

FINANCIAL AUDIT ADVISORY COMMITTEE

Risk Assessment, Monitoring & Compliance  
Sub-Committee Agenda

Friday, June 24, 2016

Room 211  
8:15 AM

Discussion on:

- Developing Risk Assessment Policies and/or Program
  - a. Develop a top ten list of risks to the City
  - b. Review of Financial Policies to determine how to best include the Risk Assessment Program in the Financial Policies
  - c. Discuss developing a monitoring program to evaluate the effectiveness of internal controls related to the Risk Assessment Program once it is in place

Respectfully Submitted

Robert Fox, Chairman

CITY OF NEWTON, MASSACHUSETTS

FINANCIAL AUDIT COMMITTEE RISK ASSESSMENT/MONITORING PROJECT

PRINCIPAL RISK EXPOSURES

- **A material error and/or omission will occur in the preparation of internal or external financial reports.**
  - A) Assets
    - 1) Cash & temporary investments
    - 2) Investments
    - 3) Accounts Receivable
    - 4) Pre-paid items
    - 5) Capital assets
  - B) Liabilities
    - 1) Warrants Payable/Accrued Expenses
    - 2) Accrued Payroll & payroll deductions
    - 3) Revenue Refunds Payable & Allowances for Abatements/Exemptions
    - 4) Other Liabilities
  - C) Revenue
  - D) Expenditures
  - E) Fund Balance
  
- **The City's credit rating will be impaired**
  - A) The City will fail to maintain financial reserves at policy levels
  - B) The City will fail to make progress in funding long term pension liabilities
  - C) The City will fail to develop and implement an OPEB funding plan
  - D) The City will fail to address capital infrastructure needs
  - E) The City will fail to attract/retain experienced professional management staff
  
- **City assets will be stolen or misappropriated.**
  - A) Cash & Investments
  - B) Capital Assets
  
- **The City will breach a legal or contractual obligation.**
  - A) City Charter/Code of Ordinances
  - B) Municipal Finance Laws
  - C) Federal IRS/DOL Laws/Regulations
  - D) State/Federal Grants
  - E) Trust/Gifts
  - F) Agency Relationships
  - G) Collective Bargaining Contracts

H) Goods/Services Contracts

- **City assets will be lost or impaired for reasons other than fraud; theft; or misappropriation such as unintentional errors or omissions/ investment market, credit or counter-party losses /uninsured losses.**
  - A) Cash Receipts
  - B) Payroll
  - C) Procurement
  - D) Accounts Payable
  - E) Capital Assets
  - F) Invested Cash
  - G) Uninsured/Underinsured Physical Assets
  - H) Uninsured/Underinsured Liability Exposures
  
- **The City's revenue structure or expenditure obligations will be negatively impacted in a manner requiring material increases in local taxation and/or reductions in City services over a short period of time.**
  
- **Budget objectives will fail to be met even though taxpayers have been taxed to fund the accomplishment of the objectives.**

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CITY OF NEWTON, MASSACHUSETTS  
**FINANCIAL MANAGEMENT GUIDELINES**  
*Edits as of April 12, 2011*

The government of the City of Newton exists to provide quality community services to residents, businesses and visitors to the Garden City. Governmental services that benefit all or substantially all community stakeholders are financed principally from the local property tax and accounted for in the City's General Fund. Business-like services that benefit distinct segments of the population are financed principally from user fees and charges and are accounted for in special revenue funds.

Budgets are used for planning and accountability purposes for all City funds. Formal fixed budgets, recommended by the Mayor and adopted by the Board of Aldermen, are used for all governmental and business-like services.

**Financial principles:** The City of Newton is committed to sound financial policies that meet long-term needs, lead to a balanced operating budget, and maintain a Aaa bond rating from at least one national rating agency. The following fundamental financial principles guide these financial management guidelines:

- **Balanced budget** – The City is committed to the financial principle of a balanced budget.
- **Long range financial planning** – The City will follow financial planning processes that assess the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, and programs.
- **Asset inventory** – The City is committed to inventorying and assessing the condition of all major assets in order to plan for the ongoing financial commitments required to maximize the public's benefit.
- **Fees and charges** – The City is committed to identifying the manner in which fees and charges are set and reviewing such fees annually.
- **Use of one-time revenues** – The City discourages the use of one-time revenues for ongoing expenditures.
- **Use of unpredictable revenues** – The City will identify the expected volatility of revenue sources and develop allocation actions or contingency plans when one or more revenue sources are substantially higher or lower than projected.
- **Debt capacity, issuance and management** – The City is committed to using debt appropriately and having an appropriate amount of debt outstanding and debt service at any time.

