



CITY OF NEWBURYPORT
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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 2015. 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 \$56,251,306 balanced by non-tax levy revenues totaling \$8,273,330 and estimated tax levy of \$48,326,355. Of the \$48,326,355 tax levy, \$2,520,695 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 2015 operating budget represents a 4.80% 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 2015 projections for Local Receipts are only slightly higher than FY 2014 estimates. It is important to note that all properties were required to complete a re-certification of values in FY 2014 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 26 properties to the active tax rolls will also assist the City's financial standing.

Budget Goals

- Develop a FY 2015 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 modest cost of living adjustments for City employees while striving to limit the City's long-term financial liability regarding compensated absences;
- 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 2015 Operating Budget and Capital Improvement Program continues the process initiated in the FY 2013 budget. 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 FY14 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 new 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 value of developing an organized, coordinated and workable five-year 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. We have made strides toward doing so this year by incorporating annual lease payments for two fire engines and increased funding toward sidewalk improvements into the FY 2015 operating budget.

I urge members of the City Council to carefully read the CIP Overview which is included in Section 12 of this document and appreciate your feedback during the public hearing process that took place for the first time this year in keeping with the requirements of the new Charter.

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 2015 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. In fact, the formal adoption of this policy was one of the key factors cited by the rating agency in upgrading the City's bond rating to AA+ this past January. The creation of an OPEB Trust Fund and its initial funding to address those long-range unfunded liabilities was also instrumental in securing this upgrade.

Tax Rate

The tax rate for FY 2014 is \$14.16 per \$1,000 of assessed valuation for both residential and commercial property. The average property tax bill increased by \$485 from \$5,838 to \$6,323. Additionally, the average single home value increased from \$438,272 to \$446,524. To mitigate these increases, the City utilized \$320,874 in Free Cash to set a FY 2014 tax rate that is ten cents lower than projected based on Proposition 2 1/2.

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 Water Enterprise Fund increased just .08% from FY 2014 to FY 2015. The Sewer Enterprise Fund is actually decreasing by .93%. The Harbormaster Enterprise Fund has increased 1.99% from last year's budget. This kind of cost containment and budget management should be applauded and helps to ensure the users of these services that these Departments have worked hard to keep their expenditures to the minimum necessary levels to maintain quality services.

Budget Assumptions

- \$400,000 in new growth revenue;
- \$245,000 increase in Local Receipts, due in large part to the implementation of a new fire box master alarm annual maintenance service fee (\$90,000 in additional revenue);
- \$162,531 increase in State Aid; 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 continuing to add specific performance metrics incrementally over the next several years. The staff and I strive to 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 both our FY 2013 and FY 2014 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, we have made difficult but deliberative choices to ensure our City is on solid financial ground over the past four 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 and this year's budget demonstrates my commitment to doing so. 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, Assistant City Auditor. Mr. Lombardi and Mr. Manning deserve much credit and recognition for their diligence in preparing this FY 2015 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 2015.

Respectfully Submitted,

Donna D. Holaday