

FY2021 Budget Analysis by Revenues and Expenditures

Projected Revenue - Fiscal Year 2021

Developing this budget under the dark shadow of COVID-19 has been especially difficult. As Mayor Fuller delivers the budget, our Administration continues to be surrounded by significant uncertainties about the duration and depth of the health crisis and the timing and sequence of restarting the economy. The starting point in developing the City of Newton budget is projecting revenues. The management team has analyzed past, current and projected financial conditions in order to prepare the most appropriate expenditure budget in these uncertain times.

In October 2019 in the pre-COVID-19 period, Mayor Fuller delivered a Long-Range Financial Plan & Five-Year Forecast that laid out the assumptions that would guide our policy and programmatic decisions for the Fiscal Year 2021 budget. In February 2020, Mayor Fuller put the finishing touches on the Proposed Budget for Fiscal Year 2021 (July 1, 2020 – June 30, 2021) and met with members of the City Council and School Committee leadership to share how the \$445.09 million in revenues would be invested in new initiatives and ongoing operations to achieve Newton’s overarching goals.

Then, the world shifted. The pandemic arrived. The Commonwealth shuttered many of its businesses and the Newton Public Schools shifted to online, remote learning.

In light of COVID-19, economists in Massachusetts have predicted a range of potential financial impacts; none of them are certain but all depict a very difficult outlook. The early data confirms their grim projections. Jobless claims in Massachusetts by the end of April 2020 topped 893,000 or 24% of the labor force. The unemployment rate which was at 2.8% in February, now in early May is closer to 27%. Hotel room occupancy in Greater Boston plunged from 77.6% in the first week of April one year ago to 11.4% the first week of April 2020. State tax collections plummeted in April 2020 by more than \$2.3 billion compared to the year before, a 54% drop, primarily because the April 15 tax-filing deadline was pushed back to July 15 and also in part because of the decline in the underlying incomes of people in Massachusetts and low sales taxes. Experts are now predicting that the economic effects will be worse than the recession of 2008/2009; in that period, Massachusetts state tax revenues dropped approximately 10% and Unrestricted Government Aid to cities and towns was cut by more than 20%.

The financial impact to the City of Newton’s revenues due to the COVID-19 economic shutdown are already significant in our current 2020 fiscal year and will continue not just for Fiscal Year 2021 but also at least for the following year, Fiscal Year 2022. Both the City’s cash flows and revenues have changed significantly.

The City in the past few years usually has revenues of more than \$75 million annually from sources that will be impacted by the pandemic. These include revenues from the Commonwealth such as State Education Aid (a.k.a., Chapter 70) (\$25M) and Unrestricted Government Aid (\$6.4M). Other revenue sources for the City derive from expenditures by people in hotels and restaurants (Rooms & Meals Tax Revenues (\$4.5M)), on new vehicles (Motor Vehicle Excise Tax Revenue (\$13.5M)), and shopping in village centers and driving in Newton (Parking Meter Collections (\$1.3M) and Parking Violation Tickets (\$1.3M)). (This reduction of \$3.5 million in Rooms & Meals Taxes, Parking Meter Receipts, and Parking Ticket Revenues we hope will have rebounded by the time that we are preparing the FY2022 Budget.) Interest rates which decrease in down economic cycles will also be impacted (Interest Income (\$2.0M)). The partial shutdown of the economy will have a negative impact on many of these revenue sources with our current projections showing a reduction of \$9.55 million when compared to what we were projecting just eight weeks ago.

To deal with this projected reduction in anticipated revenue, we have created a multi-pronged plan. We intentionally have been conservative in the development of this budget as we know it is easier to relax spending constraints during the course of the year if revenues are higher than anticipated, than to scramble to make cuts if we experience a shortfall. We have judiciously reviewed all line items, including vacancies, fixed costs, discretionary expenditures, and major capital equipment investments. We have slowed or stopped spending except on necessary expenditures. We are only filling open positions that are critical and have revised our plans for future new hires. We have adjusted our departments' budgets based on strategic decisions, prioritizing key services, including spending categories addressing the pandemic. We have worked closely with the leaders of the Newton Public Schools to determine the appropriate budget adjustment to our largest department while continuing our deep commitment to teaching and learning. We have also paused any major capital projects, except those for which we have already received funding, or those projects that are critical to the operation of the City. We will monitor our revenues and expenses frequently in the months ahead, with close analyses of budgets-to-actuals and will be prepared to make any adjustments, if necessary.