- Revenue and stabilization accounts – The City will maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes or fees due to temporary revenue shortfalls or unpredicted one-time expenditures.
- Operating and capital expenditure accountability – The City will compare actual expenditures to budget periodically and decide on actions to bring the budget into balance if necessary.
- Inter-period equity in the financing of long term liabilities – The City will match debt terms associated with capital debt with the projected useful life of related capital assets.
- Inter-period equity in the financing of long term retiree liabilities – The City intends to fund retiree health care benefits for new employees in the year(s) that they are earned (instead of on a pay-as-you-go basis). (Pensions are already funded this way.)
- Grants, gifts and revolving funds – To the extent possible, services funded by grants, gifts and revolving funds will be provided by contracted services rather than full time City employees to minimize the liability from the reduction or elimination of that funding source. When full time employees are used, the full cost of the benefit packages as well as salaries will be provided for in the grants, gifts or revolving funds.

These financial management guidelines describe the policies and practices that the Mayor and the Board of Aldermen will follow when developing financial forecasts, operating budgets, insurance and reserve policies, capital plans, financial reports, compensation practices and other financial decisions. While the Mayor and the Board of Aldermen expect to follow these guidelines, the Mayor has the authority and responsibility to recommend the allocation of financial resources in the manner in which he or she determines best meets the needs of the City, and the Board of Aldermen has the authority and responsibility to confirm or reject those financial allocations.

The Mayor will recommend to the Board of Aldermen modifications to these guidelines, policies and practices when appropriate.

**Financial planning:** The City will update annually the City’s General Fund multi-year financial forecast. Revenue estimates and expenditure assumptions for the annual budget will be developed by the Chief Financial Officer.

The multi-year forecast shall include actual revenue and expenditures for the last five complete fiscal years; the current year budget; and complete operating and capital expenditure and revenue projections for the next five fiscal years, and shall be structured around major revenue and expenditure classifications in the City’s accounting system chart of accounts.

Not later than 120 days after fiscal year-end, the Mayor will submit the five-year financial forecast to the Board of Aldermen.

In accordance with state law, not later than 60 days prior to the fiscal year-end, the Mayor will submit a recommended annual operating budget to the Board of Aldermen for the ensuing fiscal year. The Board of Aldermen will adopt the budget within 45 days of receipt and the adopted budget will become effective on the first day of the new fiscal year.

**Revenue budgeting:** General Fund revenue financial forecast estimates are expected to capture 99% of total expected revenue for the year. Estimates will be modified from the guidelines below when necessary to take into consideration unusual economic conditions, recent trends and anticipated state aid.

- Property taxes – The City expects to annually levy property taxes up to the statutory limit imposed by Proposition 2 ½ . Projected new growth will be estimated at the median annual new growth rate for the trailing 5 year period. The allowance for exemptions and abatements will be budgeted at between 0.75% and 1.5% of the gross property tax levy.
- Motor excise taxes, hotel room occupancy taxes, inspectional services permits, investment income and all other local non-tax revenue will be estimated based on the prior year actual, adjusted for recent trends and forecasted changes.
- Unrestricted state and federal aid – State “Cherry Sheet” aid will be estimated based upon the most recent information posted on the Massachusetts Department of Revenue website, or, in the absence of any such information, the Mayor’s best estimate of the probable amount of such state assistance for the next fiscal year. All other state and federal aid will be estimated based upon actual revenues for the most recent fiscal year, adjusted for any known changes in reimbursement policies and rates.
- Transfers from other funds – Reimbursements to the General Fund for the administrative and support services provided to other self-supporting funds will be based upon an annual analysis of the estimated value of such administrative and support services to the other funds. Under no circumstances shall the dollar amount of any reimbursement exceed the estimated value of services provided by the General Fund to the other self-supporting funds, in accordance with state law.
- Free Cash – Free Cash represents the accumulated difference of unrestricted funds between General Fund revenues and expenditures, on a cash basis of accounting. The City expects to generate a limited amount of Free Cash which 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.

