appropriations**

	2016 Budget Recommended	% Total	\$ Change from 2015 Amended Budget	% Change from 2015 Amended Budget
Newton Public Schools	\$ 203,710,912	56.3%	\$ 7,836,431	4.0%
Municipal Departments				
Salaries & wages	63,094,445	17.4%	1,375,382	2.2%
Benefits (excluding retirees)	10,457,849	2.9%	681,716	7.0%
Workers compensation	800,000	0.2%	(400,000)	-33.3%
Capital outlay & equipment	1,420,375	0.4%	(1,063,061)	-42.8%
All other	20,264,253	5.6%	(3,860,491)	-16.0%
Total Municipal Departments	96,036,922	26.5%	(3,266,454)	-3.29%
Budget reserve (including snow & ice)	3,000,000	0.8%	3,000,000	n/a
Retirement (including health benefits)	31,671,817	8.7%	2,189,176	7.4%
Transfer to other funds	2,500,000	0.7%	(3,295,384)	-56.9%
Debt & interest	19,077,069	5.3%	1,583,973	9.1%
State assessments	6,000,544	1.7%	79,448	1.3%
<b>Total General Fund appropriations</b>	<b>\$ 361,997,264</b>	<b>100.0%</b>	<b>\$ 8,127,190</b>	<b>2.3%</b>

**Newton Public Schools:** The recommended \$203.7 million appropriation for the support of the Newton Public Schools represents an increase of \$7.8 million or 4% over the current year budget, as amended. This sum includes all funds designated as transfers to

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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 costs (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:** Funding for non-union employees and for approved collective bargaining agreements are included in the individual department personal service appropriations. A \$750,000 salary/wage reserve is also included in the Comptroller's budget for pending contracts. The recommended salary and wage appropriation also includes funding for 6.3 new municipal positions.

Total fiscal year 2016 recommended salary and wage appropriations of \$63.1 million represents a 2.2% increase over the amended fiscal year 2015 budget and 4.9% more than the current year salary and wage budget, net of supplemental snow and ice salary and wage appropriations.

**Employee Benefits:** The 2016 employee 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 2016 benefit budget amounts to 16.6% of recommended municipal salaries and wages.

The amount budgeted for 2016 active employee health insurance benefits is \$9.3 million, which is \$652,496 (7.6%) 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. Tufts health plan premiums are scheduled to increase by 11.5% effective July 1, 2015. No change is anticipated for Harvard-Pilgrim plan premiums.

At March 31, 2015, the Tufts Health plan had a fund balance of \$4.4 million – 1.4 months of average paid claims, while the Harvard-Pilgrim health plan's fund balance was \$7.9 million – 6.6 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. Reserves are used to fund claims experience in excess of the amount anticipated in annual premiums.

**Workers Compensation:** The City's 2016 contribution to the cost of the self insured workers compensation benefit program is funded at \$800,000 - \$400,000 or 33.3% less than the amount included in the current year budget. As a result of the favorable lump sum settlement of a large claim late in fiscal year 2014 the funded status of the plan improved significantly and as a result, a portion of the investment income realized on the assets that have been accumulated in the fund is available to finance current benefits. As of March 31, 2015 the Workers Compensation Fund assets of \$11.3 million; accrued liabilities of \$8.1 million; and a positive fund balance of \$3.2 million.

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A total of \$150,000 of the 2016 workers compensation appropriation is earmarked for police and fire injured on duty medical bills and the remaining \$650,000 for statutory workers compensation benefit obligations.

**Capital outlay and equipment:** A total of \$1.4 million is included in the 2016 budget for capital outlay and equipment. The reported reduction from the current year level of funding is entirely the result of the fact that the current year capital outlay and equipment total includes in \$1.1 million supplemental capital outlay appropriations and transfers. A summary of the nature of the 2016 capital outlay appropriation recommendations is presented below:

Public building improvements	\$ 150,000
Public grounds improvements	25,000
Automobiles & light trucks	642,000
Construction equipment	50,000
Public safety equipment	50,000
Public safety fire arms	8,000
Computer hardware & software	215,500
Elections furniture	5,000
Housekeeping equipment	4,875
Public safety communications equipment	100,000
Playground equipment	150,000
All other	20,000
Total - capital outlay & equipment	<u>\$ 1,420,375</u>

**All other:** The \$3.9 million reduction in “*All other*” 2016 municipal appropriations is principally a result of the fact that the fiscal year 2015 budget includes \$4.1 million in supplemental appropriations for snow and ice plowing and removal contractors, and salt purchases.

**Snow & ice:** The table below summarizes snow and ice control expenditures for fiscal year 2015 and the three prior fiscal years.

	2015	2014	2013	2012
	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Salaries & wages	1,778,065	1,037,983	\$ 941,115	\$ 291,412
Private contractors	3,556,470	2,452,349	2,074,386	164,441
Sand & salt	1,138,800	1,099,843	510,565	245,234
Capital equipment	325,000	-	-	-
All other	344,462	350,924	168,059	242,830
Total snow & ice expenditures	<u>\$ 7,142,797</u>	<u>\$ 4,941,099</u>	<u>\$ 3,694,125</u>	<u>\$ 943,917</u>

The fiscal year 2016 recommended budget includes a total of \$3.5 million for snow and ice control purposes, \$1 million in the DPW budget, and another \$2.5 million in budget

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reserve, to be transferred if needed by vote of the Mayor and Board. The median annual expenditure for snow and ice control over the trailing five years is \$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 2016 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for this purpose for fiscal year 2015 and the three prior complete fiscal years.