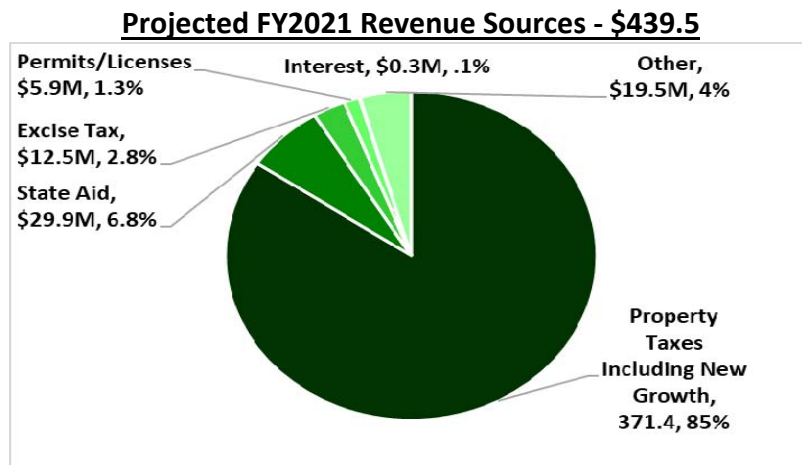
Although we are forecasting significantly less revenue than we expected just eight weeks ago, the City of Newton budget is still increasing, just not by as much as we had hoped. The FY21 Budget is \$439.5 million, \$9.3 million or 2.15% greater than the FY20 Budget.

COVID-19 IMPACT TO FY21 REVENUE BUDGET						
(\$ M)		FY21 Projected	Variance FY20		FY21 Budget	Variance FY20
	FY20 Budget	Pre COVID-19	vs Pre COVID-19	FY20 Budget	Post COVID-19	vs Post COVID-19
Property Taxes	\$356.89	\$371.41	\$14.52	\$356.89	\$371.41	\$14.52
Ch 70 State Education Funding	\$24.68	\$25.60	\$0.92	\$24.68	\$25.60	\$0.92
Unrestricted State Funding	\$6.24	\$6.42	\$0.18	\$6.24	\$4.81	-\$1.43
Motor Vehicle Excise Tax	\$13.50	\$13.50	\$0.00	\$13.50	\$12.50	-\$1.00
Permitting/Licensing Revenues	\$5.90	\$6.90	\$1.00	\$5.90	\$5.90	\$0.00
Meals & Rooms Tax	\$4.40	\$4.50	\$0.10	\$4.40	\$2.00	-\$2.40
Interest Income	\$1.75	\$2.00	\$0.25	\$1.75	\$0.30	-\$1.45
Parking Meter Receipts	\$1.37	\$1.30	-\$0.07	\$1.37	\$0.75	-\$0.62
Parting Ticket Receipts	\$1.35	\$1.20	-\$0.15	\$1.35	\$0.75	-\$0.60
All Other	\$12.70	\$12.27	-\$0.43	\$12.70	\$11.52	-\$1.18
Projected Revenue	\$428.78	\$445.09	\$16.31	\$428.78	\$435.54	\$6.76
Free Cash	\$1.50	\$1.50	\$0.00	\$1.50	\$4.00	\$2.50
TOTAL BUDGETED REVENUE	\$430.28	\$446.59	\$16.31	\$430.28	\$439.54	\$9.26

COVID-19 IMPACT TO FY21 REVENUE BUDGET			
(\$ M)	FY21 Projected	FY21 Projected	
	Pre COVID-19	Post COVID-19	Variance
Property Taxes	\$371.41	\$371.41	\$0.00
Ch 70 State Education Funding	\$25.60	\$25.60	\$0.00
Unrestricted State Funding	\$6.42	\$4.81	-\$1.60
Motor Vehicle Excise Tax	\$13.50	\$12.50	-\$1.00
Permitting/Licensing Revenues	\$7.50	\$6.50	-\$1.00
Meals & Rooms Tax	\$4.50	\$2.00	-\$2.50
Interest Income	\$2.00	\$0.30	-\$1.70
Parking Meter Receipts	\$1.30	\$0.75	-\$0.55
Parting Ticket Receipts	\$1.20	\$0.75	-\$0.45
All Other	\$11.67	\$10.92	-\$0.75
Projected Revenue	\$445.09	\$435.54	-\$9.55

Following the City’s Financial Management Guidelines, the Administration typically utilizes \$1.5 million of the prior year’s Free Cash to supplement our annual revenues in the next fiscal year. (Free cash, in essence, is the remaining unrestricted funds from operations from the previous fiscal year.) This year, we have made the difficult decision to forego \$2.5 million of spending from FY2020 Free Cash on our Transportation Network Improvement Program in order to repurpose those funds, along with the usual \$1.5 million, to soften the COVID-19 impact on revenues and expenditures. Therefore, the FY2021 Revenue Budget is as follows:

