

**Frequently Asked Questions on City of Newton Finances and
Newton Public Schools Budget**
(as of January 25, 2024)

What percent of the City’s budget goes to the Newton Public Schools (NPS)?

About 65% of the City's budget goes to Newton Public Schools. This includes the \$268 million school operating budget plus approximately \$40 million in other expenses covered by City Departments (e.g. school nurses, school resource officers and crossing guards, school building maintenance and debt service, field maintenance, pensions, water/sewer, etc.)

How has the NPS Budget changed over the past six years?

As Mayor, I have carefully and transparently managed our City finances during a period of tremendous uncertainty (in both revenues and expenses) and inflationary pressures in the last few years. I have prepared a total of six budgets – Fiscal Years 2019 through 2024. I have increased the NPS budget every single year. In those six years, the NPS budget has increased by \$52.4 million (23.9%), or an average annual increase of 3.98%.

I have prioritized the NPS Operating Budget each and every year when I develop our Recommended Budget, and I have never cut the NPS budget.

I believe the needs of our students have increased so significantly, the academic and emotional/social recovery for so many students from the pandemic is wide and deep, and the increasing number of classrooms and support for inclusion of students with special needs in our district fully justifies the increase in funding. It’s accurate that enrollment has dropped by more than 1,000 students or 8%, but the social, emotional, and academic needs have never been greater for our students.

Note: At the end of the FY2024 budget process, we transferred \$3.2 million for School Retiree Health to the City Budget. NPS will no longer have to budget for that expenditure which historically rises at a rate that exceeds their average annual budget increase. This step provided NPS with budget relief now and in the future.

Click [here](#) for more information on the FY2024 NPS Budget.

The City is spending a lot on debt service - how much of that is for the Newton Public Schools?

Eighty-three percent (83%) of our debt service payments from the City’s General Fund are for NPS facility projects. With an additional \$225 million being invested in renovating or building four additional NPS buildings in the next few years (Lincoln-Eliot, Countryside, Franklin, Horace Mann) that percentage will increase even further. See more details in the Comptroller’s [Schedule of Bonded Debt](#), dated December 31, 2023.

Are we fully funding the Newton Public Schools?

I believe that the Newton Public Schools need even more funding. The March 2023 operating override that I proposed was crucial because we need more ongoing financial resources to support our students. The override did not pass. We will need to ask our voters to reconsider in the future.

What happened to the Operating Override in 2023?

In October 2022, I announced a proposed \$9.175 million operating override plus two debt exclusion overrides to fund the Countryside and Franklin Elementary School projects. The [operating override](#) contained \$4.5 million for NPS as well as \$1.4 million for streets and sidewalks, \$1.0 million for parks, \$775,000 for the Horace Mann Elementary School project, and \$500,000 for both senior services and sustainability.

With NPS and City departmental staff, I held many, many public meetings and prepared dozens of videos and presentations to make the case for the taxpayer investment. Regrettably, the operating override vote failed (as did 2 of 4 previous operating override attempts in Newton during the 40+ years since the inception of Proposition 2 ½). Fortunately, the two debt exclusion questions for Countryside and Franklin Elementary Schools were approved and those projects are moving forward.

I have heard that the Mayor has more than \$50 million in Free Cash. Why won't she give any of that to the schools?

The City has benefited from significantly higher than normal amounts of Free Cash over the last two years due to a large property tax settlement with Eversource, followed by unusual, and unusually high, earned interest. While we do expect a third year of good interest income this year, we cannot expect it to continue nor can we “bank on it” in the years to come. The Federal Reserve is committed to driving down interest rates.

During Fiscal Year 2023, we had \$28.9M in Free Cash. We appropriated \$23.4M and held \$5.4M for anticipated future requirements. Of the \$23.4M that was appropriated, \$16.3M or 70% was dedicated to the Newton Public Schools.

