

**City of Newton, Massachusetts
General Fund
Fiscal Year 2021 Budget Analysis**

Introduction

The purpose of this document is to provide a summary level financial analysis of the Mayor’s recommended FY 2021 **General Fund** budget dated May 11, 2020. This report is intended to supplement the information contained in the budget document.

Budget Summary

The Mayor’s recommended General Fund budget for FY 2021 is \$439.5 million – \$9.3 million or 2.2% greater than the *original* current year FY 2020 budget. The amended budget for FY 2020 of \$436.4 million includes approved City Council orders through April 30, 2020. The Mayor’s recommended 2021 budget is \$3.1 million or 0.7% more than the current year *amended* budget. Due to the financial impact of the COVID-19 outbreak which commenced in early calendar year 2020, several accounts are expected to decrease as compared to the FY 2020 amended budget. *One year ago, the Mayor’s recommended 2020 budget was \$12.7 million, or 3% more than the FY 2019 amended budget at this time last year.* The following table includes a year- by-year summary of growth in original and final amended budgets from 2011 to 2019, with average annual increases of 4.1% and 4.2%, respectively.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2021	\$ 439,539,447	9,255,066	2.2%			
2020	430,284,381	17,770,992	4.3%	436,417,792	12,451,615	2.9%
2019	412,513,389	17,199,652	4.4%	423,966,177	13,358,150	3.3%
2018	395,313,737	16,344,493	4.3%	410,608,027	17,858,759	4.5%
2017	378,969,244	16,971,980	4.7%	392,749,268	22,710,926	6.1%
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%

The following two tables summarize the nature of amendments to the original budget for fiscal years 2020 and 2019. 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 through April 30, 2020, contained in the FY 2020 supplemental appropriations.

Supplemental Appropriations by Purpose

	FY 2020 YTD	FY 2019 Actual
Street Improvements	\$ 3,329,250	\$ 6,642,411
Capital outlay & improvements	624,800	2,375,000
All other - Municipal	1,475,786	1,416,573
Newton Public schools	703,575	28,804
Snow & ice control (including capital)	-	750,000
Rainy Day Fund contribution	-	240,000
Total supplemental appropriations	\$ 6,133,411	\$ 11,452,788

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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 2020.

Supplemental Appropriations by Source

	<u>FY 2020 YTD</u>	<u>FY 2019 Actual</u>
Free cash	\$ 5,676,575	\$ 8,155,765
Overlay surplus	-	1,750,000
Transfers from other Funds	365,297	1,521,579
Revenue	91,539	25,444
Total supplemental appropriations	<u>\$ 6,133,411</u>	<u>\$ 11,452,788</u>

The following table summarizes the major components of the Mayor's recommended FY 2021 revenue budget along with the dollar and percentage change from the current year **amended** budget. *The fiscal year 2021 revenue budget of \$439.5 million would have been \$9.6 million higher if not for the projected financial impacts of the COVID-19 outbreak.*

FY 2021 Budget Financing Plan (Revenue)

	2021 Budget Recommended	%	2020 Budget (as amended) {1}	\$ Change from 2020 Amended Budget	% Change from 2020 Amended Budget
Property taxes (net of abatement reserve)	\$ 371,405,459	84.5%	\$ 356,245,085	\$ 15,160,374	4.3%
Motor excise taxes	12,500,000	2.8%	13,500,000	(1,000,000)	-7.4%
Hotel/motel room occupancy tax	1,000,000	0.2%	2,500,000	(1,500,000)	-60.0%
Meals tax	1,000,000	0.2%	1,900,000	(900,000)	-47.4%
In lieu of tax payments	375,000	0.1%	360,000	15,000	4.2%
Interest & penalties	1,190,000	0.3%	1,290,000	(100,000)	-7.8%
Total Taxes	387,470,459	88.2%	375,795,085	11,675,374	3.1%
Charges for service	2,779,600	0.6%	3,691,783	(912,183)	-24.7%
Fines & forfeitures	895,000	0.2%	1,595,000	(700,000)	-43.9%
Licenses & permits	7,011,325	1.6%	7,583,300	(571,975)	-7.5%
Investment income	300,000	0.1%	1,745,064	(1,445,064)	-82.8%
Other local revenue	357,250	0.1%	100,000	257,250	257.3%
Total non-tax local revenue	11,343,175	2.6%	14,715,147	(3,371,972)	-22.9%
Cherry sheet aid	30,580,991	7.0%	31,314,052	(733,061)	-2.3%
Other state & federal aid	910,000	0.2%	1,660,000	(750,000)	-45.2%
Total Intergovernmental aid	31,490,991	7.2%	32,974,052	(1,483,061)	-4.5%
Transfers from other funds	5,127,600	1.2%	11,028,572	(5,900,972)	-53.5%
Fund balance	4,107,222	0.9%	1,904,936	2,202,286	115.6%
Total General Fund Revenue Budget	<u>\$ 439,539,447</u>	<u>100.0%</u>	<u>\$ 436,417,792</u>	<u>\$ 3,121,655</u>	<u>0.7%</u>