**Legal Settlement Expenditure Trends**

	2015 YTD Expended	2014 Expended	2013 Expended	2012 Expended
Claims & settlements	\$ 82,494	\$ 171,221	128,854	\$ 58,504

**Energy and utilities:** The total budget for this purpose is \$2.7 million, which represents a 2.3% decrease the amount budgeted for the current year. The following table compares the recommended 2016 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 are budgeted and accounted for within the operating budget of the Public Building Department. School building water and sewer charges account for \$550,000 of the \$834,153 recommended for fiscal year 2016.

**Energy and Expenditure Trends**

	2016 Budget	2015 Budget	2014 Expended	2013 Expended	2012 Expended
Electricity	706,033	759,520	\$ 934,078	\$ 1,023,583	\$ 1,040,227
Natural gas	383,683	346,356	363,589	362,893	301,601
Water & sewer	834,153	677,942	708,352	568,766	591,104
Heating oil	187,500	213,423	241,252	232,546	206,409
Gasoline	403,300	511,472	545,161	465,458	518,509
Diesel	234,160	303,932	330,150	320,526	310,605
Total energy and utilities	\$ 2,748,829	\$ 2,812,645	\$ 3,122,582	\$ 2,973,772	\$ 2,968,455

**Budget Reserve:** The 2015 budget includes a \$3 million budget reserve - \$500,000 for extraordinary and unforeseen purposes and \$2.5 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 \$2.5 for the budget reserve, all 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 \$2.2 million or 7.4% from the current year budget.

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The City's actuarially required contribution to the defined benefit pension plan amounts to \$20.5 million (64.7% of the total retirement appropriation). This contribution represents a \$1.6 million or 8.6% increase over the current year appropriation and amounts to approximately 23% of covered payroll.

The 2016 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the City's January 1, 2014 actuarial valuation of plan assets and liabilities and is intended to achieve full actuarial funding of pension benefit obligations of the City in fiscal year 2029. As of January 1, 2015 the funded status of the plan stood at 50.84%.

Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$230,855 for fiscal year 2016, a decrease of \$55,829 or 19.5%.

Retiree health and life benefit appropriations amount to \$10.9 million – \$625,118 (6.1%) 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, but also includes \$396,383 in projected OPEB (retiree health) fund contributions.

The March 31, 2015 fund balance of the City's OPEB trust was \$1.8 million and the actuarial value of accrued retiree health benefits at June 30, 2014 was \$554.3 million. The City's June 30, 2014 OPEB actuarial valuation estimates the cost of actuarially funding OPEB benefits to be \$50.5 million for fiscal year 2016. This is \$30.6 more than the combination of pay-as-you-go and OPEB fund contributions included in the recommended 2016 municipal and Newton Public School budgets.

**Transfers to other funds:** The \$2.5 appropriation consists of a \$2.4 million 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, and a \$100,000 contribution to the City's Rainy Day Fund. Assuming a \$362 million General Fund operating budget, the Rainy Day Fund should have a balance of \$18.1 million or 5% of the total budget in fiscal year 2016. The current balance in the Rainy Day Fund is \$17.3 million.

**Debt service:** Fiscal year 2016 appropriation for bond maturities and interest (debt service) totals \$19.1 million, 5.3% of the budget. This sum represents a \$1.6 million or 9.1% increase over the current year debt service budget, and includes \$1.3 million in debt service on the Angier and Cabot elementary school debt exclusion projects. North High School project debt service accounts for \$9.3 million, or 48.7% of the total debt service budget.

**State assessments:** The budget includes an estimate of \$6 million for state assessments, principally MBTA service. The Governor's budget estimates Newton's assessments at \$5.9 million.



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FREE CASH USES

July 1, 2015 Certified Free Cash	\$	6,720,809
Free Cash Appropriations:		
Newton Public Schools Homeless Transportation	(43,317)	
Rainy Day Fund contribution	(236,420)	
City Hall Exterior Lighting	(65,000)	
Local 3092 Collective Bargaining	(126,500)	
Fire Station #1 Emergency Generator	(127,500)	
Elections/ISD Vaults	(150,000)	
Snow removal equipment	(325,000)	
Snow & ice control	(3,500,000)	
Bond issuance costs	(118,040)	
Total YTD Appropriations	<u>(4,691,777)</u>	
Pending Appropriations		
Snow & ice control	(300,000)	
FY 2016 budget	<u>(1,500,000)</u>	
Total Pending Appropriations	<u>(1,800,000)</u>	
Free Cash Balance	\$	<u><u>229,032</u></u>

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 BUDGET RESERVE USES

	<u>Budget Reserve</u>	<u>Snow &amp; Ice Reserve</u>
Original FY 2015 Appropriation	\$ 500,000	\$ 2,000,000
Transfers:		
Human Resources Recruiting Manager Salary	(70,000)	-
Police Annex Repairs	(335,000)	-
Snow & Ice Control	(95,000)	(2,000,000)
Total YTD Transfers	<u>(500,000)</u>	<u>(2,000,000)</u>
 Available Balance	 \$ <u><u>-</u></u>	 \$ <u><u>-</u></u>