

**City of Newton, Massachusetts
General Fund
Fiscal Year 2018 Budget Analysis**

Introduction

The purpose of this document is to provide a summary level financial analysis of the Mayor’s recommended fiscal year 2018 **General Fund** budget dated April 18, 2017. 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 2018 is \$395.3 million – \$16 million or 4.3% 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, both the *original and final amended* budgets have increased by an average of 4.0%.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2018	\$ 395,313,737	\$ 16,344,493	4.3%			
2017	378,969,244	16,971,980	4.7%	384,956,880	14,918,538	4.0%
2016	361,997,264	16,778,700	4.9%	370,038,342	15,526,259	4.4%
2015	345,218,564	14,145,367	4.3%	354,512,083	16,810,290	5.0%
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%

The following two tables summarize the nature of amendments to the original budget, for both fiscal years 2017 and 2016. Transfers from budget reserve are not considered to be amendments to the budget because they do not increase the total budget. Refer to Appendix A on page 9 for the specific City Council orders contained in the FY 2017 supplemental appropriations.

Supplemental Appropriations by Purpose

	FY 2017 YTD	FY 2016 Actual
Rainy Day Fund contribution	\$ -	\$ 1,336,831
Snow & ice control (including capital)	300,000	1,439,987
Capital outlay & improvements	4,588,850	2,997,565
Newton Public schools	441,977	672,443
All other - Municipal	656,809	1,594,252
Total supplemental appropriations	\$ 5,987,636	\$ 8,041,078

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Funding for supplemental appropriations has been provided from the following sources. Refer to Appendix A on page 9 for more information on the sources of funds for FY 2017.

Supplemental Appropriations by Source

	FY 2017 YTD	FY 2016 YTD
Revenue	\$ 269,720	\$ 63,600
Free cash	4,561,000	4,141,029
Overlay surplus	200,000	1,318,522
Debt exclusion bond premiums	425,532	369,024
Transfers from other Funds	531,384	2,148,903
Total supplemental appropriations	\$ 5,987,636	\$ 8,041,078

The Mayor's recommended 2018 budget is \$10.4 million or 2.7% more than the current year *amended* budget. The following table summarizes the major components of the recommended fiscal year 2018 budget financing plan along with the dollar and percentage change from the current year *amended* budget.

FY 2018 Budget Financing Plan

	2018 Budget	%	\$ Change	% Change
	Recommended	Total	from 2017	from 2017
			Amended Budget	Amended Budget
Property taxes (net of abatement reserve)	\$ 326,821,941	82.7%	\$ 13,745,921	4.4%
Motor excise taxes	13,125,000	3.3%	225,000	1.7%
Hotel/motel room occupancy tax	2,493,132	0.6%	49,132	2.0%
Meals tax	1,918,224	0.5%	61,224	3.3%
In lieu of tax payments	335,000	0.1%	(72,000)	-17.7%
Interest & penalties	1,220,000	0.3%	(60,000)	-4.7%
Total Taxes	345,913,297	87.5%	13,949,277	4.2%
Charges for service	3,307,861	0.8%	1,851,152	127.1%
Fines & forfeitures	1,505,000	0.4%	(180,000)	-10.7%
Licenses & permits	7,075,943	1.8%	572,013	8.8%
Investment income	525,000	0.1%	300,000	133.3%
Other local revenue	100,000	0.0%	(507,350)	-83.5%
Total non-tax local revenue	12,513,804	3.2%	2,035,815	19.4%
Cherry sheet aid	28,860,285	7.3%	1,699,618	6.3%
Other state & federal aid	1,480,000	0.4%	161,723	12.3%
Total Intergovernmental aid	30,340,285	7.7%	1,861,341	6.5%
Transfers from other funds	4,945,787	1.3%	(3,420,244)	-40.9%
Fund balance	1,600,564	0.4%	(4,069,332)	-71.8%
Total General Fund Revenue Budget	\$ 395,313,737	100.0%	\$ 10,356,857	2.7%

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Property taxes: The following is a comparison of the budgeted tax levies for both fiscal year 2018 and the current fiscal year.

