

FY2024 Key Budget Initiatives and Long-Range Financial Strategy

Our experiences in the past few years have informed how many of us think about the challenges we face. Putting together the FY2024 budget reminds us that we must be judicious in our spending and investment decisions because we need to do three things simultaneously.

- First, move forward sustainably to make Newton greater, better and more beautiful, which includes excellent schools, first-rate public safety, outstanding services, better streets and sidewalks, refurbished buildings for schools, public safety, older residents and other services, and investments that support our community and businesses;
- Second, fulfill obligations made by prior Mayors and City Councils that we have not yet funded sufficiently, including those to our retired employees; and,
- Third, protect the City's financial strength and budgetary flexibility to face evolving and unpredictable conditions and risks, such as pandemics, economic downturns, inflationary cycles and weather events.

In everything we do, we are conscious of how much work lies ahead so we continue to be the community of choice that has attracted, in particular, so many families, generation after generation; how much of our aging infrastructure and roads still need updating; how much more we need to do for our students and older residents; how many more actions we must take locally to confront the global climate crisis; how much more care our athletic fields, parks, playgrounds and trees need; how we need to be responsive to our businesses and non-profits in these unsettled times. We have much that needs to be done.

While our world has reopened as the pandemic wanes, we are still setting the City on a course for recovery and reinvestment. We have used our one-time pandemic funds to jumpstart many of our initiatives; however, we have so much more that we want to and need to do. Funds from the general operating budget, our debt capacity, the one-time Federal pandemic funding, and other revenue sources need to absorb all our essential capital and ongoing operating investments and keep us a triple Aaa rated City. Addressing climate change, systemic racism, police reform, socio-economic inequality, mental health, inflation, and cyber insecurity are front and center as well.

In preparing the FY2024 Budget, we have been mindful of the implications these tremendous challenges have on our City. Our budget deliberations have helped us look at all the initiatives and recommendations and then pause and prioritize. We must think strategically and holistically as we utilize our financial resources to meet our expectations of what kind of community we want to be.

This FY2024 Mayor's Proposed Budget is a culmination of the framework that was laid during the first five years of the Fuller Administration while being responsive to Newton's voters. We have proposed several measures in conjunction with this budget, which will need City Council approval, to create ongoing, sustainable funding to bolster NPS operations and solidify a viable, financial pathway forward as we provide excellent municipal and educational services, meet our long-term obligations to our current and retired employees, and ensure that we protect the City of Newton's financial health and stability while we address our long-term liabilities.

- We have strategically utilized \$10 million of Free Cash to reduce required debt service to free up operating budget capacity on a sustainable basis, thereby increasing the NPS appropriation by \$600,000 per year, pending City Council approval;
- We have provided a "Bridge Grant", pending Council approval, to the Newton Public Schools of \$1.4 million for a one year gap in funding to address increased tuition costs imposed by the State for out-of-district placements;
- We have docketed with the City Council the use of City funds to pay NPS legal settlements totaling \$580,000;

- We have worked collaboratively with the Newton Retirement Board to increase the base pension on which retiree COLA's are calculated and to extend our full-funding date by one additional year to create a truly sustainable pathway forward to ensure full-funding of our pension system by August 2031 and to provide funding to move forward with the Horace Mann Elementary School addition/renovation;
- We have restructured our health insurance plans to provide access to excellent health care and a high level of plan designs while also implementing cost-saving measures for both our retirees and for the City and NPS, resulting in a decrease in Medicare Part B Reimbursement expenses for NPS in FY2024 of \$650,000 and an additional \$650,000 in FY2025.
- We have initiated a three-year plan to increase Newton's Rainy-Day Stabilization Fund to equal 6% of our annual operating budget (an increase from the current 5%) to provide funding for contingencies and to continue to earn a Aaa bond rating; and,
- We have preserved the progress we have made in so many important areas such as paving, traffic calming, athletic fields and grounds maintenance, building maintenance, and forestry while providing additional, sustainable funding for the Newton Public Schools.

We have taken another important step to support NPS operations. Even without the operating override, we initially allocated a 3.73% increase in funding to the Newton Public Schools for an increase of \$9.77 million dollars over last year's FY2023 NPS budget for a total FY2024 budget of \$271.8 million.

On April 25th, with the Mayor's support, the School Committee voted to transfer \$3.182 million in retiree health care costs out of this allocation and out of the NPS budget over to the City. The City will now provide the financial and administrative support for this program, assuming the costs, and taking the risks in support of the Newton Public Schools. The final numbers in the Mayor's proposed budget for NPS reflect this change.

We have taken one final step to support our students as we present this holistic budget package. To minimize the impact on class sizes, the School Committee postponed funding for necessary summer maintenance projects within its 23 buildings. The Mayor will be allocating \$410K of ARPA funding for one-time facility maintenance projects.

Projected Revenue - Fiscal Year 2024

In February 2023, President Joe Biden announced that due to current COVID-19 trends, the U.S. Department of Health and Human Services is planning for the federal Public Health Emergency for COVID-19, declared under Section 319 of the Public Health Service Act, to expire at the end of the day on May 11, 2023. In March 2023, Governor Maura Healey announced that the Public Health Emergency for COVID-19 would be lifted for Massachusetts also at the end of the day on May 11, 2023.

On April 10, 2023, Mayor Fuller announced that she, too, will end the City of Newton's 2020 COVID-19 Declaration of Emergency on May 11, 2023.

This decision comes at a time of hope, recovery and progress in public health. While COVID-19 continues to circulate, we now have many ways to manage the virus. This includes vaccines and boosters, treatments and therapies, testing and masking, and support for staying home when ill. In using these tools and following the guidance of public health officials, we can now see the positive results of our collective efforts to protect the health and safety of Newton's residents, employees and visitors.

Prior to COVID-19, the City had been receiving revenues of more than \$75 million annually from sources that were subsequently impacted by the pandemic. These include revenues from the Commonwealth such as State Education Aid (a.k.a., Chapter 70,(\$25M)) and Unrestricted General Government Aid (\$6.4M). Other revenue sources for the City derive from expenditures by people in hotels and restaurants (Rooms & Meals Tax Revenues (\$4.5M)), on new vehicles (Motor Vehicle Excise Tax Revenue (\$13.5M)), and shopping in village centers and

driving in Newton (Parking Meter Collections (\$1.3M) and Parking Violation Tickets (\$1.3M)). Interest rates, which decrease in down economic cycles, were also impacted (Interest Income (\$3.0M)).

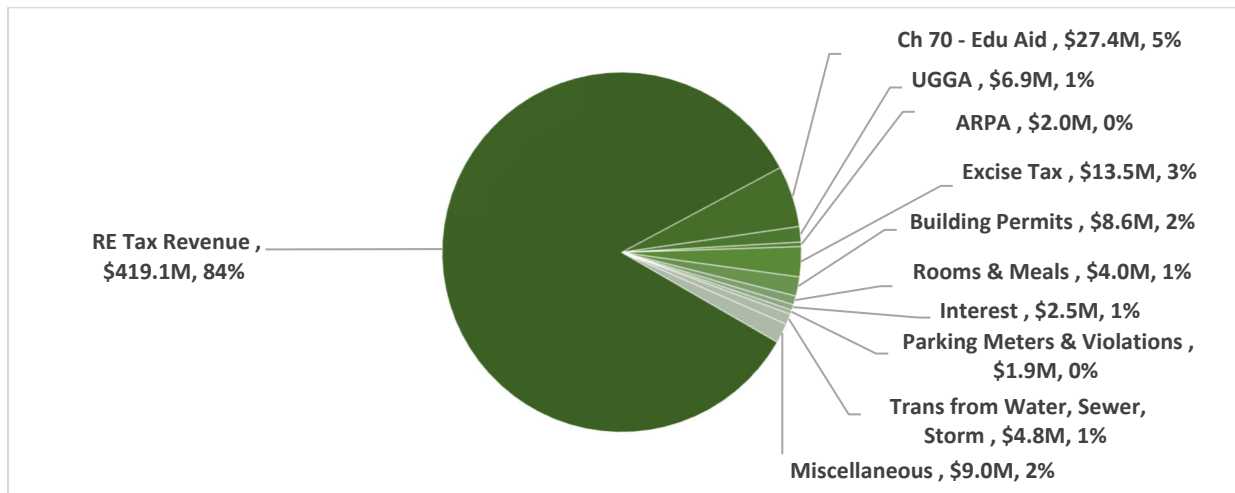
The shadow of the pandemic continued to have a negative impact on many of these revenue sources throughout Fiscal Years 2021 and 2022, and by a lesser degree into 2023.

We are pleased to report that the majority of our impacted revenue streams have rebounded to pre-pandemic levels, and we are now able to ween ourselves off most of the one-time funds that we had been using to supplement our operating budget.

The FY2024 Budget is \$499.7 million, \$20 million greater than the FY2023 Budget.

The FY2024 revenues reflect the decision we made to utilize \$2.0 million of the City’s ARPA funding to augment our projected revenue so that we may continue to support the vulnerable, recover and reopen, and build a better future with strategic investments. Two years ago, in FY2022, we used \$4.6 million of ARPA funds for operations, tapering to \$3 million last year in FY2023, and now to \$2 million. Of this total of \$9.6 million, we have purposefully prioritized the Newton Public Schools, directing \$5.2 million to NPS.

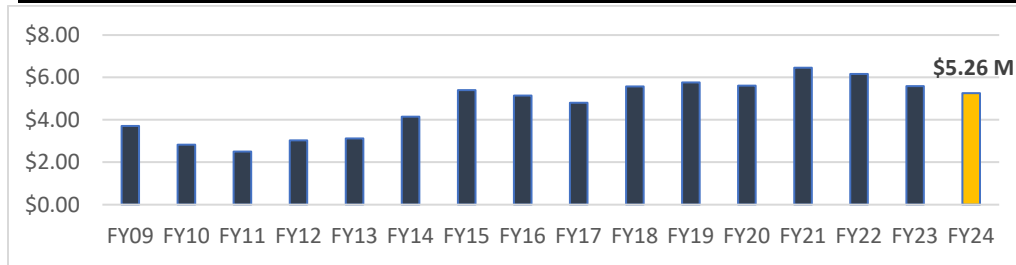
Projected FY2024 Revenue Sources - \$499.7 M



Property Tax Revenue

Property Taxes account for approximately 84% of total City of Newton revenue in the annual budget. Proposition 2½, passed by the citizens of the Commonwealth in 1980, requires that the annual increase of the tax levy for the City of Newton must not exceed 2½ percent of the prior year’s tax levy, in addition to the total amount attributable to taxes raised from new real property growth and redevelopment. FY2024 property tax revenue is estimated to total \$419.5 million, an increase of approximately \$15 million or 3.7%. This includes a 2.5% increase allowed by Proposition 2 ½, as well as a projection of just under \$5.3 million from “new growth and redevelopment.” The 30-year average annual increase attributable to “new growth and redevelopment” as a percent of the tax levy is 1.4% for Newton. We have conservatively budgeted new growth at 1.3% this year, due to a slight reduction in numbers of permits issued, as well as a slight decrease in the value of those permits.

Projected FY2024 Revenue from New Growth and Redevelopment - \$5.26M



Senior Tax Deferral Program and Other Tax Relief Programs

Mayor Fuller and the City Council collaborated in FY2023 to expand the eligibility for older residents to delay paying their property taxes to allow more seniors to be able to afford to stay in Newton, as well as to increase the personal exemptions for qualifying residents on other tax relief programs.

Senior Tax Deferral – Clause 41A

Under the Commonwealth’s Clause 41A, older residents may be able to delay payment of their property taxes. A property tax deferral does not discharge the tax obligation. Instead, it defers payment until the resident sells the property or passes away. A deferral allows older residents to use resources that would go to pay taxes to defray living expenses with the goal of enabling older residents on modest and oftentimes fixed incomes to stay in our City by delaying payment of real estate taxes. Taxpayers who qualify may defer all or part of their taxes.

The income limit set by the state in G.L. c. 59, sec. 5, cl. 41A in 1991 is \$40,000. In 2004, recognizing increases in the cost of living in the Newton area, the City of Newton was granted Home Rule legislation to allow a new upset limit of \$60,000, and then to \$86,000 in FY18.

In November 2022, the City Council approved Mayor Fuller’s request to amend City Ordinance Sec. 27-10, increasing the income limit of the tax deferral program to match the current maximum allowable state circuit breaker amount of \$93,000 for the local M.G.L c. 59 sec. 5cl. 41A tax deferral program. Concurrent with this action, the total gross income limit for the city Water and Sewer Discount Program was automatically increased to \$93,000.

Other Tax Relief Programs

Additionally, in November 2022, the City Council approved Mayor Fuller’s request to accept Massachusetts General Laws Chapter 59, Section 5C½, which provides for an additional real estate exemption for taxpayers who are granted personal exemptions on their domiciles under Massachusetts General Laws Chapter 59, Section 5, including certain blind persons, veterans, surviving spouses and seniors, and to provide an additional exemption up to 100 percent of the personal exemption, to be effective for exemptions granted for any fiscal year beginning on or after July 1, 2023. A 100 percent increase is the maximum additional exemption permitted under Section 5C½. Specific details on the City of Newton’s tax relief programs can be found at [‘www.newtonma.gov/tax-assistance’](http://www.newtonma.gov/tax-assistance).

