



To the Newton Community,

The Citizen Advisory Group is posting to its website today a discussion draft report prepared by the Revenue Structure Committee. This committee looked for incremental revenue gains outside of the City's property tax regime. It makes eight recommendations for enhancing municipal revenues. Some of these recommendations involve moving some services from the tax base to user fees and increasing the prices of certain fees and services (along with appropriate abatements for low income residents). Other recommendations address new sources of revenue independent of the City's current tax base.

This report is the first of three dealing with the growing gap between costs and revenues in the City, as the growth rate of the former continues to outpace the growth of the latter. Two subsequent reports—one addressing the cost structure of municipal operations and the one addressing the cost structure of school operations—will complete the picture of the City's potential for closing this gap. Preliminary indications are that the combined effects of implementing the combined revenue enhancements and cost reductions of all three committees will not eliminate the long-term mismatch between the likely growth rates of the City's costs and revenues.

While the Citizen Advisory Group believes that Newton should adopt the recommendations offered in this report in order to narrow the expanding budget gap, important questions remain open for debate: To what extent should Newton transfer some of the services currently paid for by taxes into fee-based services and to increased fees for local services that are not utilized by large segments of the community or provide significant community benefits? Which municipal services should carry a user fee and which services should not and what degree of subsidization, if any, should be provided by tax dollars? Finally, if the combined effects of enhanced non-tax revenues and increased operating efficiency do not close the budget gap, then what reductions in the historic scope and scale of municipal and educational services are in order?

We consider this report to be a discussion document because we are interested in hearing public comment and feedback. A final version of the report will come out in early 2009. Scott Oran was chair of the Revenue Structure Committee and the principal author of this study. While he certainly has the most detailed understanding of the research and findings reported here, we are all available for discussion and comment.

Respectively submitted by

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Chair, Citizen Advisory Group

City of Newton

# Citizen Advisory Group

Defining Choices about Municipal and Educational Service Levels,  
Improving the City's Operational Efficiency and Effectiveness, and  
Developing New or Enhanced Sources of Funding

## Report on Municipal Revenue

November 19, 2008

*Draft*

# Report on Municipal Revenue

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## I. Summary

Newton's opportunities to increase revenues are modest. Exploiting these opportunities by themselves will not close the widening gap between the City's expenditures and revenues. Neither will their successful exploitation fill the gap between the kind of city Newton's residents say they would like and that which residents are willing or able to afford. Nevertheless, given voters' current antipathy toward higher property taxes and possible reductions in aid from the Commonwealth, converting *potential* non-property-tax municipal revenue gains into *actual* gains is an important step towards ensuring Newton's fiscal health.

The Citizen Advisory Group looked expansively for incremental revenue gains outside of the City's property tax regime. We found potential, one-time revenue increases amounting to 1% to 4% of the annual General Fund budget (\$2 to \$10 million). These are maximum figures and assume swift implementation of our specific recommendations, which relate primarily to moving some services from the tax base to user fees, along with price increases for fees and services.

It is noteworthy that the financial effects of an immediate and full implementation of our recommendations would be short-term in nature—meaning that they could only fill our budget gap for the next 12 to 24 months. This gap can be further forestalled, to some extent, by parallel efforts devoted to achieving incremental operating efficiencies. In two forthcoming reports, the Citizen Advisory Group will recommend a broad portfolio of possible operating efficiencies that could reduce the costs of Newton's municipal and educational operations. However, even if the full potential of these recommended operating efficiencies and the revenue enhancements presented in this report is achieved, it appears that Newton will still not be able to fully fund the scope and quality of public services that Newton has historically provided.

This conclusion is consistent with the *Report of the Blue Ribbon Commission on the Municipal Budget* (February 1, 2007), which concluded that Newton faced a significant structural deficit. The Mayor's office updated the Commission's budget forecast in the spring of 2008. That revised forecast shows revenues in the operating budget increasing at a rate of 2.9 percent per year from 2009 through 2014, with expenditures growing at a significantly higher 5.9 percent annual rate in order to fund the current range and level of public service. This 3 percent mismatch in growth rates means that Newton will be short an estimated \$7.3 million in 2010, \$25 million the next year and, by 2013, \$45 million.

Since, by law, Massachusetts municipalities must have a balanced budget, the "big choices" currently facing Newton's residents and their elected leaders are more profound than simply increasing revenues or reducing costs. Rather, we must consider reductions in the historic scope and scale of municipal and educational services. If voters' recent rejection of the property tax override ballot question suggests limited support for increasing revenues through tax increases, then Newton's residents and their elected leaders must make these difficult choices.

## II. Methodology

From June through November 2008, Citizen Advisory Group Revenue Committee members sought to understand, evaluate, and articulate the revenue choices facing Newton by:

- Analyzing historic revenue streams, current revenue budgets, and forecasts
- Studying public information to benchmark Newton’s revenue sources with local and national peers and identifying best practices<sup>1</sup>
- Reviewing prior and pending revenue proposals made by citizens and elected officials
- Soliciting new ideas from the public through interactive small meetings with concerned citizens, web blogs, and “town-hall” style forums
- Interviewing knowledgeable public officials and private citizens, including the Mayor, key City and school administrators, Aldermen and School Committee members.

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<sup>1</sup> See CAG’s Benchmarking Report for more information.

### III. Articulation of Choices

Identifying potential new revenue choices starts with understanding the current sources of Newton's revenues. In fiscal year 2007, Newton's General Fund revenue totaled \$260 million.<sup>2</sup> Sources of revenue are reflected in Exhibit I.

Newton is overwhelmingly dependent on the property tax. Fully 80% of revenues in the General Fund come from locally assessed property taxes. Since 1980, following passage of Proposition 2 1/2, these revenues are limited to 2.5% annual increases plus any new growth from property development.<sup>3</sup> In a mature suburban city like Newton, new growth has averaged about 1% per year since 1980. **Hence, 80% of Newton's revenues, regardless of expense growth, can be expected to continue to grow at about 3.5% per year, and assuming no other revenue growth, total revenues will grow 2.8% annually.**

Non-property-tax municipal revenue accounts for only 20% of Newton's annual budget. Unfortunately, of this 20%, two-thirds is state aid and state-mandated motor vehicle excise and hotel taxes -- 13.4% of Newton's annual budget -- over which there is no local control. In the past, state aid has proved difficult to predict as it ebbed and flowed with the Commonwealth's fiscal health. In the short-term, there are considerable fears about decreases in state aid, reflecting current economic strains.

**Less than 7% of Newton's revenues come from controllable local fees.** The issuance of building permits accounts for the largest portion of these fees -- about 27% of the total (\$4.6 million--less than 2% of the General Fund. Parking violation fines are the second largest, about 10% (\$1.4 million -- less than 1% of the General Fund). All other local fees account for less than 3.5% of the General Fund.

Given this breakdown in revenues, it is easy to see why policymakers seeking to fill budget gaps have turned to Proposition 2½ overrides: property taxes are overwhelmingly Newton's largest revenue source. All other revenue sources are just a fifth as large and less than 7% are controllable. **Without Proposition 2 1/2 overrides, if state funding remains constant, only those 7% of revenues controlled locally can be managed to fill the gap.** While a doubling of locally controlled non-property revenues would cover one year's budget gap, the next year's expense growth will create the same gap once again.

Going forward, then, the first "big question" currently facing Newton's decision makers is whether or not to transfer some of the services paid for by taxes currently into fee-based services and to increase fees for local services to plug projected budget gaps. If the answer to this question is "yes," then there are choices regarding which municipal

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<sup>2</sup> All dollar and percentages quoted are based on FY 2007 Actual as presented in the Mayor's Recommended FY 2009 Operating Budget. The General Fund excludes dedicated enterprise funds, chiefly the Water and Sewer Fund, through which the City reimburses the cost of participation in the regional Massachusetts Water Resources Authority (MWRA).

<sup>3</sup> See Appendix IV, p.46 for a discussion of the property tax.

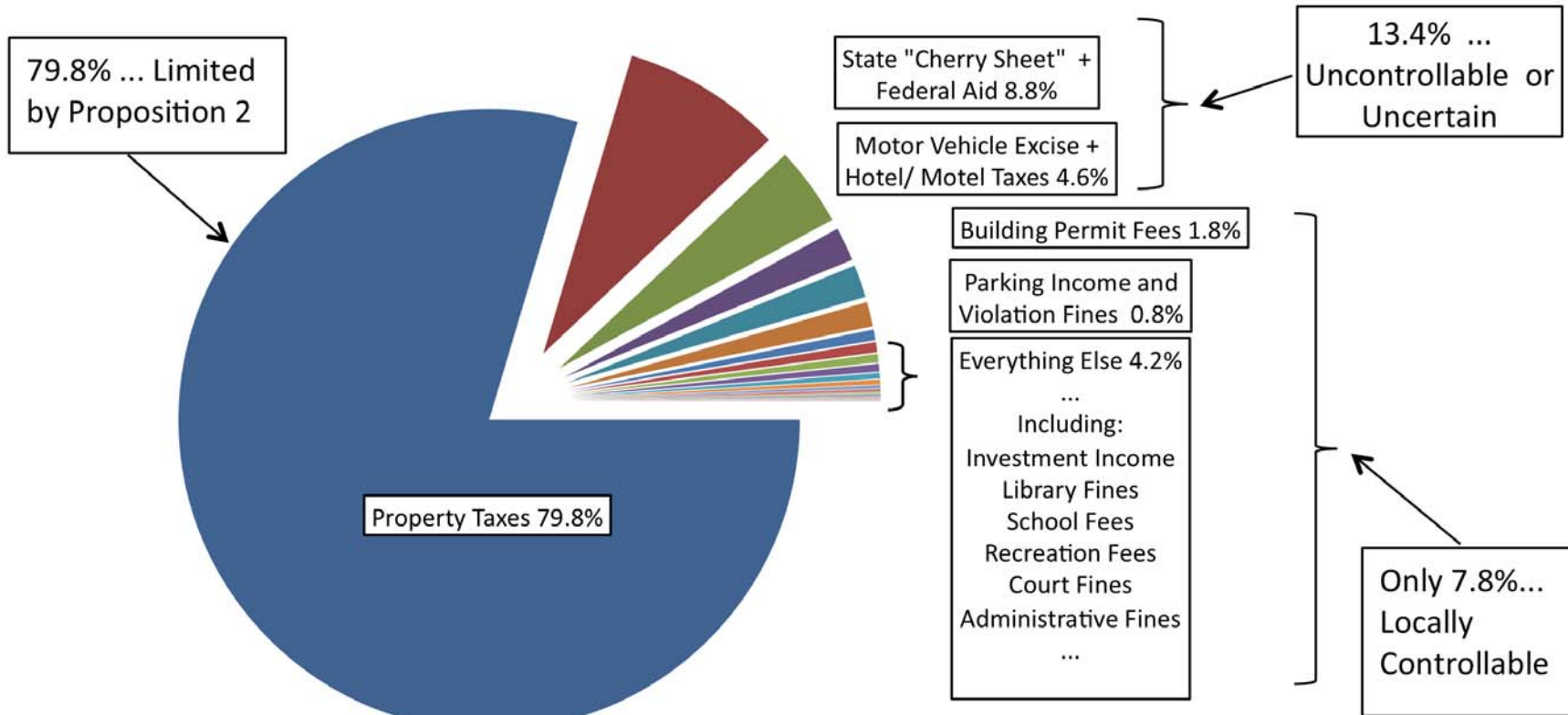
services should carry a user fee and which services should not. There are also choices related to enhancing the flows from property-tax-based sources.

The Citizen Advisory Group addresses these choices by examining operating strategies for enhancing revenue streams from both sources, as well as streams from other, less established revenue sources. It is the opinion of the Citizen Advisory Group that Newton has no choice but to adopt these strategies in order to fill its growing budget gap.

Before proceeding to the committee's recommendations, a special word is in order regarding the use of tax overrides and debt exclusions as means of reducing the City's budget gap and structural deficit.

Given the possible, but still relatively small, increases to Newton's non-property tax related revenue sources, it is inevitable that tax overrides and debt exclusions will remain important options in Newton's financial future. Deciding when and under what conditions these options should be considered is a political judgment beyond the scope of this committee's work. As a practical matter, however, this committee expects that any future consideration of tax overrides or debt exclusions would be in conjunction with an assessment of the actual gains from the new revenue sources identified in this report and the kind of operating efficiencies identified and recommended in forthcoming reports from the Citizen Advisory Group.