It is the intent of the City to use Free Cash in the following manner, understanding that this will take a number of years to implement fully. 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 will 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. In unusual economic circumstances, an additional portion of Free Cash may be used for the ensuing year's School or municipal operating budget.

**Expenditure budgeting:** It is the goal of the city to prepare expenditure budget estimates that will be sufficient to address not less than 100% of projected operating requirements of the various departments of the City by the Fiscal Year 2014 Municipal Budget.

- Salaries and wages – Budgeted salary and wage appropriations will be sufficient to fund all full-time and permanent part-time positions identified in each department's table of organization and schedule of full and permanent part-time personnel, at the appropriate union contract or salary schedule rates for the new fiscal year. General Fund employee salaries and wages that are expected to be funded in full or in part from funds other than the General Fund will be included in both the table of organization and schedule of full-time and permanent part-time personnel with an identification of other projected sources of financing. In the event that salary rates are not known at the time that the budget is being prepared, all salary and wages will be budgeted at current rates and provisions will be made for future wage and salary increases as part of the Budget Contingency Reserve appropriation. Salaries and wages will be budgeted based upon the exact number of pay periods for the fiscal year. Public safety overtime will be analyzed annually, taking into consideration the median annual requirements for the trailing five year period, adjusted for any extraordinary and non-recurring overtime requirements (i.e., overtime to cover significant staff vacancies that have been filled).
- Employee benefits – Funding will be included in each department operating budget for the projected cost of providing contributory health, life, dental and Medicare payroll taxes for all eligible employees at the benefit rates expected for the new fiscal year, except for pension and other post employment contributions.
- Pension contribution – The annual contribution to the defined benefit contributory retirement fund shall not be less than the annual required contribution (ARC) prescribed by the Retirement Board's actuary, and the annual appropriation for non-contributory retirement benefits will be the benefit estimate of the Retirement Board.
- Other post employment contribution – The City will make an annual contribution to the Other Post Employment Benefits Liability Trust Fund. The City will make every effort to make each subsequent contribution at a greater amount than the year before until full funding is accomplished.
- Energy and utilities – Funding for energy and utility needs of the various departments of the City will be included at consumption levels estimated by the various departments and at consistent unit prices estimated to be reasonable by the Chief Financial Officer.



- State and county charges (including MWRA and MTBA charges) – The appropriation for “Cherry Sheet” assessments will be the most recent estimates posted on the Massachusetts Department of Revenue website, or, in the absence of such information, 2.5% greater than the current year assessment and charge total.
- Judgments and settlements – The annual appropriation for self-insured liability claims and settlements for routine, incidental claims will not be less than the median annual expenditure for this purpose for the trailing five year period, adjusted for any other factors that may impact the actual amount required.
- Snow and ice control – As of the Fiscal Year 2014 Municipal Budget, the annual appropriation for snow and ice control in the Department of Public Works will not be less than \$1 million. In addition, an additional appropriation for snow and ice will be in the Budget Contingency Appropriation. This amount will be based on the benchmark of having the total of the two sums equal to the median annual expenditure for snow and ice for the trailing five year period.
- Debt service – The appropriation will be consistent with the long-term debt schedule for all issued and planned debt and will include interest, principal and anticipated issuance costs.

The City has the option of using debt to pay for a single piece of equipment or a building improvement project with a cost of at least \$100,000, and preferably \$250,000, and a useful life of at least five years.

- Capital outlay and improvements – It is the practice of the City to issue a minimum of \$3.5 million in bonds for capital improvements annually; financing for the associated debt service will come from the General Fund. It is anticipated that a minimum of 5% of the annual General Fund operating budget will be budgeted for capital outlay and improvements.
- Budgetary control – Budgetary control will be exercised at the levels and under conditions specified in the Annual Appropriations order recommended by the Mayor and adopted by the Board of Aldermen each fiscal year.