{1} 2020 Budget excludes continued appropriations from 6/30/2019.

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Property taxes: The following is a comparison of the budgeted tax levy for FY 2021 and the actual levy for FY 2020.

Budgeted and Actual Tax Levies

	2021 Budget	2020 Actual
Prior year levy limit	\$ 358,155,776	\$ 343,951,137
2.5% annual increase	8,953,894	8,598,778
New growth	4,600,000	5,605,861
Debt exclusion debt service	3,520,402	3,336,395
Overlay (abatements & exemptions)	(3,824,613)	(5,215,704)
Unused levy capacity	-	(31,382)
Net tax levy	\$ 371,405,459	\$ 356,245,085

Motor excise tax: The 2021 budget of \$12.5 million is \$1.0 million less than the current year revenue estimate. Revenue collections for fiscal year 2019 and the prior fiscal year were \$13.7 million and \$13.5 million, respectively. FY 2020 year to date collections are \$11.0 million, or 81% of the annual budget. Current year auto excise tax billings of \$12.1 million are \$180,000 or 1.5% more than the total amount billed at this time last year; 192 fewer invoices have been mailed this year.

Licenses & permits: The 2021 budget of \$7.0 million includes a \$572,000 or 8% decrease over last year's budget; nearly 90% of licenses and permits revenue stems from building and utility permits within the Inspectional Services department. FY 2020 Inspectional Services department revenue is significantly higher than budget, with the first nine months of the year at \$8.9 million, an increase of \$2.4 million, or 37% higher than plan. This trend is not expected to continue in times of economic adversity.

Intergovernmental: The Mayor's fiscal year 2021 cherry sheet local aid revenue estimate is \$30.6 million - \$700,000, or 2.3% less than the current year budget. The state is not expected to finalize the FY 2021 budget until June or July of 2020. Non-cherry sheet state and federal aid, primarily Special Education Medicaid and Medicare Part D reimbursements, is estimated at \$900,000, or 45% less than the current budget.

Transfers from other funds: The 2021 budget anticipates \$5.1 million in inter-fund transfer financing for the General Fund including \$4.3 million from Water, Sewer and Stormwater Funds; \$350,000 from the Cable Franchise Administrative Fund; \$100,000 from the Capital Stabilization Fund; and \$367,000 from various Receipts Reserved for Appropriation.

Fund balance: The recommended 2021 budget is balanced using \$4.1 million in fund balance, consisting of \$4.0 million in available free cash, and \$107,000 representing the Massachusetts School Building Authority (MSBA) project reimbursements for past North and South High School project debt service. The total amount of fund balance is \$2.2 million more than the FY 2020 budget due to the use of more free cash. The use of \$4.1 million of fund balance is 0.9% of the total financing plan for the budget.

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The following table summarizes the major components of the Mayor’s recommended 2021 budget, along with dollar and percentage changes from the current budget, as amended. The Mayor’s FY 2021 Recommended Budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2021 Recommended Annual Appropriations (Expense)