Economic Development

The Administration continues to work closely with the City Council Zoning and Planning Committee on developing new village center zoning to enable economically viable and vibrant commercial centers to be supported by and provide for diverse housing options. Version 1.0 of the proposed village center zoning was presented in November of last year with the anticipation that changes would need to be made before moving to a more refined version 2.0. Version 2.0 of the proposed village center zoning in conjunction with a compliant zoning plan to meet the MBTA Communities Law requirements is now before the Council’s Zoning and Planning Committee for its consideration.

The Administration also worked with the City Council to make outdoor dining a permanent fixture for Newton’s residents and visitors to Newton’s many wonderful restaurants. The City’s Health, Inspectional Services, Planning and Public Works Departments have further streamlined the process to make it easier for restaurants to apply for and comply with outdoor dining through the addition of the NewGov on-line permitting system.

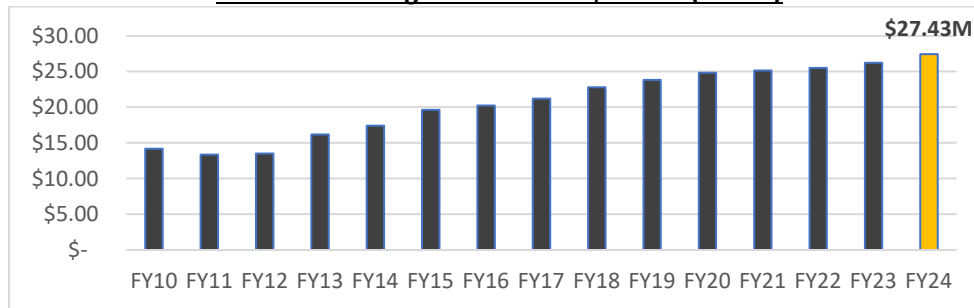
We continue to advocate, monitor and move forward with important transportation projects that are integral to economic development and quality of life. The \$30 million Mass DOT Needham Street project is well underway with infrastructure and traffic signals already in place and the upcoming construction season to focus on the Needham Street reconstruction. We remain determined to work with the City Council, our State and federal delegations, and the MBTA to continue the full design and eventual reconstruction plans for our three commuter rail stations. Plans for a new and improved Newton Highlands village center sidewalk and roadway upgrade are to be finalized in the next few months. Both the Bicycle/Pedestrian Master Plan and the Washington Street Roadway Pilot Redesign are underway and will be completed in the coming fiscal year.

State Education Aid - Chapter 70

The Student Opportunity Act, signed in 2019, introduced the most significant statewide update to the education funding formula since its inception in 1993. The bill, passed before COVID-19, is intended to infuse an additional \$1.5 billion annually into the state’s education aid, as well as to increase funding to school districts for transportation, school construction and renovation, and special education.

The bulk of the new funding has been directed to school districts with the highest concentrations of low-income students, thereby aiming to close achievement gaps and provide opportunity for all students in the Commonwealth. Governor Maura Healey’s inaugural budget has proposed \$27,433,806 in FY2024 Chapter 70 State Education Aid for the City of Newton, an increase of \$1,221,280 over the final approved FY2023 grant of \$26,212,526. This represents an increase of 4.65 percent.

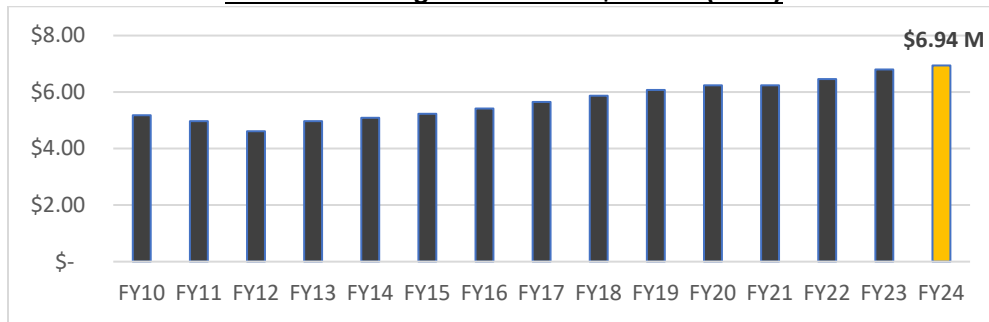
Projected FY2024 Chapter 70 State Education Aid
Governor’s Budget Increase of \$1.22M (4.65%)



Unrestricted General Government State Aid

In FY2010, the Lottery Aid Program (revenue from state lottery profits) and the Additional Assistance Program were combined to form a single revenue source now known as Unrestricted General Government Aid. As indicated in the chart below, this revenue source has seen steady increases over the past several years. Governor Healey has proposed an increase in UGGA for Newton of \$136,150 for this coming year, for a total FY2024 grant of \$6,943,668. This represents an increase of 2.0 percent.

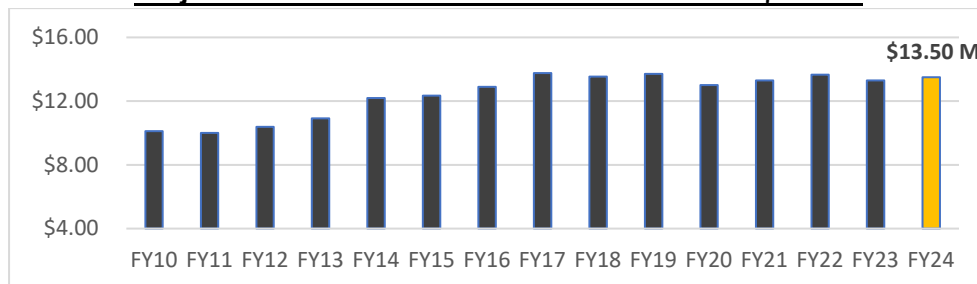
**Projected FY2023 Unrestricted General State Aid
Governor’s Budget Increase of \$136.2K (2.0%)**



Motor Vehicle Excise Tax Revenue

Massachusetts residents who own and register a motor vehicle annually pay a motor vehicle excise tax for the privilege of road use and those tax revenues go to the treasury of the local community. The amount of excise tax levied on each motor vehicle is \$25 per one thousand dollars of valuation. Over the past decade, total excise tax revenue has fluctuated from a low of just over \$10.38 million in FY2012 to just over \$13.6 million in FY2017. While we decreased our Excise Tax forecasts during COVID-19, we have increased our FY2024 budgeted amount back to our pre-pandemic run-rate of \$13.5 million.

Projected FY2024 Revenue from Excise Taxes – \$13.5M

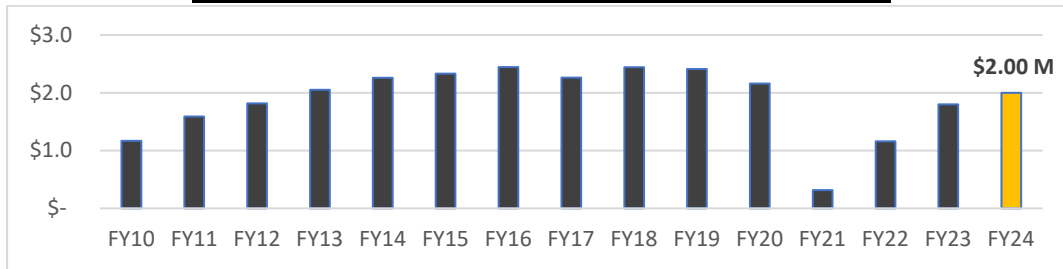


Hotel Room Occupancy Tax

The Commonwealth of Massachusetts has a state room occupancy excise tax rate of 5.7%. In addition, a city or town may adopt a local option room occupancy tax rate of not more than 6%. The Board of Aldermen of the City of Newton voted to accept the local option on October 7, 1985. As a result of the acceptance of this local option, the City of Newton received more than \$2 million of Hotel Room Occupancy Tax Revenue in each of the eight years prior to the pandemic.

However, almost immediately following the onset of the coronavirus pandemic, the hospitality industry began to experience unprecedented cancellations of conferences, vacations, weddings, and more. In early September 2020, the Boston Globe reported that revenue per available room, a key industry metric, declined in August across the Boston metropolitan area by about 76 percent compared with the same period in 2019. COVID-19 continued to wreak havoc on the hotel industry. Consequently, we reduced our FY2021 forecast down to approximately \$300K. Fortunately, room tax revenues have since rebounded, and we are forecasting FY2024 rooms tax revenues of \$2.0 million. While the hotel market has recovered faster than originally thought, we do not expect our room tax revenues to match our pre-COVID amounts in the next few years. Prior to the pandemic, Newton had three hotels in operation, the Four Points, the Marriott and Hotel Indigo. Ultimately, the Indigo closed in March 2020, due to COVID, and will not reopen. For the foreseeable future, we expect the two remaining hotels in Newton to generate up to \$2.0M per year, approximately \$400K less than our peak revenues with the three hotels.

Hotel Room Occupancy Taxes FY2024 Budget: \$2.0M

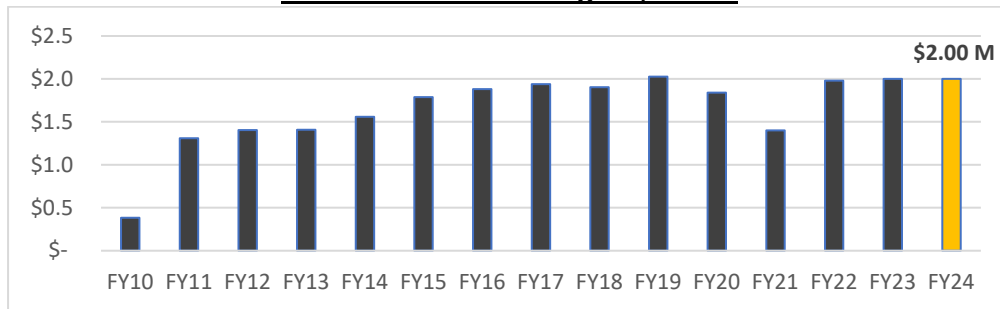


Meals Tax

The Commonwealth of Massachusetts imposes a sales tax on meals sold by or bought from restaurants or any restaurant part of a store. The tax is 6.25% of the sales price of the meal. Additionally, a local option meals tax of 0.75% may be applied. In October 2009, the City of Newton adopted the local option effective January 1, 2010. This decision had provided the City with a steady revenue stream of approximately \$1.9 million prior to the pandemic.

COVID-19 also hurt the restaurant industry. Approximately 3,600 or 20% of all restaurants across the Commonwealth have permanently closed. Restaurants that were able to provide “outdoor seating” through the warmer months during the pandemic saw hibernations, temporary closures, and permanent closures as the winter months progressed. Fortunately, we have seen a robust rebounding of this industry which is so vital to the success of our village centers and commercial corridors. We have increased our FY2024 budget for the meals tax to pre-pandemic levels of \$2 million.

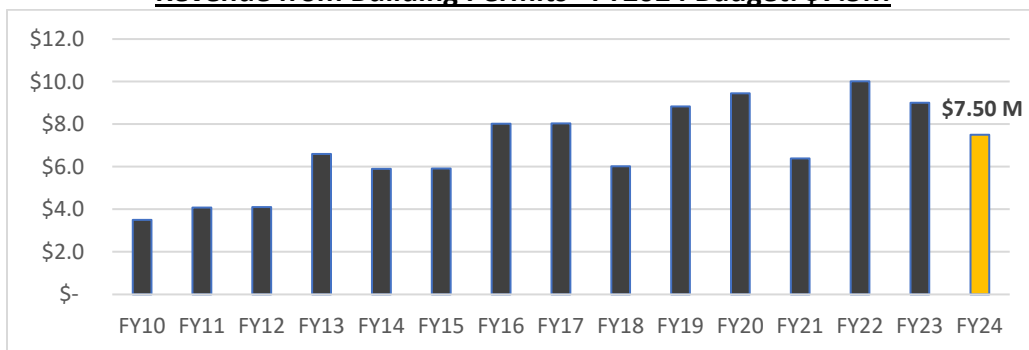
Meals Tax FY2024 Budget: \$2.00M



Revenue from Building Permits

Permitting activity is influenced heavily by the economy. Although the Northland project was approved by both the City Council in 2019 and Newton voters in 2020, the coronavirus pandemic has and will continue to impact new permits. Additionally, the expected Riverside project has recently been put on hold for the time being. Despite FY2023 revenue running significantly higher than originally budgeted, for those reasons, as well as the unsettled overall economy, inflationary pressures, labor market and supply chain issues, and project delays, we must be conservative. The FY2024 budget for revenue from building permits has been set at \$7.5 million.

Revenue from Building Permits– FY2024 Budget: \$7.5M



Projected Building Permit Fees for Significant Projects

	Construction Cost	Building Permit Fee	Construction Timeline
Northland	\$575,000,000	\$11,500,000	Q3 of 2022 to Q1 of 2026
Riverside	\$296,500,000	\$5,930,000	Q1 of 2025 to Q2 of 2029
Dunstan East	\$85,000,000	\$1,700,000	Q2 of 2024 to Q4 of 2026
Riverdale	\$50,200,000	\$1,024,000	Q2 of 2022 to Q3 of 2024

Revenue from Interest Income

Interest income earned on the City’s cash reserves and investments has been as low as \$200,000 during the past decade when interest rates reached a record low of 0.25 percent in December 2008. In late April 2020, the Federal Reserve Bank decided in response to COVID-19 to again lower the Federal Funds Rate to that historical low of 0.25 percent. The Fed at that time signaled that they expected rates to remain at these historic lows until 2023. However, inflation, recent world events and actions taken by the Federal Open Market Committee (FOMC) have caused us to adjust our projections.

