

**City of Newton, Massachusetts
General Fund
Fiscal Year 2022 Budget Analysis**

Introduction

The purpose of this document is to provide a summary level financial analysis of the Mayor’s recommended FY 2022 **General Fund** budget dated May 12, 2021. This report is intended to supplement the information contained in the budget document.

Budget Summary

The Mayor’s recommended General Fund budget for FY 2022 is \$462.7 million – \$23.1 million or 5.3% greater than the **original** current year FY 2021 budget. The recommended General Fund budget includes \$4.6 million from the federal American Rescue Plan Act of 2021 (ARPA). *One year ago, the uncertain financial impact of COVID-19 lead to a smaller \$3.2 million (0.7%) increase in the Mayor’s recommended FY 2021 budget compared to the prior year.* The Mayor’s recommended 2022 budget of \$462.7 million is \$21.1 million or 4.8% more than the current year **amended** budget. The amended budget for FY 2021 of \$441.6 million includes approved General Fund City Council Orders through April 30, 2021. The following table includes a year- by-year summary of growth in original and final amended budgets from 2012 to 2020, with average annual increases of 4.4% and 4.3%, respectively.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2022	\$ 462,669,539	23,130,092	5.3%			
2021	439,539,447	9,255,066	2.2%	441,618,239	3,237,122	0.7%
2020	430,284,381	17,770,992	4.3%	438,381,117	14,414,940	3.4%
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%

The following two tables summarize the nature of amendments to the original budget for fiscal years 2020 and 2021. 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, 2021, contained in the FY 2021 supplemental appropriations.

General Fund Supplemental Appropriations by Purpose

	FY 2021 YTD	FY 2020 Actual
Capital outlay & improvements	\$ 1,893,285	\$ 538,000
All other - Municipal	162,049	2,645,786
Newton Public Schools	23,458	703,575
Street Improvements	-	3,329,250
Snow & ice control (including capital)	-	880,125
Total supplemental appropriations	\$ 2,078,792	\$ 8,096,736

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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 2021.

General Fund Supplemental Appropriations by Source

	<u>FY 2021 YTD</u>	<u>FY 2020 Actual</u>
Free cash	\$ 1,660,743	\$ 6,846,575
Transfers from other Funds	256,000	1,158,622
Revenue	162,049	91,539
Total supplemental appropriations	\$ 2,078,792	\$ 8,096,736

The following table summarizes the major components of the Mayor's recommended FY 2022 revenue budget along with the dollar and percentage change from the current year **amended** budget. FY 2022 ARPA funds of \$4.6 million are included in the *Transfers from other funds* category.

FY 2022 Budget Financing Plan (Revenue)

	2022 Budget	%	2021 Budget	\$ Change	% Change
	Recommended	Total	(as amended) {1}	from 2021 Amended Budget	from 2021 Amended Budget
Property taxes (net of abatement reserve)	\$ 388,631,112	84.0%	\$ 371,081,604	\$ 17,549,508	4.7%
Motor excise taxes	12,500,000	2.7%	12,500,000	-	0.0%
Hotel/motel room occupancy tax	450,000	0.1%	1,000,000	(550,000)	-55.0%
Meals tax	1,550,000	0.3%	1,000,000	550,000	55.0%
In lieu of tax payments	335,000	0.1%	375,000	(40,000)	-10.7%
Interest & penalties	1,355,000	0.3%	1,190,000	165,000	13.9%
Cannabis State Tax	350,000	0.1%	125,000	225,000	180.0%
Total Taxes	405,171,112	87.6%	387,271,604	17,899,508	4.6%
Charges for service	3,534,753	0.8%	3,336,850	197,903	5.9%
Fines & forfeitures	850,000	0.2%	895,000	(45,000)	-5.0%
Licenses & permits	8,107,725	1.8%	6,498,847	1,608,878	24.8%
Investment income	300,000	0.1%	300,000	-	0.0%
Other local revenue	258,506	0.1%	75,000	183,506	244.7%
Total non-tax local revenue	13,050,984	2.8%	11,105,697	1,945,287	17.5%
Cherry sheet aid	31,950,852	6.9%	31,369,050	581,802	1.9%
Other state & federal aid	1,020,719	0.2%	720,323	300,396	41.7%
Total Intergovernmental aid	32,971,571	7.1%	32,089,373	882,198	2.7%
Transfers from other funds	9,866,695	2.1%	5,383,600	4,483,095	83.3%
Fund balance	1,609,177	0.3%	5,767,965	(4,158,788)	-72.1%
Total General Fund Revenue Budget	\$ 462,669,539	100.0%	\$ 441,618,239	\$ 21,051,300	4.8%

{1} 2021 Budget excludes continued appropriations from 6/30/2020.