## Exhibit I - Sources of Newton Revenue



Source: FY 2007 Actual -- \$260,242,369 Total Revenue, Mayor's Recommended FY 2009 Operating Budget, City of Newton



## Exhibit II – Citizen Advisory Group Recommended Revenue Enhancement Strategies

<u>Item</u>	<u>Recommendation</u>	<u>Revenue Impact (millions)</u>	<u>Implementation</u>
1	Convert to a “Pay As You Throw” (PAYT) trash collection regime requiring residents to pay only for trash services they use and encouraging increased recycling.	\$1.0 - \$6.8	Short- to Medium-Term
2	Increase parking revenue through meter increases, new meters, and longer hours for paid parking as well as implementation of collection automation and other technology.	\$0.5 - \$1.0	Short-Term
3	Increase building permit fees and continue enhanced enforcement and auditing to ensure construction costs are accurately reported.	\$0.35 - \$0.5	Short- to Medium-Term
4	Increase user fees to cover more fully the costs of recreational, community educational, and cultural programs with appropriate abatements for low income residents including, but not limited to, Gath Pool and Crystal Lake, summer camps, and playing fields. Consolidate these programs in one department to decrease costs, improve effectiveness and increase revenues.	\$0.1 - \$0.5	Short- to Medium-Term
5	Increase cell tower rental income by leasing municipal properties.	\$0.1-0.175	Short- to Medium-Term
6	Increase individual, corporate, and foundation giving to the Newton Public Schools and to the City of Newton by working more closely with these constituencies and increase grants to the City by retaining a grant writer.	\$0.1 - 0.5	Short- to Medium-Term
7	Sell or lease underutilized municipal properties, especially when redevelopment of such properties can enhance the vitality of the City’s villages.	To Be Determined	Longer-Term
8	Negotiate aggressively PILOTs (payments in lieu of taxes) or SILOTs (services in lieu of taxes) with local institutions like colleges and hospitals.	Indeterminate	Longer -Term
<b>TOTAL</b>		\$2 - \$10 million 1% to 4% of General Fund	

## IV. Recommendations

There are no magic bullets and no free lunches to increase Newton's revenues. Each identified revenue enhancement will be incremental and virtually all will require some group to pay more -- either compulsorily, through increased fees, or voluntarily, through greater generosity. These choices will force Newton's citizens to re-examine what municipal services they pay for, what they are willing to pay, and what they can afford. In general, the Citizen Advisory Group believes that fee levels should be transparent and generally should reflect the full cost of services or, if appropriate, private market pricing, with subsidies available for low-income residents. Such transparency will help Newton's citizen make better decisions about what they expect and can afford from local government.

**Recommendation #1: Implement a “Pay As You Throw” (PAYT) trash collection regime requiring residents to pay only for trash services they use and encouraging increased recycling.**

*Municipal revenue enhancement and cost savings -- \$1.0 to \$6.8 million annually*

The Citizens Advisory Group urges the Mayor and Board of Alderman to adopt a complete Pay As You Throw (“PAYT”) program to make the Garden City truly become a green city. With appropriate protections for low-income residents, Pay As You Throw promises an equitable and efficacious way to increase municipal revenues by 2% while attaining valuable environmental goals. While this is the largest potential revenue strategy identified by the Citizen Advisory Group, no proposal is likely to be more controversial. Nevertheless, Pay As You Throw is potentially able to simultaneously increase municipal revenues while meeting the socially desirable goals of reducing solid waste and increasing recycling.

Currently, Newton spends \$6.8 million annually (about \$250 per household) to collect and dispose of residential trash although there is no legal obligation for Commonwealth municipalities to either collect or dispose of municipal waste. In fact, local policies vary widely though **59% of Massachusetts’s Massachusetts municipalities have implemented Pay As You Throw programs.** For example, locally, Wellesley has no trash collection, requiring residents to contract for collection privately or bring their own trash to Wellesley’s “dump.” Needham has no public trash collection and charges residents \$1.50 for each 30 gallon bag they bring to Needham’s Recycling and Transfer Station. In addition, Natick, one of CAG’s Core Benchmarking Communities, has had PAYT in place since 2003.

According to the Massachusetts Department of Environmental Protection (MA DEP), Pay As You Throw (PAYT), also known as unit-based or variable-rate pricing, is a system in which residents pay for each *unit of waste discarded* rather than paying a fixed tax per residential household.<sup>4</sup> Recycling is encouraged and is entirely free.

It is equivalent to putting a price tag on each container of trash that is placed at the curb for disposal. As residents pay directly for waste disposal services, they have a financial incentive to reduce their waste through recycling, composting, and source reduction. As with other utilities such as water and sewer, oil and gas, or electricity, residents can reduce their bills and not subsidize their neighbors. In addition, residents can clearly see the cost savings associated with innovations like automated trash collection which should foster greater support.<sup>5</sup>

MA DEP points out that Pay As You Throw not only provides residents an opportunity to save money on their trash bills but also promotes:

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<sup>4</sup> See Appendix III for a discussion of User Fee vs. Taxes.

<sup>5</sup> Newton’s Department of Public Works has recommended fully automated trash collection as it would produce cost savings of \$1 million annually or a 15% reduction in cost. Automated trash collection is widely used with established methods and technologies. Nevertheless, the Board of Aldermen, reflecting concerns of constituents, only permitted DPW to begin a limited six-month trial involving just one-sixth of the City in November 2008.

- **Fairness.** Residents pay only for the amount of trash they generate. Households generating less trash pay less than households that generate more.
- **Increased Recycling, Composting and Waste Reduction.** As residents come to understand that trash disposal costs more than recycling, they may be more likely to recycle and compost more and throw away less. Implementation of a Pay As You Throw program, in conjunction with Newton's existing curbside recycling program, can *increase* a community's recycling rate between 20 and 27 percent. (Recycling provides revenue to Newton.) In addition, Pay As You Throw has been shown to *decrease* a community's residential trash generation rate.
- **Improved Environmental Quality.** By diverting waste from disposal, Pay As You Throw programs extend the life of landfills, decrease air pollution from trash incinerators, and reduce the need for new disposal facilities. As communities turn to reuse, recycling, and composting, natural resources, such as land, air, and water, are protected and preserved.

As of 2006, 59% of Commonwealth cities and towns (139 in total) have already implemented Pay As You Throw. In these municipalities, as residents' awareness of their trash has been raised, Pay As You Throw has dramatically:

- (1) Increased the recycling rate (by 20% to 27%);
- (2) Reduced the amount of trash thrown away (by 10% to 30%);
- (3) Reduced the overall cost (municipal and residents') of trash disposal.

Newton currently spends \$6.8 million annually to dispose of not only household trash, but virtually anything placed on the curb, including bulky and expensive to dispose of "white goods" (refrigerators, stoves, washers/dryers, etc.) at no charge. Newton's recycling rate is slightly below the Commonwealth average but only 87<sup>th</sup> out of 259 municipalities. Given Newton's "Garden City" moniker and stated citizen interest in environmental issues, there seems to be a gap between residents' words and actions.

The City can implement a range of options for Pay As You Throw and realize substantial revenue enhancement and cost savings. Three options ranging from greatest resident burden to least are as follows:

- *Complete Pay As You Throw Program:* Newton would no longer provide any trash services for free. Residents would pay for disposal and all administrative costs incurred by Newton. Newton would raise a projected **\$6.8 million annually** and would insulate the City's budget from major cost changes at the renewal of each trash contract cycle. Under this scenario, residents would pay a flat fee of \$70 per year and buy trash bags at City Hall or local merchants that reflect Newton's full per bag cost of collection and disposal – about \$2 per large bag or about \$1 per small bag. All recycling would be free. Subsidy programs for low-income residents would be available. A household that discards 2 bags a week would pay no more than they currently do – about \$250 per year. (The cost would come in the form of a fee rather than through the property tax (which is tax deductible).) Households that increase recycling and decrease trash would pay less.

- *One-Barrel (35-Gallon) Free Pay As You Throw Program:* Under this program, all residents would be allowed one 35-gallon container of trash for free, as well as unlimited recycling. Anything beyond 35 gallons would incur a fee that could be managed in a variety of methods already proven in other communities. All white goods would also be subject to a fee. City revenues would increase by an estimated **\$1.5 to \$2 million annually**.
- *Two-Barrel (64-Gallon) Free Pay As You Throw Program:* Under this program, all residents would be allowed one 64-gallon container of trash for free, as well as unlimited recycling. Similar in structure to the previous option, anything beyond 64-gallons would incur a fee that could be managed in a variety of methods already proven in other communities. All white goods would also be subject to a fee. City revenues would increase by an estimated **\$1.0 million annually**. This program is being piloted currently by Newton's DPW in five neighborhoods.

Critics of Pay As You Throw raise the issues of the non-tax deductibility of user fees and possibility of illegal dumping. Neither concern seems insurmountable. Given the small amount of the Pay As You Throw fee, the lost tax deduction would amount to just \$25 to \$75 per household. Likewise, MA DEP reports little evidence of increased dumping with adoption of Pay As You Throw but recommends increased enforcement and education during the adoption period.<sup>6</sup>

Pay As You Throw is strongly endorsed and encouraged by both the MA DEP and the Federal Environmental Protection Agency. Many cities and towns in the Commonwealth have chosen to implement a Pay As You Throw program when faced with difficult financial decisions and have seen reduced costs, reduced waste and increased recycling rates. To encourage adoption, the MA DEP provides financial support to municipalities for training, which could bring in \$200,000 to \$400,000 in grants.

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<sup>6</sup> According to PAY AS YOU THROW (PAYT) IN THE US: 2006 UPDATE AND ANALYSES FINAL REPORT, EPA Office of Solid Waste and Skumatz Economic Research Associates, Inc. (pp.16-17), the two most frequent concerns about PAYT are (1) illegal dumping and (2) impacts on large families and the poor:

Illegal dumping: Research shows illegal dumping is a bigger fear than reality, and is a problem in about 20% of communities – a problem that lasts about 3 months or less. Further, analysis of the composition of illegally dumped material finds only about 15% is household in origin and that the largest household component is bulky items or appliances (or “white goods”). Enforcement of illegal dumping ordinances usually keeps the problem at bay. PAYT programs should make sure to introduce methods for getting rid of occasional bulky materials through stickers, payments, appointments, or other methods.

Concerns about large families or the poor: Large families pay more for groceries, water, and other services they use more than other households, and PAYT basically extends this to trash service. Note that large families have opportunities to reduce trash through recycling – opportunities that are not as readily provided in the use of food! Consider the converse of the argument – is it fair for small families on fixed incomes (retirees) to subsidize large disposers (whether or not they are large families)? On the low income issue, in some cases, communities provide “lifeline” discount rates for essential services like energy and telephone, etc., and these types of discounts can be extended to garbage fees through discounts or allocations of some free bags / tags. Special arrangements for poor or infirm are made in less than 10% of the communities with PAYT, but are included in communities with policies for other services.

The Citizen Advisory Group urges full adoption of Pay As You Throw resulting in increased revenues of \$6.8 million while increasing recycling and reducing solid waste.

**Recommendation #2: Increase parking revenue through meter increases, new meters, and longer hours for paid parking as well as collection automation and other technology, or privatization as well as revisited enforcement policies**

*Municipal revenue enhancement -- \$500,000 to \$1,000,000 annually*

About \$1.2 million is earned annually from parking meters. Under Massachusetts law, this money is used for street maintenance and lighting. In addition, about \$1.4 million is paid in parking violation fines. The City Traffic Engineer has identified potential revenue enhancements from parking changes of \$500,000 to \$1,000,000 annually. These proposals should be embraced by the Mayor and Board of Aldermen and implemented immediately. In addition, enforcement policies should be reviewed to make sure adequate resources are being dedicated to this effort.

Parking meter revenue could be augmented by \$500,000 to \$1,000,000 per year by:

- (1) Increasing meter rates by \$0.25 per hour (a \$.25 per hour increase to \$.50 per hour two years ago generated an extra \$250,000),
- (2) Increasing the number of meters (300 to 400 potential new locations exist)—a 17% to 23% increase,
- (3) Lengthening the hours of operation (from 8 am to 6 am currently to 8 am to 8 pm) and
- (4) Adjusting employee and commuter parking policies.

In addition, so-called “pay on foot” automation could further increase revenues and reduce costs associated with meter collection, maintenance, enforcement, and counting. It also appears that rate increases would be justified. When benchmarked with other communities like Boston, Cambridge (\$1 per hour) and Brookline (\$0.75 per hour), Newton’s parking rates are low. The Mayor and Board of Aldermen have not pursued raising rates or increasing the number of meters very often, apparently for fear of angering residents. Increased parking meter rates might also be accompanied by free parking for hybrid or alternative fuel vehicles, which is the norm in most California cities, to encourage conservation.