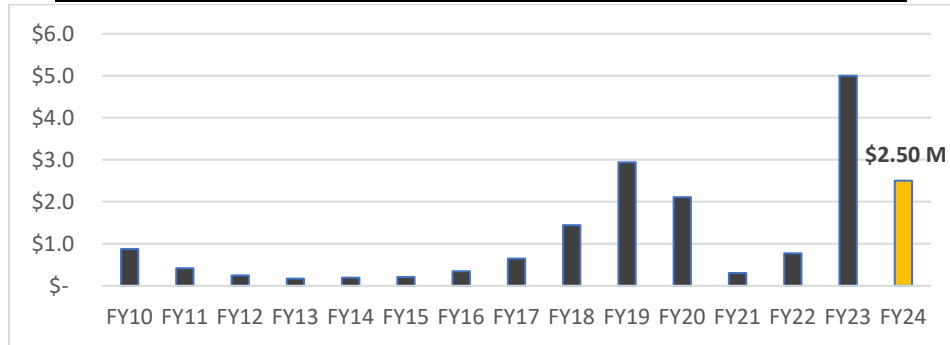
The following is an excerpt from an article issued by US Bank Wealth and Institutional Asset Management following actions taken by the Federal Open Market Committee on March 22, 2023:

The FOMC started the “tightening” process in March 2022 by raising interest rates 0.25%. At subsequent meetings, the Fed greatly accelerated the pace of rate hikes, and by the end of 2022, the fed funds target rate stood at 4.25% to 4.50%. The 0.25% rate hike in March 2023 followed a similar rate increase in early February. The fed funds target rate, now in the 4.75% to 5.00% range, is at its highest level since October 2007.

The Fed’s actions appear to have achieved some success. By the closing months of 2022 and into early 2023, inflation showed signs of easing. Through February 2023, living costs (as measured by the Consumer Price Index) rose 6.0% over the previous 12 months, a decline of 3.1% from the peak inflation level reached in the 12-month period ending in June 2022. Nevertheless, after the March 2023 FOMC meeting, Powell stated, “The process of getting inflation back down to 2% (the Fed’s long-term inflation target) has a long way to go and is likely to be bumpy.”

Since it is impossible to know what the future holds in terms of any potential rate changes, we must be conservative in our projections, and have budgeted \$2.50M in interest income from investments in FY2024.

Revenue from Interest on Investments - FY2024 Budget: \$2.50M

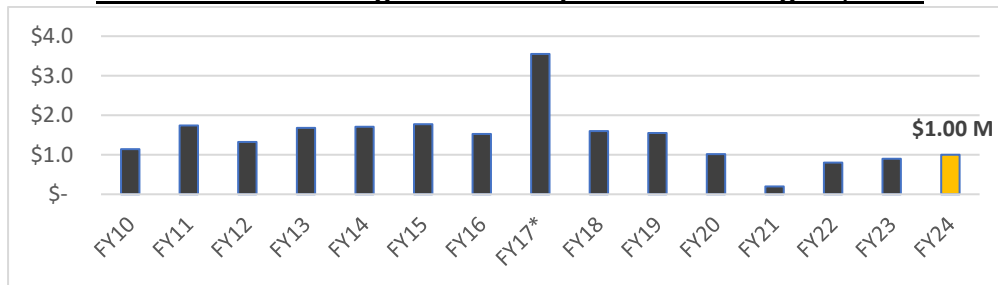


Revenue from Parking Meters & Parking Violations

Parking meters were first installed in the 1930s in an effort to instill some order to the chaos of street parking. Charging promotes turnover to regulate the use of a scarce and valuable resource – curb space in dense areas. Many municipalities charge increased fees at popular parking places to encourage employees and longer-term patrons to park a little further away. Over the last few years, the City has installed new “smart” parking meters, which accept credit card payments and allow us to monitor how consistently they are utilized.

Throughout the pandemic, the City made the conscious decision to not enforce parking policies, as an attempt to entice people back to our village centers. Now that the pandemic has waned, the City has begun enforcing the parking restrictions again. As such, we expect our FY2024 parking meter revenues to increase to \$1.0 million.

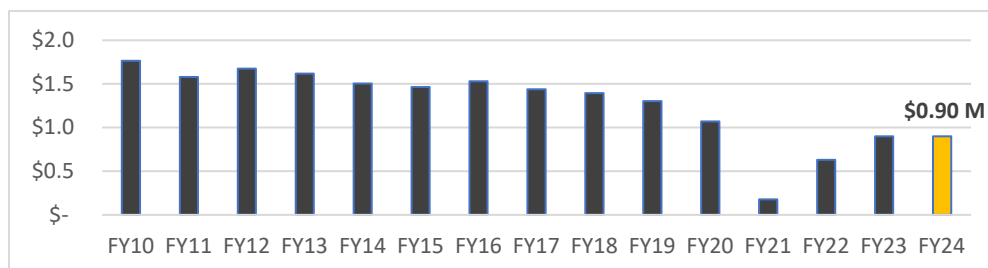
Revenue from Parking Meter Receipts - FY2024 Budget: \$1.0M



*FY17 reflects a change in accounting for Parking Meter Receipts, generating a one-year “windfall” of revenue.

Enforcement of parking policies has a direct correlation with revenues from Parking Violations. Therefore, we have leveled out the projection for this revenue source at \$900K.

Revenue from Parking Violations – FY2024 Budget: \$900K



Revenue from Medical, Retail and Delivery Operations Cannabis Establishments

The City of Newton receives two streams of money from stores selling or delivering cannabis (a.k.a., marijuana). The City approved as a local option a three percent tax collected by the State from adult recreational sales (non-medical marijuana) that comes to the City and goes into the general fund to support our operating budget. An additional three percent of revenues from medical, recreational retail and delivery operations marijuana sales may, to repeat, may, come to us as a community impact fee if agreed to as part of a Host Community Agreement (HCA). These HCA funds must be used to address the public health, safety, education, administrative, infrastructure and other effects or impacts by the marijuana establishment on the City and our municipal and school programs, services, personnel and facilities.

As this is an emerging industry with significant uncertainty about the level of the funding stream, the Administration has been conservative in budgeting this source of revenue. Knowing that the funds may be limited to only five years per establishment and that we may see a shake-out in the number of stores and fluctuations in the level of sales, we have used the funds both for new initiatives as well as current ones, especially if the City is facing economic pressures, as we are this year.

More detailed information on HCA revenues is included in the “Special Funds” section of this budget document.

Revenue from State and Federal Opioid Settlements

Over the last several years, the Commonwealth of Massachusetts has signed onto several large opioid settlements, with municipalities sharing the funds. These payments will extend through the end of FY2039. The City has received slightly over \$446,000 in FY2023. Based on the funding schedule for subsequent payments, we expect Newton to receive an additional \$265,000 in FY2024. There are specific restrictions on how these funds can be used. A more detailed explanation of these funds can be found in the “Special Funds” section of this document.

Significant One-Time Revenues

American Rescue Plan Act (ARPA)

By far, the largest pandemic package benefitting Newton residents, businesses and non-profits is the American Rescue Plan Act of 2021 (ARPA), a \$1.9 trillion economic stimulus package signed into law by President Biden on March 11, 2021 to further respond to the economic and health effects of the COVID-19 pandemic.

ARPA provided funding for expanded unemployment benefits; \$1,400 direct payments to certain individuals; emergency paid sick leave; extension of a 15% increase in food stamps; certain tax credits; grants to small businesses; funds to reopen schools; funds for housing and rental assistance, vaccines, testing and contact tracing, health care and public health, public transit; and funds to state and local governments to bridge budget shortfalls and mitigate the fiscal impact of the pandemic.

The City of Newton has received approximately \$63.6 million dollars from ARPA. Congress created specific guidelines for how these funds can be used by municipalities with two key categories being the most relevant for our City. Category (A) requires the funds be used to respond to the COVID-19 public health emergency and/or its negative economic impacts; and Category (C) allows investment of the funds to make up for the missed investments stemming from the City’s “lost revenues” in the face of the pandemic.

Along with other federal funds, ARPA funding allowed us to fix the ventilation systems in every school building. We bought iPads and Chromebooks for students. We helped businesses, restaurants and non-profits. We supported people who were struggling financially. We paved roads and improved villages. We improved parks and are creating a community garden. We rebuilt the Children’s Room at the Library. Altogether students and schools received \$11.3 million, COVID response \$10 million, housing and human services \$9 million, roads and traffic calming \$10.6 million, economic recovery for businesses, non-profits and village centers \$5.2 million, parks, recreation and culture \$6.1 million, and critical infrastructure for the library, seniors and police \$5.6 million.

The following is a summary of the ARPA initiatives that Mayor Fuller has announced to date. An entire section of this FY2024 Budget is dedicated to discussing the City’s utilization of these important one-time funds.

AMERICAN RESCUE PLAN ACT (ARPA) GRANT					
CITY OF NEWTON GRANT - \$63.6 MILLION					
	FY2022	FY2023	FY2024	FY2025	TOTAL
STUDENTS & SCHOOLS					
NPS OPERATING BUDGET	\$ 2,484,000	\$ 1,620,000	\$ 1,080,000	\$ 324,000	\$ 5,508,000
COUNTRYSIDE FEASIBILITY STUDY	\$ 1,250,000				\$ 1,250,000
LINCOLN ELIOT DESIGN	\$ 350,000				\$ 350,000
HORACE MANN DESIGN	\$ 100,000				\$ 100,000
FRANKLIN FEASIBILITY STUDY	\$ 100,000				\$ 100,000
HORACE MANN PLAYGROUND	\$ 250,000				\$ 250,000
HIGH SCHOOL FIELD LIGHTS	\$ 1,400,000				\$ 1,400,000
WARD AND UNDERWOOD STUDY			\$ 100,000		\$ 100,000
NPS ELEMENTARY READING CURRICULUM			\$ 2,000,000		\$ 2,000,000
UNDERWOOD ELEMENTARY ROOF REPAIRS			\$ 42,000		\$ 42,000
NPS SUMMER MAINTENANCE			\$ 410,000		\$ 410,000
	\$ 5,934,000	\$ 1,620,000	\$ 3,632,000	\$ 324,000	\$ 11,510,000
COVID RESPONSE					
COVID ANTIGEN TESTS	\$ 76,100				\$ 76,100
PUBLIC BUILDING R-M	\$ 750,000				\$ 750,000
MEDICAL SUPPLIES	\$ 60,000				\$ 60,000
INSTRUCTIONAL TECHNOLOGY	\$ 10,000				\$ 10,000
REIMBURSEMENT - REMAINING COVID EXPENSE	\$ 1,100,000				\$ 1,100,000
SUMMER PROJECTS - VENTILATION, ETC	\$ 410,000				\$ 410,000
NPS TECHNOLOGY		\$ 1,050,000			\$ 1,050,000
BUILDING VENTILATION (NPS, CITY HALL, FIRE, POLICE)		\$ 2,200,000			\$ 2,200,000
CITY STAFF RECOGNITION	\$ 1,100,000				\$ 1,100,000
NPS STAFF RECOGNITION	\$ 3,246,000				\$ 3,246,000
	\$ 6,752,100	\$ 3,250,000	\$ -	\$ -	\$ 10,002,100