**Financial contingencies and reserves:** Funds for financial contingencies and reserves are necessary in order for the City to continue to provide essential public services in the face of extraordinary and unforeseen financial and natural events that could not have been reasonably anticipated and provided for in the annual operating budget. Sufficient financial reserves are also required by credit rating agencies.

In order to minimize the magnitude of reserves that must be held for extraordinary and unforeseen financial risks, revenues will be estimated conservatively; all known expenditure requirements will be funded at levels consistent with experience from prior years, along with any unique factors likely to impact the new fiscal year; and non-recurring revenues and/or financing

sources will only be used for non-recurring expenditure purposes.

Similarly, in order to minimize General Fund reserve requirements, activities funded by fees and user charges will maintain adequate reserves within their appropriate special revenue fund(s). Fees and user charges will be set at least annually at levels sufficient, when appropriate, to meet the full operating and capital replacement costs, and maintain the level of financial reserves established for that fund. Commercial insurance will also be purchased to transfer financial risk associated with any activities that the City cannot reasonably fund from available reserves in self insurance funds.

The General Fund's contingencies and reserves will consist of a Budget Contingency Appropriation, an Inclement Weather Stabilization Reserve, a Rainy Day Stabilization Reserve and a Capital Project Stabilization Fund. The other major funds (e.g., the Stormwater, Water and Sewer Funds, and the Revolving Funds) will have a budget contingency reserve and stabilization reserve.

- The **Budget Contingency Appropriation** will be an annual appropriation. It will address both annual operating expenditure contingencies which are non-recurring and of an extraordinary and unforeseen nature as well as funds needed for anticipated collective bargaining costs.

Non-recurring, extraordinary and unforeseen events might include but are not limited to general contingencies for unforeseeable operating expenditures, retirements (e.g., vacation pay-outs and sick buy-backs), unusual weather related contingencies (e.g., floods, unusual number of winter storms, unusual levels of snow or ice) and public liability claims.

The Budget Contingency appropriation may include anticipated expenditures to be awarded for costs associated with the settlement of collective bargaining agreements. Any funds included in this account that exceed actual collective bargaining settlement requirements will be closed out to Free Cash at year end. To the extent that contract settlements remain unresolved at year end, any funds in the Budget Contingency appropriation earmarked for collective bargaining costs will be carried over within the Budget Contingency appropriation into the following year.

Any funds in the Budget Contingency appropriation that are not needed for operating expenditure contingencies and unresolved contracts during a given fiscal year are to be closed out to Free Cash at year end.

- An **Inclement Weather Stabilization Reserve Fund** will be established and used for unusual (but not extraordinary) weather related costs in departments such as Public Works, Parks and Recreation, Police and Fire. For example, such costs may stem from floods, an unusual number of winter storms, or an unusual level of snow or ice. The goal of this reserve fund is to make sure monies are set aside for unusual weather conditions.

While the annual appropriation for snow and ice control will not be less than the median annual expenditure for the trailing five year period (by the FY14 Budget), the City will inevitably face costs related to weather conditions at the high end of the trailing five years. After the City has exhausted the annual appropriation, it will first use monies either from the Budget Contingency appropriation, projected unexpended appropriations for these costs, or possibly Free Cash. Next, it will use monies from the Inclement Weather Stabilization Reserve Fund. Only after the Inclement Weather Stabilization Reserve Fund is depleted will the City use funds from the Rainy Day Stabilization Fund.

The Inclement Weather Stabilization Reserve Fund will be funded initially with \$1 million from Free Cash by the end of FY2014 and then will remain at the \$1 million level. In other words, the Inclement Weather Stabilization Reserve Fund is a non-lapsing reserve fund in which unexpended funds in any given fiscal year remain within it. Any funds that are expended from the Inclement Weather Stabilization Reserve Fund will be replenished from Free Cash or from a Budget Appropriation.

- A **Rainy Day Stabilization Reserve** fund will be used when the City faces a multiple year economic recession or a rare, catastrophic expenditure. These funds would help the City address cyclical declines in operating revenues, generally resulting from economic factors outside the control of the City, or an unusually large expenditure resulting from a rare legal settlement or catastrophic weather event, etc. The primary reason for the segregation of such monies is to prevent these reserves from being used for unrelated City needs, and to demonstrate that resources are in fact being set aside specifically for extraordinary and unforeseen revenue disruption or catastrophic expenditure need.

