



CITY OF NEWBURYPORT
OFFICE OF THE MAYOR
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Dear President O'Brien & Members of the City Council:

I am pleased to submit the City of Newburyport's Proposed Budget for fiscal year 2014. The proposed budget includes funds for the general operation and maintenance of the municipal government, education and debt service.

The proposed budget includes expenditures of \$53,977,464 balanced by non-tax levy revenues totaling \$7,522,818 and estimated tax levy of \$46,851,095. Of the \$46,851,095 tax levy, \$2,666,654 funds the debt exclusion for the Newburyport High School renovation, the Public Library renovations and building project, development of a new Pre-k through Grade 3 Bresnahan Elementary School, renovations of the Nock/Molin School, and design and development of a new senior/community center. It is shown within the budget as dedicated revenue that offsets expenditures, which are recognized as "Excluded Debt Service." The FY 2014 operating budget represents a 4.77% increase over last year's budget excluding Debt Service.

As has been the practice for the past two years, the City continues to be conservative in its revenue estimates. FY 2014 projections for Local Receipts are just slightly higher than FY 2013 estimates. New Growth in FY 2013 included a portion of the 24 homes of the Oleo Woods project; the full value of these residential properties will become part of the tax base in FY 2014. In addition, in FY 2014 all properties will be required to complete a re-certification of values per Massachusetts Department of Revenue. Our commitment to diversifying the City's revenue sources through Local Option taxes and paid parking will continue to have positive impacts on revenue collections. Tax Title revenues and the return of an additional 24 properties to the active tax rolls will also assist the city's fiscal status.

Budget Goals

- Develop a FY 2014 Budget that is within the confines of Proposition 2 ½ and in compliance with the City's financial policies;
- Maintain a level services budget, while identifying opportunities to improve service delivery efficiency and effectiveness;
- Provide the first cost of living adjustments for City employees in several years through the collective bargaining process;
- Eliminate the use of free cash or stabilization funds as a recurring revenue source to balance

the budget;

- Continue to identify, develop and address a dynamic and workable five-year capital needs improvement plan;
- Continue to develop a budget process to present clear, concise and comprehensive management of all proposed expenditures;
- Continue to aggressively manage employee benefits and associated costs;
- Identify emerging operational, capital and financial planning issues for future years; and
- Develop a budget document consistent with the recommended guidelines and best practices set forth by the Government Finance Officers Association (GFOA).

Capital Improvement Plan

The FY 2014 Operating Budget and Capital Improvement Program continues the process initiated in the FY 2013 budget, which included the Proposed FY 2012-FY 2017 Capital Improvement Program (CIP). As was done previously, we have included projects that were funded in the course of the current fiscal year to demonstrate the City's ongoing commitments to investing in our infrastructure and to show the strides being made to attend to the City's ongoing capital needs. As a result, the CIP constitutes a selection of projects and equipment that either have received funding in FY13 or will require funding in the near future. This document should be viewed as a tool to illustrate to the City Council how effective a coordinated approach to capital planning can be in the acquisition of equipment or completion of significant infrastructure improvement projects. Additionally, the fact that the revised Charter requires that this document be updated annually demonstrates the importance of this information being communicated to City Council.

I have placed significant emphasis on the importance of developing an organized and coordinated CIP for the City. The planned acquisition of capital associated with an annual appropriation to fund capital improvements needs to become an integral component of the annual operating budget moving forward.

I urge members of the City Council to carefully read the CIP Overview which is included in Section 12 of this document and recommend a meeting to review this plan.

Free Cash & Financial Policies

I am pleased to once again submit a balanced budget that does not include an appropriation of either Free Cash or Stabilization Funds. This is a testament to the work of department heads and staff who have continued to be innovative in developing ideas for cost saving measures and often capitalize on opportunities to delivery municipal services.

As part of the development of the Capital Improvement Plan, the City adopted a Free Cash Policy that is outlined in great detail in the CIP. The Free Cash Policy attempts to align one time revenues with appropriate one time expenditures. A goal of the policy is to minimize the level at

which recurring expenses, such as personnel, are dependent upon this revenue source. I am pleased to report that the FY 2014 budget anticipates 100% compliance with this policy.

In addition to the Free Cash Policy, I have recommended several other financial policies that are outlined in Section 13 of the budget. Bond rating agencies often consider a municipality's commitment to and conformance with Financial Policies and, as such, I believe that what the City's Finance Team has drafted under my leadership is a major step in the right direction.