Budgeted Tax Levies

	<u>2018 Budget</u>	<u>2017 Actual</u>
Prior year levy limit	\$ 316,455,830	\$ 304,054,763
2.5% annual increase	7,911,396	7,601,369
New growth	3,994,436	4,799,698
Debt exclusion debt service	1,960,280	1,554,028
Overlay (abatements & exemptions)	(3,500,000)	(4,930,028)
Unused levy capacity	-	(3,810)
Net tax levy	<u>\$ 326,821,941</u>	<u>\$ 313,076,020</u>

Motor excise tax: The budget assumes a \$225,000 or 1.7% increase in the current year revenue estimate. Revenue collections for fiscal year 2016 were \$12.9 million. Current year to date collections are \$10.9 million - 85.0% of the current year budget estimate and \$155,000 or 1.0% lower than total collections for the first nine months of last fiscal year. Current year auto excise tax billings are \$108,000 or 1.0% less than the total amount that had been billed at this same time last year; a total of 409 fewer invoices have been mailed as compared to last year.

Licenses & permits: The budget assumes a \$572,000 or 8.8% increase in this revenue source. Inspectional Services Department permit revenue, which is estimated to be \$6.1 million for fiscal year 2018, accounts for all of the increase in this revenue category. Total Inspectional Services Department permit revenue for the first nine months of the current year is \$6.0 million as compared to \$5.1 million one year ago, a year-over-year increase of 18%.

Intergovernmental: The mayor's fiscal year 2018 cherry sheet local aid revenue estimate is \$28.9 million - \$1.7 million or 6.3% greater than the current year budget. Non-cherry sheet state and federal aid, primarily Special Education Medicaid and Medicare Part D reimbursements, is estimated at \$1.5 million.

Transfers from other funds: The 2018 budget anticipates \$5.0 million in inter-fund transfer financing for the General Fund including \$3.8 million from Water, Sewer and Stormwater Funds indirect cost reimbursements; \$469,000 from the Cable Franchise Administrative Fund; \$400,000 in the Capital Stabilization Fund; and \$342,000 in various Receipts Reserved for Appropriation. As per the *Municipal Modernization Act* of 2016, parking meter receipts are part of General Fund revenues; thus, an interfund transfer is no longer necessary.

Fund balance: The recommended 2018 budget is balanced using \$1.6 million in fund balance, consisting of \$1.5 million in available free cash, and \$100,000 representing the Massachusetts School Building Authority (MSBA) project reimbursements that must be used for future North and South High School project debt service financing. The total amount of fund balance is unchanged from the original

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fiscal year 2015 and 2016 budgets, represents slightly less than one half of one percent of the total financing plan for the budget, and is sustainable for future years.

The following table summarizes the major appropriation components of the Mayor's recommended 2018 budget, along with dollar and percentage changes from the current budget, as amended. The Mayor's FY 2018 Recommended Budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2018 Recommended Annual Appropriations

	2018 Budget Recommended	% Total	\$ Change from 2017 Amended Budget	% Change from 2017 Amended Budget
Newton Public Schools	\$ 219,436,486	55.5%	\$ 7,816,684	3.7%
Municipal Departments				
Salaries & wages	69,930,722	17.7%	881,021	1.3%
Benefits (excluding retirees)	11,276,472	2.9%	350,632	3.2%
Workers compensation	800,000	0.2%	(100,000)	-11.1%
Capital outlay & equipment	1,250,210	0.3%	(2,670,221)	-68.1%
All other	23,259,941	5.9%	(1,305,281)	-5.3%
Total Municipal Departments	106,517,345	26.9%	(2,843,849)	-2.60%
Budget reserve (including snow & ice)	3,500,000	0.9%	3,366,190	n/a
Retirement (including health benefits)	36,435,128	9.2%	2,536,010	7.5%
Transfer to other funds	150,000	0.0%	(3,128,550)	-95.4%
Debt & interest	23,068,195	5.8%	2,571,916	12.5%
State assessments	6,206,582	1.6%	38,455	0.6%
Total General Fund appropriations	\$ 395,313,736	100.0%	\$ 10,356,857	2.7%
<i>{1} 2017 Budget excludes continued appropriations from 6/30/2016.</i>				

