

Budget Speech 2024

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Good Evening,

To President Laredo, Vice President Kalis, President Emeritus Baker, members of the City Council and School Committee, Superintendent Dr. Anna Nolin, everyone here at City Hall or watching at home, good evening.

I am happy to be here tonight after a spectacular Boston Marathon yesterday. I present you a stable, strong and sustainable Budget for the City of Newton's next fiscal year beginning this July 1, as well as a strong Supplemental Capital Improvement Plan for the next five years.

Revenues

Our revenues and our expenses for next year in the Operating Budget increase by 5.1% or \$25.7 million dollars for a total of \$525.4 million. An additional \$68.5 million is in enterprise funds for water, sewer and stormwater services, and \$5.1 million in Community Preservation Funds. Altogether the City will have \$599 million in funding.

The investments in this Budget are a clear expression of our values here in Newton.

Educating our young people is prioritized with \$282.6 million invested in the education of our next generation, the students in the Newton Public Schools. Notably, we are increasing the funding to the Newton Public Schools by 5.2%. The municipal side – including all municipal operations, pensions and retiree health insurance, and debt service – increases by 5.1%.

These dollars allow us to do so much for our community.

Municipal Budget Expenditures

Highlights on the City side include:

- Increasing investments in road paving, traffic calming and curb installations.
- Intensifying our efforts to address flooding and phosphorous control in our stormwater operations.
- Advancing affordable housing by making Newton Affordable Housing Trust and CDBG investments both at the West Newton Armory and FamilyAid, while working closely with the City Council to create permanent, affordable, family homes at the City-owned former Walker Center property.
- Adding 7 permanent full-time positions in both Emergency Dispatch through an expanded collaboration between Police, Fire, and Dispatch and in Forestry with more in-house tree maintenance specialists to do more work more efficiently.
- Providing our Police Officers with new equipment to minimize the escalation of force whenever possible.
- Continuing the higher level investments in athletic fields and expanding our attention to recreational programs.

- Ramping up staffing in Senior Services as we prepare to open the Cooper Center for Active Living in the fall of 2025 and to meet the changing and growing needs of our fastest growing demographic group.
- Accelerating training and professional development for City staff.
- Supporting our goals for diversity, equity and inclusion as we develop metrics to help us hire, promote and retain employees.
- Directing our opioid settlement funds to overdose prevention, harm reduction, and support for those who have lost someone to this epidemic, as we simultaneously focus on serving those with mental health challenges.
- Leaning in with both our operating and capital budgets on sustainability from new solar projects, to geothermal heating and cooling, to decarbonization efforts, and to lowering our embodied and operating carbon in our new and renovated buildings.
- Addressing the ongoing inflationary pressures on trash and recycling operations.
- Increasing repair and maintenance on our buildings.
- Supporting arts, cultural and community events and thus joy and quality of life with grants, programs, festivals and new public performance spaces, including 410 seats at the Lincoln-Eliot Auditorium.

Newton Public Schools

For the Newton Public Schools, the addition of \$14 million dollars over last year's budget will immediately be felt by our students. This is my 7th budget as Mayor, and the 7th consecutive year that I have increased the NPS budget. Integral to the \$282.6 million available to NPS is the new NPS Educational Stabilization Fund. With the support of the City Council, we transformed \$22 million of one-time funds into on-going support to bolster operations for the Newton Public Schools over the next five years – \$4.1 million of which will be used in the FY2025 NPS Budget.

- The Newton Public Schools are adding the equivalent of 46.2 full-time educators and staff this fall. These professionals will allow students to have smaller class sizes in our high schools, increased mental health services at the elementary level, and improved curriculum and pedagogy throughout the district.
- Another \$44 million is invested within the municipal Operating Budget for school related costs. This includes school health and school nurse services, school crossing guards, school building debt service, school property insurance, water, sewer, solid waste and recycling in the schools, maintenance of school athletic fields, and snow & ice control on the grounds of our 23 school buildings.

Equipment, Buildings, Infrastructure

We have increased Debt Service by 5.1% so that many important capital projects can move forward. This is in line with our Financial Management Guidelines and our long-term financial forecast.