**AMERICAN RESCUE PLAN ACT (ARPA) GRANT
CITY OF NEWTON GRANT - \$63.6 MILLION**

	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY2025</u>	<u>TOTAL</u>
HOUSING & HUMAN SERVICES					
COMMUNITY NEEDS ASSESSMENT	\$ 50,000				\$ 50,000
ECONOMIC STABILITY AND MOBILITY	\$ 2,000,000				\$ 2,000,000
EMERGENCY HOUSING RELIEF PROGRAM	\$ 582,000				\$ 582,000
ACCESSIBILITY PROJECTS		\$ 500,000			\$ 500,000
AUBURNDALE FAMILY AFFORDABLE HOUSING & WILLIAMS SCHOOL		\$ 2,450,000			\$ 2,450,000
AFFORDABLE HOUSING & CLIMATE RESILIANCY			\$ 3,500,000		\$ 3,500,000
	\$ 2,632,000	\$ 2,950,000	\$ 3,500,000	\$ -	\$ 9,082,000
ROADS & TRAFFIC CALMING					
ACCELERATED NEIGHBORHOOD ROAD REPAIR & PAVING	\$ 2,500,000	\$ 4,000,000	\$ 2,000,000		\$ 8,500,000
ACCELERATED TRAFFIC CALMING		\$ 2,000,000			\$ 2,000,000
BIKE/PED MASTER PLAN	\$ 80,000				\$ 80,000
	\$ 2,580,000	\$ 6,000,000	\$ 2,000,000	\$ -	\$ 10,580,000
PARKS, RECREATION, & CULTURE INVESTMENTS					
NEIGHBORHOOD PARKS & GARDENS	\$ 300,000				\$ 300,000
PARKS & CONSERVATION TRAIL ACCESS	\$ 150,000				\$ 150,000
STREET TREE INVESTMENT	\$ 250,000				\$ 250,000
FEASIBILITY NEWTON CENTRE PAVILLION	\$ 50,000				\$ 50,000
ATHLETIC FIELDS/PARK/BEACH/GATH POOL		\$ 2,500,000			\$ 2,500,000
JACKSON HOMESTEAD & MUSEUM EXHIBITS		\$ 200,000			\$ 200,000
NNHS SYNTHETIC TURF FIELD AT ALBEMARLE			\$ 2,200,000		\$ 2,200,000
NSHS SYNTHETIC TURF FIELD			\$ 332,000		\$ 332,000
TENNIS COURT RESURFACING			\$ 100,000		\$ 100,000
NAHANTON PARK SURVEY FOR CONSERVATION RESTRICTION			\$ 60,000		\$ 60,000
	\$ 750,000	\$ 2,700,000	\$ 2,692,000	\$ -	\$ 6,142,000
MUNICIPAL FINANCIAL RECOVERY					
CITY OPERATING BUDGET	\$ 2,116,000	\$ 1,380,000	\$ 920,000	\$ 276,000	\$ 4,692,000
	\$ 2,116,000	\$ 1,380,000	\$ 920,000	\$ 276,000	\$ 4,692,000
CRITICAL INFRASTRUCTURE					
CHILDREN'S ROOM - LIBRARY	\$ 2,000,000				\$ 2,000,000
NEWCAL DESIGN	\$ 500,000				\$ 500,000
ACQUISITION OF 47 WALNUT PLACE		\$ 1,500,000			\$ 1,500,000
POLICE HQ IMPROVEMENTS FEASIBILITY STUDY		\$ 500,000			\$ 500,000
CHEESECAKE BROOK BIKE/PED BRIDGE			\$ 700,000		\$ 700,000
ALBEMARLE FIELD HOUSE EXTERIOR			\$ 50,000		\$ 50,000
NEWTON CENTRE FIELDHOUSE EXTERIOR			\$ 100,000		\$ 100,000
CRYSTAL LAKE BATHHOUSE AND PARKING LOT			\$ 40,000		\$ 40,000
LIBRARY PLAZA REPAIRS			\$ 100,000		\$ 100,000
FIRE DEPT VEHICLES REPLACEMENT			\$ 160,000		\$ 160,000
	\$ 2,500,000	\$ 2,000,000	\$ 1,150,000	\$ -	\$ 5,650,000
ECONOMIC RECOVERY & VILLAGE CENTERS					
HELP FOR RESTAURANTS	\$ 12,830				\$ 12,830
NEWTON HIRES	\$ 28,600				\$ 28,600
REVITALIZE CREATIVE NEWTON	\$ 75,000				\$ 75,000
NEWTON HIGHLANDS VILLAGE CENTER	\$ 250,000	\$ 750,000			\$ 1,000,000
PETTEE SQUARE/CHESTNUT-OAK INTERSECTION		\$ 1,100,000			\$ 1,100,000
WASHINGTON STREET PILOT & DESIGN		\$ 3,000,000			\$ 3,000,000
	\$ 366,430	\$ 4,850,000	\$ -	\$ -	\$ 5,216,430
FUNDS DELIBERATELY HELD IN RESERVE					
CONTINGENCY FOR STATE-FUNDED PROJECTS			\$ 650,000		\$ 650,000
REMAINING UNASSIGNED FUNDS			\$ 64,974		\$ 64,974
	\$ -	\$ -	\$ 714,974	\$ -	\$ 714,974
TOTAL NEWTON ARPA COMMITMENTS	\$ 23,630,530	\$ 24,750,000	\$ 14,608,974	\$ 600,000	\$ 63,589,504

Projected Expenditures – Fiscal Year 2024

To ensure that expenditures do not exceed revenues, the Fuller Administration projects revenues conservatively while simultaneously moving toward developing expenditure budget estimates sufficient to address not less than 100% of projected operating requirements of the departments of the City for the next fiscal year.

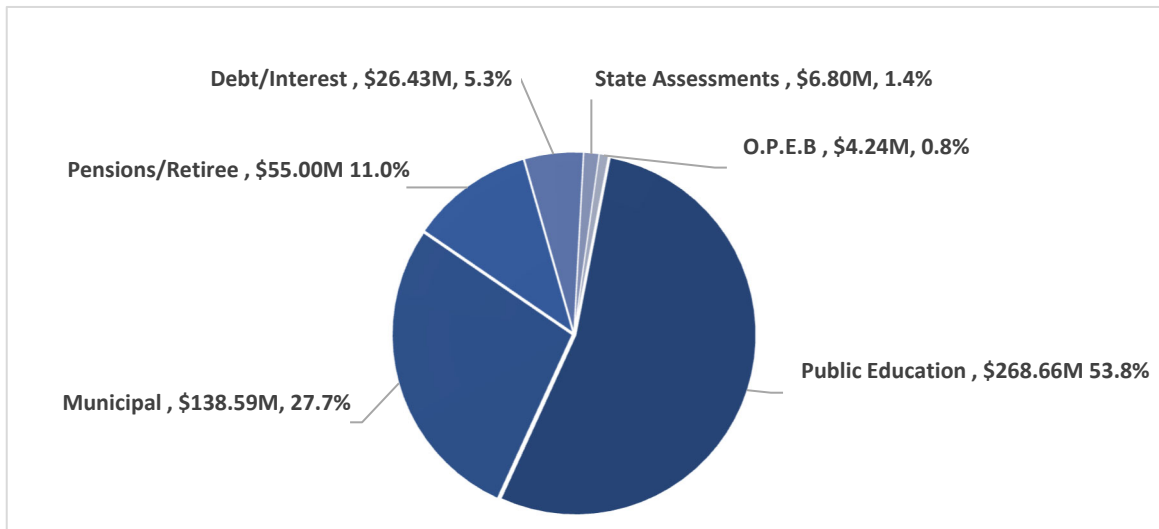
Although the City has made significant progress in budgeting anticipated expenditures sufficiently, much remains to be done. Therefore, the FY2024 municipal budget includes a significant commitment again to maintaining funding in maintenance of buildings and infrastructure, as well as increased funding to bolster the City’s snow and ice control budget, rainy day reserves, and pension and retiree health care liabilities.

Along with the Newton Public Schools, the City must remain committed to our long-term financial health and being disciplined in our expenditures. This includes three areas in particular:

- (1) Settling collective bargaining agreements that maintain parity between growth in revenue and expenditures,
- (2) Following the planned funding schedules for pension and retiree health care (a.k.a., OPEB) liabilities, and,
- (3) Remaining vigilant in committing to and managing other municipal and school expenditures, both large and small.

Fiscal Year 2024 expenditures will total just under \$500 million and will be invested as follows:

Projected FY2024 Appropriations Budget - \$499.7 Million



Note: School Committee voted to transfer \$3.1M OPEB appropriation to City OPEB Acct, reducing NPS % by 1.14%

Commitment to Our Students

The delivery of an excellent education to our students by the Newton Public Schools (NPS) is perhaps the single most important municipal service as education is a ‘bedrock’ value of our community. The COVID-19 global pandemic has been one of the most unprecedented and challenging events of all our lives. Teachers and staff continue to see a significant impact on students’ academics and mental health.

The NPS budget has been strained over the past few years by new demands as a result of COVID-19, rising operational costs from inflation, declining one-time pandemic funds, and long-standing structural deficits. The operational override proposed by Mayor Fuller would have provided the Newton Public Schools operating budget

with an additional \$4.5 million on top of the previously announced 3.5% increase of \$9.2 million for a total of \$13.7 million. Ultimately, though, the voters decided not to approve the operational override.

Mayor Fuller has been working since then to find sustainable additional funding for NPS as well as for another part of the operating override, the addition/renovation of the Horace Mann Elementary School. The Mayor is keenly aware of the deleterious impact of the budget gap facing NPS, including potential increased class sizes and the potential loss of instrumental offerings at the elementary level.

Therefore, the Mayor continues to make a significant commitment to NPS in the City's Fiscal Year 2024 Operating Budget.

Initially, Mayor Fuller's increase to the NPS budget was 3.5% or \$9.17 million. Following the failure of the operating override, the Mayor took several steps.

1. Immediately, the Mayor requested that the City Council approve the strategic utilization of \$10 million of Free Cash to reduce required debt service to free up operating budget capacity on a sustainable basis, thereby increasing the NPS appropriation by \$600,000 per year.

While still pending City Council approval, this action had enabled the Mayor to adjust initially the NPS increase for FY2024 to 3.73% (\$9.77 million) for a total NPS appropriation of \$271.8 million.

Further, Mayor Fuller has taken several additional steps to provide sustainable additional funding for students and school buildings:

2. In addition to the \$9.77 million increase to the NPS budget base, Mayor Fuller has also provided a "bridge grant" of \$1.4 million toward the significant increase (14%) that the Commonwealth's Operational Services Division (OSD) has imposed upon municipalities for tuitions for Out-of-District Placements. We expect that NPS will be reimbursed by the state for these additional expenditures in the following fiscal year and the "bridge grant" will mean that the OSD increase does not negatively impact NPS operations in FY2024. This item must be approved by the City Council.

3. We have worked collaboratively with the Newton Retirement Board to increase the base pension on which retiree COLA's are calculated and to extend our full-funding date by one additional year to create a truly sustainable pathway forward to ensure full-funding of our pension system by August 2031 and to provide funding to move forward with the Horace Mann Elementary School addition/renovation. Approval of the increase in the base pension for retiree COLA's is subject to the approval of the City Council.

4. We have restructured our health insurance plans to provide access to excellent health care and a high level of plan designs while also implementing cost-saving measures for both our retirees and for the City and NPS.

As a result of the significant savings we will provide to our retirees (~\$700 per year in FY24 dollars) we will phase out our Medicare Part B Reimbursement Plan, saving NPS \$650,000 in FY2024 and an additional \$650,000 in FY2025.

5. Mayor Fuller has proposed to the City Council that utilize Free Cash to “absorb” the costs of two recent legal settlements against NPS in the amount of \$580,000, thus freeing up NPS funds for our student needs.

6. We have taken another important step to support NPS operations. As stated above, we initially allocated a 3.73% increase in funding to the Newton Public Schools for an increase of \$9.77 million dollars over last year’s FY2023 NPS budget for a total FY2024 budget of \$271.8 million.

On April 25th, with the Mayor’s support, the School Committee voted to move \$3.182 million in retiree health care costs out of this allocation and out of the NPS budget over to the City. The City will now provide the financial and administrative support for this program, assuming the costs, and taking the risks in support of the Newton Public Schools. The final numbers in the Mayor’s proposed budget for NPS reflect this change.

7. Finally, we have taken one last step to support our students as we present this holistic budget package. To minimize the impact on class sizes, the School Committee postponed funding for necessary summer maintenance projects within its 23 buildings. The Mayor will be allocating \$410K of ARPA funding for one-time NPS facility maintenance projects.

While the rate of change that our students and staff have experienced has been incredible, what will remain constant is the City of Newton’s and the Newton Public Schools’ commitment to serve all students, and that is the goal of this budget within the financial constraints we face. We will continue our commitment to meeting the academic, social and emotional needs of our children and to supporting our teachers and educators who do this important work and the Fuller Administration will continue to prioritize the funding of the Newton Public Schools.

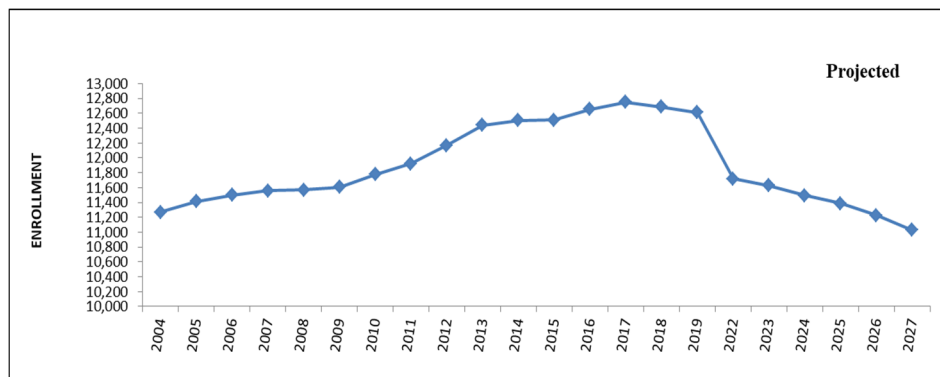
Student Enrollment Trends

In the coming academic year of 2023-2024, the Newton Public Schools is projected to serve 11,629 students in an integrated preschool, fifteen elementary schools, four middle schools, two high schools, and alternative high school programs.

The Newton Public Schools system-wide K-12 enrollment of 11,717 students in the current 2022-23 year is a decrease of 93 students from the previous year. This is the fifth year of a decline in enrollment.

The projected K-12 enrollment in 2023-24 of 11,629 students assumes an additional 88 fewer students in our classrooms. Several elementary schools are no longer experiencing enrollment pressure while some elementary schools continue to be enrolled at capacity. Newton’s secondary schools are expected to be enrolled at capacity for the next five years. Detailed enrollment information is found in the NPS [Enrollment Analysis Report](#).

NPS – Historical and Projected Enrollment Trends



Long-Range School Facilities Planning

Newton's successful capital investments in school facilities prior to COVID-19 had significantly improved the district's ability to create favorable class sizes, implement full-day kindergarten in 2019-20, reduce widespread school crowding, address condition issues, and improve space for districtwide programs for diverse learners.

Due to the financial impact of COVID-19, all major capital projects were placed on hold during the 2020-21 school year, with the important exception of a three-classroom addition at Oak Hill Middle School. This addition became available to students in September 2021.

Given the dramatic impact on City revenues and expenses brought about by COVID-19, two important projects, the Newton Early Childhood Program (NECP) and the new Lincoln-Eliot Elementary School at 150 Jackson Road, initially delayed, were quickly resumed with an allocation by Mayor Fuller of ARPA funds. NECP moved to their new home at 687 Watertown Street in January 2023 during the 2022/2023 school year, and the design phase of the Lincoln-Eliot Elementary School at 150 Jackson Road is well underway with construction beginning the fall of 2023.