Newton Public Schools: The recommended \$219.4 million appropriation for the support of the Newton Public Schools represents an increase of \$7.8 million or 3.7% over the current year budget, as amended. This sum includes all funds designated as transfers to other funds, specifically workers compensation and the school athletics program. The total appropriation for the schools does not, however, include school project debt service of \$17.6 million; pension funding and retiree health care for school participants in the Newton Contributory Retirement System of over \$7.0 million; school health services of \$2.4 million; school crossing guards of \$500,000; school property insurance of \$500,000; and school building water and sewer charges of \$600,000, all of which are included within other categories of the budget.

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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 \$1.2 million salary/wage reserve is included in the Comptroller’s budget. The recommended salary and wage appropriation also includes funding for a net of 13.4 new municipal positions. Total fiscal year 2018 recommended salary and wage appropriations of \$69.9 million represent a 1.3% increase over the amended fiscal year 2017 budget of \$69.0 million.

Employee Benefits: The 2018 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 2018 benefits budget of \$11.3 million is 16.1% of recommended municipal salaries and wages. The amount budgeted for 2018 active employee health insurance benefits is \$10.2 million, which is 5.0% 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.

As of March 2017, the City’s Group Health Self-Insurance Fund had reserves totaling \$14.5 million, the equivalent of over 3 months of paid claims. The City’s fund balance policy for the group health self-insurance fund is 1.5 to 2.0 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 2018 contribution to the cost of the self insured workers compensation benefit program is funded at \$800,000, or \$100,000 less than the amount included in the current year budget. As of March 31, 2017 the Workers Compensation Fund has assets of \$12.6 million, accrued liabilities of \$8.3 million, and a positive fund balance of \$4.3 million. The fund balance at this time last year was \$2.5 million. A total of \$150,000 of the 2018 workers compensation appropriation is earmarked for police and fire injured on duty medical bills and the remaining \$750,000 for statutory workers compensation benefit obligations.

Snow & ice: The following table summarizes snow and ice control expenditures for fiscal year 2017 and the three prior fiscal years.

Snow and Ice Expenditure Trends

	2017 YTD	2016	2015	2014
	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Salaries & wages	1,306,716	926,421	1,778,531	1,037,983
Private contractors	2,100,337	1,420,600	3,884,382	2,452,349
Sand & salt	1,292,375	949,179	1,138,800	1,099,843
Capital equipment	-	8,795	319,360	-
All other	303,041	344,684	467,526	350,924
Total snow & ice expenditures	<u>\$ 5,002,470</u>	<u>\$ 3,649,680</u>	<u>\$ 7,588,599</u>	<u>\$ 4,941,099</u>

The fiscal year 2018 recommended budget includes a total of \$4.0 million for snow and ice control, including \$1.0 million in the Department of Public Works budget, and another \$3.0 million in budget reserve to be transferred if needed by vote of the Mayor and City Council. The median annual expenditure for snow and ice control over the trailing five years is \$3.7 million.

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Capital outlay and equipment: A total of \$1.3 million is included in the 2018 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 supplemental capital outlay and equipment appropriations. The following chart is a summary of the nature of the 2018 capital outlay appropriation recommendations.