Parking automation should become a high priority as it will likely decrease costs. A “pay on foot” automation pilot program was approved for Newton Centre’s 59-space Cypress Street lot but has not been implemented yet. At a cost of about \$20,000 per lot, all eleven off-street lots could be automated for less than \$250,000. This automation is widely used and a well-established private sector norm. Revenue increases come from increased turnover, reduced labor and maintenance costs and better collection, enforcement and control. In addition, parking rates can be changed quickly and remotely to match demand and modify behavior to accommodate more parkers and maximize income. Meters can be programmed to reset when parkers leave to increase revenue. Assuming a 20% increase in revenue and only modest labor and maintenance savings, a one to two year payback can be expected on the cost of new automation.

The City's Traffic Engineer has identified 300 to 400 new meter locations (a 17% to 23% increase to 1764 existing meters), including 80 in Waban. These additional meter locations have been opposed by some members of the public, especially by Waban residents. Given that additional meters can be installed at a cost of \$400 per meter and meters average \$600 in annual revenue, the payback is less than one year. Four hundred new meters might add \$250,000 in annual meter revenue plus \$150,000 to \$200,000 in enforcement revenue. Fairness suggests that Waban parkers should be treated no differently than other village parkers and meters should be installed. Likewise, meter policies and hours of operation should be uniform throughout the City, which would mean eliminating free Saturdays in the Austin Street (Newtonville) and Melrose Avenue (Auburndale) lots.

Currently, enforcement is the responsibility of ten parking control officers who issued about 70,000 tickets in 2007. Generally, parking control officers write tickets that generate two to three times their salaries. Newton charges the state imposed maximum of \$25 for parking tickets as well as late fines. Increasing fees above state imposed maximums would require home-rule legislation (as Brookline did). The Citizen Advisory Group recommends that Newton pursue home-rule legislation to increase the fees.

In addition, Newton police officers wrote about 9000 \$5 tickets in 2007 for overnight parking during the winter months (November 15 to April 15) when it is prohibited. Municipal officials believe that the cost of enforcement (ticketing, processing, and collection) actually exceeds the cost of the \$5 ticket. The overnight parking ban exists to facilitate snow plowing. However, in older neighborhoods with multi-family homes, inadequate off street parking forces residents to park on the street. Newton can either cease enforcement or raise the cost of overnight parking tickets to cover the actual costs. Alternatively, the ban could be amended to be in effect only when snow is present and penalties increased to insure compliance. We recommend increasing overnight parking fines to \$25 to increase revenue and fully recover costs, facilitate snowplowing, and discourage parking scofflaws as adequate off-street parking is required under Newton's zoning code.

Parking revenue increases are possible but become political and philosophical when they force decision makers to confront tradeoffs when making policy. Who should pay for parking? Where? How much? Equitable parking rate policies can and should discriminate between different users: shoppers, for which pricing should encourage rapid turnover to help Newton retail merchants; employees, for whom employers need affordable long-term parking; commuters, for whom environmental and energy policy may want to encourage the use of public transportation; and, finally, residents who it seems should be favored (with lower prices or restrictions) over non-residents when parking is scarce (e.g., at commuter locations). Accommodating these varied users while maximizing revenue is the art of municipal parking revenue management.

**Recommendation #3: Raise building permit fees and continue enhanced enforcement and auditing to ensure construction costs are accurately reported**

*Municipal revenue enhancement -- \$350,000-\$500,000 annually*

The Citizen Advisory Group urges the Mayor and Board of Alderman to increase building permit fees to \$20 per \$1000 from the current \$18.60 per \$1000 rate. This 7.5% increase will raise \$350,000 to \$400,000 annually and is line with neighboring Brookline fees.

In addition, estimated construction costs on building permit applications should continue to be scrutinized carefully to ensure accurate collection of building permit fees. Some suggest that contractors are tempted to under-report the full cost of construction so as to save money on building permit fees. Inspectional Services should develop appropriate guidelines and be given appropriate resources and personnel to ensure strict compliance with all applicable laws on building permit fees, including obtaining contract documents and affidavits to verify costs as well as auditing large projects.

If building costs are hypothetically underestimated or under-reported by just 10% annually, the City is losing \$500,000 annually in building permit fees.



**Recommendation #4:** Increase user fees to cover more fully the costs of recreational, community educational, and cultural programs with appropriate abatements for low income residents including, but not limited to, Gath Pool and Crystal Lake, summer camps, and playing fields. Consolidate these programs in one department to decrease costs, improve effectiveness and increase revenues.

*Municipal revenue enhancement -- \$100,000 - \$500,000 annually*

Newton should more thoughtfully determine how much of the full cost of recreation, community education, and cultural programs should be covered by user fees and also increase the amount of funds available for scholarships to ensure access for low income residents.

Newton has a decentralized approach to providing community educational, recreational and cultural programs with the support of City funds. Many different departments create and promote programs with no central vision for Newton's overarching goals. Nor is there consistency in the amount of financial support for these programs from Newton versus degree of costs covered by user fees. There is no central clearinghouse where residents can find programs of interest. The lack of centralization results in the duplication of programs. While there are advantages to the current system (e.g., an entrepreneurial spirit results in a wide variety of programs), it also results in:

- Inconsistent policies towards user fees vs. tax supported programs within and across departments
- Administrative inefficiencies
- Program inefficiencies
- Marketing inefficiencies
- Insufficient funding for scholarships
- Insufficient use of private-public partnerships and support from individuals, corporations and foundations
- Unhealthy competition for teachers and space

The Citizen Advisory Group recommends Newton:

1. Develop a thoughtful policy about degree of tax subsidization vs. user fees for each of the community educational, recreational and cultural programs.
2. Consider creating a Culture, Recreation and Community Education Department unifying Recreation from the Parks and Recreation Department, Community Education from the Schools Department, the Newton History Museum and other cultural, recreational and community education programs from other departments to decrease costs, improve effectiveness and increase revenues.
3. Significantly increase scholarships for low-income residents to maintain universal access.

*Appendix I discusses Newton's recreational, community educational, and cultural programs in more depth.*

Recommendation #5: Augment cell tower rental income by leasing municipal properties.

*Municipal revenue enhancement -- \$100,000 to \$175,000 annually*

Currently, Newton earns about \$170,000 annually by renting space atop City Hall to cell phone providers for antennas but could add about \$100,000 to \$175,000 annually by leasing two or three other City-owned sites.

One new site -- an existing water tank on Ober Road on the south side of the City -- has been identified and should get DPW and Aldermanic approval. There is strong demand from carriers as cell reception is poor in that area and four or five carriers could be expected to respond to a City RFP to lease space atop the tower with annual rents of \$25,000 to \$30,000 per carrier plus 2% to 3% annual escalations. Although in a residential neighborhood, according to the Planning Department, the antennas can be mounted atop the existing water tank and screened so they will not be obviously visible. This would require Aldermanic approval.

Similarly, other City-owned properties could be leased for cell phone antennas. The City should maximize the use of its properties for commercial telecommunications uses as advances in cell antenna design allow them to be integrated architecturally and fairly unobtrusively and provide better phone service for residents and needed additional revenue for the City.

Recommendation #6: Enhance individual, corporate, and foundation giving to the Newton Public Schools and to the City of Newton by working more closely with these constituencies and increase grants to the City by retaining a grant writer.

*School revenue enhancement -- \$100,000 - \$500,000;*

*Municipal revenue enhancement \$50,000 - \$500,000 or more*

Support to the City from Individuals and Businesses via Foundations and Nonprofits: In addition to revenue from taxes, fees, and inter-governmental transfers, the Citizen Advisory Group considered the potential of additional revenues to the City from foundation, nonprofit and public-private partnership organizations for “public” or “community” purposes. Currently, Newton has a number of quasi-public institutions that are defined as nonprofits with the mission of raising funds for purposes of this type. One example is the Newton Pride Committee, a nonprofit volunteer organization created in 1988 that which provides support for Newton cultural and arts programs and organizes family-oriented activities (including the Fourth of July festivities and the Halloween Window Painting Contest). The Newton Pride Committee works with individual and business donors to augment programs in the Mayor's Office of Cultural Affairs, the Newton Cultural Council and the Newton Parks and Recreation Department. Examples of other important nonprofits include the Newton Community Service Center (which works with the City to enhance and deliver a variety of social services to residents), the Newton Historical Society, and the Friends of Newton Free Library. These nonprofits, and numerous others, generate revenues for various public and quasi-public purposes and programs.

The Citizen Advisory group has come to two conclusions concerning revenues from these types of quasi-public nonprofits. First, little effort has been made to take a full inventory of the number, role, and impact of these nonprofit organizations. Second, there has been little effort to assess whether existing nonprofits have heretofore untapped potential, whether there are significant areas or functions where additional potential might exist, or whether there might be value in developing a higher level of fundraising coordination among these organizations to, for example, ensure that existing organizations are not competing, rather than cooperating, with each other in their fundraising activities. Third, there has been little effort to encourage new nonprofits that could help the City. Superficially, at least, it would appear that Newton’s nonprofit sector is somewhat under-developed, especially with respect to partnering with the private and commercial sectors in the city, to achieving a high level of coordination, and for raising significant donations for public purposes.

There have been discussions from time to time about the potential for the development of a broad-based Newton Community Foundation. Such a foundation might serve as a central, community-wide, multi-purpose, mediating institution to raise funds, operate programs, support nonprofits and distribute small grants. (This might be similar to the Brookline Community Foundation. With a six person staff, the Brookline Community Foundation strengthens and sustains local nonprofits, organizations, and initiatives through grant-making and administrative and organizational support.) When considered in the past, the difficulties of creating and maintaining such a foundation were thought to be prohibitive, and they may still be. Yet, Newton would seem to have an abundance of

residents and friends who have both the capacity and desire to make voluntary contributions to the community. The central question is whether Newton's nonprofit sector currently provides sufficient opportunities to potential individual and business contributors. The Citizen Advisory Group recommends that a significant effort be made to assess the potential for an expanded nonprofit sector to generate revenues and support programs in a way or at a level not possible .currently. This effort should be sensitive to the accomplishments of existing nonprofit organizations and strive to strengthen .them. If promising, City leaders should help incubate a Newton Community Foundation.

Support to the City from Federal and State Governments via Grants: The municipal side of the City of Newton may not be taking full advantage of federal and state grants. While Newton does receive a variety of grants from governmental entities, currently, other than in the School Department, the city does not employ or retain a dedicated grant writer. (Some departments do grant writing. For example, both Parks and Recreation and the Newton Police Department have a couple of people with a lot of experience writing grants and have this as one of their responsibilities.) At one time, the Planning Department did have such a dedicated grant writer. After a few years, it became clear that new grant writing opportunities for cities like Newton were limited. Most grant programs provide funding for specific, targeted programs in which the grant funding is designated as supplemental (i.e., for a new program, not an existing, ongoing effort). (For example, Newton received significant grant funds for the new laptop initiative for police officers.) But, Newton primarily needs funds for ongoing, core services, infrequently pursues new initiatives, and rarely has matching funds available. For example, members of the Citizen Advisory Group heard of an instance where the City could receive perhaps as much as \$500,000 in new state grant revenue, but would have to match that revenue with \$500,000 of its own new spending. Lacking the matching funds, Newton decided not to pursue the grant. Opportunities in the conservation and recreation areas were attractive but required matching funds that Newton could not allocate. Following a staff departure, the grant writer position in the Planning Department was left unfilled and then eliminated.

The City of Newton has continued to apply for grants when opportunities presented themselves and City administrators believe that a competitive application could be filed. In particular, grants in the public safety and energy arenas continue to be pursued by people within the relevant departments with grant writing experience. Nevertheless, the potential for increasing grant revenue exists, especially for those programs where Newton has ongoing activity that would require little or no new local expenditures by the grant. The City should consider placing a professional grant writer on retainer (perhaps with a commission based on successful grants) who can help identify grant opportunities and assist in writing grants when those opportunities do make sense.

Support to the Newton Public Schools from the Federal and State Governments via Grants: Grants, primarily from the Federal and State governments, to Newton Public Schools have grown dramatically from \$6.5 million in FY2002 to \$10.6 million in FY2009. (Individual, corporate and foundation grants account for the smallest amount of the total grant revenue (approximately 4%) or \$385,000 in FY2009.) The Citizen Advisory Group has concluded that the current level of staffing is "maxed out" writing and administering the current Federal and State grants. If Newton Public Schools determines that there are additional federal or state grants that would help the quality of

Newton's schools, the City will likely need to invest in more staff dedicated to grant writing, administration, and compliance.