The City of Newton held a Special Election on March 14, 2023 which posed three questions to the voters of Newton. An Operational Override (Question #1) was not approved. However, two debt exclusion questions (Questions #2 and #3) allowing for the amounts required to pay for the bonds issued in order to renovate or replace the Countryside Elementary School and the Franklin Elementary School were approved by the voters of Newton.

These new schools are long overdue and will be terrific additions to our City and the Newton Public Schools.

On December 15, 2021, the Massachusetts School Building Authority (MSBA) Board of Directors had voted to invite the Countryside Elementary School into the Feasibility Period of the MSBA's core grant program. An overview of the entire eight module MSBA process, from Eligibility Period to Project Closeout, can be found at [MSBA Module Overview](#).

Students should be in their new Countryside school by 2027 and work on designs for a new Franklin School will accelerate and follow a similar project schedule. The positive debt exclusion vote also means that the City of Newton will receive approximately \$20 million of the funding for Countryside from the Massachusetts School Building Authority, funds that are much needed and were contingent on the ballot question passing.

While the debt exclusions passed, the operating override which would have raised additional revenue to support the debt associated with the addition/renovation of the Horace Mann Elementary School did not. Although we will not be able to fund the other municipal initiatives that were included in the operating override, Mayor Fuller's commitment to NPS and the Horace Mann school community remains firm. Consequently, as mentioned previously, we have worked to adjust our pension and bonding schedules over the next few years. By pushing the pension funding schedule back one year and thus lowering our pension allocation as well as deferring some projects that otherwise would have been completed sooner, we are now continuing to move forward with the detailed design and construction of the Horace Mann addition/renovation, pending City Council approval.

The district's two oldest elementary school buildings, Underwood and Ward, will reach their centennials this decade. Both schools have low enrollment, outdated and undersized facilities, and are located on small NPS properties with districts that are adjacent to each other. A consultant has been selected for the Underwood and Ward School Facility and Enrollment study, and the Working Group began meeting in the Spring of 2023 to develop recommendations to address educational needs for the students in these two buildings. The study is anticipated to be completed in December 2023.

City Investments in Education

The NPS budget of \$268.7 million is supplemented by more than \$40 million funded by the City in the municipal operating budget for education related costs. These municipal costs for education include school building debt service, pension and retiree health care for certain school employees, school health and school nurse services, school crossing guards, school athletic field maintenance, school property insurance, removal of solid waste and recyclables from schools, snow and ice control at school locations, as well as school building water and sewer charges.

Commitment to Municipal Services and Our Residents, Businesses and Non-Profits

Salaries, Compensation, and Benefits

This Administration is deeply grateful to the approximately 915 municipal employees of the City who are working every day to make Newton greater, better and more beautiful. The costs of salaries, compensation, and benefits for the City's current employees are 74% of the municipal operating expenditures (excluding retiree pensions, retiree health benefits, debt service, and state assessments), and are consequently the single most important cost element.

When the Fuller Administration was tasked in April 2020 in the early days of the pandemic with making the very difficult decisions of reducing the FY2021 department expenditure budgets, one of the places that we had to evaluate was personnel. Funding the appropriate number of employees to provide City services, keep Newton safe, improve streets, sidewalks, and mobility as well as public buildings and infrastructure, cultivate economic, artistic and cultural development, plan for Newton's future, make Newton more "all age" friendly, address climate change, and provide appropriate financial and administrative staff to support the operations of the City continues to be a critical priority.

Although the FY2021 budget contained no layoffs or furloughs of permanent, full-time employees, we eliminated many historically vacant positions, and put many other vacancies on hold for either six months or a year. Thus, we began FY2021 with 19 fewer full-time equivalents (FTEs) in the budget, after moving forward with only the 4.5 most strategic and necessary hires. The FY2022 Budget included the restoration of many of the positions put on hold in FY2021 and added positions for the Finance/Payroll reorganization, as well as strategic positions to maintain a continuity of operations and to provide social, emotional, and mental health support for our vulnerable residents, particularly as we began to emerge from the crisis of the coronavirus pandemic.

The Fuller Administration has been extraordinarily careful throughout the pandemic, analyzing each position to ensure that we only add what we can sustain into the future.

The FY2024 municipal department budgets (excluding retiree pensions and health care) are increasing by 3.5% (while the school department budget is increasing effectively by 3.73% when the OPEB change is considered).

Within this 3.5% increase we have carefully and strategically invested in personnel. The FY2024 budget includes the elimination or deferral of 7 full-time and 3 part-time positions, and the addition of 5 part-time positions.

- Elimination/Deferral
 - Executive Office – PT Boards & Commissions Coordinator (carryover deferral from FY2023)
 - Treasury – Assistant Teller Supervisor (deferred in FY2024)
 - Financial Services – Payroll Analyst (carryover deferral from FY2023)
 - Information Technology – Network Administrator (eliminated in FY2024)

- Public Buildings – Plumber (deferred until January 1, 2024)
 - Police Department – PT Traffic Clerk (eliminated in FY2024)
 - Health & Human Services – PT Environmental Health Inspector (eliminated in FY2024)
 - Health & Human Services – Deputy Commissioner of HHS (eliminated in FY2024)
 - Newton Public Library – 2 Page FTE’s (eliminated in FY2024)
- Added/Restored
 - Planning – PT Transportation Grant Coordinator (added 0.32 FTE)
 - Police – PT Dispatchers (added 3 PT FTE’s)
 - Parks, Rec & Culture – PT Public Grounds Maintenance (added 0.49 FTE)

Collective Bargaining Agreements

As mentioned earlier, salaries, compensation, and benefits for the City’s approximately 915 full-time and many part-time dedicated employees comprise 74% of the municipal department budgets. Most of the full-time employees (83%) are members of a union and are covered by Collective Bargaining Agreements. Although not our preference, Collective Bargaining Agreements are not always settled before a contract has expired. Generally, the new contract, once it is settled, will be retroactive, with an effective date coinciding with the expiration of the prior contract. In such cases, the employees will usually receive a retroactive payment for wages that would have been earned under the terms of the newly negotiated contract. In anticipation of this, we set aside a wage reserve, recognizing that we will always reach agreement and will owe retroactive payments to our valued employees. In other words, we set aside funds to pay for increases in pay so that the funds are available once a contract that has expired is settled.

We have successfully settled all but one contract through FY2023, with most remaining in effect through the end of FY2024. When contracts are open for several years, we carry-forward the retroactive portion of the prior years’ wage reserve and continue to budget a current year wage reserve that equals the projected settlement of each contract.

Because of the accounting of wage reserves, some of the FY2024 department budgets reflect what appear to be significant wage increases but are really reflecting the compounding effect of having settled collective bargaining agreements that had expired, perhaps as far back as FY2018. The Police Department is one such department.

STATUS OF CONTRACTS – MUNICIPAL DEPARTMENTS

Settled through June 30, 2021

- Newton Police Association (NPA) – 111 budgeted positions

Settled through June 30, 2023

- MNA – Nurses – 30 budgeted positions
- Newton Police Superior Officers Association (NPSOA) – 35 budgeted positions

Settled through June 30, 2024

- Teamsters – 161 budgeted positions
- AFSCME – 3092 & 3092B – City Hall Associates – 183 budgeted positions
- AFSCME – 1703 – Engineers – 13 budgeted positions
- AFSCME – 2443 – Foremen – 22 budgeted positions
- AFSCME 2913 - Parking Control & Crossing Guards – 10 FT Parking Control Officers budgeted, and 52 PT Crossing Guards budgeted
- International Association of Firefighters (IAFF Local 863) – 193 budgeted positions

STATUS OF CONTRACTS – NEWTON PUBLIC SCHOOLS

Settled through June 30, 2023

- Newton Teachers Association (NTA) – 2,225 members as of March 22, 2022
- Newton Educational Secretaries Association (NESA) – 84 members as of March 22, 2022
- Newton Public School Custodians Association – 92 members as of March 22, 2022

In addition to our unionized employees, the City employs approximately 150 municipal and 70 NPS unaffiliated, or non-unionized, staff members.

The City is committed to fair and sustainable agreements and to settling collective bargaining agreements that maintain parity between growth in revenue and expenditures.

Health Insurance Benefits

The City provides health insurance benefits to more than 8,600 people. This includes approximately 2,400 active employees and their dependents and more than 2,800 retirees and their spouses.

The City has been able to provide excellent health benefits by being self-insured. Being self-insured means that rather than paying an insurance company to pay medical and pharmacy claims, the City of Newton pays the claims ourselves with the help of a third-party health insurance carrier to process the claims on our behalf.

The costs of a self-insured program fall into three main areas: (1) the actual cost of claims, (2) the administrative fees charged by the health insurance carriers, and (3) an “Excess Policy” or “Stop Loss Policy” for catastrophic claims. Rather than paying “premium” rates, the City has worked with its two insurance carriers to develop “working” rates. These working rates are projections of costs. If actual costs are less than projected, the City “saves” money. Conversely, if the actual costs are more than projected, the City must pay the difference. To do this, the City maintains a Health Insurance Trust Fund to manage any variances between the projections and actuals.

Sound business practices suggest that employers should bid out their group health coverage periodically to ensure their health plan providers are delivering competitive pricing and services. The City of Newton had planned to competitively bid its health insurance benefits in 2020; however, those plans were disrupted with the onset of COVID-19 in March 2020. Consequently, we started the process in August 2022.

The first step in our competitive bidding process for health insurance benefits was to use a public, transparent bidding process to issue a Request for Proposal seeking a health insurance consultant to manage and oversee the City’s procurement of group health insurance and prescription drug plans for our eligible employees and retirees. The City established an Evaluation Committee, comprised of members of City administration, NPS administration, and Union leadership to review, evaluate and rate each proposer’s technical information, and determine the most advantageous consulting firm based on its Technical and Price Proposals.

In November 2022, the Evaluation Committee selected Lockton Companies – Boston (Lockton) as our consultant for procuring group health coverage. Since then, Lockton oversaw the collection of data, drafted a request for proposals (RFP) for health insurance and prescription drug plans, analyzed the bids, coordinated the interview process for selected carriers, presented to the City and our Insurance Advisory Committee, and worked with the City and NPS administrations to coordinate the implementation of selected plans. (The Insurance Advisory Committee is made up of the union leadership from each City and School union, as well as a retiree representative.)

Our goals in the procurement process were to continue providing high-quality health plans that balance cost and value for our employees, retirees, and taxpayers alike and to minimize disruption in plan designs and pharmacy benefits.

The City of Newton following extensive, substantive evaluation from Lockton and a unanimous vote by the Insurance Advisory Committee determined that the proposal from Blue Cross Blue Shield of Massachusetts (Blue Cross) is the most advantageous carrier proposal. The Blue Cross proposal includes a fully-insured plan for Medicare eligible retirees and a self-insured plan for all active employees and non-Medicare eligible retirees.

Below lists some of the advantages of Blue Cross that were of specific interest to us:

- Over 80 years of experience servicing municipalities and the only carrier in the Commonwealth with a dedicated team of specialists who focus solely on the workforce and health benefit needs of municipal employees.
 - ✓ *This means Blue Cross understands our workforce and our needs.*
- Blue Cross has a regional network that includes 100% of the hospitals in Massachusetts and more than 75,000 providers across all six New England States.
 - ✓ *This means expanded access to doctors and hospitals for our employees and retirees.*
- Blue Cross offers a broad national network for prescription medicine which includes approximately 66,000 pharmacies including all the major chain pharmacies.
 - ✓ *This means easier access to the medication our employees and retirees are prescribed by their doctors.*
- Blue Cross has the highest member satisfaction rate in the industry and for six years running has been recognized by JD Powers for award winning service.
 - ✓ *This means excellent service for our employees and retirees.*
- Blue Cross has ranked in the top 10 percent of health plans nationally for clinical quality and member experience.
 - ✓ *This means high quality plans for our employees and retirees and the high-quality experience they need.*
- Blue Cross views health care as a racial and social justice issue and leads the way in addressing health inequities.
 - ✓ *This means Blue Cross believes in what we believe in.*

Throughout the bidding process, we sought to have the bidders match the current benefits provided to our employees and retirees by the City. Since the State's Group Insurance Commission (GIC) does not provide client specific plan design, the Fuller Administration asked our benefits consultant, Lockton, to provide a full analysis of the GIC health insurance plan costs and plan designs as compared to the Blue Cross proposal. The analysis showed that while a transfer to the GIC would result in overall lower premium costs, it would result in significant cost shifting/increased costs to employees, dependents, and retirees.

Final results of the procurement process were presented to the City's Insurance Advisory Committee. On March 29, 2023, the IAC submitted a unanimous recommendation to Mayor Fuller requesting that the City select Blue Cross.

Following an extensive, substantive evaluation, the City of Newton has selected Blue Cross Blue Shield of Massachusetts as our new health insurance carrier effective July 1, 2023.

Active Employees and Non-Medicare Eligible Retirees

Minimizing disruption for our active employees and non-Medicare eligible retirees in networks, benefits and pharmacy benefits was one of our key goals and Blue Cross provides just this with plan designs that mirror our current health plans. As a result of significant increases in utilization and costs of actual claims, as well as a complete restructuring of our rates, we anticipate that our active employees will experience an “average” increase of 13% (ranging between 8% and 20% increases) in the “working rates” for this group of subscribers.