In the case of the City's General Fund, cyclical declines typically would be evidenced by significant reductions in: state aid, economically sensitive taxes such as the motor vehicle excise tax, the hotel room occupancy tax, the local option meals tax, and building permit and investment income revenues.

A catastrophic weather event or series of events typically would be evidenced by the Federal Emergency Management Agency (FEMA) or the Massachusetts Emergency Management Agency (MEMA) providing reimbursements. The Rainy Day Stabilization Fund would also be used for storm events if the Inclement Weather Stabilization Reserve Fund was depleted.

To ensure that the rainy day stabilization reserve funds are available for multiple years of an economic downturn, no more than one quarter (25%) of the funds to one-third (33%) should be used in any single fiscal year. Appropriations may be made from the Rainy Day Stabilization Reserve Fund into the General Fund for operating purposes, upon recommendation of the Mayor and by a two-thirds vote of the Board of Aldermen.

Any funds that are not needed for rainy day contingencies in a given fiscal year will remain in the rainy day stabilization fund.

The target size of the City's General Fund Rainy Day Stabilization Reserve fund is 5% of the annual General Fund operating budget. Once established by formal vote of the Mayor and Board of Aldermen, annual contributions will be made to the fund until such time as the contributions and accumulated investment income equal 5% of total annual General Fund operating budget.

The City recognizes that the target amount of the Rainy Day Stabilization Reserve fund is somewhat less than national norms; however, this target level is considered prudent given the following considerations:

- A Budget Contingency appropriation will be included in the annual operating budget to meet extraordinary and unforeseen requirements.
- The Budget Contingency appropriation, the Rainy Day Stabilization Fund, the Inclement Weather Stabilization Reserve Fund and the majority of free cash are not expected to serve as recurring operating or capital budget financing sources.
- Employee salaries and wages will be budgeted in full within annual operating budgets and provision is made in the Budget contingency appropriation account for expected collective bargaining and salary scale adjustments.
- Legal claims and settlements will be budgeted at the median annual expenditure level for the trailing five year period adjusted for any factors that may impact the actual amount required, with back-up reserve capability in the Liability Self Insurance Fund.
- Snow and ice control costs will be appropriated at the median annual expenditure level for the trailing five year period, with back-up reserve capacity in the Budget Contingency appropriation and the Inclement Weather Stabilization Reserve Fund.
- Separately funded self insurance funds are maintained for Group Health and Workers Compensation liability exposures.
- Property loss risk exposures are covered by commercial insurance.
- The property tax serves as the City's primary source of revenue and revenues from this source are more predictable, stable, and not as economically sensitive as revenues from sales and wage taxes. The City of Newton has a diversified tax base with no one taxpayer representing more than 1.5% of revenues and the ten largest taxpayers representing less than 6% of total tax revenues.
- Property taxes are payable in quarterly installments which provides the City with a source of regular and stable cash flow, with delinquencies assessed penalties of 14% per annum.

The City expects to be able to achieve the target level Rainy Day Stabilization Reserve fund (as the current Capital Stabilization Fund is depleted) by:

- Making significant strides toward properly budgeting for all regular and recurring operating needs, including snow and ice control, public safety overtime, and recurring legal settlements beginning with the fiscal year 2012 operating budget;
  - Closing all future overlay surplus balances not needed for funding ongoing revaluation activity to Free Cash;
  - Retaining extraordinary, non-recurring revenue items within Free Cash; and
  - Appropriating a portion of Free Cash in the coming years to this reserve.
- 
- A long-term goal is to establish a **Capital Project Stabilization Fund**. This stabilization fund is a mechanism for setting aside money for capital projects in order to equalize the effect of capital expenditures over time and supplement monies for capital projects from the General Fund, debt service, unexpended/unobligated bond proceeds, state and federal grants, sale of surplus property, water and sewer charges, and other available funds. Massachusetts General Law, Chapter 40, Section 5B provides for the establishment and maintenance of Capital Project Stabilization Funds. The Mayor and the Board of Aldermen may vote to appropriate sums of money into a Capital Project Stabilization Fund for purposes of accumulating sums for future capital project financing. Appropriations may be made from a Capital Project Stabilization Fund by a two-thirds vote of the Board of Aldermen for any purpose for which the City is authorized to borrow under Chapter 44, Sections 7 and 8.

