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Newton City Council
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Honorable City Councilors,

To my colleagues in government – City Council President Susan Albright, Vice President Rick Lipof, President Emeritus Lisle Baker, and City Councilors, I'm so glad to be with you on the first day of school. I really feel like saying, "Happy New Year."

I'm joining you tonight to deliver our Long-Range Financial Plan and Five-Year Financial Forecast six weeks earlier than usual. I'm grateful to Council President Albright for suggesting this schedule as you, the City Council, are taking up in the next few weeks a proposal from me that has an important, positive impact on the finances for the Newton Public Schools – more on that in a few minutes.

This Long-Range Financial Plan and Five-Year Financial Forecast for the City of Newton comes after a turbulent three and a half years. The economy shut down in March 2020 as the COVID-19 pandemic engulfed us. The needs of our students, residents, and businesses skyrocketed as our revenues weakened. With the support of one-time Federal and State funding, combined with belt-tightening by us in areas such as funding our pensions, we supported the people who live, work and go to school in Newton while balancing our budgets.

I am reassured that now in September 2023, this Financial Plan and Forecast show steady, predictable, and sustainable growth allowing us to provide steady, predictable, and sustainable school and city operations.

We have every reason to believe that we will retain the highest credit rating possible, a Aaa, a sign that our finances and operations are well managed and that we are appropriately balancing our current needs and future obligations.

The Long-Range Financial Plan and Five-Year Financial Forecast are comprehensive, forward looking, financially stable, and fiscally disciplined. Our Plan protects reserves. Our Plan increases the funding ratios for both types of our long-term retiree obligations – pensions and healthcare; in fact, the Plan does more, clearing the deck on our Pension liability eight years from now. Our debt load remains stable. No financial cliff looms. Low and manageable budget gaps are projected.

For City and School operations, we will have to continue to carefully manage every taxpayer dollar; while there is growth in each subsequent Budget, the growth is steady and stable rather than large and increasing exponentially.

We continue to need to operate within a 2.5% increase in property taxes as required by Proposition 2 ½, along with the additional growth in taxes from new residential or commercial development. The amount of so-called “new growth and redevelopment” matters. Why? The 2.5% plus the percent of new growth is the key determinant of how much revenue growth the City has. In Newton, our new growth is modest and declining. Of all the cities and towns in Middlesex County, Newton has had the fourth lowest average new growth since 2005. In FY2023 last year, Newton’s percent increase in new growth value was lower than the year before and reached the lowest percent increase in ten years, just 1.44%. In our Financial Forecast, we project another decrease this fiscal year to 1.33%. As an aside, this relates to the important village center zoning work the City Council is undertaking – rezoning for village centers that we need to thrive.

This Financial Plan supports our schools which are at the heart of Newton’s values and justifiably receive the vast majority of our funding. The Plan allows for the NPS budget to grow every year and grow at a rate slightly higher than the rest of our City Departments as a whole. This is fitting and proper.

The Long-Range Financial Plan simultaneously provides funding for excellence in public safety, social and health services, library and cultural services, parks and recreation opportunities, and senior services. The Financial Plan is crafted so we can make continued investments in our roads, climate initiatives, and accessibility, including improving safety for pedestrians & bicyclists as well as safety for residents and businesses as we face more extreme heat & cold, rain & snow. Simultaneously, this Financial Plan allows for the many links people need to food, housing, and mental health resources.

This year’s Five-Year Financial Forecast, Long-Range Financial Plan, and Five-Year Capital Improvement Plan come forward less than a year after Newton voters considered a tax override proposal.

The community supported the two debt exclusion questions, so we are moving forward with the Countryside and Franklin Elementary School building projects. Voters rejected the operating override.

The day after the election, I immediately looked for ways within our current revenue structure to provide additional financial support for the Newton Public Schools.

Funding the Newton Public Schools is extraordinarily important as supporting our children and their education is a bedrock value. Moreover, the Newton Public Schools is by far our largest department and expenditure line item. Although enrollments have declined and are expected to continue to do so based on projected demographic trends, we recognize that the investments needed to support each and every one of our students as they strive to reach their own potential has only increased.