Medicare Eligible Retirees

Prior to now, the City has been “self-insured” for our retiree Medicare complement plan where the City was responsible for the actual cost of all claims and we developed our own “working rates” to cover these costs. With Blue Cross, we will become part of a “commercially-insured” plan where Blue Cross will charge the City “premium rates” each month and the City will no longer bear the risk of being responsible for any claims over those amounts.

This change is projected to save our Medicare eligible retirees approximately \$636 per year (\$53 per month in monthly premiums) based on projected FY2024 rates. An additional benefit to our Medicare eligible retirees is that they will have a \$0 co-pay for all doctor visits. This will save an average retiree who has 7 doctor visits per year an additional \$70. Altogether, Medicare eligible retirees, with 7 doctor visits per year, will see savings of \$706 dollars next year (and can expect savings to escalate in subsequent years as well).

One drawback to the initial Blue Cross plan for Medicare eligible retirees was that it did not include a Maximum Out of Pocket prescription drug cost per year; this was not acceptable to us, and we were able to negotiate a \$1,500 Maximum Prescription Drug Out of Pocket Cost per year.

Medicare Part B Reimbursement

Mayor Fuller and her Administration have been looking closely at the City’s Medicare Part B Reimbursement program since she assumed office in 2018.

Decades ago, as Medicare coverage expanded and improved, the City of Newton, as well as most municipalities, began to pay a Medicare Part B Reimbursement subsidy as an incentive for Medicare eligible retirees to select Medicare as their health insurance plan.

On March 16, 2009, Newton’s Board of Aldermen voted to accept the provisions of Section 18A of Chapter 32B of the Massachusetts General Laws which require all eligible municipal retirees to enroll in Medicare. This acceptance allowed the City to enroll eligible retirees in health insurance plans that supplement Medicare coverage, resulting in cost savings to both retirees and the City.

Throughout the years, most municipalities have eliminated the Medicare Part B Reimbursement Program as retirees no longer required an incentive to enroll.

The City of Newton has resisted that action until we could find cost savings for our valued retirees.

Our change to the fully-insured Blue Cross Medicare Complement Plan will save our retirees approximately \$700 per year, beginning in July 2023.

Therefore, the City has decided to phase out over the next two fiscal years the payment of the Medicare Part B Reimbursement program. We will provide the current benefit level in FY2023 of \$925.44 in June 2023; we will provide one-half of that amount in FY2024 of \$462.72 in June of 2024; we will end the program in FY2025.

People retiring from the City of Newton after June 30, 2023, will not be eligible for the Medicare Part B Reimbursement Program.

By phasing out the payment of the Medicare Part B Reimbursement program, the Newton Public Schools will save approximately \$650,000 in FY2024 and an additional \$650,000 in FY2025.

Timeline

The City is now in the process of working with Blue Cross to prepare for the City's open enrollment period starting on May 3, 2023. Staff from Human Resources, Finance, Information Technology, Payroll, and the School Department will work closely with Blue Cross to make the changeover as smooth as possible for our employees and retirees.

Retiree Benefits: Pensions and Healthcare

The City's unfunded long-term pension and retiree health insurance obligations currently exceed \$700 million.

Our employees earn two types of compensation — current and deferred. Salaries and other forms of current compensation (e.g., health insurance) are received by employees during their employment. Deferred compensation is received after the employee retires and only when vesting and age requirements have been met.

There are two major categories of deferred compensation for City of Newton employees. First are pensions, monthly payments to a retiree from an investment fund to which both the employee and the City of Newton have contributed. Notably, public employees in Massachusetts, including employees of the City of Newton, are not covered by, and therefore do not receive, Social Security benefits. The second category of deferred compensation is retiree health insurance and life insurance, otherwise known as non-pension post-employment benefits or "Other Post-Employment Benefits" or OPEB.

The City's commitment to funding long-term retiree obligations — specifically pensions and OPEB — following sound financial policies and developing conservative budgets and forecasts will be key factors in the City's ability to maintain the Aaa rating it has earned from Moody's Investors Service. Commitment to fully funding the long-term retiree liabilities is also critical to maintaining the City of Newton's financial sustainability.

Pensions

The City of Newton Contributory Retirement Plan is our pension plan. It covers more than 3,500 current active employees, inactive participants, and retired employees and beneficiaries. (Inactive refers to people who no longer work for us but have left their contributions on deposit in the plan to take at a later date.)

Notably, the teachers of the Newton Public Schools are not a part of the City of Newton Retirement plan. Rather, they are part of the Massachusetts Teachers Retirement System, and the City is not "responsible" for their pensions. However, other school employees (e.g., aides, custodians, and secretaries) are part of the City's plan. In the City of Newton Contributory Retirement Plan, school employees make up 42% of the active employees and account for slightly more than 20% of the unfunded liability.

Prior to the 2008 downturn in the economy, the total funded actuarial accrued pension liability was approximately 67%. However, because of the dramatic drop in the value of the stock market experienced by the fund in the years of the "Great Recession" combined with the increased life expectancy of Americans, the total funded actuarial accrued liability fell to a low of 50.8% but has now finally begun to increase and is 61.1% as of January 1, 2022. Unfortunately, Newton continues to lag many of the surrounding communities in percent funded for this significant liability.

As a result of the 2022 projected investment losses experienced by the City of Newton Contributory Retirement System, the City's actuary, Segal Consulting, has determined that, notwithstanding a 9.6% increase to the annual appropriation, it will not be possible to fully fund the retirement system by the year the Retirement Board had been projecting, FY2030.

Newton also lags other communities when determining the base pension on which any Cost-of-Living Adjustments will be applied. Only six of the 104 pension systems across the Commonwealth limit COLA adjustments to the first \$12,000 of a pension. All other 98 pension systems provide COLA adjustments to their retirees on a base pension between \$13,000 and \$18,000.

Recognizing that our funding schedule by necessity must be moved to at least FY2031, Mayor Fuller asked the Retirement Board to consider the following:

1. Increase the COLA base for our retirees from \$12,000 to \$13,000 effective July 1, 2023, from \$13,000 to \$14,000 effective July 1, 2024, and from \$14,000 to \$15,000 effective July 1, 2025 to provide inflationary relief to our valued retirees.
2. Extend the estimated full-funding date by one additional year to August 2031 (FY2032) in order to not only absorb the 2022 investment losses, but also provide cost relief to the City of Newton.

At the April 6, 2023 special meeting, the Retirement Board voted 5-0 to extend the funding date, as requested by Mayor Fuller, assuming a 6.6% annual increase to the rate of funding (rather than the previous assumed rate of 9.6% annual increase to the rate of funding). As part of their vote, the Board made the change in funding date contingent upon the City Council approving the three \$1,000 increases to the retiree COLA base, over the next three years. In FY2024, the COLA base will be \$13,000; in FY2025, the COLA base will be \$14,000; and in FY2026, the COLA base will peak at \$15,000. This proposal is in front of the City Council this spring.

The Fuller Administration believes this action will provide relief to our retirees from inflationary pressures, provide relief to the City's operating budget with a more sustainable rate of growth in the annual pension appropriation increase, and ensure that the City has a viable pathway forward to reaching full funding of the pension system by August 2031.

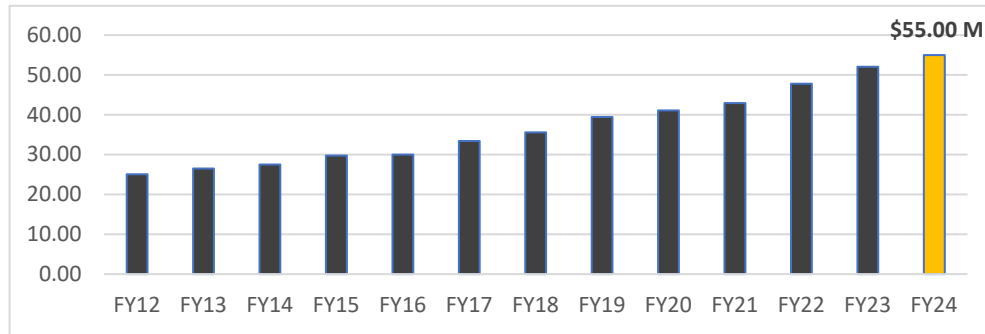
An important ancillary benefit is that the City's operating budget can now absorb the debt service for the addition/renovation of the Horace Mann Elementary School.

Maintaining the newly-implemented funding schedule of 100% by August 2031 (FY2032) will remain one of the highest priorities for the Fuller Administration.

The magnitude of the pension and healthcare liabilities and the complexity of the issues as well as changes in accounting requirements require the City of Newton to focus on long-term financial sustainability while simultaneously providing current services and capital investments, all while maintaining a Aaa credit rating.

The Fuller Administration has included the 6.6% year-over-year increase in the pension appropriation, as well as the 50% reduction in the Medicare Part B reimbursement in the FY2024 budget.

FY2024 Pension and Municipal Retiree Health Care - \$55.0M



Retiree Health Insurance or OPEB

In addition to pension obligations, the City of Newton (like most municipalities) provides health insurance to retirees (known as Other Post-Employment Benefits or OPEB). The Commonwealth sets the minimum percentage that a city must contribute to retiree health insurance at 50%. The City of Newton provides a contribution rate consistent with that which our retirees were receiving when they were an active employee (to date typically 80%), which is more than the minimum required level of contributions and benefits. However, in contrast to pensions, the State does not yet require pre-funding for retiree health and life insurance benefits.

In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

In 2010, the City established an Other Post-Employment Benefits (OPEB) Liability Trust Fund and subsequently established an OPEB Trust Agreement for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for these retirement health care benefits.

The FY2014 Budget by the Mayor Setti Warren Administration included the implementation of a funding schedule for the City’s OPEB liability for the first time; the Warren Administration appropriated approximately \$200,000 or 2.5% of the salary for all newly insured employees beginning July 1, 2012, with the expectation that this percentage would increase gradually over time. Additionally, it was anticipated that as the City brought on more and more new employees, this funding method would cause the appropriation to grow exponentially.

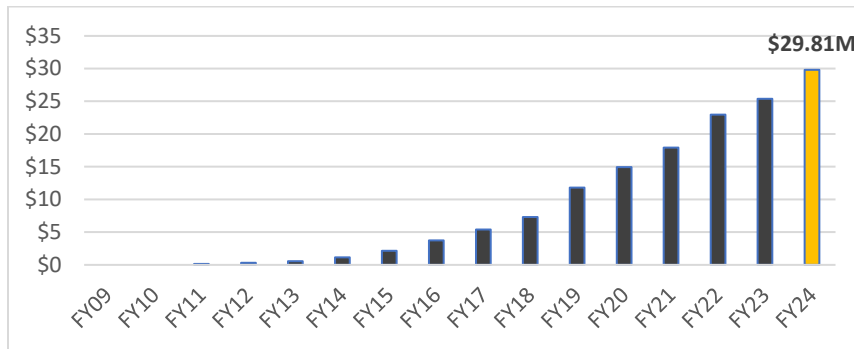
The Fuller Administration, in its first Budget, increased the percentage in the FY2019 Budget from 3.25% to 3.50% for newly insured employees beginning July 1, 2012 and increased the percentage further to 3.60% in the FY2020 budget. The Fuller Administration increased the percentage to 3.65%, in FY2022, then to 3.70%, in FY2023. In FY2024, the City intends to increase that percentage another 5 basis-points to 3.75%.

It is important to note that the City should be setting aside approximately 8% of the salary of all employees and it is the goal of the Fuller Administration to keep moving towards the 8% level.

Due to the continued addition of employees (1,466 currently) covered using this financial strategy as well as the gradually increasing percentage, the February 28, 2023 value of the OPEB liability trust fund totaled \$28.33 million (an increase of \$2.96 million over the June 30, 2022 value).

As mentioned earlier in this analysis, with the Mayor’s support, the School Committee voted in April 2023 to move \$3.182 million in retiree health costs out of their allocation and NPS budget over to the City. The City will now provide the financial and administrative support for this program, assuming the costs, and taking the risks in support of the Newton Public Schools. The final numbers in the Mayor’s proposed budget for NPS reflect this change.

Projected OPEB Trust Fund Value (June 30, 2023- \$29.81M)



Instead of pre-funding, most municipalities use a policy of pay-as-you-go for retiree health insurance benefits. In other words, the city or town pays the cost of health insurance benefits for retirees from current operating revenues as those benefits come due. As Newton is setting aside a small portion of its liability, the City’s policy is primarily pay-as-you-go until FY2033.

The Unfunded Actuarial Accrued Liability for the City of Newton’s Other Post-Employment Benefits as reported by our Actuary, Segal Consulting, as of June 30, 2021, is \$417.6 million. The discount rate (or expected rate of return on the assets) for this valuation is 6.9%.

However, as a result of a change in how OPEB obligations are now calculated and reported under GASB 74/75, all Other Post-Employment Benefit Plans that operate on a “pay-as-you-go” policy (as Newton does) must value their plan using a 20-year municipal bond index rate, known as the “Go-bond” rate. The Go-Bond rate is typically significantly lower than the discount rate utilized for a long-term investment strategy.

When the Go-bond rate decreases, the amount of the unfunded OPEB liability increases; conversely, when the Go-bond rate increases, the amount of the unfunded OPEB liability decreases. In periods like the United States is currently experiencing with volatile interest rates, the level of the liability can fluctuate widely.