Support to the Newton Public Schools from Individuals, Corporations and Nonprofits via Grants and Foundations: A relatively small amount of support for Newton Public Schools comes from individuals, foundations or corporations. Since schools are not classified as nonprofit organizations, contributions directly to the schools from individuals may not be tax deductible. Rather, individuals give to another entity (even the City), which in turn supports the Newton Public Schools. For example, the Newton Schools Foundation (NSF) is an independent, nonprofit 501c3 organization that provides approximately \$190,000 in grants, scholarships and training to Newton teachers. While it operates in close cooperation with the Superintendent, the Newton Schools Foundation proudly maintains its independence. In addition to donations to the Newton Schools Foundation, parents and others donate approximately \$900,000 annually to the schools through Parent Teacher Organizations (PTOs).

Citizen Advisory Group discussions with those involved with the Newton Schools Foundation suggest that the Foundation is going through a period of transition, reviewing its mission and working through some financial issues. For the near term, it does not seem likely that the Newton Schools Foundation will be in the position to raise significantly more revenue for the schools than it has in the past. It is certainly possible that the School Committee and/or the School Department would like to see a nonprofit emerge that has greater capacity to raise funds for the schools, and perhaps a mission of being more responsive to the expressed needs of the School Department or School Committee. One possible model to examine is Brookline 21<sup>st</sup> Century Fund. If either a re-missioned Newton Schools Foundation or an additional nonprofit emerged, the Newton School Department may wish to hire a professional development (fundraising) officer to expedite individual giving.

*Appendix II discusses individual, corporate and foundation giving, private-public partnerships, and grants in more depth.*

**Recommendation #7: Sell or lease underutilized municipal properties, especially when redevelopment of such properties can enhance the vitality of the City's villages.**

*Municipal revenue enhancement: one-time \$6,000,000 to \$25,000,000 payment or equivalent lease streams*

Well-located but non-essential or underdeveloped city-owned properties should be sold or (preferably) leased through competitive RFP (Request For Proposal) processes when such sites can raise revenue or long-term lease income, increase property taxes, and support desirable planning goals like enhancing the vitality of the City's villages while increasing so-called "smart" growth near transit as well as broadening affordable and senior housing choices.

Two examples that have been recently proposed include having developers bid to:

- 1) Replace Newtonville's unsightly Austin Street parking lot with new underground parking, attractive shops, and housing in scale with surrounding commercial and residential buildings, and;
- 2) Build a new fire station and fire department headquarters in Newton Center at Centre and Willow Streets in exchange for rezoning the site to allow for a mixed-use retail and housing development with additional public parking.

Both of these are promising developments that would improve their surrounding neighborhoods and further the City's planning objectives while providing immediate payments or (preferably) long-term lease revenues.

The City's Planning Department should identify a list of possible development sites and work with the Mayor and Board of Alderman to prioritize their redevelopment.

**Recommendation #8:** Negotiate aggressively PILOTs (payments in lieu of taxes) or SILOTs (services in lieu of taxes) with local institutions like colleges and hospitals.

*Municipal revenue enhancement -- indeterminate but chief benefit is closer relationship and potential partnership with local institutions*

Prominent local non-profit institutions like Boston College and Newton-Wellesley Hospital have long been coveted targets for payments in lieu of taxes. While their non-profit status exempts them from paying real estate taxes, proponents of PILOTs suggest that they should voluntarily contribute to their host community proportionate with their visibility, perceived economic stature, and use of municipal services. To date, however, only Boston College has agreed to a PILOT arrangement, voluntarily donating \$100,000 annually since the mid 1980s as well as allowing municipal employees to take classes free of charge.

Elected officials and city staff need to make a better case for prominent non-profits to pay for municipal services received in order to have a more meaningful discussion with their non-profit counterparts. Police services, fire protection, and street maintenance, among other municipal services, are utilized by non-profits. A dialogue about the cost of these services and contributing toward their provision could be mutually beneficial to Newton and non-profit institutions. A reasoned and studied quantitative approach could produce a positive outcome with the City recognizing non-profits' unique value to the community and the non-profits acknowledging the cost of municipal services. Any agreement would necessarily recognize that the fiscal health of the city and its prominent non-profit institutions are inexorably linked.

In addition, requests for payments for specific services provided may be most productive. For example, almost \$400,000 is spent annually to bus 143 K-6 students who attend seven private schools within Newton. These private schools, which directly benefit from the bus transportation provided to Newton students, could be asked to contribute to the cost of bus services.

**Background**

Payments in Lieu of Taxes are generally voluntary or negotiated payments made by tax-exempt organizations to local governments. Pursuant to Massachusetts law, tax-exempt organizations do not pay local taxes on the property they own.

Newton's tax-exempt entities own properties with an assessed value exceeding \$1 billion. After excluding properties owned by governmental entities (city, state, federal), religious institutions, and the Newton Housing Authority, the assessed value of the remaining properties exceeds \$700 million. The Blue Ribbon Commission estimated that if these properties were taxed at the appropriate residential or commercial rate, these schools and charitable entities would pay over \$9 million in taxes.

Data gathered on payments in lieu of taxes received by benchmarking communities in Massachusetts reveals that Newton is lower than average. Newton receives \$340,000 annually in PILOTs while the average revenue from PILOTs for the core benchmarking group is \$506,582. As a cautionary note, however, cities and towns that receive

significantly higher levels of PILOTs typically have had an unusual circumstance that “forced” a non-profit to increase their payment. For example, Belmont (which receives \$1.2 million) struck a deal with McLean Hospital when it wanted to sell some of its land to a for-profit developer and needed a change in its zoning. The benchmarking data raises the question of whether it is reasonable to expect increased revenues from PILOTs.

#### Developing a PILOT Program

The Dover Amendment (Massachusetts General Law Chapter 40A, Section 3, 2nd paragraph) exempts religious and educational organizations from local zoning laws. However, Boston and Cambridge are exempt from the Dover Amendment and, therefore, have more leverage than Newton and other municipalities in negotiating PILOTs with non-profits. Nevertheless, many communities outside of Boston and Cambridge have successfully negotiated PILOTs with their non-profits and the Citizen Advisory Group recommends that Newton develop a plan for a more robust PILOT program.

PILOT proponents argue that it is not fair for residents to pay higher property taxes while relatively wealthy organizations pay no taxes whatsoever, especially when those organizations receive costly services. Tax-exempt entities generally resist calls to begin or increase their PILOTs. They often respond by pointing to the benefits they bring to the local community – jobs, people who frequent local businesses, miscellaneous taxes and fees they pay, and other community services they provide. It is important to note that as non-profits purchase additional property that then becomes tax-exempt, an erosion of the City’s tax base occurs.

In developing a PILOT program, the City should consider which entities it wishes to target. Generally, PILOT programs focus exclusively on the large, private tax-exempt organizations such as hospitals and universities. Churches, social service agencies, social clubs, etc. are often excluded from PILOT programs.

In developing their PILOTs, some communities have estimated the portion of their budgets that is expended on public services – fire, police, and public works – and apply that percentage to the assessed value of the tax-exempt property. This approach attempts to capture and charge the tax-exempts for the value of the services the City provides from which they benefit.

In addition to a revenue based PILOT program, the City may consider educational and economic development partnerships with its tax-exempt organizations. These are also known as services in lieu of taxes or SILOTs. It may be possible to partner, for example, with Boston College’s School of Education to provide additional assistance to Newton Public Schools (perhaps in the form of additional student teachers or curriculum support), or with Newton-Wellesley Hospital to provide some health benefits to municipal workers.

Clearly, negotiating a significant PILOT program will be challenging. Yet, the current fiscal condition of Newton and the on-going constraints of Proposition 2 ½ warrant that these institutions make a significantly greater financial contribution to Newton. These institutions directly benefit from the quality of service provided by Newton’s police, fire and public works departments and indirectly benefit through all the services that contribute to the quality of life in the City.



## V. Other Revenue Strategies

### 1. Streamline zoning approval processes to encourage smart, transit-oriented physical development that could enlarge the City's commercial and residential tax base

New development is not the magic bullet that some proponents assert; it will not allow the City to grow itself out of its budget issues. It can, however, have a positive revenue effect while chiefly and importantly ensuring the economic vitality, diversity, attractiveness, and value of Newton's ailing villages.

The city's permitting function is badly broken. Streamlined permitting processes to encourage transit-oriented growth to ensure the viability of the City's village centers and redevelop selected low-density nodes near transit (like Needham Street, Wells Avenue, and Riverside) are critically important to maintain the City's vitality, attractiveness, and diversity while at the same time slowly growing the City's commercial and residential tax base. Municipal leadership is needed to encourage and manage responsible new growth in this predominantly residential community as well as to keep and make Newton the city its residents say they want it to be.

Currently, new growth in property taxes -- from renovation or new development -- equals about 1% of the total property tax or \$2,000,000 a year. Even if a consensus emerged to encourage new growth, given the City's mature suburban nature, only limited development -- even if promoted --- is physically possible. To generate \$1,000,000 in new annual commercial property tax revenue, about 125,000 square feet of new development must be built each year -- a typical five- or six-story suburban office building or neighborhood shopping center with a grocery store. Similarly, to generate \$1,000,000 in new annual residential property, some combination of 250 apartments or condominiums or 75 average-sized single-family homes must be built each year (residential uses are taxed at half the commercial rate). **Hence, to achieve additional 1% annual growth in property taxes, one new office building and one new apartment complex must be added each year in Newton.** Most would agree, with Newton's few undeveloped locations, this growth is probably unsustainable.

Still, Newton's current system of zoning approvals is universally seen as a major impediment to new growth. A Special Permit issued by the Board of Aldermen is required for virtually any structure larger than a single- or two-family dwelling. This significantly slows development and casts Newton as anti-growth in the commercial development community who has mostly bypassed Newton and looked for opportunities elsewhere. Whether this anti-growth bias is desirable or accurately reflects the consensus sentiment of the community is widely debated. However, all agree the current process is cumbersome and time consuming.

If there is agreement that selected new growth is appropriate in the City's villages to encourage so-called "smart" development or in redeveloping locations like Route 9, Needham Street, Wells Avenue or the areas adjacent to MBTA stations, then pro-actively creating ordinances and processes to get the kind of development the City wants and putting them in place will encourage such development. The Mayor and the Board of Aldermen need to work together to change and streamline Newton's zoning process and regulations to encourage appropriate mixed, residential and commercial uses.

Indeed, the Newton Comprehensive Plan in November 2007 noted, “Ultimately, potential development opportunities along the commercial corridors, if well-conceived and shaped, can increase the tax base and provide job and housing opportunities without detracting from the residential communities which they surround.” (p. 6-4)

In conclusion, while a more streamlined zoning and permitting process would make Newton a fairer and more transparent place for developers and investors, and could help achieve compact growth near transit and revitalize Newton’s villages with new retail, offices, and diverse housing for seniors and lower-income residents, it will not allow Newton to outgrow its budget issues but only possibly partially plug the gap.

2. Mass Pike Air Rights Development. Some have suggested additional development over the Mass Pike right of way could allow for commercial and residential increases in the property tax base. While healing the scar created by the 1960s construction of the Mass Pike through Newton might be an admirable planning goal, it appears economically infeasible in the short-term and politically challenged in the longer-term. Recent failures to construct high rise structures over the Mass Pike in Boston (e.g., Wynn’s aborted Columbus Center, Millennium’s abandoned Mass Ave proposal, Meredith Management’s stalled Fenway proposal and Drew’s reconsidered Waterside Place at the Core Block) suggests low- and mid-rise projects appropriate to Newton would have an even more difficult time amortizing the cost of an expensive deck over the Mass Pike across a smaller project. Indeed, even if economically feasible, large scale development would be likely challenged, slowed or stopped by concerned neighbors. In addition, the Mass Pike, not the City of Newton, would control the sale of development rights, giving Newton less control over the shape and scale of development. We judge this proposal infeasible currently.

2. Municipal Reselling of Electricity. Some have suggested that the City of Newton take advantage of a longstanding but ambiguous Massachusetts law that allows municipal reselling of electricity to save residents money and earn the profit currently flowing to NStar. Our review of the few operating municipal utilities did not reveal significant savings to consumers and given the unresolved legal standing we judge this proposal as currently infeasible. It should be reviewed in the future if the law is clarified and savings appear realizable and realistic.