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Property taxes: The following is a comparison of the budgeted tax levy for FY 2022 and the actual levy for FY 2021. The FY 2022 budgeted net tax levy of \$388.6 million represents 84% of all recommended revenues; this is the *Property taxes* category in the revenue budget.

Budgeted and Actual Tax Levies

	2022 Budget	2021 Actual
Prior year levy limit	\$ 373,675,762	\$ 358,256,799
2.5% annual increase	9,341,894	8,956,420
New growth	4,784,109	6,462,543
Debt exclusion debt service	3,129,348	3,139,766
Overlay (abatements & exemptions)	(2,300,000)	(5,639,215)
Unused levy capacity	-	94,709
Net tax levy	\$ 388,631,112	\$ 371,271,021

Motor excise tax: The 2022 budget of \$12.5 million is the same as the current year revenue estimate. Revenue collections for fiscal year 2020 and the prior fiscal year were \$13.0 million and \$13.7 million, respectively. FY 2021 year to date collections through April 30, 2021 are \$11.2 million, or 90% of the annual budget. Current year auto excise tax billings of \$9.9 million are \$992,000 or 9% less than the total amount billed at a comparable point last year; 2,658 fewer invoices have been mailed so far this year.

Licenses & permits: The 2022 budget of \$8.1 million includes a \$1.6 million or 25% increase over last year's budget; 86% of licenses and permits revenue stems from building and utility permits within the Inspectional Services department. FY 2021 Inspectional Services department revenue through April 2021 is \$5.9 million of the \$6.8 million in total licenses and permits received. The \$6.8 million is already in excess of the FY 2021 budget.

Intergovernmental: The Mayor's fiscal year 2022 cherry sheet local aid revenue estimate of \$32.0 million is \$582,000, or 2.0% more than the current year budget. The state is not expected to finalize the FY 2022 budget until June or July of 2021. Non-cherry sheet state and federal aid, primarily Special Education Medicaid and Medicare Part D reimbursements, is estimated at \$1.0 million, or 42% more than the current budget.

Transfers from other funds: The 2022 budget anticipates \$9.9 million in inter-fund transfer financing for the General Fund including \$4.6 million from the federal American Rescue Plan Act of 2021, \$4.5 million from Water, Sewer and Stormwater Funds; \$350,000 from the Cable Franchise Administrative Fund; and \$452,000 from various Receipts Reserved for Appropriation.

Fund balance: The recommended 2022 budget is balanced using \$1.6 million in fund balance, consisting of \$1.5 million in available free cash, and \$109,177 representing the Massachusetts School Building Authority (MSBA) project reimbursements for past North and South High School project debt service. The use of \$1.6 million of fund balance is 0.3% of the total financing plan for the budget.

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The following table summarizes the major components of the Mayor’s recommended 2022 budget, along with dollar and percentage changes from the current budget, as amended. The Mayor’s FY 2022 Recommended Budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2022 Recommended Annual Appropriations (Expense)

	2022 Budget Recommended	% Total	2021 Budget (Amended) {1}	\$ Change from 2021 Amended Budget (1)	% Change from 2021 Amended Budget
Newton Public Schools	\$ 253,207,930	55%	\$ 242,830,343	\$ 10,377,587	4%
Municipal Departments					
Salaries & wages	78,119,245	17%	75,437,073	2,682,172	4%
Benefits (excluding retirees)	13,437,471	3%	13,142,915	294,556	2%
Workers compensation	800,000	0.2%	800,000	-	0%
Capital outlay & equipment	1,525,000	0.3%	626,000	899,000	144%
All other	31,651,130	7%	31,470,337	180,793	1%
Total Municipal Departments	125,532,846	27%	121,476,325	4,056,521	3%
Budget reserve (including snow & ice)	4,636,500	1.0%	2,172,400	2,464,100	113%
Retirement (including health benefits)	48,152,428	10%	43,362,345	4,790,083	11%
Transfer to other funds	-	0%	127,600	(127,600)	-100%
Debt & interest	24,571,953	5%	25,116,601	(544,648)	-2%
State assessments	6,567,883	1%	6,532,624	35,259	1%
Total General Fund appropriations	\$ 462,669,539	100%	\$ 441,618,239	\$ 21,051,300	4.8%

(1) 2021 Amended Budget excludes continued appropriations from 6/30/2020.