Fiscal Year 2018 Recommended Capital Outlay and Equipment

Police vehicles	\$ 350,000
Other Public Works equipment	150,000
Playground equipment	150,000
Computer hardware & software	136,210
Public Safety communications equipment	100,000
Public Works vehicles	100,000
Public Buildings vehicles	60,000
Fire vehicles	60,000
Parks & Recreation vehicles	60,000
Other Public Safety equipment	50,000
Conservation land improvements	25,000
Elections furniture	5,000
Clerk's Office equipment/furniture	4,000
Total Capital Outlay and Equipment	<u>\$ 1,250,210</u>

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 2018 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for this purpose for fiscal year 2017 and the three prior complete fiscal years.

Legal Settlement Expenditure Trends

	2017 YTD	2016	2015	2014
	Expended	Expended	Expended	Expended
Claims & settlements	<u>\$ 92,223</u>	<u>\$ 376,285</u>	<u>\$ 107,282</u>	<u>\$ 171,221</u>

Energy and utilities: The total budget for energy and utilities is \$2.9 million, an increase of less than 0.5% as compared to the current year's budget. The following table compares the recommended 2018 budget totals to the current year budget and to 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 Buildings Department. School building water and sewer charges account for \$675,000 of the \$1,051,000 recommended for fiscal year 2018.

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Energy and Utilities Expenditure Trends

	2018	2017	2016	2015	2014
	<u>Recommended</u>	<u>Budget</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Electricity	\$ 879,338	\$ 812,100	\$ 768,776	\$ 727,929	\$ 934,078
Natural gas	355,000	396,867	330,250	361,745	363,589
Water & sewer	1,051,414	962,193	917,759	691,361	708,352
Heating oil	46,500	123,747	84,548	199,741	241,252
Gasoline	340,025	345,794	308,965	487,655	545,161
Diesel	213,000	232,282	212,912	389,059	330,150
Total Energy and Utilities	<u>\$ 2,885,277</u>	<u>\$ 2,872,983</u>	<u>\$ 2,623,209</u>	<u>\$ 2,857,490</u>	<u>\$ 3,122,582</u>

Budget Reserve: The 2018 budget includes a \$3.5 million budget reserve including \$500,000 for extraordinary and unforeseen purposes and \$3.0 million for snow and ice. Transfers from the budget reserve account require prior approval of the Mayor and City Council. The current year budget included an original appropriation of \$3.25 million for the budget reserve, all but \$134,000 of which has been either transferred or obligated to date.

Retirement: Retirement and retiree health benefit appropriation requirements have increased by \$2.5 million or 7.5% from the current year budget. The City's fiscal year 2018 actuarially required contribution to the defined benefit pension plan is \$24.4 million, or 67% of the total retirement appropriation. This contribution represents a \$2.1 million or 9.5% increase over the current year appropriation and amounts to approximately 25% of covered payroll.

The 2018 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the January 1, 2016 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. Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$75,173 for fiscal year 2018, a decrease of \$39,000 or 34%.

Fiscal year 2018 retiree health and life benefit appropriations are \$11.9 million, or \$446,000 (4%) 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 \$511,000 in projected Other Post-Employment Benefits (OPEB retiree health insurance) fund contributions. The March 31, 2017 fund balance of the City's OPEB trust was \$5.2 million and the actuarial value of accrued retiree health benefits at June 30, 2016 was \$722.8 million.

Transfers to other funds: The \$150,000 fiscal year 2018 appropriation consists of a contribution to the City's Rainy Day Fund. Assuming a \$395.3 million General Fund operating budget, the Rainy Day Fund should have a balance of \$19.8 million or 5% of the total budget in fiscal year 2018. The current balance in the Rainy Day Fund is \$19.1 million; there is a \$540,000 docket item currently before the City Council to supplement this sum prior to June 30, 2017.

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Debt service: Fiscal year 2018 appropriation for bond maturities and interest totals \$23.1 million, or 5.8% of the budget. This sum represents a \$2.6 million or 12.5% increase over the current year debt service budget, and includes \$1.8 million in debt service on the Angier and Cabot elementary school debt exclusion projects. Total General Fund financed bonded debt was \$303.7 million at March 31, 2017, an increase of \$40.9 million or 15.6% from the total amount outstanding at March 31, 2016.