This year, Fiscal Year 2024, we have \$27.9M in Free Cash (which includes the \$5.4M that was held from last year). As of January 1, 2024, I have requested the appropriation of \$15.9 million of the FY2024 Free Cash, with \$8.6 million (54%) dedicated for the needs of the Newton Public Schools.

What is “Overlay” and don't we have millions of dollars there that the Mayor could give to the schools?

The Newton Board of Assessors has been able to release \$26 million in principal and interest holdings (called Overlay or Overlay Surplus) that had been held for property owners that have challenged their assessments, primarily from Eversource.

I developed and presented several plans over the summer and fall to the City Council to solidify the use of our unusually high overlay surplus to improve NPS budgets for the foreseeable future, but those plans were not fully supported.

In December 2023, Superintendent Nolin, School Committee Chair Brezski, and I rolled up our sleeves and crafted a plan to allocate additional funding over multiple years from the overlay one-time funds, including an overall increase to the Newton Public Schools of 5% for our next school year.

Superintendent Nolin recommended that this additional funding be distributed across funding priorities in order to address some of the most pressing challenges facing the school system. They include:

- Offering a competitive teacher contract
- Reducing some large high school class sizes in math and science
- Restoring some high school electives
- Improving elementary level math and literacy intervention in the five schools where it is needed most.

Didn't a settlement with Eversource bring millions in new revenue to the City?

Some have suggested that Newton's revenues will increase by \$3.5 million annually now that we have settled with Eversource. That is incorrect. The City will not see any change in our overall property taxes as a result of Eversource now paying their taxes on a timely basis. For 12 years we have been including their taxes as part of our budgeted revenues. Rather, our uncollected taxes will no longer include the Eversource amount owed.

Can the Mayor allocate enough funds for a 5% NPS budgetary increase next year?

In December, Superintendent Nolin, School Committee Chair Brezski, and I worked closely together and to craft a plan using a combination of operating revenue and one-time overlay funds over multiple years which will include an overall increase to the Newton Public Schools of 5% for our next school year.

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I have heard that the Mayor did not allocate the COVID Federal funds to the Schools?

I have invested over \$28 million of federal American Rescue Plan Act (ARPA) and CARES funds, approximately 40% of the City's total, in the Newton Public Schools (NPS). NPS also directly received more than \$9 million in federal funds and grants during the pandemic.

The ARPA and CARES school investments from the \$28 million included:

- \$5.5 million in funds to sustain NPS operations during the massive downturn in City revenue created by the pandemic in order to minimize layoffs and disruptions to schools (ARPA),
- \$4.9 million to improve the ventilation systems in all school buildings (CARES),
- Almost \$1.0 million on the health and safety of our educators, staff, and students through COVID-19 medical screenings and testing (CARES)
- \$500,000 on tents for outdoor learning, reconfiguration of space, and physical distancing strategies in our schools (CARES).
- \$2 million for elementary reading curriculum (ARPA)
- \$3.246 million for NPS employee stipends related to the pandemic (ARPA)
- \$4.2 million for NPS athletic facility improvements (ARPA)
- \$2.4 million in school facility design and maintenance projects (ARPA)
- \$2.3 million for NPS Covid expenditures (ARPA)
- \$1 million for NPS school technology (ARPA)

One of the key purposes of ARPA was to replace lost revenue and to restore funding for cutbacks, such as in road paving and the Library Children's Room expansion, that were necessary to make during the pandemic just to maintain a balanced budget.

Another key purpose of ARPA was to provide direct recovery for people and businesses in the community. Like many other communities Newton provided funding for emergency housing relief, economic stability for low-income families, affordable housing, and business recovery. While Newton provided \$22 million in ARPA funding to NPS, we also provided \$28.9 million of ARPA funds to COVID response, housing and human services, financial recovery for the City, and economic recovery for businesses and residents. Another \$12.6 million has gone to critical infrastructure and parks improvements.

Does the City "underbudget" revenue?