Newton Public Schools: The recommended \$253.2 million appropriation for the support of the Newton Public Schools represents an increase of \$10.4 million or 4.0% 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 approximately \$34.3 million which is included in other categories of the municipal budget, specifically for the following: school project debt service of \$18.8 million; pension funding and retiree health care for school participants in the Newton Contributory Retirement System of \$9.4 million; school health services of \$2.9 million; administrative expenses of \$1.5 million; school crossing guards of \$523,000; school property insurance of \$532,000; and school building water and sewer charges of \$675,000.

Municipal Salaries and Wages: Funding for non-union employees and for approved collective bargaining agreements are included in each department’s personnel appropriation. A \$2.6 million salary/wage reserve is included in the Comptroller’s budget. The total fiscal year 2022 recommended salary and wage appropriation of \$78.1 million is \$2.7 million higher than the amended fiscal year 2021 budget, a variance of 4.0%. The 2022 recommended salary and wage budget has a net increase of 6.04 FTE citywide.

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Employee Benefits: The 2022 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 2022 benefits budget of \$13.4 million is 15.0% of recommended municipal salaries and wages. The amount budgeted for 2022 active employee health insurance benefits is \$11.9 million, or \$1.0 million more than 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, 2021, the City’s Group Health Self-Insurance Fund had reserves totaling \$19.1 million, the equivalent of 16 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 2022 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, 2021, the Workers Compensation Fund has assets of \$18.2 million, accrued liabilities of \$8.3 million, and a positive fund balance of \$9.9 million. The fund balance at this time last year was \$3.7 million. A total of \$150,000 of the 2022 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 the FY 2022 budget for snow and ice control as well as expenditures for fiscal year 2021 (year-to-date) and the four prior fiscal years. The median annual expenditure for snow and ice control from FY 2017 through FY 2021 is \$5.0 million; the average over the five years is \$4.7 million. The fiscal year 2022 recommended budget includes a total of \$3.3 million for snow and ice control, including \$1.75 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.

Snow and Ice Expenditure Trends

	2022 <u>Recommended</u>	2021 YTD <u>Expended</u>	2020 <u>Expended</u>	2019 <u>Expended</u>	2018 <u>Expended</u>	2017 <u>Expended</u>
Salaries & wages	950,000	1,045,801	736,246	1,013,434	1,413,268	1,311,380
Private contractors	1,300,000	903,681	1,241,790	2,356,893	3,070,411	2,301,669
Sand & salt	400,000	394,166	523,517	669,481	941,179	1,292,375
Capital equipment	-	-	-	197,570	149,925	163,470
All other	600,000	721,047	723,296	776,717	988,990	417,957
Total snow & ice expenditures	\$ 3,250,000	\$ 3,064,695	\$ 3,224,849	\$ 5,014,095	\$ 6,563,773	\$ 5,486,851

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Capital Outlay and Equipment: A total of \$2.1 million is included in the 2022 budget for capital outlay and equipment as compared to \$610,000 one year ago with the financial uncertainty of COVID-19. The following chart is a summary of the nature of the FY 2022 capital outlay appropriation budget as compared to FY 2021, illustrating the categories of the \$1.5 million year-over-year increase.

Capital Outlay and Equipment

	2022	2021	Change	
	Recommended	Budget	2021 vs 2020	% Change
Public Works other equipment	\$ 655,000	\$ -	\$ 655,000	100%
Public Works vehicles	600,000	200,000	400,000	200%
Police vehicles	350,000	-	350,000	100%
Building improvements	250,000	150,000	100,000	67%
Computer hardware & software	106,000	106,000	-	0%
Public Safety communications equipment	100,000	40,000	60,000	150%
Other Public Safety equipment	44,000	84,000	(40,000)	-48%
Conservation land improvements	25,000	25,000	-	0%
Elections/Clerk's Office equipment/furniture	5,000	5,000	-	0%
CPA- Administrative software/audio	1,000	-	1,000	100%
Total Capital Outlay and Equipment	\$ 2,136,000	\$ 610,000	\$ 1,526,000	250%

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 2022 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for fiscal year 2021 year-to-date and the three prior fiscal years.

