

CITY OF NEWTON, MASSACHUSETTS
GENERAL FUND
FISCAL YEAR 2017 BUDGET ANALYSIS

INTRODUCTION

The purpose of this document is to provide a summary level financial analysis of the Mayor's recommended 2017 **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 2017 is \$379 million – \$17 million or 4.7% 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 4.1% and 4.0% respectively.

Fiscal Year	Original Budget	\$ Change Prior Year	% Change Prior Year	Amended Budget	\$ Change Prior Year	% Change Prior Year
2017	\$ 378,969,244	\$ 16,971,980	4.7%			
2016	361,997,264	16,778,700	4.9%	365,909,065	11,396,982	3.2%
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%
2007	\$ 255,163,241	\$ 12,730,564	5.3%	\$ 261,309,471	\$ 13,351,027	5.4%

The following table summarizes the nature of amendments to the original budget, for both fiscal years 2016 and 2015. Transfers from budget reserve are not considered to be amendments to the budget because they do not increase the total budget.

Supplemental Appropriations by Purpose

	FY 2016 YTD	FY 2015 Actual
Rainy Day Fund contribution	\$ 682,396	\$ 3,236,420
Snow & ice control (including capital)	-	4,125,000
Capital outlay & improvements	1,300,169	735,991
Newton Public schools	422,443	744,662
All other - Municipal	1,506,793	451,446
Total supplemental appropriations	\$ 3,911,801	\$ 9,293,519

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

	FY 2015 YTD	FY 2015 Actual
Revenue	\$ 63,600	\$ 752,503
Free cash	1,381,221	5,220,809
Overlay surplus	1,318,522	3,000,000
Debt exclusion bond premiums	369,024	98,964
Transfers from other Funds	779,434	221,243
Total supplemental appropriations	\$ 3,911,801	\$ 9,293,519

The Mayor's recommended 2017 budget is \$13.1 million or 3.6% more than the current year **amended** budget. The following table summarizes the major components of the recommended fiscal year 2017 budget financing plan along with the dollar and percentage change from the current year **amended** budget.

FY 2017 Budget Financing Plan

	2017 Budget Recommended	% Total	\$ Change from 2016 Amended Budget	% Change from 2016 Amended Budget
Property taxes (net of abatement reserve)	\$ 313,757,758	82.8%	\$ 14,353,479	4.8%
Motor excise taxes	13,103,000	3.5%	403,000	3.2%
Hotel/motel room occupancy tax	2,475,000	0.7%	75,000	3.1%
Meals tax	1,800,000	0.5%	-	0.0%
In lieu of tax payments	407,000	0.1%	(28,963)	-6.6%
Interest & penalties	1,150,000	0.3%	95,000	9.0%
Total Taxes	332,692,758	87.8%	14,897,516	4.7%
Charges for service	1,482,709	0.4%	(193,138)	-11.5%
Fines & forfeitures	1,596,000	0.4%	(95,000)	-5.6%
Licenses & permits	6,503,930	1.7%	588,267	9.9%
Investment income	225,000	0.1%	15,000	7.1%
Other local revenue	382,500	0.1%	(392,500)	-50.6%
Total non-tax local revenue	10,190,139	2.7%	(77,371)	-0.8%
Cherry sheet aid	26,486,136	7.0%	502,147	1.9%
Other state & federal aid	1,282,200	0.3%	(243,943)	-16.0%
Total Intergovernmental aid	27,768,336	7.3%	258,204	0.9%
Transfers from other funds	6,719,465	1.8%	1,047,679	18.5%
Fund balance	1,598,546	0.4%	(3,065,849)	-65.7%
Total General Fund Revenue Budget	\$ 378,969,244	100.0%	\$ 13,060,179	3.6%

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Property taxes: The following is a comparison of the budgeted tax levies for both fiscal year 2017 and the current fiscal year.