	2021 Budget Recommended	% Total	2020 Budget (Amended) {1}	\$ Change from 2020 Amended Budget (1)	% Change from 2020 Amended Budget
Newton Public Schools	\$ 243,145,343	55%	\$ 237,075,887	\$ 6,069,456	2.6%
Municipal Departments					
Salaries & wages	76,537,074	17%	73,616,585	2,920,489	4%
Benefits (excluding retirees)	13,142,914	3%	12,986,762	156,152	1%
Workers compensation	800,000	0.2%	800,000	-	0.0%
Capital outlay & equipment	810,000	0.2%	2,064,300	(1,254,300)	-61%
All other	26,254,595	6%	30,705,175	(4,450,580)	-14%
Total Municipal Departments	117,544,583	27%	120,172,822	(2,628,239)	-2%
Budget reserve (including snow & ice)	4,000,000	0.9%	6,246,626	(2,246,626)	-36%
Retirement (including health benefits)	43,362,345	10%	41,817,879	1,544,466	4%
Transfer to other funds	-	0%	150,000	(150,000)	-100%
Debt & interest	25,116,601	6%	24,488,102	628,499	3%
State assessments	6,370,575	1%	6,466,476	(95,901)	-1%
Total General Fund appropriations	\$ 439,539,447	100%	\$ 436,417,792	\$ 3,121,656	0.7%

(1) 2020 Amended Budget excludes continued appropriations from 6/30/2019.

Newton Public Schools: The recommended \$243.1 million appropriation for the support of the Newton Public Schools represents an increase of \$6.1 million or 2.6% over the current year budget, as amended. This sum includes all funds designated as transfers to other funds, specifically workers compensation, the school athletics program and food service. The total school appropriation does not, however, include \$33.3 million which is included in other categories of the municipal budget, specifically for the following: school project debt service of \$18.9 million; pension funding and retiree health care for school participants in the Newton Contributory Retirement System of \$8.4 million; school health services of \$2.7 million; administrative expenses of \$1.6 million; school crossing guards of \$525,000; school property insurance of \$440,000; and school building water and sewer charges of \$750,000.

Municipal Salaries and Wages: Funding for non-union employees and for approved collective bargaining agreements are included in each department’s personnel appropriation. A \$2.0 million salary/wage reserve is included in the Comptroller’s budget. The recommended salary and wage budget has an increase of 4.5 new municipal positions offset by the elimination of 11.0 positions, all of which are currently vacant. The total fiscal year 2021 recommended salary and wage appropriation of \$76.5 million is \$2.9 million higher than the amended fiscal year 2020 budget, a variance of 4.0%.

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Employee Benefits: The 2021 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 2021 benefits budget of \$13.1 million is 17.0% of recommended municipal salaries and wages. The amount budgeted for 2021 active employee health insurance benefits is \$10.9 million, the same 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 31, 2020, the City’s Group Health Self-Insurance Fund had reserves totaling \$13.0 million, the equivalent of 10 weeks 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 in excess of the amount anticipated in annual premiums.

Workers Compensation: The City’s 2021 contribution to the cost of the self-insured workers compensation benefit program is funded at \$800,000, the same as the amount included in the current year budget. As of March 31, 2020, the Workers Compensation Fund has assets of \$13.0 million, accrued liabilities of \$9.3 million, and a positive fund balance of \$3.7 million. The fund balance at this time last year was \$5.3 million. A total of \$150,000 of the 2021 workers compensation appropriation is earmarked for medical bills for injured on duty police and fire personnel and the remaining \$650,000 is for statutory workers compensation benefit obligations.

Snow & Ice: The following table summarizes snow and ice control expenditures for fiscal year 2020 (year-to-date) and the four prior fiscal years. The median annual expenditure for snow and ice control from FY 2016 through FY 2020 is \$5.0 million; the average over the five years is \$4.7 million. The fiscal year 2021 recommended budget includes a total of \$4.5 million for snow and ice control, including \$3.0 million in the Department of Public Works budget, and another \$1.5 million in budget reserve to be transferred if needed by vote of the Mayor and City Council. The FY 2021 recommended budget is level-funded with FY 2020.

Snow and Ice Expenditure Trends

	2020 YTD	2019	2018	2017	2016
	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Salaries & wages	729,329	1,013,434	1,413,268	1,311,380	926,421
Private contractors	817,709	2,356,893	3,070,411	2,301,669	1,420,600
Sand & salt	523,516	669,481	941,179	1,292,375	949,179
Capital equipment	-	197,570	149,925	163,470	8,795
All other	683,805	776,717	988,990	417,957	344,684
Total snow & ice expenditures	\$ 2,754,359	\$ 5,014,095	\$ 6,563,773	\$ 5,486,851	\$ 3,649,680

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Capital Outlay and Equipment: A total of \$810,000 is included in the 2021 budget for capital outlay and equipment as compared to \$1.4 million one year ago. The following chart is a summary of the nature of the FY 2021 capital outlay appropriation recommendations as compared to FY 2020.