Legal Settlement Expenditure Trends

	2022	2021 YTD	2020	2019	2018
	Recommended	Expended	Expended	Expended	Expended
Claims & settlements	\$ 100,000	\$ 120,867	\$ 470,867	\$ 368,203	\$ 102,852

Energy and Utilities: The total budget for energy and utilities is \$3.9 million, a net increase of \$384,000 (11%) as compared to the current year's budget; 83% (\$317,000) of the total increase is projected in electricity. Other increases in diesel (\$45,000), natural gas (\$18,000) and heating oil and gasoline (\$11,000) more than offset a small projected decrease in water and sewer (\$5,800). Rates in water and sewer will not increase in FY 2022. All school utilities except for water and sewer are included in the school department budget. The following table compares the recommended 2022 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

	2022	2021	2020	2019	2018
	Recommended	Budget	Expended	Expended	Expended
Water & sewer	\$ 1,126,500	\$ 1,132,250	\$ 1,091,356	\$ 1,086,431	\$ 1,041,379
Electricity	1,633,500	1,316,700	1,327,050	1,262,363	1,253,540
Natural gas	407,000	389,000	375,993	419,605	405,592
Gasoline	409,475	404,175	259,198	422,817	323,924
Diesel	287,100	242,500	179,961	243,635	213,058
Heating oil	53,000	47,500	58,277	66,665	48,571
Total Energy and Utilities	\$ 3,916,575	\$ 3,532,125	\$ 3,291,835	\$ 3,501,516	\$ 3,286,064

Budget Reserve: The 2022 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 \$1.9 million for the budget reserve, most of which has been either transferred or obligated to date.

Retirement: The retirement and retiree health benefit appropriation of \$48.5 million has increased by \$5.1 million or 12.0% from the current year budget. The City's fiscal year 2022 general fund actuarially required contribution to the defined benefit pension plan is \$35.3 million, or 73.0% of the total retirement appropriation. The FY 2022 contribution represents a \$4.5 million or 14.6% increase over the current year appropriation; the current year FY 2021 appropriation included 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 required contribution schedule.

The 2022 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the January 1, 2020 actuarial valuation of plan assets and liabilities and is intended to achieve full actuarial funding of pension benefit obligations by fiscal year 2030. Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$48,060 for fiscal year 2022, an increase of \$360.

FY 2022 retiree health and life benefit appropriations are \$12.8 million, or \$300,000 (2.5%) 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 2022 budget also includes fund contributions of \$813,000 to Other Post-Employment Benefits (OPEB retiree health insurance). Similarly, the school budget includes \$2.7 million for Other Post-Employment Benefits, bringing the total OPEB fund contribution budget to \$3.5 million. The March 31, 2021 fund balance of the City's OPEB trust was \$20.4 million and the actuarial value of accrued retiree health benefits at June 30, 2019 was \$687.6 million.

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Transfer to the Rainy Day Stabilization fund: The fiscal year 2022 appropriation does not include a contribution to the City's Rainy Day Fund. As of May 2021, there is a pending council order in committee to transfer \$1.0 million from the June 30, 2020 Certified Free Cash to the Rainy Day Stabilization fund. This council order would raise the balance in the fund to the required value of 5% of the FY22 general fund operating budget, or \$23.1 million.

Debt service: The fiscal year 2022 appropriation for bond maturities and interest totals \$24.6 million, or 5.0% of the budget. The fiscal year 2022 debt service budget is \$545,000 (2.0%) less than the current year debt service budget and includes \$3.1 million in debt service for the Angier and Cabot elementary school debt exclusion projects. Total bonded debt was \$329.9 million at March 31, 2021, including \$279.6 million for the general fund, and \$50.3 million for water, sewer, stormwater, and the Community Preservation Fund. Total bonded debt is less than one fifth of the City's statutory debt limit.

State assessments: The fiscal year 2022 budget includes an estimate of \$6.6 million for state assessments, principally MBTA service.

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Appendix A: FY 2021 General Fund Supplemental Appropriations as of April 30, 2021

FY21 by Purpose	Description	CO#	Amount
Capital Outlay & Improvements	IT SAN and Firewall Replacement	515-20	\$ 500,000
	ISD Permit Management System	25-21	\$ 1,137,285
	Washington Street Fence - Lowell Ave to Walnut Street	39-21	\$ 256,000
			\$ 1,893,285
Newton Public Schools	Homeless Student Transportation	423-20	\$ 23,458
			\$ 23,458
All other- Municipal	Revise state assessments to final cherry sheet	tax recap	\$ 162,049
			\$ 162,049
Total FY 2021 by Purpose			\$ 2,078,792

FY21 by Source	Description	CO#	Amount
Revenue	Revise state assessments to final cherry sheet	tax recap	\$ 162,049
			\$ 162,049
Free Cash	Homeless Student Transportation	423-20	\$ 23,458
	IT SAN and Firewall Replacement	515-20	\$ 500,000
	ISD Permit Management System	25-21	\$ 1,137,285
			\$ 1,660,743
Transfers from other Funds	Washington Street Fence - Lowell Ave to Walnut Street	39-21	\$ 256,000
			\$ 256,000
Total FY 2021 by Source			\$ 2,078,792