CITY OF NEWTON

IN BOARD OF ALDERMEN

LONG RANGE PLANNING COMMITTEE REPORT

WEDNESDAY, SEPTEMBER 26, 2007

Present: Ald. Vance (Chair), Danberg, Johnson, Sangiolo and President Baker

Also present: Ald. Burg, Albright, Parker, School Committee Chairman Dori Zaleznik and School Committee Member Ann Larner,

City personnel present: Chief Administrative Officer Sandy Pooler, City Controller David Wilkinson, Assistant School Superintendent for Financial Affairs Sandy Gurian and Chief Budget Officer Susan Burstein

The meeting was called to order at 8:00 p.m. by Chairman Vance. The first order of business was an update report by Chief Budget Officer Susan Burstein on the long-range (five year) financial forecast. Chairman Vance announced that after Ms. Burstein completes her report the committee will have a discussion on what next steps need to be taken for the City to develop an appropriate response and forward plan to reflect what we have learned from these financial exercises.

Ms. Burstein reported that her report represented the first cycle after the first five year forecast was presented and vetted by the Mayor, Board of Aldermen and Blue Ribbon Commission, whose report was presented on February 1, 2007. An important consideration was whether the assumptions used in the report were reasonable. This year's forecast builds on one more year of history and incorporates some of the suggestions of the Blue Ribbon Commission, which to some extent alter the method of doing the forecast. For example, last year's forecast had no assumptions regarding collective bargaining. Now that we have a sense of the pattern of the bargaining going forward, it is included in the assumptions (2 ½ %). Also included are school enrollment increases, a modest assumption of state aid of an additional $1million per year (the previous year's assumption was an additional $2 million). Built in with the Capital Plan are assumptions about debt service spending and school building reimbursements. On old school projects we pay up front and get reimbursed over time. Those reimbursements will go into the capital stabilization fund. New projects will be 'pay as you go', which will reduce our need to borrow instead of fully borrowing and recouping the funds over time.

Spending assumed for the debt service assumes the full cost ($154 million) of the (new North) High School, the six fire stations and the New Turf project pending before the Board. Not included in the plan are elementary school renovation needs. Also included is $3.5 million per year in other capital spending needs. All other assumptions are consistent with the way the fiscal FY'08 budget was built. For example, since there was an assumption in last year's forecast of 1% of revenue as budget reserve, we have continued to grow the budget reserve by $100,000/year, but did not made the leap to 1% as a budget reserve.

Alderman Parker commented that he would like to see the forecast reworked to reflect what was actually spent rather than what was projected to be spent. Ms. Burstein explained that the premise going forward was to not make radical deviations from budgeting practices. She offered that we could continue to discuss how to deal with particularly volatile items such as snow and ice and overtime. Chief Administrative Officer Pooler commented that we have historically covered snow and ice costs with free cash. He added that the Finance committee does not at this time have policies governing this issue. They are, however, under discussion.

Ald. Danberg asked how the Stark structured settlement will be accounted for and whether payments have ended. Ms. Burstein answered that it was booked as a fiscal ’07 liability, was paid and will not be a cost for us moving forward.

Ms. Burstein continued to walk the committee through the report, pointing out on page two the broad assumptions for all categories. Assumed is $2 million in new growth on top of the allowable 2 ½% increase in property tax revenue and a 1 ½% overlay. Motor vehicle taxes were projected using historical data. The plan is to work out the assumptions for FY’07 and FY’08 and apply them beginning in fiscal FY’09 going forward. The City has returned to the practice of weaning ourselves off of the free cash assumption in the operating budget. This year has $3.4 million in free cash assumed, which will be reduced by $500,000 per year in the future. $1 million is assumed for Chapter 70 aid.

On the spending side, collective bargaining is assumed at 2 ½ %, for benefits we have used historical numbers. Health Insurance, for example is assumed to increase about 11% per year. Pension numbers are determined directly from the actuarial schedule. Trash collection is increased by 3 ½ %. The School Department tuition is projected at 8% and transportation costs at between 6% and 10%.

Examination of trends for other costs shows that experience is not necessarily indicative of where we should be. We have spent less on motor vehicle repair, which we know needs to be increased. Capital outlay has been increased to 4%, which still may not be adequate, but is closer to where we need to be.