Capital Outlay and Equipment

	2021	2020	Change	
	<u>Recommended</u>	<u>Budget</u>	<u>2021 vs 2020</u>	<u>% Change</u>
Police vehicles	\$ 200,000	\$ 350,000	\$ (150,000)	-43%
Public Works vehicles	200,000	350,000	(150,000)	-43%
Building improvements	150,000	200,000	(50,000)	-25%
Playground Equipment	-	150,000	(150,000)	-100%
Computer hardware & software	106,000	125,000	(19,000)	-15%
Public Safety communications equipment	40,000	100,000	(60,000)	-60%
Fire vehicles	-	60,000	(60,000)	-100%
Other Public Safety equipment	84,000	48,000	36,000	75%
Conservation land improvements	25,000	25,000	-	0%
Newton Public Library hardware	-	12,500	(12,500)	-100%
Public Works other equipment	-	10,000	(10,000)	-100%
Elections/Clerk's Office equipment/furniture	5,000	9,000	(4,000)	-44%
Total Capital Outlay and Equipment	\$ 810,000	\$ 1,439,500	\$ (629,500)	-44%

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 2021 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for fiscal year 2020 year-to-date and the three prior fiscal years.

Legal Settlement Expenditure Trends

	2020 YTD	2019	2018	2017
	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>	<u>Expended</u>
Claims & settlements	\$ 37,159	\$ 157,271	\$ 102,852	\$ 151,809

Energy and Utilities: The total budget for energy and utilities is \$3.5 million, a net increase of \$143,000 (4%) as compared to the current year's budget. Decreases in water and sewer (-\$34,000) and heating oil (-\$11,000) are more than offset by increases in gasoline and diesel (\$105,000), electricity (\$67,000), and natural gas (\$16,000). All school utilities except for water and sewer are included in the school department budget. The following table compares the recommended 2021 budget to the current year budget and to actual expenditures for the three prior fiscal years.

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Energy and Utilities Expenditure Trends

	2021	2020	2019	2018	2017
	Recommended	Budget	Expended	Expended	Expended
Water & sewer	\$ 1,119,250	\$ 1,153,292	\$ 1,086,431	\$ 1,041,379	\$ 1,023,320
Electricity	1,316,700	1,249,776	1,262,363	1,253,540	935,739
Natural gas	389,000	373,055	419,605	405,592	392,629
Gasoline	404,175	319,330	422,817	323,924	270,840
Diesel	242,500	222,245	243,635	213,058	191,710
Heating oil	47,500	58,400	66,665	48,571	41,113
Total Energy and Utilities	\$ 3,519,125	\$ 3,376,098	\$ 3,501,516	\$ 3,286,064	\$ 2,855,351

Budget Reserve: The 2021 budget includes a \$2.0 million budget reserve including \$500,000 for extraordinary and unforeseen purposes and \$1.5 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 \$3.5 million for the budget reserve, \$2.4 million of which has been either transferred or obligated to date.

Retirement: The retirement and retiree health benefit appropriation of \$43.4 million has increased by \$1.5 million or 4.0% from the current year budget. The City’s fiscal year 2021 general fund actuarially required contribution to the defined benefit pension plan is \$30.8 million, or 71% of the total retirement appropriation. This contribution represents a \$1.4 million or 4.8% increase over the current year appropriation; the contribution includes a one-time adjustment to the funding schedule whereby the Newton Retirement Board voted to accept a proposed reduction of \$1.4 million in the FY 2021 budget.

The 2021 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the January 1, 2019 actuarial valuation of plan assets and liabilities and is intended to achieve full actuarial funding of pension benefit obligations by fiscal year 2030. The one-time adjustment to the funding schedule for FY 2021 does not change the planned full funding date of 2030. Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$47,700 for fiscal year 2021, a decrease of \$15,000.

FY 2021 retiree health and life benefit appropriations are \$12.5 million, or \$200,000 (2.0%) more than the current year budget; this account is for the pay-as-you-go funding requirement for retiree health benefits. The City’s FY 2021 budget also includes fund contributions of \$699,000 to Other Post-Employment Benefits (OPEB retiree health insurance). Similarly, the school budget includes \$2.5 million for Other Post-Employment Benefits, bringing the total OPEB fund contribution budget to \$3.2 million. The March 31, 2020 fund balance of the City’s OPEB trust was \$13.2 million and the actuarial value of accrued retiree health benefits at June 30, 2019 was \$687.6 million.