3. Voluntary City Sales Tax. Some have suggested the city encourage Newton merchants to collect a voluntary 1% sales tax and remit it to the City to provide additional revenue. We admire the creativity of the suggestion but have doubts about implementation and participation.

## VI. Appendices

# Appendix I

## Recreation, Community Educational and Cultural Programs

### I. Executive Summary

**RECOMMENDATION:** Increase user fees to cover more fully the costs of recreational, community educational, and cultural programs with appropriate abatements for low income residents including, but not limited to, Gath Pool and Crystal Lake, summer camps, and playing fields. Consolidate these programs in one department to decrease costs, improve effectiveness and increase revenues.

*Municipal revenue enhancement -- \$100,000 - \$500,000 annually*

The City should more thoughtfully determine how much of the full cost of recreation, community education and cultural programs should be covered by user fees and also increase the amount of funds available for scholarships to ensure access for low income residents.

Newton has a decentralized approach to providing community educational, recreational and cultural programs with the support of City funds. Many different departments create and promote programs with no central vision for Newton's overarching goals. Nor is there consistency in the amount of financial support for these programs from Newton versus degree of costs covered by user fees. There is no central clearinghouse where residents can find programs of interest. The lack of centralization results in the duplication of programs. While there are advantages to the current system (e.g., an entrepreneurial spirit results in a wide variety of programs), it also results in:

- Inconsistent policies towards user fees vs. tax supported programs within and across departments
- Administrative inefficiencies
- Program inefficiencies
- Marketing inefficiencies
- Insufficient funding for scholarships
- Insufficient use of private-public partnerships and support from individuals, corporations and foundations
- Unhealthy competition for teachers and space

The Citizen Advisory Group recommends Newton:

1. Develop a thoughtful policy about degree of tax subsidization vs. user fees for each of the community educational, recreational and cultural programs.
2. Consider creating a Culture, Recreation and Community Education Department unifying Recreation from the Parks and Recreation Department, Community Education from the Schools Department, the Newton History Museum and other cultural, recreational and community education programs from other departments to decrease costs, improve effectiveness and increase revenues.

3. Significantly increase scholarships for low-income residents to maintain universal access.

## II. Current Status

### A. Recreation

Newton's Parks and Recreation Department has four components: Administration, Recreational Programs, Maintenance and Forestry. This report focuses only on the Recreational Program component.

Using the statement in the *Recommended Budget FY 2009*, the Recreational Program "provides a number of opportunities for tots through seniors, from camps, sports clinics, after school programs, classes, swim facilities, programming at Newton South High School and Newton North High School, senior trips and activities and one of the largest special needs programs in the state."

Years ago, all recreational programs were funded by the City's general fund. With the passing of Proposition 2 ½ in the early 1980s and the subsequent fiscal pressures, Parks and Recreation realized that in order to expand recreational programs ("new and expanded programs") – as opposed to the "existing ones" – the new programs would have to be self-sustaining financially. As a result, there are two separate funding mechanisms for recreational programs.

Newton's General Fund, which comes from taxpayer dollars, fund the "existing programs." "Existing programs" include outdoor swimming (Gath Pool and Crystal Lake), indoor recreation (e.g., basketball, volleyball, floor hockey; weekend and after school programs), Special Needs and senior recreation, cultural arts administration (e.g., Director of Cultural Affairs) as well as leisure, educational and social activities at approximately seven community centers, two of which have their funding broken out separately (Lower Falls and Emerson). In addition, the general fund covers the cost of maintaining recreation buildings (including utilities), supplies and equipment, and lighting for playfields and courts. While fees are sometimes charged for these "existing" programs, they are not intended to cover the full costs. The Parks and Recreation Commissioner has noted that if all recreational programs were in revolving funds (i.e., self-sustaining rather than subsidized by tax dollars) and the full costs were to be covered then fees would have to be raised. One of the goals of the Recreation program has been to keep fees as low as possible to keep programs affordable and thus available for as many people as possible. The Parks and Recreation Department strongly believes that these programs are offered for the general good of the community and foster community spirit. The Department is committed to meeting the recreational needs of Newton's citizenry and believes it is appropriate to subsidize the programs with tax dollars. They believe raising fees would result in decreased participation.

To look more in-depth at one recreational area, outdoor swimming, Gath Pool and Crystal Lake are accessible to Newton residents by modest fees. These fees are set by the citizen-run Parks and Recreation Commission with an eye toward affordability rather than toward cost recovery. (Non-residents are charged a higher fee.) While fee comparisons have been done with other communities, the philosophy has prevailed that

these are public facilities that should be available to taxpayers/residents at affordable rates and thus with little extra charge. It appears that membership fees (currently 3500 members who pay \$45 per adult per season or \$20 per child per season) cover about 65% of the \$205,000 seasonal salaries of direct personnel (e.g., lifeguards) in FY2008.

There are important private-public partnerships to help maintain playing fields. Little leagues and softball leagues help maintain baseball fields by adopting a field and helping maintain it. This saves the Parks and Recreation Department approximately \$50,000 a year in field maintenance costs. Girls soccer and youth soccer also provide Parks and Recreation with approximately \$50,000 of either direct or indirect funding to help maintain the soccer fields. These private-public partnerships have significantly improved the quality of the fields. However, a proposal to issue field permits costing \$1 per hour per field was met with broad opposition a couple of years ago.

The FY2007 general fund expenditures for each of these areas were:

FY2007 General Fund Recreation Expenditures

Recreation Administration <sup>7</sup>	\$235,314
Recreation Activities	52,912
Outdoor Swimming	156,153
Indoor Recreation	107,896
Special Needs Recreation	128,680
Community Centers	78,467
Senior Recreational Services	7,091
Cultural Affairs	93,654
Recreation Building Maintenance	<u>330,595</u>
	\$1,190,762

Revolving funds were set up for the “new and expanded” recreation programs in the early 1980s. (A revolving fund is a fund or account whose income finances that activities continuing operations. Thus, the activity is self-sustaining.) The fees paid for “new and expanded programs” into the revolving funds are intended to cover only the direct costs of the recreational services (e.g., direct salaries, equipment and supplies). All the administrative costs (for example, the salary of the Director of Cultural Affairs) are still covered by the general fund. Similarly, while Parks and Recreation personnel oversee the recreational programs, their salaries and benefits are not allocated to the self funding “new” recreational programs. In addition, the revolving funds for “new” programs do not cover the benefits for the direct employees. Nor do the revolving funds pay for the depreciation of equipment or buildings or maintenance and on-going costs of the fields or recreational buildings. Where the revenues cannot cover completely the direct costs of the Arts in the Park program (e.g., concerts, performances, garden tours, Harvest Fair), Newton Pride often provides additional funding. For the other programs, they have to be self-sustaining in the way described above.

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<sup>7</sup> This is a pro-rated amount. The total Parks & Recreation Administration cost was \$887,978. Recreation is approximately 26.5% of the total Parks and Recreation Department budget.

## FY2007 Recreation Revolving Funds Expenditures

Senior Citizen Programs	\$42,113
Arts in the Park	201,310
Camps	327,982
Recreational Activities and Classes	<u>540,661</u>
	\$1,112,066

Scholarships are available. Each summer program raises its own scholarship monies. These donations come from individuals and corporations. Parks and Recreation also receives some funding from the federal government through Community Development Block Grants. At the beginning of last summer, Parks and Recreation had \$25,000 available for scholarships. However, while 64 young people received scholarships last summer to camps, the Recreation Department finds it usually has insufficient funds to cannot meet the full requests for scholarships. As a result, Parks and Recreation often provides only partial scholarships.

Seventeen summer camps (with two new ones in 2008) are the largest and most visible recreation program serving over 1000 children per week during June, July, and August. These programs have continued to grow entrepreneurially and organically with new camps created and vetted annually in response to perceived demand. Those camps that are able to achieve breakeven within a year or two are kept and grown while the money losers are folded. Parks and Recreation are proud of their ability to provide safe, fun and affordable programs while continuing to grow and innovate and become inclusive to accommodate underserved children with special needs.

While the Parks and Recreation Commissioner reports to the Mayor, there is also a Parks and Recreation Commission which is comprised of eight voting members, one representative from each ward. These members are appointed by the Mayor with the approval of the Board of Aldermen.

### B. Community Education

Newton Community Education (NCEd) describes itself as “a self-sustaining arm of the Newton Public Schools, open to all students, regardless of residence. We provide educational, social, cultural, and vocational programs to adults and children alike, endeavoring to provide high-quality classes at a reasonable cost.”

As an independent arm of the Newton Public Schools, Newton Community Education is funded through a revolving account. The only school subsidy is free space (no rent) for their administrative offices and for classrooms, free phone service, and free utilities. Parks and Recreation also does not charge them for field use. As mentioned, Newton Community Education does not pay rent to NPS for the use of school buildings, fulfilling an important part of its mission of providing access to the broader community to school facilities. Starting two years ago, the revenues that Newton Community Education brings

in has to cover not only salaries but also benefits. Newton Community Education also has to pay custodian fees which totaled \$55,000 last year.

Newton Community Education has its own oversight Commission. It consists of two members each chosen by the School Committee, the Mayor, the Newton PTO Council, and the Board of Aldermen, plus ex officio members from Parks and Recreation and the After School Association. The Director of Newton Community Education reports within Newton Public Schools to the Executive Director of Instructional Programs who in turn reports to the Deputy Superintendent.

Scholarships are available but since Newton Community Education has limited funds, the scholarships only cover two-thirds of the fee of a program. The attendee must pay one-third of the fee.

NCEd offers about 350 courses per semester in its catalog. The range and number of classes has fluctuated somewhat same in the last 10 years. There does seem to be a general trend to more classes for children and fewer adult classes. In addition, there has been a higher cancellation rate for adult classes that do not get enough sign ups; this may be due to greater competition, less discretionary income, or a fixed or diminishing audience for the greater number of classes offered. Newton Community Education has also taken over the Drivers Education program from the schools and runs GED, plumbing, and other certification programs.

NCEd employs 8 administrators (some work part-time) In addition, they hire instructors. They also use “vendors,” organizations like “Play Soccer” that have contracts with the City (hired by the Purchasing Department but actively overseen by NCEd) with NCEd receiving a small management fee.

### C. Other Recreation and Educational Programs

In addition to the Recreation Department and Community Education, there are a number of other organizations that offer similar services in Newton:

- Garden City Sports (run by Tom Giusti, athletic director at NNHS) (baseball, wrestling, soccer, etc.)
- Newton Public Schools: summer educational programs, performing arts, SPACE camp (an arts and culture program)
- Newton History Museum: education, game days, lectures, tours, exhibits, book clubs
- Library: discussion and singing groups, concerts, lectures, ESL and computer classes, art exhibits
- Newton Conservation Commission: (Environmental Science Program)
- Newton Senior Center: classes, lectures, cultural programs, recreational programs
- Newton Pride Committee: a public-private partnership that sponsors citywide events (e.g., Newton Garden Tour, Heartbreak Hill International Youth Race)
- After School Programs: Offered at individual public schools



### III. Issues

Newton has a decentralized approach to providing educational, recreational and cultural programs with the support of City funds. Many different departments create and promote these programs with no central vision for Newton's overarching goals for community educational, recreational and cultural programs. Nor is there consistency in the amount of financial support for these programs from the City versus degree of costs covered by fees. There is no central clearing house where residents can find programs of interest nor is the duplication of programs sorted out.

On the one hand, this decentralized approach has resulted in a rich array of programs. In addition to all the for-profits and non-profits in the greater Newton area, residents can find a wide variety of programs offered by city employees. In addition, many of the programs are offered at a low cost (especially compared to those offered by for-profit organizations).

On the other hand, there are significant drawbacks from Newton's current approach.

- **Inconsistent Policies towards User Fees vs. Tax Supported Programs** within and across Departments: Within the Recreation Department, there are inconsistent policies of degree of tax subsidization of programs. Those started before 1982 receive a heavy subsidy while subsequent ones receive a moderate subsidy. Programs offered by Community Education receive almost no subsidy but instead are financed by user fees.
- **Administrative Inefficiencies:** There is duplication of administrative overhead (both managerial and support services).
- **Program Inefficiencies:** Recreation and Community Education might offer essentially the same program at the same time. When each program only enrolls 40% of the necessary students, both get cancelled. If Newton had offered just one program, it would have been 80% full.
- **Marketing Inefficiencies:** It is difficult for residents to find out what programs are available when and by whom.
- **Insufficient Funding for Scholarships:** None of the departments individually have been able to raise sufficient funds for scholarships when collectively they might be able to.
- **Insufficient Use of Private-Public Partnerships and Support for Foundations:** Because the efforts are splintered, Newton has only limited private-public partnerships for these programs. Quasi-public foundations grow organically, sometimes with limited support from administrators and staff.
- **Unhealthy Competition for Teachers and Space:** While this decentralized approach creates healthy competition between departments, it also encourages

unhealthy “hoarding” of scarce resources like exceptional teachers and space in parks, playfields and schools.