State assessments: The fiscal year 2018 budget includes an estimate of \$6.2 million for state assessments, principally MBTA service.

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Appendix A: FY 2017 Supplemental Appropriations

FY 2017 by Purpose	Description	CO#	Amount
Snow and Ice	DPW Sand and Salt Spreaders	#323-16	\$ 300,000
			<u>\$ 300,000</u>
Capital Outlay & Improvements	NSHS Modulares	#191-16	\$ 600,000
	P&R tree and stump removal	#322-16	500,000
	W Newton Sq Rehab Project Design	#325-16	250,000
	Intersection Imprv Design Dedham/Nahanton	#324-16	75,000
	Police Fire Arms Range Improvement	#356-16	135,000
	Angier Bond Premium trans to Capital Fund	#355-16	261,366
	Police Vehicle Replacement	#382-16	80,000
	Emerg Comm Infrastructure Improvement	#383-16	1,100,000
	W Newton Sq Rehab Project Design	#33-17	121,000
	DPW Salaries/Rental Vehicles	#34-17	750,000
	NCAC HD Upgrade Chamber	#53-17	48,984
	Walnut/Newtonville Str Improv	#57-17	400,000
	Gath Pool Repairs 2017	#55-17	200,000
	Wells/Nahanton/ Winch Traffic	#14-17	67,500
			<u>\$4,588,850</u>
Newton Public Schools	Homeless Student Transport	#267-16	\$ 36,077
	Zervas Student Transportation	#381-16	405,900
			<u>\$ 441,977</u>
All other- Municipal	Police Collective Bargaining	#269-16	\$ 250,000
	Bond Sale Costs (July Advance refunding)	#265-16	240,850
	Adjust State Assessments to Cherry Sheet	Tax Recap Sheet	(7,207)
	Operation Access (Handicap Park enf)	#379-16	9,000
	Bond Premium Receipts Reserved	#29-17	164,166
			<u>\$ 656,809</u>
Total FY 2017 by Purpose			<u>\$5,987,636</u>

FY 2017 by Source	Description	CO#	Amount
Revenue	Bond Sale Costs (July Advance refunding)	#265-16	\$ 240,850
	Homeless Student Transport	#267-16	36,077
	Adjust State Assessments to Cherry Sheet	Tax Recap Sheet	(7,207)
			<u>\$ 269,720</u>
Free Cash	Police Collective Bargaining	#269-16	\$ 250,000
	NSHS Modulares	#191-16	600,000
	DPW Sand and Salt Spreaders	#323-16	300,000
	P&R tree and stump removal	#322-16	500,000
	W Newton Sq Rehab Project Design	#325-16	250,000
	Intersection Imprv Design Dedham/Nahanton	#324-16	75,000
	Police Fire Arms Range Improvement	#356-16	135,000
	Police Vehicle Replacement	#382-16	80,000
	Emerg Comm Infrastructure Improvement	#383-16	1,100,000
	W Newton Sq Rehab Project Design	#33-17	121,000
	DPW Salaries/Rental Vehicles	#34-17	750,000
	Walnut/Newtonville Str Improv	#57-17	400,000
			<u>\$4,561,000</u>
Overlay Surplus	Gath Pool Repairs	#55-17	\$ 200,000
			<u>\$ 200,000</u>
Debt Exclusions/Bond Premiums	Angier Bond Premium trans to capital fund	#355-16	\$ 261,366
	Bond Premium Receipts Reserved	#29-17	164,166
			<u>\$ 425,532</u>
Transfers from other Funds	Operation Access (Handicap Park enf)	#379-16	\$ 9,000
	Wells/Nahanton/ Winch Traffic	#14-17	67,500
	NCAC HD Upgrade	#53-17	48,984
	Zervas Student Transportation	#381-16	405,900
		<u>\$ 531,384</u>	
Total FY 2017 by Source			<u>\$5,987,636</u>