During our FY2024 Budget process this past April and May, we proposed several measures, which the City Council approved. These measures created ongoing, sustainable funding to bolster NPS operations and solidified a viable, financial pathway forward. I’m grateful to the City Council for their support of students and the Newton Public Schools.

However, as a package, these financial measures did not provide ongoing funding at the level that the Operating Override would have. New initiatives, increased support for current initiatives, and continuing the current level of services were all constrained for NPS without the additional funding.

I am pleased that two recent financial developments are enabling me to propose a significant initiative, an Operations Booster Stabilization Fund. This Stabilization Fund will provide additional financial support for the

operations of the Newton Public Schools for the next eight years and strengthen the overall financial health of the City.

There are a number of intersecting pieces in the mechanics of this funding strategy all a bit arcane.

The bottom line, though, is that the Operations Booster Stabilization Fund helps our students, our residents, and our employees.

How?

This Plan transforms a one-time surplus into ongoing funding for school and city operating needs for the next 8 years, through Fiscal Year 2032. FY2032 is the year that we will fully fund our significant pension liability, according to the funding schedule set by Newton's Retirement Board. Having additional ongoing financial support over these next eight years will be critical, alleviating pressure on City and School operations from the growing payments to fund our pension liability. Once we fund that pension liability, we free up a lot of funding, over \$50 million dollars, to use for ongoing operations and one last significant liability, our retiree health care obligations (also known as OPEB).

What is the impact of this stabilization fund strategy? Ongoing, sustainable support for operations... no looming fiscal cliff... fully tackling a huge financial albatross... an increase in the allocation to the Newton Public Schools by the City Council for the next eight fiscal years, FY2025 through FY2032, from an increase annually of 3.5% by 20 basis points to approximately 3.7%. That's an increase of more than \$460,000 next year alone.

This Plan also allows the City Council to appropriate not less than a 3.45% increase to the municipal Department budgets at the same time.

Further, this Plan recognizes the importance of investment in our capital infrastructure. We move forward with our major building projects, including the Gath Pool, NewCAL, Lincoln-Eliot, and Horace Mann projects. Countryside and Franklin also advance with the debt exclusion override funding. We are carefully monitoring the impact of current high interest rates combined with rising construction costs and together we will determine if our capital investments have to stretch out over more years so our funding matches our costs.

Some have suggested that we take the full amount of the one-time Overlay Surplus from back taxes paid by Eversource and put it directly into operating our school and/or city programs and services.

But one-time funds are just that, one-time funds. They end. They run out. When the funding ends, current services that depend on that funding cannot continue. Employees that were paid out of this funding must be laid off. This is often called a fiscal cliff.

The Overlay Surplus is a one-time cash infusion. But, by putting this one-time cash infusion into a stabilization fund that matches the exact number of years of a particular liability, our pension liability, we are ensuring that we will have ongoing funds when the Operations Booster Stabilization Fund closes down.

We must be financially healthy and stable now *and* over the long haul. I am committed to a balanced and sustainable budget. To that end, every budget I propose is based on financial decisions that prevent budget cuts in future years. It is critically important that we address our immediate needs, while keeping our eyes on the long-term financial horizon.

In closing, a well-managed, fiscally-sound City of Newton is essential to provide exceptional teaching and learning to over 11,000 students, deliver top-notch city programs and services to our residents, support our residents and businesses, and make important updates to our infrastructure.

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

We worked diligently to propose both a FY2024 City of Newton Budget in the spring and now a FY2025 – FY2029 Five-Year Financial Forecast and Long-Range Financial Plan that are responsive to the needs of Newtonians, reflect the financial challenges and opportunities that the City faces, and are financially sustainable in the years ahead.

I am grateful to the teachers who began the new school year this morning, to our police officers, firefighters and dispatchers who help us 24/7, to our DPW and Parks, Rec and Culture crews who also serve as first responders, and to so many other valued employees from librarians to social workers, and IT professionals to accountants.

Tonight, I also want to thank in particular Chief Financial Officer Maureen Lemieux for her financial wisdom.

The two of us, along with Chief Operating Officer Jonathan Yeo, look forward to joining you in two weeks to present the Capital Improvement Plan.

Warmly,



Ruthanne Fuller
Mayor, City of Newton