Retirement, Employee Buybacks and Pensions

City collective bargaining agreements require that the City "buyback" an employee's unused vacation and accrued sick time at the time of their retirement. This is a generous benefit that often places a significant constraint on the operating budget. The City has made gains in collective bargaining to adjust buybacks and will continue to negotiate with the members of the respective bargaining units regarding these benefits to lessen their impact on the operating budget. Although we anticipated the creation of a retirement stabilization fund during the FY 2013 budget development process, the final analysis by our Finance Team opted to return retirements to the department budgets, a policy change which is reflected in this budget document.

Unfunded pension liabilities will be required under GASB Statement 68 to be reported by FY 2015 in the City's Statement of Net Assets. This change in accounting standards will result in a material impact on the City's basic financial statements. It is essential during FY 2014 that we gain a greater understanding of these new requirements and impact. Consequently, our Finance Team will be reviewing best practices and evaluating the implementation of a Trust Fund or other means to address this liability.

Shared Expenses

As in FY 2013, this budget document includes a section titled "Shared Expenses." By organizing the budget in this way, certain overhead costs are accounted for in the aggregate rather than distributing costs by department or program. These costs continue to include employee benefits, such as health insurance, retirement contributions, unemployment compensation, Worker's Compensation Insurance as well as debt service and the Stabilization outlay.

Tax Rate

The tax rate for FY 2013 is \$13.32 per \$1,000 of assessed valuation for both residential and commercial property. The average property tax bill increased by \$139.11 from \$5,698.89 to \$5,838.00. The increase is mitigated as a result of the average single home value decreasing from \$445,226 to \$438,272.

Enterprise Funds

The Water, Sewer, and Harbormaster Funds are established as Enterprise Funds separate from the General Fund. The expenditures for both the Water and Sewer Funds are financed by water and sewer rate revenues, while the Harbormaster Fund is financed entirely through departmental receipts and waterway permits.

The Enterprise Funds for Water and Sewer have increased by 24.56% and 20.10% resulting from the rehabilitation projects to both the Water Treatment (\$18.75M) and Wastewater Treatment Plants (\$32.65M); both projects are at 80% completion. The Harbormaster Enterprise Funds have increased 3.38% from last year's budget.

Budget Assumptions

- \$400,000 in new growth revenue;
- \$40,000 increase in Local Receipts;
- \$103,428 increase in State Aid resulting from a decrease in Cherry Sheet offsets and assessments; and
- No appropriation of either Free Cash or Stabilization Funds to balance the budget.

Budget Format

This year, we have continued our efforts in constructing a professional budget document that speaks to the programs and services delivered by the City. We will build on this results-oriented approach to budgeting by adding specific performance metrics incrementally over the next several years. The staff and I will continuously identify the unique information requirements of the community and try to address those needs through this budget document.

The Government Finance Officers Association (GFOA) has spent years developing guidelines for budget documents. I am pleased by the progress the City has made to adhere to the best practices and guidelines set forth by the GFOA and to be a recipient of the GFOA Distinguished Budget Presentation Award for our FY 2013 budget. We hope to be recipients once again of this prestigious award for this budget document.

Conclusion

As we slowly emerge from these challenging economic times, I believe that we have had to make difficult but correct choices to ensure our City is on solid financial ground over the past three and a half years. We have moved forward on long overdue infrastructure needs and are working diligently to address the growing list of streets and sidewalks in need of repair. We must also remain dedicated to rebuilding our school programs. Although we are presenting a budget that allows us to maintain current level of programs and services, we must continue to be vigilant in

efficiently managing these resources and maximizing benefits provided across the City.

The development of this comprehensive budget and capital plan was a team effort and I am very grateful to the Finance Team members: Bill Squillace, Finance Director/Auditor, Julie Languirand, Treasurer, Dan Raycroft, Assessor, and especially Peter Lombardi, Director of Policy & Administration, and Ethan Manning, Business Manager. Mr. Lombardi and Mr. Manning deserve much credit and recognition for their diligence in preparing this FY 2014 budget. We are proud to submit this budget to you for consideration and look forward to working with you over the coming weeks to finalize this process and begin FY 2014.

Respectfully Submitted,

Donna D. Holaday