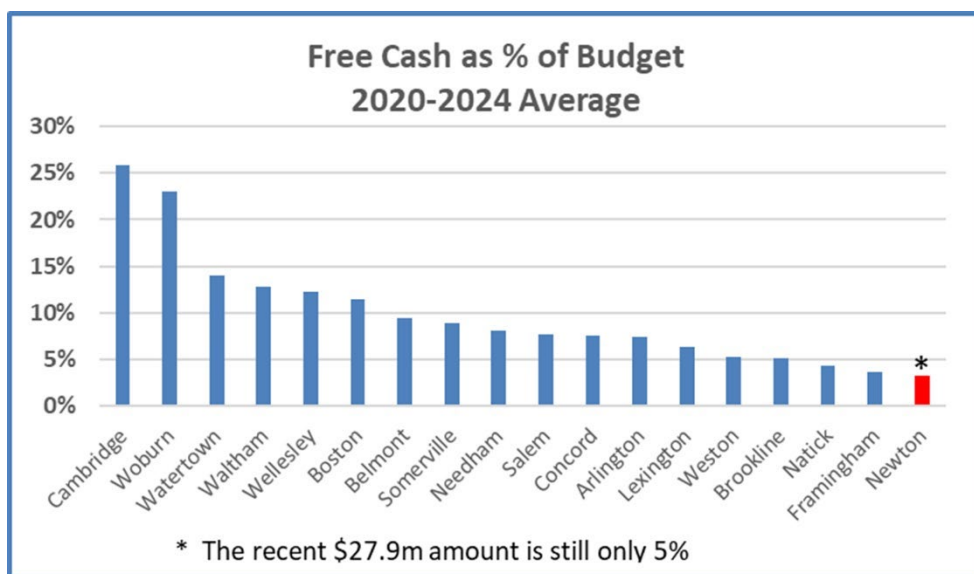
On April 20, 2011, the Honorable City Council adopted a revised set of Financial Management Guidelines. The guidelines are that general fund revenue budgets are expected to capture 99% of total expected revenue for the year while expenditure budget estimates will strive to be sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year.

For the past two years, FY2023 and FY2024, the City of Newton has benefitted from unusually high levels of Free Cash (\$28.9M and \$27.9M) due to extraordinary and unexpected revenue. The FY2023 excess revenue was driven primarily by the payment by Eversource of their taxes owed to the City, while the FY2024 excess revenue was driven by the fact that interest rates on our investments rose from 0.25% - 0.50% when the budget was prepared in March 2022, to 5.0% - 5.5% by June 30, 2023 when the fiscal year ended.

The rapid rise in interest rates over the past twenty-two months has led to unprecedented levels of revenue for the City from interest income. While we are currently enjoying extraordinary interest income and expect we will once again exceed our budgeted revenues by \$8 - \$10 million this fiscal year, we must be careful not to become dependent on this revenue stream for ongoing operations, as we can expect it to decline during 2024-2025. The Federal Reserve is committed to driving down interest rates.

One way we can determine if we are underbudgeting is to look at our average Free Cash balance over the years. The last two years are anomalies that cannot and should not be counted on indefinitely in the future. Looking back before FY2023, our Free Cash balance averages 2% of our budget annually. That is actually a low level of Free Cash.

The state’s Technical Assistance Bureau (TAB) recommends that communities understand the role free cash plays in sustaining a strong credit rating and encourages them to adopt policies on its use. Under sound financial policies, a community strives to generate free cash in an amount equal to 3% to 5% percent of its annual budget. Newton’s average annual Free Cash is within the normal health range, which in turn means that we are not underbudgeting. Analysis of other municipal Free Cash levels (see figure below) finds that Newton’s is low in comparison.



Doesn't the City receive \$26 million in state education aid (Chapter 70)?