A sample of the projects include:

- Three completely updated elementary schools – Lincoln-Eliot, Countryside and Franklin – are currently being designed and/or built and designs for a major addition and more renovations are well underway at a fourth, Horace Mann.
- Our new senior center, the Cooper Center for Active Living, is under construction.
- Swimmers and splashers will be at two new pools and our first ever major splash pad at Gath with a ribbon cutting early this summer.
- Our first dedicated pickleball courts – 6 of them – and a brand new basketball court will be built at Albemarle with significant improvements to the fields there as well, as we upgrade the athletic fields at two other locations – Burr and McGrath – and replace the synthetic turf field at a well-lit Newton North.
- A reconstruction of Pettee Square in Upper Falls is underway to make this village square safer and even more attractive for restaurants, shops and small businesses.
- A pilot on Washington Street is moving along to create a safer, more attractive, and friendly roadscape.
- Newton Police and Public Buildings staff are hard at work on a large capital infusion at Police Headquarters to provide state-of-the art police, dispatch and training facilities, following recent investments in the HVAC, roof, and IT systems; plus, the reconstruction of the parking lot behind Police Headquarters, along with fencing, will be starting this year.
- A new Aerial Ladder #3 is being ordered for the Fire Department.
- Pelligrini Field House in the Lake will be improved with new windows, doors and roof, masonry repairs, and a fresh coat of paint on the interior.
- The aging heating, ventilation and air conditioning system at the Library will be replaced with an electric one.
- A new Spears garden along Washington Street will be planted and tended by Newtonians.
- Water meters are being replaced with a new, advanced system that can alert us when we have a leak.
- The Bullough's Pond Dam will be safer with a series of investments.
- Water and sewer pump stations will be reconstructed.
- Union Street in Newton Centre will see a significant drainage upgrade.
- Meanwhile Hammond Pond Parkway, Needham Street and Comm Ave in Auburndale are being improved with significant investments by the Commonwealth.

Financial Strategy Put Us on Solid Ground

How can we do so much and keep our bonding costs manageable?

First, we can thank our residents for voting “Yes” on the override funding for Countryside and Franklin. Second, we strategically invested one-time funds from Free Cash and Overlay Surplus to “pay cash” for some of our major projects. Third, we restructured our pension payments – all of which enables us to keep our Debt Service costs in line.

Why are our revenues so strong, allowing for an overall increase in expenses of 5.1% this year?

- Fiscal Year 2025 Revenue is projected to increase by \$25.7 million.

- This increase includes an additional \$17.2 million from property taxes. Newton has strong, stable property taxes, both residential and commercial, which account for 83% of our overall revenue base; our property tax levy is capped at a 2.5% increase annually by Proposition 2 ½. This 2.5% is combined with modest, stable and predictable new property tax revenues from so-called “new growth.” Together this means that we can count on revenues growing by 3.5% annually, sometimes a bit more.
- The total revenue this year is supplemented by an additional \$4.1 million interfund transfer from the new NPS Education Stabilization Fund. The Stabilization Fund in turn stems from the diligence and skill for over a decade by our Assessor’s staff and Legal team, leading to a major settlement with Eversource last August.
- FY2025 Interest Income from investments is also increasing by \$4.2 million as interest rates continue to be quite strong and as we issued Bond Anticipation Notes.
- Finally, a modest additional \$700,000 of state education, state unrestricted aid, and other state aid is part of our increased revenues.
- Please know, however, that while high interest rates may linger for a while longer, we do not foresee another large, one-time tax settlement on the horizon.

We are also on solid ground financially in part because we have continued to focus on managing our costs.

- We have signed union contracts that align with our revenues. This is critical as personnel expenses account for 87% of NPS costs and 70% on the City side. We take great care to ensuring no layoffs as a result of new contracts. While we read last week of the pink slips going out to school personnel in Andover in the wake of a new contract there, I am proud that, in contrast, Newton is hiring staff.
- We also manage carefully our regular, ongoing operations to absorb increases in the cost of some line items that are more than our overall growth in revenues. Three such examples are health insurance (growing next year at 7.5%, a rate that so many of us are seeing in our personal lives); pension funding (growing at 6.6% next year as determined by the schedule set by the Retirement Board to make up for decades of underinvestment and the past practice of kicking this liability down the road); and electricity (growing at 13% next year as this sector continues to experience volatility).
- Similarly, we manage carefully our ongoing operations because some revenue sources are flat or growing meagerly. Examples include our largest source of State aid, school funding known as Chapter 70, which may increase by only 1.8% next year as Newton is classified by the State as a Minimum Aid community; Cannabis revenues have been cut in half as the State Cannabis Control Commission essentially disallowed any more direct host community payments; hotel taxes and auto excise taxes which are flat compared to 2019; and, most importantly, Prop 2 ½ which caps the vast majority of our revenue growth in the tax levy to 2.5%.
- On the flip side, we also managed our costs carefully even as we had the benefit of significant one-time American Rescue Plan Act funds. We avoided a financial cliff and ensuing layoffs now by using those dollars primarily for one-time projects, immediate capital investments, and time-limited services. Thus, we are transitioning smoothly to this period when the cash infusion from Federal funding is running out.