Budget reserve appears under “other” and is increased by $100,000 per year beginning in FY’08. The debt numbers come from the Capital Plan.

Where historical numbers have been used for projections, they have been based on FY’03 to FY’05 actuals. Where those trends were downward, we chose to level fund out of prudence. Regarding retirement fund returns, in light of the Blue Ribbon Commission’s recommendations to move the funds to be under State control, we have not figured in any gain for this forecast, as we are unlikely to see any benefit for a few years. We have not made any assumption about moving Health Insurance.

Ald. Danberg commented that the first large ‘Sources’ number at $35 million closely matched the first large ‘Uses’ number at $38 million, so we were all right there. But the second large

'Uses' number (benefits) increases by $27 million and is not matched by a corresponding increase on the revenue side, which means that this is where the budget becomes unbalanced.

Chairman Vance asked if the increase in debt service includes coverage for all items that would require increased funding in the future, including the new Newton North. Ms. Burstein answered that at present we are at just shy of 3% and that in fiscal '13 we would be just shy of 3.2%, which is still not at the level that the Blue Ribbon Commission recommends we achieve. The percentage is dependent on things in the queue. The intent of the forecast is to be a starting point that also achieves a comfort level we can live with.

Ald. Albright asked for clarification as to how we started at 3% and after increases of many millions of dollars (Newton North, the fire houses, elementary school renovations, etc) we are still in the 3% range. Ms. Burstein pointed out that for the large projects, we are borrowing for 20 years, we have assumed reasonable rates of interest are reinvesting all of the SBA reimbursement into the capital program and wove in the reimbursement from the Stark money. Thus the percentage remains near the same level.

Ald. Danberg said that it is clear by the forecast that the problem is not in the debt service but rather in the specific area of benefits where the budget runs into trouble. Pres. Baker asked what our spending capacity is to inject money into the schools immediately.

School Committee Chair Zaleznik offered that there would be a plan by budget time outlining where expenditures should be made, at what level and in what order. We also need to learn what the State contribution will be. The State continues to offer reimbursement in the neighborhood of 50%.

Ms. Burstein further explained that those contracts settled through FY'09 are assumed at actuals of 3%. Beginning in FY'10, the assumption has been reduced to 2 ½%. Mr. Pooler added that this was the assumption offered by the Blue Ribbon Commission.

A discussion ensued about our need and responsibility to help the unions see and agree with the City's need to live within the income we receive. Mr. Pooler added that there is and has been great effort in this direction and that the unions have been responsive to the City in this regard.

Pres. Baker asked the committee for an opinion that this document is a reasonable forecast and that it can be used as a baseline for going forward. Ald. Parker said that he felt that snow and ice expenditure and overtime should be moved out of the free cash area. Mr. Wilkinson commented that the risk on the City side if we forecast volatile expenditures such as those mentioned off the budget as opposed to the actuals, and we do not have free cash to cover them, that is where there would be a problem. If the forecast is comprehensive and includes everything we expect to spend, then we are fine; if not, and we have the free cash, we are also fine. Where we would run into trouble is if we do not budget for it <u>and</u> do not have enough free cash.

Mr. Pooler added that as long as we match an expenditure with a source, we are fine because it does not increase the shortfall. What we need to recognize is that we are facing a shortfall between revenues and expenditures. Mr. Wilkinson commented that he wished the budget reserve were greater. The old way those items were addressed was off-budget (with free cash). There is no free cash policy. He added that if we target free cash as a certain dollar amount or percentage of revenue and make a conscious effort to generate that free cash, he will feel more comfortable with what Mr. Pooler is saying.

Ald. Danberg asked if the budget reserve goal of .05% of total revenue is a reasonable benchmark. Mr. Wilkinson answered that it runs between one half and one percent of total revenue, in general. Ald. Danberg suggested that given the uncertainty as to an appropriate benchmark, this committee could set that benchmark, so that a specific amount would be set aside in the budget each year as budget reserve. While Ms. Burstein warned against leaning too heavily on free cash for operating expense, she pointed out that the forecast document was accomplishing this end, in that by FY13, the free cash number had shrunk to $900,000 and the budget reserve had grown to within $400,000 of the .05% of total revenue ($1.11 million).