The “Go-bond” rate decreased from 3.5% for plan year ending June 30, 2019, to 2.21% for plan year ending June 30, 2020. This change in the Go-bond rate resulted in more than a \$200 million increase, resulting in a total unfunded OPEB liability as of June 30, 2020 of \$870 million. For reporting purposes, the City’s external auditor, Clifton Larson Allen, has reported an Unfunded Accrued Liability of \$667 million as of June 30, 2022, utilizing a Go-bond rate of 3.66%.

The differences in these methodologies have caused wide swings in the estimates of the unfunded liability. Unfortunately, until such time as the City has significantly reduced this unfunded liability, we are likely to continue to see volatility in this valuation.

The way that the City had been dealing with each of these significant long-term retiree healthcare liabilities over the past several decades is problematic. That practice has transferred costs of former Newton taxpayers to current and future Newton taxpayers, costs that were accrued throughout the past few decades.

The year in which residents receive services from employees is the year the City should set aside funds for the compensation the employees will receive in their retirement. The Fuller Administration is committed to increasing gradually the funding for current employees for their retiree health insurance to do just this.

The Fuller Administration remains committed to the funding strategy of investing significantly in the pension system liabilities for the next nine years until full funding, currently projected in August 2031. Then the City of

Newton will begin significant investments in the retiree health care or OPEB liability with a goal toward full-funding by 2045.

Investing in Capital Infrastructure

One of the top priorities for the Fuller Administration is to maintain and improve the City of Newton's infrastructure. The school buildings, police and fire stations, parks, libraries, roadways, and emergency and public works vehicles are some of the many assets that require regular replacement and maintenance to continue to meet the needs of this active city. In order to plan funding for these projects, the City of Newton has created a Capital Improvement Plan, updated semiannually, that provides a five-year outlook for capital investments.

The FY2024-FY2028 Capital Improvement Plan (CIP) is a mission and risk-based prioritized list of investments in the capital assets of the City of Newton. The CIP addresses infrastructure needs, reflects community values, supports city operations, programs, and services, and exemplifies sustainable financial, accessibility and environmental best practices. The prioritization plan was developed by thoroughly evaluating the City's capital needs, the vision and goals of each department along with the services they will provide over the coming years, and Mayor Fuller's overarching goals. This results in a plan put into a financial context by which to evaluate investments over the next five years.

The Supplemental FY2024-FY2028 CIP provides updated funding plans for projects, schedules and funding.

Debt Service

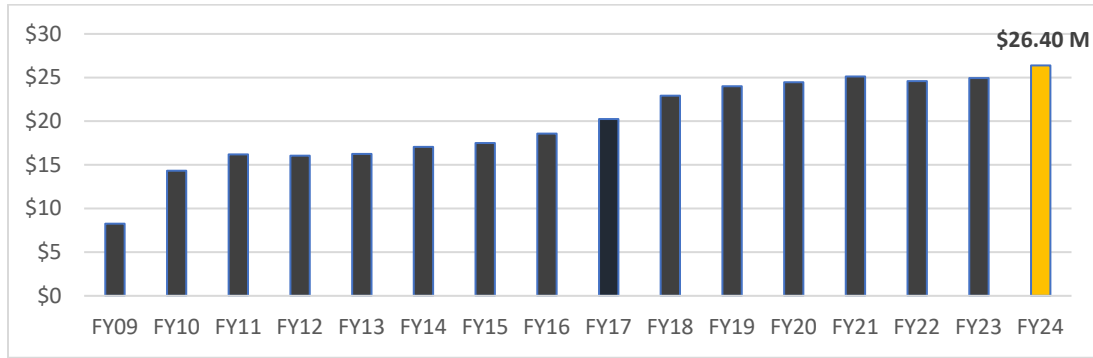
Capital assets with a life expectancy of ten or more years that cost more than \$150,000 are typically paid for through bond sales by the City of Newton. Massachusetts' municipal finance law limits the total amount of long-term debt that the City can incur for most purposes to not more than 5% of the City's equalized valuation (i.e., the full and fair cash value of the property in Newton). The City's current (October 2022) equalized valuation is just slightly more than \$36.3 billion, which means that the current statutory debt limit is just over \$1.8 billion. The City's current outstanding principal of bonded debt is significantly lower and approximates \$349 million or 19.4% of the City's debt capacity.

In conjunction with the state statutory debt limit, the City of Newton has developed its own financial policy of limiting debt service on long-term bonded debt to between 4.0% and 7.5% of the annual General Fund budget. In addition to the general fund debt service, which includes both principal and interest, the FY2024 budget shows the total debt service at 5.3% of the Fiscal Year 2024 General Fund Budget.

In addition to the current bonded debt in the City's operating budget, significant capital investments are currently underway in the Water, Sewer and Stormwater infrastructure systems. The water, sewer and stormwater systems are in separate enterprise accounts rather than part of the City's General Fund because fees, rather than taxes, pay for these services. Further, the City includes annual appropriations within the operating budget, the CIP, the Community Preservation Act as well as the use of Free Cash to accomplish additional infrastructure improvements.

The City also leverages funding from the State and Federal government to pay for capital improvements. Funding sources range from the Massachusetts School Building Authority and the State Chapter 90 infrastructure funds to the Massachusetts Transportation Improvement Program 3 (TIP) and federal Community Development Block Grant (CDBG) funds. Private developers also provide mitigation funds that help pay for such improvements as street, sidewalk and traffic signal improvements, undergrounding of utilities, and water and sewer upgrades. The Fuller Administration will continue to utilize these different funding strategies, as well as ARPA funds as allowed, to further improve the City's infrastructure.

General Fund Projected FY2024 Debt Service - \$26.4M

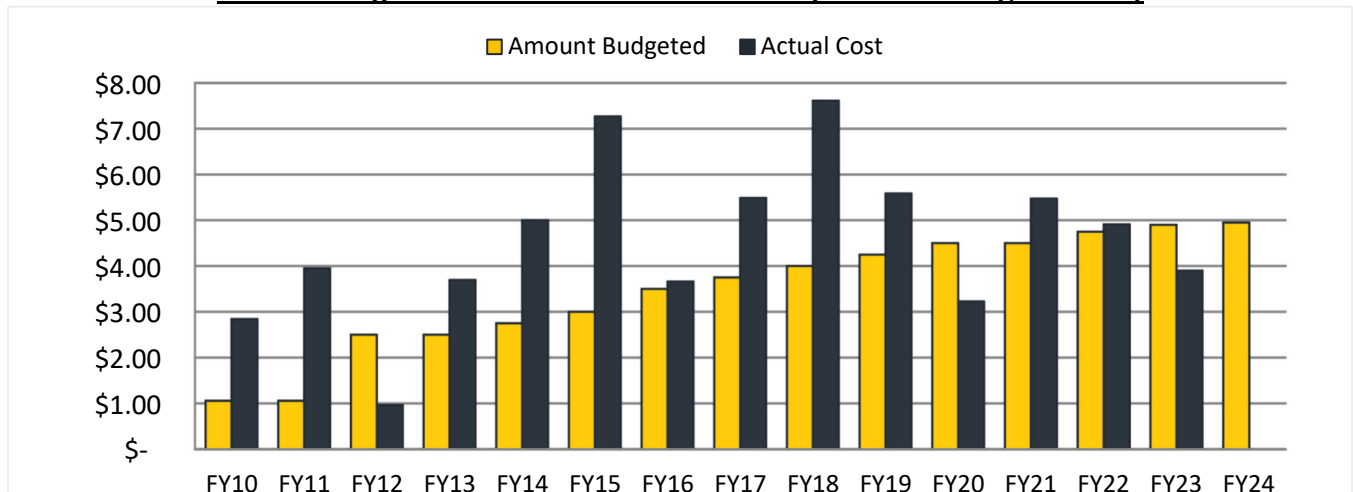


Cost of Removal of Snow and Ice/Inclement Weather Expenditures

The policy of the Fuller Administration has been to increase the annual amount appropriated for the removal of snow and ice and to address the cost of other significant storm damage until the appropriation equals at least the average cost of the previous seven to ten years. The current target average is \$6.0 million.

Due to budgetary constraints, the FY2024 budget for the removal of snow and ice has only been increased by \$50,000, bringing next year’s total budget for this purpose to \$4,950,000.

FY2024 Budgeted Reserves for Costs of Snow/Ice Removal (\$ millions)



Solid Waste, Recyclables and Soft Yard Waste

The Sustainable Materials Management Division of the Department of Public Works manages trash, recycling, yard waste, organics and household hazardous waste generated by residents through curbside collection and drop-off collection at the Newton Resource Recovery Center. Trash and recycling services for municipal buildings are also in this Division’s purview.

The residential trash and recycling generated in FY2020 grew by 3% and 0.7%, respectively, over FY2019 as a result of more time spent at home due to the pandemic. Residential trash and recycling generated in FY2021 increased by 5.4% and 2.1%, respectively, compared to pre-pandemic FY2019. Through March of FY2023, trash tonnage has decreased year over year by 5.7%, which is a 6.2% decrease over pre-pandemic levels. Recycling tonnage has decreased by 6.1% year over year, and is 3% lower than pre-pandemic levels.

Newton DPW started an in-house yard waste collection operation in April 2022. This change was implemented because the previous contractor was not able to provide service that met resident expectations, primarily due to staff shortages and supply chain issues causing lengthy equipment downtime. Bringing this operation in-house

also has potential to save money compared to the increasing costs of private haulers. Overall, this in-house program has been beneficial to residents, staff, and to DPW operations.

In 2022, Newton DPW added six positions to form the yard waste crew and rented four rear-load packer trucks. During the spring and fall heavy seasons, the daily operation was supplemented with overtime staffing in the evenings. The small packers used for servicing public space trash and recycling containers assisted the yard waste collection operation during overtime shifts. At times when the volumes of yard waste were especially high, the routes were not able to be completed on the collection day. The carry-over for these uncompleted routes was successfully completed within one day throughout the 2022 yard waste season, whereas the previous two years with the contractor had led to occasional two-day delays in service. Additionally, during the winter off-season, the yard waste crew served as additional early morning staffing to salt and plow roads during snow and ice operations.

The processing cost of recyclables increased from \$60/ton in FY2019 to \$89/ton in FY2020 as a new contract took effect. This significant increase is a result of global shifts in supply and demand for recyclable commodities. Prior to 2018, China had been purchasing 40% of the world's recycling. In 2018, the China National Sword policy placed import restrictions on recyclables that effectively banned imports of scrap plastics and paper. An increased demand for higher quality recyclables has also increased operational costs in collection and sorting of single stream recycling. As other overseas buyers were sought and domestic markets have opened up, pricing has leveled out, but the commodity value of the recovered materials is still recovering. The \$89/ton cost is a cap on the price and will adjust as recyclable commodity values increase.

The Newton Sustainable Materials Management Commission, an advisory body to the Mayor and City Council, completed in November 2021 an important report *Setting the Path to Zero Waste: Recommendations on the Future of Residential Curbside Waste Management in Newton*. This report presents the Commission's findings on the current and future trends in residential waste management and their recommendations for action. In conjunction with a state-funded study that DPW is working on, the City is currently examining critical next steps on residential trash and recycling collection, hauling and disposal.

Free Cash, Reserve for Abatements, and Rainy-Day Stabilization Fund

Free Cash

Free Cash is technically the accumulated difference of unrestricted funds between General Fund revenues and expenditures on a cash basis of accounting. In less technical terms, free cash is the remaining, unrestricted funds from operations from the previous fiscal year. Free Cash comes from unanticipated actual revenues in excess of revenue estimates (including overlay surplus), unexpected unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year.

The Massachusetts State Bureau of Accounts certifies free cash and it is not available for appropriation until certified. On October 5, 2022, we received notification from the Department of Revenue that our Certified Free Cash as of June 30, 2022 totals \$28,860,460. This year's Certified Free Cash is significantly higher than normal due to an unexpected revenue from a contested property value case involving Eversource (\$8M) and early payment of a "Payment in Lieu of Taxes" from a non-profit organization (\$2.2M).

The City pays close attention to the amount and uses of Free Cash. The City consciously and transparently integrates the use of free cash into our budget and financial strategy.

Free cash in the Fuller Administration is used in a prioritized manner in keeping with the City's Financial Management Guidelines.

- First, a maximum of \$1.5 million will be used as a general revenue source for the ensuing year's operating budget.
- Second, Free Cash may be used to replenish Reserve Funds depleted in the previous year.
- Third, a minimum of forty percent (40%) of the remaining certified Free Cash will be put in the Rainy Day Stabilization Fund until the Rainy Day Stabilization Fund reaches its target level. (The City reached its target level several years ago, but as the operating budget increases, the City must add monies into the Rainy Day Stabilization Fund to maintain the 5% funding level if interest earned on this fund is not sufficient to do so. Moreover, as discussed below, the Fuller Administration is increasing the Rainy Day Stabilization Fund to 6% over the next three years.)
- Fourth, any additional Free Cash will be used for one-time, non-recurring expenditures.
- When Free Cash funds are still available after the first three priorities, as they are this year, we prioritize one-time capital expenditures, particularly those with bonding terms of 10 years.