If there are remaining funds in the current Capital Stabilization Fund, they will move into the Capital Project Stabilization Fund.

- **Contingencies and Reserves for Water and Sewer Utility Funds:** In order to minimize the need for multiple rate increases in a single fiscal year, the postponement of needed capital outlay and improvements, and potential General Fund subsidies, water and sewer rates will be determined annually, based upon the historical consumption patterns, recent trends and forecasted changes. The Water and Sewer funds are enterprise funds and must be self-sustaining. Revenues generated through water, sewer and stormwater fees should be adequate to cover 100% of operating costs in these enterprise funds, including debt service for capital projects and regular maintenance. An annual *budget contingency reserve* equal to one half of one percent of the annual budget will, in time, be included in each year's operating budget for operating contingencies. A *stabilization reserve fund* will be funded over time. A stabilization reserve fund equal to at least 10% of the budget shall be maintained in each fund to mitigate extraordinary and unforeseen revenue declines.

**Property tax allowance for abatements and exemptions:** The Assessor will establish the assessed value of property each fiscal year. The assessment will represent the estimate of 100% of market value as of January 1<sup>st</sup> of the previous calendar year. The Board of Assessors, as required by law, will include a provision in the annual tax levy for real and personal property statutory tax exemptions; over-valuation abatements, senior citizen property tax work-off programs, and uncollectible personal property tax. The target level will be 0.75% - 1.5% of the gross annual tax levy for these purposes and is determined annually by the Board of Assessors. They may base their determination upon prior year experience and risk exposure for the new fiscal year, or such other method as they deem appropriate. At least annually, the Board of Assessors analyzes the balance in all outstanding abatement and exemption reserves and makes an overlay surplus declaration for any balance(s) which exceed the sum of uncollected personal property taxes and pending abatement claims for that fiscal year's reserve at such times as it determines to be appropriate. The Overlay Surplus declaration will be made by the Board of Assessors by October 15 each year. The Overlay Surplus shall be available for appropriation by the Mayor and Board of Aldermen. To the extent that any overlay surplus balance remains unappropriated at June 30, it will be closed to Free Cash.

**Cash management and investments:** Absent legal and/or contractual restrictions, City operating cash will be pooled, with ownership information maintained in the City's accounting system. All investment income on temporarily idle cash will be credited to General Fund revenue, unless legal authority exists to allocate the investment income to another fund. Investment income earned on pooled cash will be allocated quarterly based upon month end cash balances and Massachusetts Municipal Depository Trust (MMDT) month end interest rates.

Investments will be limited to those authorized by state law and City investment policy.

General ledger cash and investment totals are reconciled to the Treasurer's records and supporting bank statements on a monthly basis.

**Risk management:** The City will purchase commercial insurance to transfer any risk too large to self fund.

- Property insurance – Commercial insurance, including terrorism coverage, will be purchased for all City buildings and their contents. Coverage is provided for scheduled locations only, subject to not less than a deductible of \$100,000 per loss event. Insured values are adjusted annually for both improvements to the structures and an estimate of the increase in replacement values.
- Vehicle insurance – The City retains vehicle risk exposure for all vehicles, except Parks and Recreation automobiles and vans used to transport members of the public. The cost of the Parks and Recreation vehicle insurance premium is financed from the Recreation Activity/Classes Revolving Fund. Staff of the City Law Department manages all vehicle claims, and settlements are paid from an annual appropriation in the Law Department budget.
- Liability insurance – The City retains all public liability risk exposures, except for

retirement system fiduciary liability, for which the Retirement Board purchases commercial insurance coverage through a state-wide insurance pool, and special events for which commercial liability insurance is required by law or contract. Staff of the City Law Department manages all liability claims, and settlements are paid from an annual appropriation in the Law Department budget.