We are grateful for the State Chapter 70 funds for education, a small but important component of our school funding. This year the City of Newton is receiving \$27.4 million in State Education Aid (known as Chapter 70). The City is spending \$268.6 million directly for the NPS budget as well as another \$40 million embedded in municipal budgets that are directly for the schools (school nurses, crossing guards, debt payments on our school buildings, pension costs for school employees who are not covered by the Mass Teacher Pension System, etc.) The State Education Aid funds roughly 9% of the total costs of Newton's public schools. As a point of reference, Chapter 70 State Education Aid increases in FY21, FY22, FY23, and FY24 were 1.3%, 1.45%, 2.83%, and 4.66% respectively. The state provides smaller increases to Newton compared to other school districts, giving us the "minimum aid," and prioritizing funding for districts with more vulnerable students.

The Governor's proposed FY25 State Budget only has a 1.8% increase for Newton, well below the 3% average for the state and below the City's forecasts.

Isn't the City in great financial health and can actually afford to make investments in its schools without raising a dime in taxes?

City revenues are tightly capped by Proposition 2 ½. Our tax levy can only increase by 2.5% annually by State law, plus new growth from development and redevelopment (often in the range of another 1% plus, which is quite low compared to many other communities).

Our overall expenditures have to match our overall revenues. By state law we have to have a balanced budget.

Our biggest department, the Newton Public Schools, and the NPS contract, cannot grow faster than overall revenues, without harming other necessary services.

The annual budget for NPS, known as the allocation, is always the highest priority when the Fuller Administration puts together the City of Newton budget. NPS accounts for 65% of all our City of Newton expenditures.

Prop 2 ½ operating overrides are the only way, other than a very significant change in city development patterns (which in turn would increase new growth tax revenues), to increase the total operating budget for NPS in a continuous and sustainable manner.

Why isn't the Mayor at the bargaining table?

School Committees in Massachusetts are responsible for negotiating collective bargaining agreements with unions because they are the employer. That's state law.

The Chair of the Newton School Committee, Chris Brezski, chose a three-person negotiating team who is at the negotiating table.

Mayor Fuller has complete confidence in the negotiating team and the School Committee to settle a contract with the NTA that is competitive for our educators and sustainable for our community.

She is in very close contact with them and the Superintendent of Newton Public Schools. She is available literally 24/7.

The negotiations are her number one focus.

What is Free Cash and how is it supposed to be used?

All cities and towns in Massachusetts annually have funds called Free Cash certified by the State. In layperson's terms, Free Cash is the remaining, unrestricted funds from a City's or Town's operations from the previous fiscal year. Free Cash comes from unanticipated actual revenues in excess of revenue estimates, unexpected unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year.

In 2011 the Honorable City Council adopted a revised set of Financial Management Guidelines. The Guidelines on the utilization of Free Cash are as follows:

- 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.
- Fourth, any additional Free Cash will be used for one-time, non-recurring expenditures.

The Massachusetts Department of Revenue has [guidance](#) for municipalities on Free Cash. It recommends that communities strive to generate Free Cash levels of 3% - 5% of its annual budget. It also states, "As a nonrecurring revenue source, free cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves."

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As we do not need to replenish any reserve funds and the Rainy Day Stabilization Fund which is at its target level (5%) of the annual budget, our one-time Free Cash funds will be used primarily for our immediate one-time needs. The uses will be prioritized in keeping with the City's Financial Management Guidelines. These are likely to include, for example, one-time NPS infrastructure investments, curriculum improvements, road paving, legal settlements, one-time municipal infrastructure investments, and snow & ice expenses. Each use of Free Cash will be submitted to the City Council for approval throughout FY2024.

Please click [here](#) for a history of Free Cash in the City of Newton and its uses from FY2008 through the present. During those years, Newton's Free Cash averaged 3.0% of the City Budget. For local comparison during that same time period, Lexington was 5.8%, Needham was 6.0%, Watertown was 9.6% and Cambridge was 25.2%. Even in the two recent years with unusually high Free Cash for unusual reasons, Newton's Free Cash averaged 5%, which is within the State guidelines and lower than other communities. Due to careful budgeting processes, Newton has very low Free Cash percentages compared to other municipalities.