	2017 Budget	2016 Actual
Prior year levy limit	\$ 304,054,763	\$ 291,627,432
2.5% annual increase	7,601,369	7,290,686
New growth	4,000,000	5,136,645
Debt exclusion debt service	1,560,172	1,296,583
Overlay (abatements & exemptions)	(3,458,546)	(5,923,542)
Unused levy capacity	-	(23,525)
Net tax levy	<u>\$ 313,757,758</u>	<u>\$ 299,404,279</u>

The median annual tax collection rate over the last ten complete fiscal years is 99.6% during the original year of the levy and 100.4% thru March 31, 2016.

Motor excise tax: The budget assumes a \$403,000 or 3.2% increase in the current year revenue estimate. Revenue collections for fiscal year 2015 were \$12.4 million. Current year to date collections are \$11.1 million - 87.5% of the current year budget estimate and \$1.4 million or 14.7% higher than total collections for the first nine months of last fiscal year. Current year auto excise tax billings are \$899,543 or 9.6% greater than the total amount that had been billed at this same time last year.

Licenses & permits: The budget assumes a \$588,267 or 9.9% increase in this revenue source. Inspectional Services Department permit revenue, which is estimated to be \$5.5 million for fiscal year 2017, accounts for all of the increase in this revenue category. Total ISD permit revenue for the first nine months of the current year is \$5.1 million and the median annual collections for the trailing three complete fiscal years is \$5.8 million.

Intergovernmental: The mayor's fiscal year 2017 cherry sheet local aid revenue estimate is \$26.5 million - \$0.5 million or 1.9% greater than the current year, and the amount recommended in the Governor's FY 2017 local aid budget. Non cherry sheet state and federal aid (principally SPED Medicaid and Medicare Part D reimbursements) is estimated at \$1.3 million.

Transfers from other funds: The 2017 budget anticipates \$6.7 million in inter-fund transfer financing for the General Fund (\$3.1 million in Utility Fund indirect cost reimbursements; \$1.5 million in Parking Meter Receipts; \$1.4 million in Capital Stabilization Fund funding for fire station and Zervas debt service requirements; and \$0.7 million in various Receipts Reserved for Appropriation).

Fund balance: The recommended 2017 budget is balanced using \$1.6 million in fund balance, of which \$1.5 million represents available free cash, and the remainder represents Massachusetts School Building Authority (MSBA) project reimbursements

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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 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 2017 budget, along with dollar and percentage changes from the current budget, as amended. The Mayor's FY 2017 Recommended Budget document provides a programmatic description of changes in municipal department budgets.

Fiscal Year 2017 Recommended Annual Appropriations

	2017 Budget	%	\$ Change	% Change
	Recommended	Total	from 2016 Amended Budget	from 2016 Amended Budget
Newton Public Schools	\$ 211,177,825	55.7%	\$ 7,044,470	3.5%
Municipal Departments				
Salaries & wages	66,370,702	17.5%	2,431,961	3.8%
Benefits (excluding retirees)	10,892,182	2.9%	435,438	4.2%
Workers compensation	900,000	0.2%	100,000	12.5%
Capital outlay & equipment	1,355,800	0.4%	(696,251)	-33.9%
All other	22,291,393	5.9%	(1,325,125)	-5.6%
Total Municipal Departments	101,810,077	26.9%	946,023	0.94%
Budget reserve (including snow & ice)	3,250,000	0.9%	2,965,998	n/a
Retirement (including health benefits)	33,898,393	8.9%	2,226,575	7.0%
Transfer to other funds	900,000	0.2%	(2,964,418)	-76.7%
Debt & interest	21,757,615	5.7%	2,692,898	14.1%
State assessments	6,175,334	1.6%	148,633	2.5%
Total General Fund appropriations	\$ 378,969,244	100.0%	\$ 13,060,179	3.6%

{1} 2016 Budget excludes continued appropriations from 6/30/2015.

Newton Public Schools: The recommended \$211.2 million appropriation for the support of the Newton Public Schools represents an increase of \$7 million or 3.5% 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

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of \$17.5 million; pension funding and retiree health care for school participants in the Newton Contributory Retirement System of \$6.7 million; school health services of \$2.2 million; school crossing guards of \$0.5 million; school property insurance \$0.4 million; and school building water and sewer charges of \$0.6 million, all of which are included within other categories 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. An \$805,375 salary/wage reserve is also included in the Comptroller's budget for open contracts. The recommended salary and wage appropriation also includes funding for 12.5 new municipal positions.