- Crime/employee dishonesty – Individual fidelity bonds are purchased for the City Treasurer/Collector, Deputy Treasurer/Collector and City Clerk, as required by state law. A fidelity bond is also purchased for the Chief Procurement Officer in accordance with local ordinance. All other employees of the City are covered under a blanket honesty bond, subject to a deductible of \$10,000 per loss, except for school principals with custody of student activity funds who are required to furnish individual fidelity bonds with no deductibles.
- Workers' compensation – The City retains all Workers' Compensation and public safety employee injured on duty risk exposures. The City's Human Resources and Law Departments are responsible for claims administration. Public safety employee injured on duty compensation is paid from the Police and Fire Department operating budgets. Workers' Compensation benefits for non-public safety employees and police and fire medical bills are paid from the City's Workers' Compensation Self-Insurance Fund. The City contracts annually for an actuarial valuation of the Workers' Compensation fund liability and a determination of the required annual contribution to the self-insurance fund.

For workers compensation self insurance purposes, the City will annually arrange for an independent actuarial valuation of the City's workers compensation plan liabilities and will make contributions to the fund in the following year at a level sufficient to meet the actuarial estimate of projected losses. In lieu of purchasing commercial stop loss insurance, the City may maintain a reserve equal to 10% of the sum of the accrued actuarial liability plus projected following year expected losses, in order to fund extraordinary and unforeseen claims experience. To the extent that fund reserves exceed the target level, excess reserves may be used to reduce the City's annual appropriation.

- Group health insurance - The City offers contributory group health benefits to employees regularly working 20 or more hours per week and to retirees. The City retains the full risk associated with health benefits coverage, subject to a \$250,000 annual limit on individual claims, which is covered through a commercial excess insurance policy. The City contracts for claims administration services. Health benefit self-insurance premiums will be established annually by the City, at a level expected to cover the full cost of paid claims; incurred but unreported claims; claims administration; excess insurance premiums; and a reserve for extraordinary and unforeseen claims experience. The target claims reserve is one and one half to two months of average paid claims (net of the incurred but unreported claims liability that is to be recalculated at least annually based upon actual claims payment data provided by plan administrators). All self-insured group health insurance activity takes place in a Group Health Insurance Fund, for which individual fund balances are maintained for each benefit plan option.

**Official and officer compensation:** The City expects to maintain compensation policies (including salaries, benefits and deferred compensation) designed to attract and retain well qualified officials and officers. Management level employees will be expected to maintain the highest level of professional competency during their employment with the City. To this end, the City will provide resources for ongoing professional training and staff development.

- Elected officials – In accordance with the requirements of the City Charter, compensation for the Mayor, members of the Board of Aldermen, and School Committee is established by ordinance. Elected official compensation will generally be subject to review by a Blue Ribbon Compensation Committee, every five to ten years.

- Management and non-union employees – The salaries of all Newton Public School management and non-union employees are determined by a vote of the School Committee. All municipal management and non-union employee salaries, except for the City Clerk/Clerk of the Board of Aldermen, are governed by a pay plan approved by the Mayor and subject to funding by the Board of Aldermen. The salary of the City Clerk/Clerk of the Board of Aldermen is established by ordinance, as required by law. When H grade adjustments are made, the salary of the City Clerk/Clerk of the Board of Aldermen will be reviewed. The salaries of all municipal employees are published in the annual budget.

**Procurement:** In order to demonstrate that City resources are being used in an effective and efficient manner, the City expects to make maximum use of competitive bids and proposals for the purchase of goods and services.

**Capital Planning:** The City acquires, constructs and maintains a range of capital assets for purposes of providing governmental and business-like services. In accordance with the requirements of the City Charter, the Mayor annually prepares a five-year capital improvement plan, whose objective is to identify and prioritize projects and financing sources for needed capital outlay improvements.

When planning capital projects, the City will utilize life-cycle cost analysis.

Capital outlay and improvements with a value of \$250,000 or more, along with those financed with capital grants and/or debt will be accounted for in a Capital Project Fund. Capital outlay and improvements with a value of less than \$250,000, but which are expected to require replacement annually, will be accounted for within the operating budget of the appropriate department. Non-recurring capital outlay and improvements with a value of less than \$250,000 will be accounted for by department in the special appropriation sub-fund of the appropriate City fund. In order to accumulate resources for future capital needs, a Capital Project Stabilization Fund will be maintained, with such separate sub-funds as the Mayor and Board of Aldermen shall agree to be necessary in order to effectively plan for future capital needs.