We take our Aaa credit rating seriously and manage our finances accordingly. This rating provides guardrails for the balancing act between immediate operating needs and long-term

financial obligations. The Aaa rating also gives us access to the lowest borrowing costs when we bond capital investments such as the new home for the Lincoln-Eliot Elementary School, the construction of the Cooper Center for Active Living, and the Gath Pool complex.

To put this in perspective, Newton's tax base is strong and stable. While our village centers do have some empty storefronts and our office buildings do have some vacancies, we are not facing significant potential lost tax revenue like our neighbor, Boston. Similarly, the State has missed its revenue benchmarks for 8 of the last 9 months and has instituted a hiring freeze for all but essential workers.

Looking to the Future

I'm confident about our FY2025 Budget and our financial future. At the same time, when I look ahead to next year and the following five years, I'm keeping a close eye on a number of challenges.

- This includes the economic cycle. At the moment, the rise in inflation is moderating a bit but we're getting some mixed signals from the Fed about when interest rates might start declining. We expect to still see staffing shortages accompanying the low unemployment rates that we're experiencing.
- On the City side, we are still not fully funding in the Operating Budget a number of items but instead depending on Free Cash.
- We have accelerated road and sidewalk work. But, we have too many streets filled with potholes so we still need to carve out more funding to further the progress we're making.
- Just as we need to have a healthy amount of Free Cash annually to support ongoing work, the Newton Public Schools are similarly dependent on their version of one-time funding which is called carryforward.
- We recently established an Educational Stabilization Fund for NPS which our Superintendent, Dr. Anna Nolin, intends to utilize over the next 5 years. Using this funding over 5 years rather than 8, leaves a three-year budget gap until our pensions are fully funded. The Superintendent has already begun to find ways to increase revenues or efficiencies totaling \$5 million in the next 5 years so NPS doesn't face an insurmountable fiscal cliff when the Stabilization Fund is fully expended at the end of FY2029.
- Furthermore, I share Superintendent Nolin's vision to do more for our students beyond what the typical 3.5% annual increase in the NPS budget allocation allows. As a community, we will have to make decisions in the years ahead about supporting our students and our schools.

In closing, our City of Newton is in a really good place financially as we successfully address three financial goals simultaneously:

- First, moving forward sustainably to make Newton greater, better and more beautiful, focusing on excellent schools, first-rate public safety, better and safer streets, sidewalks and mobility, caring support for those struggling, top notch services and programs for older residents, beautiful parks, playgrounds and conservation areas, vibrant villages, outstanding services, and proactive actions to address housing, transportation, economic development and climate resiliency;

- Second, protecting the City's financial strength and budgetary flexibility so we can face evolving risks and unpredictable financial conditions, such as pandemics, economic downturns, inflationary cycles and dramatic weather events.
- Third, fulfilling obligations made by prior Mayors, City Councilors and School Committee members that we have not yet funded sufficiently, especially the \$694 million of unfunded pensions and retiree health care liabilities which we are strategically funding over 30 years; we are proactively managing revenues, expenditures, capital investments, and retiree benefit expenses while maintaining an Aaa credit rating, thereby balancing funding current services and our long-term pension and retiree healthcare liabilities, and ultimately saving money in the long run.

Gratitude

I am so grateful for our residents and business people who provide the funding to support the community, for our City Councilors and for our School Committee members who help guide the investments, and for our City and School staff who do the hard work daily of serving people who live, work and go to school here.

A special shout out goes to Maureen Lemieux, Jonathan Yeo and Liam Hurley who do much of the daily grind on creating these financial and capital plans with the help of Perry Rosenfield, Connor Roach and Sean Mannion and so many leaders across City and School departments.

I want to add one more thank you tonight. Health and Human Services Commissioner Linda Walsh is retiring in June after serving our City for 37 years. She has exceptional smarts, emotional intelligence, dedication, compassion, and composure along with an amazing ability to make us all laugh when we need it most.

With her long experience and deep understanding of the science behind public health she helped lead us through the pandemic. Her wisdom and heart helped ease our community's pain during times of great tragedy. Linda has consistently helped us through so many challenges.

I mean *any* challenge – including a very aggressive daddy goose protecting his mate and their eggs at a City Hall nest along Comm Ave. Last week, Linda ran out at the first sound of an angry goose screeching and being aggressive with some unknowing pedestrians, then posted signs and cordoned off the area to warn people – including Marathon spectators and volunteers.

We will miss Linda Walsh. With gratitude, respect and deep affection, I look forward to working closely with her for a few more months and join with so many across the City in wishing her all the best on her next adventure.

I am filled with hope and confidence. Our community is overflowing with people who willingly give of their time and talents to help each other and give back.

While the world is filled with trials and tribulations, we're privileged to call Newton home and I am honored to serve as your Mayor.