Total fiscal year 2017 recommended salary and wage appropriations of \$66.4 million represent a 3.8% increase over the amended fiscal year 2016 budget.

Employee Benefits: The 2017 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 2017 benefit budget amounts to 16.4% of recommended municipal salaries and wages.

The amount budgeted for 2017 active employee health insurance benefits is \$9.7 million, which is 4.4% 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, 2016, the City's Group Health Self-Insurance Fund had reserves totaling \$12.7 million, the equivalent of 2.8 months of 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 2017 contribution to the cost of the self insured workers compensation benefit program is funded at \$900,000 - \$100,000 more than the amount included in the current year budget. As of March 31, 2016 the Workers Compensation Fund has assets of \$10.9 million; accrued liabilities of \$8.4 million; and a positive fund balance of \$2.5 million. The fund balance at this time last year was \$11.3 million.

A total of \$150,000 of the 2017 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.

Capital outlay and equipment: A total of \$1.4 million is included in the 2017 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

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total includes supplemental capital outlay and equipment appropriations. A summary of the nature of the 2017 capital outlay appropriation recommendations is presented below:

Clerk's Office Equipment/Furniture	\$ 3,500
Elections furniture	5,000
Computer hardware & software	125,000
Conservation land improvements	25,000
Municipal building improvements	150,000
Public buildings vehicles	60,000
Other Public buildings equipment	9,500
Police vehicles	350,000
Fire vehicles	60,000
Public safety communications equipment	100,000
Other public safety equipment	55,000
Public works vehicles	150,000
Other public works equipment	46,800
Library equipment	6,000
Parks vehicles	60,000
Playground equipment	150,000
Total - capital outlay & equipment	<u>\$ 1,355,800</u>

All other: The \$1.3 million reduction in “*All other*” 2017 municipal appropriations is principally a result of the fact that the fiscal year 2016 budget includes \$1.6 million in supplemental appropriations for inclement weather related activities in the Public Works and Forestry cost centers of the City budget.

Snow & ice: The table below summarizes snow and ice control expenditures for fiscal year 2016 and the three prior fiscal years.

	2016 YTD Expended	2015 Expended	2014 Expended	2013 Expended
Salaries & wages	798,590	1,778,531	1,037,983	\$ 941,115
Private contractors	943,312	3,884,382	2,452,349	2,074,386
Sand & salt	774,278	1,138,800	1,099,843	510,565
Capital equipment	-	319,360	-	-
All other	403,567	467,526	350,924	168,059
Total snow & ice expenditures	<u>\$ 2,919,747</u>	<u>\$ 7,588,599</u>	<u>\$ 4,941,099</u>	<u>\$ 3,694,125</u>

The fiscal year 2017 recommended budget includes a total of \$3.75 million for snow and ice control purposes, \$1 million in the DPW budget, and another \$2.75 million in budget reserve, to be transferred if needed by vote of the Mayor and Council. The median annual expenditure for snow and ice control over the trailing five years is \$4 million. A recommendation is also currently before the Council to appropriate \$939,987 in current year federal FEMA snow/ice reimbursements to an Inclement Weather special appropriation which will also be available should the need arise.

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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 2017 budget includes \$100,000 for legal settlements. The following is a summary of actual expenditures for this purpose for fiscal year 2016 and the three prior complete fiscal years.

Legal Settlement Expenditure Trends

	2016 YTD	2015	2014	2013
	Expended	Expended	Expended	Expended
Claims & settlements	\$ 352,214	\$ 107,282	\$ 171,221	128,854

Energy and utilities: The total budget for this purpose is \$3 million, which represents a 12.1% increase in the amount budgeted for the current year. The following table compares the recommended 2017 budget totals to current year budget 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 \$625,000 of the \$965,893 recommended for fiscal year 2017.