Significant initiatives for which June 30, 2022 Certified Free Cash has been utilized include the following:

- Contribution toward the construction of the new Lincoln-Eliot at 150 Jackson Road to free up \$600K of annual operating funds which have been permanently added to the NPS appropriation (\$10M),
- Replacement of the two turf fields at Newton South High School (\$3.2M),
- "Bridge grant" to NPS toward the significant increase that the Commonwealth's Operational Services Division has imposed upon municipalities for Out-of-District Placements (\$1.4M),
- Two separate Legal Settlements against NPS (\$580K),
- McKinney Vento - NPS (\$245K),
- Large vehicle/construction equipment purchases (\$1M),
- Purchase of 2 trackless sidewalk plows (\$300K),
- Replacement of Fire Department Engine 7 (\$800K),
- Supplemental appropriation for Fire Overtime (\$1.5M),
- Police IT and Parking Lot Paving & Security (\$820K),
- Police Cruisers (\$260K),
- Replacement of Newton Free Library HVAC system (\$750K),
- Demolition of 91 Newtonville Avenue (\$175K),
- Election Equipment (\$250K), and
- FY2024 General Fund Revenue (\$1.5M).

Rainy Day Stabilization Fund

In 2010, the City of Newton established a Rainy-Day Stabilization Fund to serve as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic event requiring a significant expenditure. More specifically, these funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the City's control, or an unusually large expenditure resulting from such things as a catastrophic weather event. The funds remain segregated to prevent the reserves from being depleted for other city needs, and to demonstrate that resources are being set aside for extraordinary and unforeseen revenue disruption or catastrophic expenditure.

Through collaboration with the City Council's Finance Committee, the Comptroller, members of the City Council, and the Warren and Fuller Administrations, the fund reached its goal of 5% of the total operating budget several years ago. The current fund balance totals approximately \$24.4 million. The City uses interest earned, through the Rainy Day Stabilization fund, to help keep the balance at 5%. With current interest rates approximating 5%, the Administration did not need to supplement interest earnings on this account this year to reach 5% of the FY2024 budget.

Based on the extension of the full-funding of the pension system, as well as changes to the Moody's ratings methodology, we believe it is prudent for the City to increase the balance of the Rainy Day Stabilization Fund over a three year period to 6% of the total operating budget.

Therefore, the Mayor has submitted a request in conjunction with this budget document to transfer a total of \$1,750,000 from FY2023 unexpended appropriations to bring this total up to 5.33% of the FY24 budget. We will submit a similar request in each of the next two years, until such time as the fund balance totals 6% of the operating budget.

One of the most important financial strategies that the Fuller Administration has made throughout the financial uncertainties of the past three years is the maintenance of the City's Rainy Day Stabilization Fund. Although we have experienced unprecedented and tremendously uncertain times, we knew it was important to maintain this fund. We were fortunate to benefit from an infusion of one-time federal funds and will emerge from this crisis with this Rainy Day Stabilization fund intact so that we can have funds to tap into to absorb any significant reductions in state aid and revenues, catastrophic weather events, a dramatic economic impact of a surge in new variants of the coronavirus, or other world and economic events. Furthermore, we haven't had to reduce current operational expenditures to replenish the fund.

Tax Overlay – Reserve for Abatements

Cities and towns by state law must maintain an account to fund anticipated property tax abatement, exemption and receivable exposure for all fiscal years. This is referred to as the "Overlay" account. As part of the annual budget and tax rate process, Newton's Board of Assessors must analyze the balance in the overlay account and determine whether it is adequate to fund anticipated property tax abatements, exemptions and receivables during the upcoming fiscal year in addition to existing abatement, exemption and receivable exposure for all previous fiscal years, including all tax relief and tax deferral programs.

As a general rule, each year the City of Newton sets aside approximately one percent (1%) of the property tax levy for this reserve.

Currently, the City's Overlay account has a higher balance because of higher than usual potential tax abatements.

More specifically, Eversource has been appealing their assessed value from the City of Newton (as well as Boston, Brookline, Cambridge, and Springfield) since FY2012. Eversource has lost cases with Boston and Springfield but had continued to withhold payment and appeal to higher courts. The Board of Assessors have set aside a cumulative amount of \$8 million over the last decade for a potential tax abatement, depending on the outcome of the appeal. However, last spring the City received full payment of the principal and interest for Fiscal Years 2013 through 2022 from Eversource, totaling approximately \$12.7M. As the City already had set aside \$8 million in the Overlay fund, \$8M of the \$12.7M was transferred to Free Cash and is available for investments. The remaining \$4.7M from the Eversource payment (as well as the \$8M already accumulated in the Overlay Fund) must remain in reserve until the appeal process is resolved.

In other words, Eversource has not withdrawn their appeals against the City of Newton. Therefore, their case continues to move forward. Should Eversource prevail, the City of Newton will be responsible for returning all payments in this case plus interest at the rate of 8% per annum beginning on the date of receipt of their payment. Therefore, the full amount of the Eversource funds in question (now estimated at \$13.7 million) must be treated as a liability for the City and must remain reserved until the appeal is adjudicated.

Additionally, the Overlay account must include reserves to cover any potential liabilities for all other property owners contesting their values, total real estate and personal property receivables, the City's tax relief programs, as well as the 2023 abatement filings.

Beyond the General Fund: Water, Sewer, Stormwater Enterprise Funds

Newton's Public Works Department through its Utilities Division supplies all water distribution and provides all sewer operations to more than 32,000 households, institutions, and businesses, and maintains stormwater drainage systems throughout more than 300 miles of roadways. While Newton purchases its water from the Massachusetts Water Resources Authority (MWRA) and sends its sewage to the MWRA treatment facility at Deer Island, the City owns all the pipes, drains, and infrastructure required to supply these critical services.

As is customary in many municipalities, the City of Newton has established a Water Enterprise Fund, Sewer Enterprise Fund, and a Stormwater Enterprise Fund. Through these Enterprise Funds, fees are charged to all property owners to support each of these three different enterprise activities. These funds are separate from the general operating fund of the City (which is supported primarily through tax revenues). Rates are set on an annual basis and must cover all operations of each enterprise activity.

Last year, in FY2023, we raised the Water, Sewer, and Stormwater rates by a combined average of 3.9%, a percentage increase that the City has implemented for several years prior to the pandemic. We intend to do that again for FY2024.

Water Enterprise Fund

The City of Newton has been identifying, evaluating and improving Newton's water main distribution system for many years. In 2016, the Newton Fire Department was rated a Class 1 agency, the highest possible ranking from the Insurance Service Organization (ISO), in part because of improvements made to water flow and water pressure through the fire hydrants. The Newton Fire Department is one of only six departments in the Commonwealth rated a Class 1 agency. (The ISO grades on a point system, with fire department operations accounting for 50 percent of the rating, fire flow or available water supply 40 percent of the grade, and dispatch operations constituting the remaining 10 percent.)

The City recognized the need to increase the renewal of the aging water distribution pipe network, much of which dates back to the 1870s, and developed a comprehensive capital improvement program as part of the Water and Sewer Strategic Plan initiative.

From 2013 through 2016, we aggressively targeted water main improvements for fire flow purposes. This required the replacement of pipes, not just cleaning and lining of older pipes.

We completed a hydraulic model analysis in 2016, and we redirected our efforts to target and replace leak prone pipes, especially the pipes installed circa World War II. FY2024 will be the tenth year of this twenty-year water main repair, replacement, cleaning, and lining program.

The City utilized a pipe renewal needs forecasting software program to provide a long-range calculation of the anticipated pipe replacement quantities required to keep pace with the expected end of useful service life of pipe assets in the distribution system. The results take the form of a customized pipe replacement needs distribution curve for the City's pipe assets. It shows graphically, by pipe type, how much replacement is required annually. The results of the analysis indicate that the City should be renewing approximately 4 to 5 miles of water main pipe per year.

In addition, a risk-based ranking system was developed for integrating and managing the water system pipe assets. The ranking takes into account the consequence of failure of the pipe and the probability of its failure. Consequence of failure reflects the proximity of the pipe to critical facilities (e.g., hospitals, schools) as well as the potential for flood damage due to breakage. Probability of failure takes into account pipe type, age, joint type, and vibrations under heavy loads (highways, railroad tracks). The water main assets were then grouped into a risk

matrix by condition and criticality, from low priority to high priority, with recommended actions that range from immediate pipe replacement to acoustic monitoring, advanced in-pipe inspection, cleaning and cement lining.

Improvements to the City's major water storage facility, the Waban Hill Covered Reservoir in Chestnut Hill built in 1891, are ongoing. Construction to replace valves, piping and roofing systems as well as the cleaning of four 2.5 million-gallon chambers will be completed in CY2023. In FY2023, the City began its water meter replacement program, which will take the next several years to complete, and will change out 125 larger water meters and approximately 26,000 residential meters as well as the transponders to keep the system up-to-date and reduce maintenance costs. The project will also include a new online customer portal for residents and businesses to closely track their water consumption and billings.

More detailed information on the City's water system infrastructure plan can be found in the City's FY2024-FY2028 Capital Improvement Plan.

Sewer Enterprise Fund

Prior to the development of the City's comprehensive strategic plan for the improvement of the sewer infrastructure, more than 60% of the sewage and wastewater that was sent to the Massachusetts Water Resource Authority (MWRA) for processing by the City of Newton was the result of inflow (stormwater from direct illegal connections) and infiltration (groundwater that seeps into the sewer pipes through cracks and other imperfections). Inflow and infiltration had been costing the City in excess of \$5 million per year. Furthermore, back-ups in the sewer lines due to insufficient capacity combined with the additional groundwater/stormwater resulted in sewer surcharges/overflows from some manholes in the streets and parks.

The City developed a 10-phase program to address systematically the approximately 300 miles of sewer mains and related manhole structures. The program began with those areas known to have significant inflow and infiltration problems, as well as those areas that were experiencing flooding or sewer surcharging problems. The work in each project area is divided into 3 categories: Inspection and Assessment, including heavy cleaning; Design of repair work; and Construction, including post-construction flow assessment. Sewer work in each project area is generally completed over a two-year period. As a result of the financial benefits of recent lower MWRA sewer assessment increases for Newton than most other MWRA communities, the funding and schedule for this program had been accelerated.

The City's program is now in Area 9, with all eleven project areas expected to be completed in 2026. At that time, the City will reassess the asset priorities, maintenance needs, and set further targets for I&I reduction.

The Utilities Division has recently completed a study of all 11 sewer pump stations that are critical for system reliability. The study identified a series of needed improvements that will be funded and completed over the next five years.

More detailed information on the City's sewer system infrastructure plan can be found in the City's FY2024-FY2028 Capital Improvement Plan.

Stormwater Enterprise Fund

Like many communities, Newton's storm water system is old and we face challenges related to storm water quantity and quality, system maintenance and upgrades, and localized flooding.

In 2006, the City became one of the first communities in Newton England to institute a Storm Water Fee to fund necessary improvements.

While the City has completed localized drainage repairs, the Department of Public Works' Utilities Division has developed a comprehensive plan to identify and address storm water needs throughout the City and the associated funding to accomplish this work. This includes addressing the National Pollutant Discharge Elimination System (NPDES) MS4 Permit, which is mandated for all communities by the EPA. (MS4 stands for Municipal Separate Storm Sewer System.) The NPDES MS4 Permit took effect on July 1, 2018 and has increased requirements for maintaining and improving storm water quality. Developing a solution to mitigate the impact of stormwater runoff is paramount to the long-term sustainability of local waters including the Charles River. The City is currently completing permitting phases for the process of dredging the City Hall ponds, design work on the Bulloughs Pond dam repair, completing the Illicit Discharge and Detection Elimination Investigations in the Laundry Brook Drainage Basin, and completing the second phosphorous inactivation treatment in Crystal Lake.

In FY2023, the City completed its repairs to the Newton Free Library Parking Lot. This project involved expansion of the existing lot, as well as repaving, and improved drainage and accessibility. The work allows more stormwater to be absorbed by the land itself, as opposed to running into the storm drains.

More detailed information on the City's stormwater infrastructure plan can be found in the City's FY2024-FY2028 Capital Improvement Plan.

Sustainable Budget Strategy

To summarize, a well-managed, fiscally-sound City of Newton is essential to provide exceptional teaching and learning to more than 11,600 students, deliver top-notch city services to our residents and people who work here, help our residents and businesses rebound, and make important updates to our infrastructure. Similarly, we must ensure our tax dollars are being used in an effective and accountable manner. Perhaps most importantly, we must make smart and sustainable financial decisions to create the funding for thoughtful investments in Newton's future and to weather difficult economic cycles or unanticipated crises like a pandemic. We must also ensure that we maintain our deep commitment to the health, well-being, and safety of our approximately 3,500 valued employees and honor our commitments to them in their retirement years.

In order for the City's budget and finances to remain sustainable, we must remain steadfast in our determination to balance the annual operating budget while addressing infrastructure needs, providing services our residents need and want, fully funding all liabilities from debt service to pensions to retiree health care, and developing and maintaining an appropriate level of reserves for economic downcycles, dramatic weather events and other unpredictable events.

Our world has changed dramatically in the past three years. After navigating physical distancing, isolation, quarantine, unemployment, and uncertainty for the last several years, some of those difficulties have finally started to wane. However, we continue to face inflationary pressures, supply chain and labor force issues, instability in energy markets, growing climate change risks and mental health challenges. The Newton Public Schools and the City are challenged by increasing costs, rising needs and the requirement of balancing our budget.

The role that our municipal government has served during and after the health pandemic and will continue to serve as we confront financial, social, emotional, and educational challenges is critical. We have worked diligently to propose a FY2024 City of Newton Budget that is responsive to the needs of our community and reflects the financial challenges that the City faces and funding opportunities we have.

We will continue to carefully evaluate the many needs within our community and the opportunities we have. We will be judicious in our deliberations, transparent in our decision making and ensure that every investment that we make will be in the best interest of the people of this good City.