#### **IV. Recommendations**

1. Develop a thoughtful policy about degree of tax subsidization vs. user fees for each of the community educational, recreational and cultural programs.

The decision about using user fees versus taxes to pay for an activity are typically analyzed from four perspectives: cost, beneficiary, usage, and rationing. A full discussion of this can be found in Appendix III: User Fees vs. Taxes. These perspectives will help Newton determine the level of the user fee and tax subsidization (ranging from full cost reimbursement to partial cost reimbursement to no cost reimbursement). It should be noted that generally, it is more efficient and equitable to subsidize directly and explicitly low-income households than to fix an artificially low charge for all. Scholarships can be funded by tax dollars, by private-public partnerships, by higher user fees or some combination of the three. Ultimately, Newton has to decide how important its wide variety of community educational, recreational and cultural programs are for building community, helping such groups as senior citizens or citizens with special needs, and encouraging learning and exercise. A final consideration is the very real drawback of shifting from property tax funding of services to user charges is the lack of federal deductibility. User charges are not deductible, while local property taxes are deductible.

Increasing user fees to cover the full or partial cost of more of Newton’s recreational programs (e.g., outdoor swimming fees could be raised and still appear affordable (perhaps, \$90 per adult and \$40 per child) might increase revenues by \$100,000 - \$500,000. Higher fees for non-residents can almost certainly be justified as they are at Crystal Lake.

Likewise, a playing field revolving fund might allow more transparency and foster a willingness to pay for field maintenance by playing field users.

2. Consider creating a “Culture, Recreation and Community Education” Department:  
This department would cross the usual divide between municipal and school services by combining:

- Recreational activities
- Educational activities (including Community Education)
- Cultural activities
- Newton History Museum

This would help Newton provide a broad array of services in a coordinated manner while reducing costs and improving marketing and communication. Cost savings might be in the range of \$50,000 - \$250,000 (one to four positions and fewer programs with higher attendance).

Creating a new department is not without difficulties. Newton Community Education and Parks and Recreation each have separate commissions. They have distinct cultures and management practices.

If a new department is not created, at a minimum the various departments should work more closely together and consolidate some functions and coordinate course offerings. One organization might take the lead on all “education” or “course like offerings” while another the recreational or cultural offerings. Together, the departments could invest in an online registration and catalog. They could work together on marketing activities.

3. Significantly Increase Scholarships:

Increase the funding for scholarship for low-income Newton residents by \$50,000 - \$100,000. Scholarships can be funded by tax dollars, by donations and private-public partnerships, by higher user fees or some combination of the three.

## Appendix II Individual, Corporate, and Foundation Giving

### I. Executive Summary

Recommendation 6: Increase individual, corporate, and foundation giving to the Newton Public Schools and to the City of Newton by working more closely with these constituencies and increase grants to the City by retaining a grant writer.

*School revenue enhancement -- \$100,000 - \$500,000;*

*Municipal revenue enhancement \$50,000 - \$500,000 or more*

Support to the City from Individuals and Businesses via Foundations and Nonprofits: In addition to revenue from taxes, fees, and inter-governmental transfers, the Citizen Advisory Group Revenue Committee considered the potential of additional revenues from foundation, nonprofit and public-private partnership organizations for “public” or “community” purposes to the City. Currently, Newton has a number of quasi-public institutions that are defined as nonprofits with the mission of raising funds for purposes of this type. One example is the Newton Pride Committee, a nonprofit volunteer organization created in 1988 that which provides support for Newton cultural and arts programs and organizes family-oriented activities (including the Fourth of July festivities and the Halloween Window Painting Contest). The Newton Pride Committee works with individual and business donors to augment programs in the Mayor's Office of Cultural Affairs, the Newton Cultural Council and the Newton Parks and Recreation Department. Examples of other important nonprofits include the Newton Community Service Center (which works with the City to enhance and deliver a variety of social services to residents), the Newton Historical Society, and the Friends of Newton Free Library. These nonprofits, and numerous others, generate revenues for various public and quasi-public purposes and programs.

The Citizen Advisory group has come to two conclusions concerning revenues from these types of quasi-public nonprofits. First, little effort has been made to take a full inventory of the number, role, and impact of these nonprofit organizations. Second, there has been little effort to assess whether existing nonprofits have heretofore untapped potential, whether there are significant areas or functions where additional potential might exist, or

whether there might be value in developing a higher level of fundraising coordination among these organizations to, for example, ensure that existing organizations are not competing, rather than cooperating, with each other in their fundraising activities. Third, there has been little effort to encourage new nonprofits that could help the City. Superficially, at least, it would appear that Newton's nonprofit sector is somewhat underdeveloped, especially with respect to partnering with the private and commercial sectors in the city, to achieving a high level of coordination, and for raising significant donations for public purposes.

There have been discussions from time to time about the potential for the development of a broad-based Newton Community Foundation. Such a foundation might serve as a central, community-wide, multi-purpose, mediating institution to raise funds, operate programs, support nonprofits and distribute small grants. (This might be similar to the Brookline Community Foundation. With a six person staff, the Brookline Community Foundation strengthens and sustains local nonprofits, organizations, and initiatives through grant-making and administrative and organizational support.) When considered in the past, the difficulties of creating and maintaining such a foundation were thought to be prohibitive, and they may still be. Yet, Newton would seem to have an abundance of residents and friends who have both the capacity and desire to make voluntary contributions to the community. The central question is whether the Newton's nonprofit sector currently provides sufficient opportunities to potential individual and business contributors. The Citizen Advisory Group Revenue Committee recommends that a significant effort be made to assess the potential for an expanded nonprofit sector to generate revenues and support programs in a way or at a level not possible through current revenue sources. This effort should be sensitive to the accomplishments of existing nonprofit organizations and strive to strengthen those accomplishments. If promising, City leaders should help incubate a Newton Community Foundation.

Support to the City from Federal and State Governments via Grants: The municipal side of the City of Newton may not be taking full advantage of federal and state grants. While Newton does receive a variety of grants from governmental entities, currently, other than in the School Department, the city does not employ or retain a dedicated grant writer. (Some departments do grant writing. For example, both Parks and Recreation and the Newton Police Department have a couple of people with a lot of experience writing grants and have this as one of their responsibilities.) At one time, the Planning Department did have such a dedicated grant writer. After a few years, it became clear that new grant writing opportunities for cities like Newton were limited. Most grant programs provide funding for specific, targeted programs in which the grant funding is designated as supplemental (i.e., for a new program, not an existing, ongoing effort). (For example, Newton received significant grant funds for the new laptop initiative for police officers.) But, Newton primarily needs funds for ongoing, core services, infrequently pursues new initiatives, and rarely has matching funds available. For example, members of the Citizen Advisory Group Revenue Committee heard of an instance where the City could receive perhaps as much as \$500,000 in new state grant revenue, but would have to match that revenue with \$500,000 of its own new spending. Lacking the matching funds, Newton decided not to pursue the grant. Opportunities in the conservation and recreation areas were attractive but required matching funds that Newton could not allocate. Following a staff departure, the grant writer position in the Planning Department was left unfilled and then eliminated.

The City of Newton has continued to apply for grants when opportunities presented themselves and City administrators believe that a competitive application could be filed. In particular, grants in the public safety and energy arenas continue to be pursued by people within the relevant departments with grant writing experience. Nevertheless, the potential for increasing grant revenue exists, especially for those programs where Newton has ongoing activity that would require little or no new local expenditures by the grant. The City should consider placing a professional grant writer on retainer (perhaps with a commission based on successful grants) who can help identify grant opportunities and assist in writing grants when those opportunities do make sense.

Support to the Newton Public Schools from the Federal and State Governments via Grants: Grants, primarily from the Federal and State governments, to Newton Public Schools have grown dramatically from \$6.5 million in FY2002 to \$10.6 million in FY2009. (Individual, corporate and foundation grants account for the smallest amount of the total grant revenue (approximately 4%) or \$385,000 in FY2009.) The Citizen Advisory Group has concluded that the current level of staffing is “maxed out” writing and administering the current Federal and State grants. If Newton Public Schools determines that there are additional federal or state grants that would help the quality of Newton’s schools, the City will likely need to invest in more staff dedicated to grant writing, administration, and compliance.

Support to the Newton Public Schools from Individuals, Corporations and Nonprofits via Grants and Foundations: A relatively small amount of support for Newton Public Schools comes from individuals, foundations or corporations. Since schools are not classified as nonprofit organizations, contributions directly to the schools from individuals may not be tax deductible. Rather, individuals give to another entity (even the City), which in turn supports the Newton Public Schools. For example, the Newton Schools Foundation (NSF) is an independent, nonprofit 501c3 organization that provides approximately \$190,000 in grants, scholarships and training to Newton teachers. While it operates in close cooperation with the Superintendent, the Newton Schools Foundation proudly maintains its independence. In addition to donations to the Newton Schools Foundation, parents and others donate approximately \$900,000 annually to the schools through Parent Teacher Organizations (PTOs).

Citizen Advisory Group discussions with those involved with the Newton Schools Foundation suggest that the Foundation is going through a period of transition, reviewing its mission and working through some financial issues. For the near term, it does not seem likely that the Newton Schools Foundation will be in the position to raise significantly more revenue for the schools than it has in the past. It is certainly possible that the School Committee and/or the School Department would like to see a nonprofit emerge that has greater capacity to raise funds for the schools, and perhaps a mission of being more responsive to the expressed needs of the School Department or School Committee. One possible model to examine is Brookline 21<sup>st</sup> Century Fund. If either a re-missioned Newton Schools Foundation or an additional nonprofit emerged, the Newton School Department may wish to hire a professional development (fundraising) officer to expedite individual giving.

## II. Current Status

### A. School Grant Writing

Newton Public Schools (NPS) have two people devoted to grant writing and grant management/compliance. (Salaries, benefits,<sup>8</sup> and office supplies and expenses are approximately \$175,000.) Grants have grown dramatically from \$6.5 million in FY2002 to \$10.6 million in FY2009, representing a compound annual growth rate of over 7%. They have great success; only one grant that NPS applied for in the last five years has been rejected.

Grants come from three sources: the Federal government, both direct and indirect via Massachusetts, the Commonwealth of Massachusetts, and private individuals or foundations. Federal direct grants accounted for 23% of the FY2009 total, Federal indirect grants 41%, Massachusetts grants 32%, and private grants 4%.

### Newton Public Schools Grant Revenue FY02 - FY09

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09E
Federal								
Direct	\$123,770	\$0	\$124,995	\$504,877	\$734,448	\$1,335,347	\$886,172	\$2,484,134
Indirect	\$2,852,328	\$3,016,456	\$3,755,503	\$3,838,812	\$3,971,701	\$3,896,518	\$3,970,252	\$4,340,701
State	\$3,167,781	\$2,898,195	\$2,742,009	\$2,883,198	\$3,167,101	\$3,399,327	\$3,601,649	\$3,411,882
Private	\$413,175	\$340,204	\$330,092	\$392,482	\$772,045	\$528,782	\$425,518	\$384,996
Total	\$6,557,054	\$6,254,855	\$6,952,599	\$7,619,369	\$8,645,295	\$9,159,974	\$8,883,591	\$10,621,713

Source: Newton Public Schools, July 30, 2008

**Federal Direct Grants:** Federal direct grants currently total \$2.5 million. Federal direct grants (and most State grants) are additional income, intended to “supplement” and not “supplant” school services. Therefore, these funds cannot be used to pay for ongoing teachers’ salaries or other expenditures that are essential part of the school operations. NPS must apply directly to the Federal Department that issues the grant (e.g., Department of Education, Department of Justice, etc.). These grants are more competitive than the indirect ones since they are awarded to schools from the entire country and thus have more applicants for them. To apply for these requires a lot of time and effort. Federal grant funds are expected to triple in 2009 with the awarding to NPS of a \$1.5 million grant directed at early intervention (Safe Schools/Healthy Students). There are currently three other Federal direct grants: \$394,000 for “Teaching American History,” \$380,000 for “Elementary Counseling,” and \$216,000 for “Physical Education Program.”