Energy and Expenditure Trends

	2017	2016	2015	2014	2013
	Recommended	Budget	Expended	Expended	Expended
Electricity	\$ 846,249	\$ 686,435	\$ 727,929	\$ 934,078	\$ 1,023,583
Natural gas	392,355	366,966	361,745	363,589	362,893
Water & sewer	965,893	807,656	691,361	708,352	568,766
Heating oil	183,000	193,990	199,741	241,252	232,546
Gasoline	352,375	384,500	487,655	545,161	465,458
Diesel	256,000	233,438	389,059	330,150	320,526
Total energy and utilities	\$ 2,995,872	\$ 2,672,985	\$ 2,857,490	\$ 3,122,582	\$ 2,973,772

Budget Reserve: The 2017 budget includes a \$3.25 million budget reserve - \$500,000 for extraordinary and unforeseen purposes and \$2.75 million for snow and ice control purposes. 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 million for the budget reserve, all but \$7,867 of which has been either transferred or obligated 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 appropriation requirements have increased by \$2.2 million or 7% from the current year budget. The City's actuarially required contribution to the defined benefit pension plan amounts to \$22.3 million (65.8% of the total retirement appropriation). This contribution represents a \$1.8 million or 8.7% increase over the current year appropriation and amounts to approximately 25% of covered payroll.

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The 2017 defined benefit plan contribution is based upon the funding schedule that was developed in conjunction with the 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.

Non-contributory pension benefits, which are funded on a pay-as-you-go basis, are budgeted at \$113,846 for fiscal year 2017, a decrease of \$117,009 or 50.7%.

Retiree health and life benefit appropriations amount to \$11.5 million – \$563,105 (5%) 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 \$467,348 in projected OPEB (retiree health) fund contributions.

The March 31, 2016 fund balance of the City's OPEB trust was \$3.1 million and the actuarial value of accrued retiree health benefits at June 30, 2015 was \$703.6 million. The funding schedule developed in conjunction with the City's June 30, 2015 OPEB actuarial valuation estimates the cost of actuarially funding OPEB benefits to be \$73.7 million for fiscal year 2017.

Transfers to other funds: The \$900,000 appropriation consists of a \$750,000 contribution to the Capital Stabilization Fund for capital project funding that was included in the March 12, 2013 Proposition 2 ½ override vote, and a \$150,000 contribution to the City's Rainy Day Fund. Assuming a \$379 million General Fund operating budget, the Rainy Day Fund should have a balance of \$18.9 million or 5% of the total budget in fiscal year 2017. The current balance in the Rainy Day Fund is \$18.2 million and there is a \$654,000 docket item currently before the Council to supplement this sum prior to June 30, 2016.

Debt service: Fiscal year 2017 appropriation for bond maturities and interest totals \$21.8 million, 5.7% of the budget. This sum represents a \$2.7 million or 14.1% increase over the current year debt service budget, and includes \$1.6 million in debt service on the Angier and Cabot elementary school debt exclusion projects. Total General Fund financed bonded debt was \$262.8 million at March 31, 2016 – an increase of \$45.8 million or 21.1% from the total amount outstanding at March 31, 2015.

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

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SCHEDULE OF BUDGET RESERVE USES
Fiscal Year 2016

	<u>Budget Reserve</u>	<u>Snow & Ice Reserve</u>
Original FY 2016 Appropriation	\$ 500,000	\$ 2,500,000
Transfers:		
#203-15 - ADA compliant podium - Council Chambers	(3,900)	-
#214-15 - Election expenses	(59,233)	-
#222-15 - Environmental remediation	(150,000)	-
#296-15 - ISD salaries	(50,000)	-
#322-15 - Charter Commission expenses	(7,500)	-
#338-15 - Human Resources consulting expenses	(50,000)	-
#345-15 - Veteran graves	(56,000)	-
#346-15 - Demolition of 525 Winchester St building	(115,500)	-
#30-16 - Snow & ice control	-	(2,000,000)
#88-16 - Forestry expenses (snow & ice)	-	(223,865)
Total YTD Transfers	<u>(492,133)</u>	<u>(2,223,865)</u>
Pending Transfers:		
Snow & ice control	<u>-</u>	<u>(276,135)</u>
Unobligated Budget Reserve Balance	\$ <u>7,867</u>	\$ <u>-</u>