Transfer to the Rainy Day Stabilization fund: The fiscal year 2021 appropriation does not include a contribution to the City’s Rainy Day Fund; one year ago, the contribution was \$150,000. With a current balance of \$21.9 million, the fund is equivalent to the required value of 5% of the total operating budget. The requested FY 2021 budget does not use any of the rainy day funds to close the gap in anticipated revenues because of the economic impact of the global pandemic.

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Debt service: The fiscal year 2021 appropriation for bond maturities and interest totals \$25.1 million, or 6.0% of the budget. The fiscal year 2021 debt service budget is \$629,000 (3.0%) greater than the current year debt service budget and includes \$3.5 million in debt service for the Angier and Cabot elementary school debt exclusion projects. Total bonded debt was \$343.6 million at April 30, 2020, including \$308.5 million for the general fund, and \$35.1 million for water, sewer and stormwater. Total bonded debt is approximately one fifth of the City's statutory debt limit.

State assessments: The fiscal year 2021 budget includes an estimate of \$6.4 million for state assessments, principally MBTA service.

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Appendix A: FY2020 Supplemental Appropriations as of April 30, 2020

FY20 by Purpose	Description	CO#	Amount
Street Improvements	Accelerated Roads Program	418-19	\$ 3,000,000
	Commonwealth Avenue Greening Imprv	419-19	\$ 200,000
	Wells/Nahanton Signals & Intersection Improvements	444-19	\$ 129,250
			\$ 3,329,250
Capital Outlay & Improvements	Two Trash Compactors- Rumford Ave	390-19	\$ 88,000
	Police HQ- Boiler Replacement	388-19	\$ 86,800
	687 Washington Street - Site Remediation	443-19	\$ 300,000
	Horace Mann Improvements	197-20	\$ 150,000
			\$ 624,800
Newton Public Schools	Homeless Student Transportation	377-19	\$ 11,706
	E-Rate Tech Program	82-20	\$ 41,869
	Costs of Moving Horace Mann to Carr	201-20	\$ 650,000
			\$ 703,575
All other- Municipal	Bond Premiums to pay issuance costs	N/A	\$ 144,247
	Fire Department Expenses- Emergency Ops COVID	199-20	\$ 250,000
	Fire Department Full-Time Salaries	87-20	\$ 900,000
	Revise state assessments to final cherry sheet	tax recap	\$ 91,539
	Operation Access (handicap parking enforcement)	382-19	\$ 5,000
	State Income Tax 2018 Penalties	421-19	\$ 85,000
			\$ 1,475,786
Total FY 2020 by Purpose			\$ 6,133,411

FY20 by Source	Description	CO#	Amount
Revenue	Revise state assessments to final cherry sheet	tax recap	\$ 91,539
			\$ 91,539
Free Cash	State Income Tax 2018 Penalties	421-19	\$ 85,000
	Two Trash Compactors- Rumford Ave	390-19	\$ 88,000
	Accelerated Roads Program	418-19	\$ 3,000,000
	Commonwealth Avenue Greening Improvement	419-19	\$ 200,000
	E-Rate Tech Program	82-20	\$ 41,869
	Fire Department Full-Time Salaries	87-20	\$ 900,000
	687 Washington Street - Site Remediation	443-19	\$ 300,000
	Costs of Moving Horace Mann to Carr	201-20	\$ 650,000
	Fire Department Expenses- Emergency Ops COVID	199-20	\$ 250,000
	Horace Mann Improvements	197-20	\$ 150,000
	Homeless Student Transportation	377-19	\$ 11,706
			\$ 5,676,575
Transfers from other Funds	Police HQ- Boiler Replacement	388-19	\$ 86,800
	Wells/Nahanton Signals & Intersection Improvements	444-19	\$ 129,250
	Bond Premiums to pay issuance costs	N/A	\$ 144,247
	Operation Access (handicap parking enforcement)	382-19	\$ 5,000
		\$ 365,297	
Total FY 2020 by Source			\$ 6,133,411