**Federal Indirect Grants:** Federal indirect grants, also known as entitlement and allocation grants, are passed through the State. They are used for ongoing, ordinary operations. As entitlement and allocation grants, if NPS qualifies based on the specific criteria, then NPS gets the money based on the number of students or teachers that meet the criteria. The

<sup>8</sup> Benefits are estimated at 20% of salaries.

Federal indirect grants include Title I: Helping Disadvantaged Children, Title IIA: Highly Qualified Teachers; Title IID: Technology in Education; Title III: English Language Learners; Title IV: Safe and Drug Free Schools; and Title V: Promoting Equity/Innovation Technology.

In 2008, the indirect federal grants brought in almost \$4 million, with \$4.3 million expected for 2009. There are four major grants. The biggest grant is \$2.7 million for SPED IDEA (Special Education – [Individuals with Disabilities Education Improvement Act](#)). These funds help to ensure equity, accountability and excellence in education for children with disabilities. The other three large indirect Federal grants are Title I: Helping Disadvantaged Children (\$930,000 in FY09), Title IIA: Highly Qualified Teachers (\$272,000), and Title III: English Language Learners (\$138,000). (NOTE: The amount of the grants is affected by the criteria. When the criteria change, there can be a large impact. Changes in poverty rate calculations, for example, led to an increase in the Title I grant awarded to Newton from about \$510,000 in FY2008 to over \$930,000 in FY2009.)

State Grants: State grants come primarily from the Mass Department of Education. In both FY2008 and FY2009, they totaled approximately \$3.6 million. With the exception of the largest state grant for METCO (\$2.4 million), these are not entitlement or allocation grants. The funds are intended to “supplement” and not “supplant” school services. The other two large state grants are Community Partnerships for Children (\$369,000 in FY09) and Quality Full-Day Kindergarten (\$334,000).

METCO (Metropolitan Council for Educational Opportunity) helps children in Boston who are African American, Latino, Asian and Native American attend schools in suburbs. Approximately 415 METCO students are part of the Newton Public Schools. The amount of the METCO grant is a function of the number of children enrolled. The Citizen Advisory Group will issue a detailed white paper in December 2008 on METCO as part of its School Cost Structure report.

Private Grants: Private grants account for the smallest amount of the total grant revenue (approximately 4%). Private grants totaled \$425,000 in FY08 and \$385,000 is expected for FY09. One grant from the Freeman Foundation for the Jingshan Exchange is for \$300,000 or 78% of the total of private grants.

Private grants can come from individuals, foundations and corporations. Donations from individuals can be particularly useful because they often have fewer restrictions and can be directed to the area of greatest need. Since schools are not classified as nonprofit organizations, contributions directly to the schools from individuals may not be tax deductible. Rather, individuals give to another entity (even the City), which in turn supports the Newton Public Schools. Individuals could also give to Newton Public Schools through an organization like the Newton Schools Foundation.

## B. Giving through Parent Teacher Organizations (PTOs)

Parents (as well as some non-parents) donate approximately \$900,000 annually to Newton Public Schools by giving to the specific school their child/children attend via PTOs. Each of the twenty-one Newton Public Schools has their own PTO, which raises

funds. The PTOs work closely with the principals to determine the specific needs of their school (e.g., libraries, field trips, teacher funds for classroom supplies). The PTO Council has an equity policy that which places a ceiling on the spending by elementary PTOs on many items (e.g., Creative Arts and Sciences, teacher and principal discretionary funds). But, only three or four of the fifteen elementary school PTOs come close to that ceiling. Also, a number of items are exempt from the ceiling (e.g., technology and playgrounds) so there is always a place to direct the donations.

### C. Giving through the Newton Schools Foundation

The Newton Schools Foundation is an independent, non-profit 501c3 with a full-time director and a part-time assistant. Its mission is “to enhance and broaden community support for public education and to provide private funding for innovative and challenging programs in the Newton Public Schools.”

Approximately twenty-five years old, the Newton Schools Foundation awards grants directly to Newton Public School teachers. It also funds several scholarships and student leadership training. Teachers and other school personnel are asked to submit “innovative and creative” ideas that require extra funding. The Newton Schools Foundation had applications from 44 teachers last year. Twenty-seven grants were awarded, totaling \$164,000. The combination of scholarships, student leadership training and grants totaled approximately \$188,500 in FY2008 and are projected to be in the range of \$190,000 to \$200,000 in FY2009.

Since 1985, the Newton Schools Foundations has awarded more than \$2.2 million in grants. The Newton Schools Foundation has an endowment of approximately \$1.3 million dollars, but the purpose the funds are restricted to certain types of initiatives. Usually, the interest from the endowment contributes \$65,000 - \$90,000 to support the grants.

Until recently, the Newton Schools Foundation granted money and then raised the funds. As more money was granted than raised and as that amount increased yearly, the organization found itself significantly in the “red” a few years ago. The Newton Schools Foundation is now operating in the black and is half way to reversing the financial model to raise the funds before awarding the grants. During this period of adjustment, the Newton Schools Foundation has raised approximately \$400,000 to \$500,000 annually.

The Newton Schools Foundation receives donations from approximately 3% of Newton’s families. The Foundation is working to expand significantly the donor base, targeting alumni, major donors and corporations.

While in close contact with the Superintendent, the Newton Schools Foundation is proudly independent from the Newton Public Schools.

The Newton Schools Foundation is reviewing its mission. For example, while they see the value of raising an endowment for technology (an idea about which the Superintendent is excited), they are not convinced that this is the right model. Instead of focusing on such a specific area, they believe an endowment might need to cover a wide spectrum of educational goals. The Newton Schools Foundation is also monitoring



closely the efforts of the Strategic Planning Committee to see where funds will be needed in the future.

#### D. Brookline: Potential Fundraising Role Models

Other communities are raising large amounts of money for public schools from individuals through nonprofits. One example is Brookline and the nonprofit, the 21<sup>st</sup> Century Fund. While independent, the Fund works closely with both the Headmaster of Brookline High School and the Brookline School Committee. With a two and a half person staff, the 21<sup>st</sup> Century Fund has raised almost \$3 million since 1998. Last year alone, the 21<sup>st</sup> Century Fund raised \$775,000. They view themselves as a venture capital fund for the high school, supporting teachers as they explore new and innovative programs. Their web-site states:

*The 21st Century Fund is a non-profit organization founded in 1998 by a group of parents, alumni and Brookline residents to serve as a sustainable source of funding for new approaches to major challenges in public high school education. In short, the 21st Century Fund provides “venture capital for public education.”*

*Tax dollars finance the major operational and capital needs at Brookline High School, but they cannot be the sole source of funding. Private donations play a critical role in the success of public education by making it possible to try new ideas, new approaches for facing challenges, and for seizing opportunities.*

*The 21st Century Fund directs its support to programs from one or more of the following categories:*

- *Fostering academic achievement for all students*
- *Supporting a world-class faculty*
- *Educating students to be leaders and citizens in a changing world.*
- *Integrating technology into the curriculum.*

*The 21st Century Fund receives tax-deductible contributions from the families of students, from BHS alumni, and from the broader Brookline community. The signature event to raise funds is the annual Gala held each fall.*

Many of the grants are used to pay for teachers' salaries of the “replacement” staff while those with the grants can pursue their new ideas. In essence, the Fund provides a way for Brookline teachers to make changes within the Brookline High School system. They are paid to do research and implement innovative programs.

The 21st Century Fund has a 24 person Board of Directors, 12 Ex-Officio Members of the Board, 3 Emeritus Members of the Board and a 32 person Board of Overseers. They are just on the verge of embarking on a capital campaign to build an endowment.

In addition to the 21<sup>st</sup> Century Fund, Brookline also has a Brookline Education Foundation. It has committed more than \$285,000 to grants in activities for FY2009. Started in 1981, this nonprofit is “dedicated to preserving Brookline's commitment to excellence in public education. The Foundation raises private funds to support innovative

teaching, administrative leadership, professional development, and community participation in the schools. It ... has raised over \$3 million for the Brookline Public Schools. Supporters and donors include parents, citizens, and businesses.” The Brookline Education Foundation has a 35 person Board of Directors, a 26 member Board of Overseers and two staff members (an Executive Director and an Assistant Director).

The Brookline Community Fund also supports the public schools. For example, last year, the Brookline Community Fund awarded a \$50,000 challenge grant to Steps to Success, a program that works make college a goal and reality for children grades 4-12 living in Brookline Public Housing.

#### E. Support to the City from Federal and State Governments via Grants

The municipal side of the City of Newton may not be taking full advantage of federal and state grants. While Newton does receive a variety of grants from governmental entities, currently, other than in the School Department, the city does not employ or retain a dedicated grant writer. (Some departments do grant writing. For example, both Parks and Recreation and the Newton Police Department have a couple of people with a lot of experience writing grants and have this as one of their responsibilities.) At one time, the Planning Department did have such a dedicated grant writer. After a few years, it became clear that new grant writing opportunities for cities like Newton were limited. Most grant programs provide funding for specific, targeted programs in which the grant funding is designated as supplemental (i.e., for a new program, not an existing, ongoing effort). (For example, Newton received significant grant funds for the new laptop initiative for police officers.) But, Newton primarily needs funds for ongoing, core services, infrequently pursues new initiatives, and rarely has matching funds available. For example, members of the Citizen Advisory Group Revenue Committee heard of an instance where the City could receive perhaps as much as \$500,000 in new state grant revenue, but would have to match that revenue with \$500,000 of its own new spending. Lacking the matching funds, Newton decided not to pursue the grant. Opportunities in the conservation and recreation areas were attractive but required matching funds that Newton could not allocate. Following a staff departure, the grant writer position in the Planning Department was left unfilled and then eliminated.

The City of Newton has continued to apply for grants when opportunities presented themselves and City administrators believe that a competitive application could be filed. In particular, grants in the public safety and energy arenas continue to be pursued by people within the relevant departments with grant writing experience. Nevertheless, the potential for increasing grant revenue exists, especially for those programs where Newton has ongoing activity that would require little or no new local expenditures by the grant. The City should consider placing a professional grant writer on retainer (perhaps with a commission based on successful grants) who can help identify grant opportunities and assist in writing grants when those opportunities do make sense.

#### F. Support to the City from Individuals and Businesses via Foundations and Nonprofits

In addition to revenue from taxes, fees, and inter-governmental transfers, the Citizen Advisory Group Revenue Committee considered the potential of additional revenues

from foundation, nonprofit and public-private partnership organizations for “public” or “community” purposes to the City. Currently, Newton has a number of quasi-public institutions that are defined as nonprofits with the mission of raising funds for purposes of this type. One example is the Newton Pride Committee, a nonprofit volunteer organization created in 1988 that which provides support for Newton cultural and arts programs and organizes family-oriented activities (including the Fourth of July festivities and the Halloween Window Painting Contest). The Newton Pride Committee works with individual and business donors to augment programs in the Mayor's Office of Cultural Affairs, the Newton Cultural Council and the Newton Parks and Recreation Department. Examples of other important nonprofits include the Newton Community Service Center (which works with the City to enhance and deliver a variety of social services to residents), the Newton Historical Society, and the Friends of Newton Free Library. These nonprofits, and numerous others, generate revenues for various public and quasi-public purposes and programs.

The Citizen Advisory group has come to two conclusions concerning revenues from these types of quasi-public nonprofits. First, little effort has been made to take a full inventory of the number, role, and impact of these nonprofit organizations. Second, there has been little effort to assess whether existing nonprofits have heretofore untapped potential, whether there are significant areas or functions where additional potential might exist, or whether there might be value in developing a higher level of fundraising coordination among these organizations to, for example, ensure that existing organizations are not competing, rather than cooperating, with each other in their fundraising activities. Third, there has been little effort to encourage new nonprofits that could help the City. Superficially, at least, it would appear that Newton’s nonprofit sector is somewhat underdeveloped, especially with respect to partnering with the private and commercial sectors in the city, to achieving a high level of coordination, and for raising significant donations for public purposes.

There have been discussions from time to time about the potential for the development of a broad-based Newton Community Foundation. Such a foundation might serve as a central, community-wide, multi-purpose, mediating institution to raise funds, operate programs, support nonprofits and distribute small grants. (This might be similar to the Brookline Community Foundation. With a six person staff, the Brookline Community Foundation strengthens and sustains local nonprofits, organizations, and initiatives through grant-making and administrative and organizational support.) When considered in the past, the difficulties of creating and maintaining such a foundation were thought to be prohibitive, and they may still be. Yet, Newton would seem to have an abundance of residents and friends who have both the capacity and desire to make voluntary contributions to the community. The central question is whether the Newton’s nonprofit sector currently provides sufficient opportunities to potential individual and business contributors. The Citizen Advisory Group Revenue Committee recommends that a significant effort be made to assess the potential for an expanded nonprofit sector to generate revenues and support programs in a way or at a level not possible through current revenue sources. This effort should be sensitive to the accomplishments of existing nonprofit organizations and strive to strengthen those accomplishments. If promising, City leaders should help incubate a Newton Community Foundation.