In order to spread the cost of capital improvements over the generations of Newton stakeholders



expected to benefit from the improvements, debt financing is expected to be the principal financing source for major capital improvements. Debt maturity terms will not exceed the expected life of the capital asset being financed. Debt service for capital improvements benefiting all or the majority of the stakeholders of the City is to be financed from General Fund resources. Debt Service for water and sewer (including storm-water projects) will be financed from special revenue fund resources and debt service for eligible community preservation fund projects will be financed from Community Preservation Fund resources.

**Financial Reporting:** The accounting records of the City will be maintained such that financial statements and supporting schedules can be prepared in accordance with the City's budgetary basis of accounting; the requirements of the Commonwealth of Massachusetts Departments of Revenue and Education; and generally accepted accounting principles for state and local governments.

The Board of Aldermen, through an Audit Sub-Committee of the Board's Finance Committee, shall make arrangements for an independent annual financial audit of the City's financial statements and accounts, which is expected to be presented no later than 180 days after the end of the City's fiscal year. Copies of the City's audited Comprehensive Annual Financial Report, Federal Single Audit Report, and Management Letter will be posted on the City's website.

Quarterly budgetary-basis financial reports, in a format requested by the Mayor and the Finance Committee of the Board of Aldermen, will be rendered within 30 days after the close of each fiscal quarter, with the exception of year-end, when a complete budgetary basis annual financial report shall be presented within 60 days of the end of the fiscal year. Monthly financial reports that include information pertinent to the Board of Aldermen Finance Committee will be developed by the Comptroller (e.g., self insurance funds, financial reserves, overtime, snow and ice control). A complete copy of the budgetary-basis annual financial report will be posted on the City's website. More frequent financial reports will be rendered as needed in order to assure that the Mayor and Board of Aldermen are made aware of unanticipated results of financial operations.

CITY OF NEWTON

IN BOARD OF ALDERMEN

April 16, 2013

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chairman Leonard J. Gentile, the *City of Newton Financial Management Guidelines*, adopted on January 22, 2008 and as most recently amended on April 20, 2011, be and are hereby further amended as follows:

On page 9 amend bullet

- “Closing all future overlay surplus balances not needed for funding ongoing revaluation activity to Free Cash;” by striking the semicolon after the word “Cash” and adding the words “except for statutory interest obligations of the City related to measurable and probable tax refunds that are expected to be made within the following twelve month period to the reserve for statutory interest on property tax abatements;”

On page 10 amend **Property tax allowance for abatements and exemptions:** by adding the following two paragraphs:

Reserve for statutory interest on property tax abatements: In order to provide for statutory interest obligations of the City that result from property tax refunds ordered by the Courts or the Massachusetts Appellate Tax Board (ATB), the City needs an appropriation from which such liabilities can be extinguished. Massachusetts municipal finance laws do not allow statutory interest to be charged directly to the assessors’ “Overlay” or Allowance for Abatement and exemption Reserve.

At the same time that the Board of Assessors votes on Overlay Surplus declaration, the Board will make an estimate of the statutory interest liability of the City associated with all abatement exposures that the Board determines are likely to be resolved in the favor of taxpayers over the course of the next twelve month period. To the extent that resources have not previously been set aside to meet the statutory interest obligation, the Board shall recommend to the Mayor that all or a portion of the Overlay Surplus declaration be appropriated to a Reserve for Statutory Interest on Property Tax Abatements. All funds that are subsequently appropriated by the Mayor and the Board of Aldermen shall be available to satisfy statutory interest obligations

#78-10(2)

(#207-07)

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of the City without any further appropriation, but with notification to the Finance Committee.

Under Suspension of Rules

Readings Waived and Approved

20 yeas 0 nays 3 absent (Aldermen Baker, Fischman, and Lappin) 1 vacancy



(SGD) DAVID A. OLSON

City Clerk



(SGD) SETTI D. WARREN

Mayor

Date 6/27/13