Ald. Johnson asked if it would be possible to create another form of the forecast with the assumptions as Ald. Parker had suggested. Ald. Parker said that he would get his assumptions to Ms. Burstein so that she could address them.

Chairman Vance moved to the discussion of the next steps in response to the report of the Blue Ribbon Commission. Chief Administrative Officer Pooler, as the representative from the Mayor's office, began by saying that like in any long term forecast, the important thing is to get a sense of what direction we are going in and the scale of the problems we might have. What the report clearly shows is that we do have a structural deficit that will not go away by itself. The budget busters are health insurance, energy and pensions.

Last spring the Mayor and Board President laid out a roadmap as to how to respond to the Blue Ribbon Commission suggestions. Shortly the Executive Office will have a report as to the impacts of the cuts made over the last five years, and of some of the things, if we had additional resources that we could be doing at the Department level. Mr. Pooler added that this is a time that we need to look at not only the numbers, but also at the kind of city that we want to have and discuss that in terms of what some of our policy choices must be. The Mayor will then make some comments on strategies for closing the gap that take into account the kinds of programs we want to see.

Ald. Johnson said that she would like to see more transparency and inclusiveness on the part of the Mayor in bringing more people into the process. Mr. Pooler said that the process laid out in the fall was very much focused on this being a dialogue and said that the Mayor welcomed that dialogue. A discussion ensued about what kind of process we could and should put in place to bring more of the stakeholders to the table. Pres. Baker offered that part of the process has been to use this committee as a sounding board and that the message that there is a need for broader public participation is valid.

Ald. Sangiolo agreed that dialogue with the Mayor needs to happen and that perhaps the Mayor could meet with this committee to that end. We have known for some time that there will be a deficit and that the best policy when we go to the public with the issue will be to come out united and not divided if we are going to get out of this rut.

Ald Danberg concurred that the issue of the deficit needs to be presented to the public with one voice representing the Executive and the Board of Aldermen together.

Ald. Albright said it would be helpful if the forecast footnoted its assumptions with explanations explaining where the assumptions came from and how they can be justified.

Chairman Vance then moved discussion to the last item on the agenda a brief update by Ald. Parker on his report regarding revenue/cost savings items discussed at the committee's meeting in March.

Ald. Parker referred to four docket items related to the 2005 Finance and Management Working Group and the 2006 Blue Ribbon Commission. Regarding the recycling program, the core question is why Newton's recycling rate is not as high as it could be (at 37%). He came up with five reasons why people do not recycle: 1. Program exclusions such as businesses and condo complexes not included. Solution: Allow them to participate for the incremental cost. 2. Lack of recycling containers in public places. Solution: Plastic, can and paper recycling in public areas. 3. Recycling items blow out of containers. Solution: Containers with lids. 4. Containers to unwieldy and heavy to carry. Solution: Larger, wheelable containers. 5. Cost component: A revenue neutral model of charging people who refuse to participate in the program. I.e. you get your first trash receptacle free, but pay for further containers. This imposes a cost on those who increase costs to others by throwing their recyclables into a landfill.

Pres. Baker suggested that this be brought to the Solid Waste Commission and Public Facilities Commission. Ald. Parker said that what he seeks from this committee is an endorsement in concept.

Ald. Danberg, a co-docketer of the item, said she believes that although there will be a small capital outlay at first on the part of the City in order to implement these items, they will soon save the City considerably more money then their cost. The one item she thinks needs to be addressed within the trash contract is the number of receptacles needed to be picked up in public places.

Pres. Baker endorses increased recycling and added that the question of specific solutions needs input from the Public Works Dept. Ald. Johnson asked what group had worked on this item. Ald. Parker answered that former Commissioner Rooney worked closely with him on developing the solutions. Ald. Johnson moved that the item be approved and referred to Public Facilities. The motion carried 3-0-2. (Pres. Baker and Vance abstained)

Ald. Parker presented a brief explanation of a possible increased PILOT program and read into the record a letter he drafted that could be sent to Newton's tax-exempt organizations requesting an amount of 25% of what their tax would be were they not tax exempt.

There was a brief discussion of how such a program might work and it was decided to defer this discussion to a future date. There was a unanimous motion to hold this item.

The meeting was adjourned by Chairman Vance at 10:00 p.m.

Respectfully submitted,

Verne Vance, Chair
Vicki Danberg, Vice Chair