## **Issues**

### School Grant Writing:

The Citizen Advisory Group has concluded that the current level of staffing is “maxed out” writing and administering the current grants. In particular, the administration of additional awards would be undoable given the manpower.

### Schools and Individual Fundraising:

There is an opportunity to raise more money (perhaps \$100,000 - \$500,000) from individuals for the Newton Public Schools. Brookline serves as a role model. Through two school foundations, Brookline raises the same or more money than Newton despite having 33% fewer residents and 46% fewer students.

But, finding an appropriate way to raise the money is difficult. The Newton Schools Foundation has a long history in the community and is proudly independent. As the Newton Schools Foundation is in a period of transition (working through some financial issues and reviewing its mission), it is not likely to be of immediate help to the Newton Public Schools in terms of raising significantly more money. It may or may not choose to raise more funds that are more in line with the current, expressed needs of NPS (e.g., a technology endowment).

## **II. Recommendations**

School Grant Writing: If Newton Public Schools thinks there are additional federal, state or foundation grants that would help the quality of Newton’s schools, they are likely to need to invest in more staff in the grant writing and compliance area.

Individual Giving to the Schools: The School Committee and the administration of the Newton Public Schools (NPS) need to decide if they would like to help found a foundation that works more closely with NPS and/or give the Newton Schools Foundation the opportunity to consider doing so. The Newton Schools Foundation serves an important role by providing grants to teachers. It may not consider it part of their mission or culture to align itself more closely and directly with the Newton Public Schools. If either a new foundation was founded or if the Newton Schools Foundation chose to reorient itself, then NPS may want to hire a development officer within its Grants Department to focus on individual giving. For example, this person could pursue alumni fundraising, major gifts, special events, and gifts and bequests, and private-public partnerships.

Municipal Grant Writing: The City should consider placing a professional grant writer on retainer (perhaps with a commission based on successful grants) who can help identify grant opportunities and assist in writing grants when those opportunities do make sense.

Individual and Foundation Giving to the City: The Citizen Advisory Group Revenue Committee recommends that a significant effort be made to assess the potential for an expanded nonprofit sector to generate revenues and support programs in a way or at a level not possible through current revenue sources. This effort should be sensitive to the

accomplishments of existing nonprofit organizations and strive to strengthen those accomplishments. If promising, City leaders should help incubate a Newton Community Foundation.

## Appendix III

### User Fees vs. Taxes

The decision about using user fees versus taxes to pay for an activity is typically analyzed from four perspectives: cost, beneficiary, usage, and rationing:

Cost: What is the full cost of providing these government services, including direct effort, indirect supporting activities, and organizational overhead?

Beneficiary: Who benefits from these services? In other words, to what degree does the community as a whole benefit, and to what degree does it benefit the individual using the service? Is this a core service essential to Newton as a whole or does it benefit a limited number of users?

Usage: Can a core service can be linked directly to individual users and charged by volume? For example, communities like Newton charge homeowners for sewage and water services based on volume of use. In recent years, some cities and towns have also begun charging for solid waste collection (i.e., trash) based on volume.

Rationing: Is it a service for which a price signal affects a desired outcome? Services that are free, even if they are core (such as water, sewer and trash) may still justify a fee if there is sufficient variability in use among the citizens and cost can be related closely to the “volume” of use. Thus those who generate more trash create more cost and there is far more sense in apportioning the cost over the specific use than apportioning the cost based on the assessed value of the home. Charging in this case has the corollary benefit of reducing volume of use, as those charged will act in their self-interest to reduce their costs.

The answers to these questions will result in user fees that are not only cost-based but policy-based too. Once the full costs are known, then citizens and elected officials need to enter into a dialog about the public and private benefits of different government services and the appropriate funding sources for those mixed benefits (e.g., fees from the private citizen or general tax revenues from the community at large.) This leads to the fundamental question:

Does the general public benefit in part for a service provided and thus, should general resources, such as taxes, pay for part of the full cost of service, or does the private citizen solely benefit from the service provided, and thus, should bear more, if not all, of the costs incurred?

The answer to the question above helps determine the level of the user fee and tax subsidization. There are a number of options:

Full cost reimbursement: To determine the full cost, Newton should include the direct and indirect costs associated with providing the service. In calculating direct costs, Newton should include costs for staff salaries and benefits, supplies and materials, capital facilities and equipment, depreciation in equipment value, and any other costs attributable to the production and delivery of a service. Equipment and facility costs may include cash purchases, debt service costs, or maintenance costs. Indirect costs may include a portion of management and administrative costs for personnel to administer or provide services. Newton can decide which programs should have fees set to recover the full cost.

Partial cost reimbursement: Newton can decide that some activities and services, such as bus transportation for public school students should be, in part, supported by Newton's tax dollars, but that users of these activities or services should also pay a charge. Newton can then set the fee at a level lower than the full cost.

No cost reimbursement: Newton can also decide that some activities and services should be provided with no user fees.

Waivers or Scholarships: Generally, it is more efficient and equitable to subsidize directly and explicitly low-income households than to fix an artificially low charge for all. Scholarships can be funded by tax dollars, by private-public partnerships, by higher user fees or some combination of the three.

Competing with the Private Sector: User fees may be particularly appropriate when a local government like Newton provides services that also are provided by the private sector, particularly if they are not core government services. Using general fund taxes to subsidize such services poses two problems. First, the benefit principle is violated if taxpayers citywide fund a service they do not receive. Second, subsidies allow the government provider to undercut the prices of private sector providers, leading to unfair competition. But, user fees may not be appropriate to finance core government services, particularly social services and education programs where services and benefits are provided based upon social objectives.

Fee increases: Because the costs of providing a service may vary from year to year, user fee levels should be reviewed annually and, if needed, revised to reflect changes in costs.

Tax Implications: A final consideration is the very real drawback of shifting from property tax funding of services to user charges is the lack of federal deductibility. User charges are not deductible, while local property taxes are deductible.

## Appendix IV

### Property Assessment and Taxation

The Citizen Advisory Group closely examined Newton's Property Assessment and Taxation functions as almost 80% of the City's revenues are derived from the property tax. While we are unable to identify new revenue sources from property tax, given the centrality of property tax to Newton's revenues, it is important to have a thorough understanding.

We do offer the following recommendations:

#### Tax Rates

The Citizen Advisory Group recommends that the Board of Aldermen continue the practice of shifting the tax burden to commercial and industrial properties to their legal limit. This approach also shifts the tax burden away from individual taxpayers who may be least able to afford additional taxes in a bear market.

#### Litigation and Expert Witness Support

The Assessor noted that the City has generally provided Assessment Administration with reasonable funding to support its litigation and expert witness costs in defending the City's assessments. The Citizen Advisory Group recommends this funding be continued.

#### Staffing Considerations

Because of cuts in Assessment Administration staff over the past few years, the number of inspections has declined. The result is a delay in inspections of new and improved properties, as well as a drop off in general inspections that might reveal improvements that were made without formal notification to the City. The Citizen Advisory Group recommends that Newton analyze whether restoring those positions could result in a net increase in revenue to the City.

#### Assessment and Budget Process

The overall tax burden is set in Newton when the Mayor and Board of Aldermen ("BOA") agree upon the budget. Each year, the Board of Aldermen has the option (but is not required) to increase the tax levy on existing properties by 2.5%. In addition to the 2.5% increase on existing properties, the Board of Aldermen may increase the tax levy each year by the amount of taxes due on any "new growth" (new construction or improvements to existing properties). The 2.5% increase on existing property plus the tax on new growth represent the citywide increase in taxes that can be collected. In FY08, this amount was approximately 3.5% over FY07.

The tax on new growth plus the tax on existing properties (increased by 2.5%) make up the "levy limit." In recent years, Newton has "levied to the limit" in each of its budgets. Newton may not increase taxes beyond the levy limit without an operating or debt exclusion override.

The Assessor determines the amount of new growth in Newton each year and sets the assessed values of all taxable properties in the City. The assessed values determine the

proportion of the tax levy that each property owner will pay. Thus, the assessed values are not used to raise or lower taxes, but rather to ensure owners of similar classes of property are sharing the tax burden equitably. The Board of Aldermen determines (within certain limits) how much of the burden will be borne by commercial, industrial and personal (“CIP”) vs. residential properties. At an annual Classification Hearing, the Board of Aldermen votes on two tax rates – one for commercial and industrial properties and one for residential properties. Over time, the Board of Aldermen has chosen to assess CIP properties at 175% of the residential rate, consistent with the maximum allowed under Massachusetts law.

Despite the differential in tax rate, commercial and industrial properties account for only 10% of Newton’s tax base, down from 20% over the past two decades. The shift of tax burden away from commercial and industrial properties to residential properties has been due to:

- Greater appreciation in residential compared to commercial properties over the past 20 years—at least until the housing bubble burst recently.
- Most of the recent large new construction in Newton has been residential in nature. The Avalon apartments on Needham Street and Route 9 and the Arbor Point apartments at Woodland Station, for example, both fall into the residential real estate category. In addition, some of the recent residential complexes have been built on the site of former commercial and industrial sites. Thus, the City has witnessed an increase in residential land use, and a decrease in commercial and industrial use.

### Valuation

The Massachusetts General Laws require that assessed values represent “full and fair cash value.” (It was noted, however, that because of the mechanics described above, rising and falling assessed values do not result in a correlative rise or decrease in a property’s tax burden.) For residential properties, the Assessor determines values based on actual sales of comparable homes in the area. For commercial properties, the Assessor uses both comparable sales and income methodologies. Tenants and landlords are required to produce income and expense information each year in order for the City to calculate the assessment under the income methodology.

The Assessor noted that Newton is fairly aggressive in its valuations, and that commercial property taxpayers often challenge the City’s assessments before the Appellate Tax Board (ATB). It was noted that the City’s assessment methodologies are audited and approved by the Department of Revenue (DOR), and that the City is also bound to consider ATB rulings and precedent in applying the methodology. It was also noted that landlords and tenants fight property assessments fairly rigorously and that the City does not always prevail in court.

### Overlay Account

Mass General Law Chapter 59, Section 23 requires that Newton establish an Overlay Account. The Overlay Account is a reserve to cover abatements and exemptions for real



estate and personal property taxes. The Assessors have exclusive control over determining the amount of money that should be reserved in the overlay account. In FY 2008, Newton appropriated 1% of projected property taxes to the overlay account to reserve for anticipated abatement and exemptions. For FY 2009, the Mayor's budget called for a 1.4% appropriation. The Board of Aldermen has called for the Mayor to reduce the appropriation to 1% for FY 2009.

Of the ten Massachusetts cities and towns with tax levies in excess of \$100 million, Newton has the lowest overlay as a percentage of the tax levy (less than 1%). Newton's overlay reserve is also the lowest measured against the top 15 CIP communities in Massachusetts. If the Overlay Account is underfunded, the deficit must be raised from the next year's tax levy (budget). If the deficit is not raised, the City's tax rates will not be certified by the Massachusetts Department of Revenue, a prerequisite to the City collecting property taxes. Assessment Administration cautions against under-funding the Overlay Account in a bear market as this is typically a time when businesses start to fail and residents lose their jobs and, as a result, abatement filings may go up.

### Other Potential Revenue

Telecommunications Poles and Wires: The Assessor expects Newton to see additional revenue of approximately \$700,000 annually from the taxation of telecommunications poles and wires over public ways (per the recent ATB ruling in Newton's favor). Verizon has appealed the decision to the Massachusetts Supreme Judicial Court. Newton is required to hold all taxes collected pursuant to the ATB's ruling in the Overlay Account pending determination of the appeal by the SJC and a ruling on valuation of the property.

Wireless Equipment: Newton was successful at both the ATB and SJC level in asserting its right to tax wireless equipment located in Newton. Taxes are currently being collected and reserved in the Overlay Account. A trial is scheduled for March 2009 to determine the value of the equipment. Once that is decided (and the appeals process is complete), the Assessor can release the prior years' overlay monies that were reserved for this appeal. Newton can expect approximately \$150,000 annually in taxes from this type of property.