COVID-19 IMPACT TO FY21 REVENUE BUDGET			
(\$ M)	FY21 Projected	FY21 Projected	
	Pre COVID-19	Post COVID-19	Variance
Projected Revenue	\$445.09	\$435.54	-\$9.55
Free Cash	\$ 1.50	\$ 4.00	\$ 2.50
TOTAL BUDGETED REVENUE	\$ 446.59	\$ 439.54	\$ (7.05)



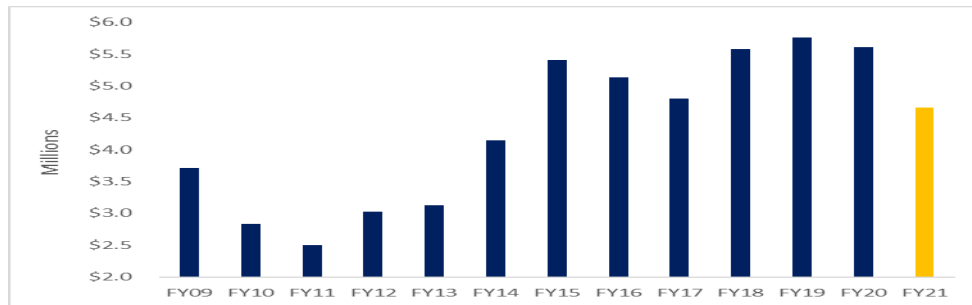
Property Tax Revenue

Property taxes typically account for 83% of the City’s total operating revenue, however because of the COVID-19 impact on other revenue sources, property taxes will account for 85%, of the City’s FY21 Operating Revenue. Proposition 2½, passed by the citizens of the Commonwealth in 1980, requires that the annual increase of the tax levy for the City of Newton must not exceed 2½ percent of the prior year’s tax levy, in addition to the total amount attributable to taxes raised from new real property growth and redevelopment. FY2021 property tax revenue is estimated to total \$371.7 million. This includes the 2.5% increase over last year as well as a projection of \$4.6 million from “new growth or redevelopment,” an increase of 1.3%. The 30-year average annual increase of growth and redevelopment as a percent of the tax levy is 1.3% for Newton. This year the projection is based on that average. (The new growth or redevelopment amount is determined as of January 1, 2020 for the FY2021 budget. Thus, COVID-19 did not impact new growth or redevelopment for our FY2021 budget but is likely to impact next year’s FY2022 budget.) In addition, Newton voters passed both an operating override and two debt exclusion overrides in 2013 to fund the Angier and Cabot school buildings. The additional property taxes as a result of those debt exclusion votes amounts to \$3.4 million of the property tax revenue in FY2021.

The economic repercussions of COVID-19 on our property owners, both residential and commercial, may ultimately impact our collections. Usually, the City of Newton has a 100% collection rate. At this time, the assumption is that collections will continue to be strong. In addition to collections, there will be a cash flow consequence to the City. Mayor Fuller elected to allow property owners to defer payment of property taxes

from May 1, 2020 to June 29, 2020. Because of the careful decisions made by both the Warren and Fuller Administration and the City Council, the City of Newton can absorb the cash flow delays we will experience in this fiscal year and still meet our current operating expenses.

**Projected FY2021 Revenue from
New Growth and Redevelopment - \$4.6M**



Senior Tax Deferral Program

Mayor Fuller and the City Council collaborated in 2019 to expand the eligibility for older residents to delay paying their property taxes to allow more seniors to be able to afford to stay in Newton. As a result of COVID-19 and legislation signed by Governor Baker, the Mayor went further and extended the deadline for filing applications for property tax exemptions and property tax deferrals for the Senior Tax Deferral Program from April 1 to June 1, 2020, the latest date possible.

Under the Commonwealth’s Clause 41A, older residents may be able to delay payment of their property taxes. A property tax deferral does not discharge the tax obligation. Instead, it defers payment until the resident sells the property or passes away. A deferral allows older residents to use resources that would go to pay taxes to defray living expenses with the goal of enabling older residents on modest and oftentimes fixed incomes to stay in our City by delaying payment of real estate taxes. Taxpayers who qualify may defer all or part of their taxes.

The income limit set by G.L. c. 59, sec. 5, cl. 41A in 1991 is \$40,000. In 2004, recognizing increases in the cost of living in the Newton area, the City of Newton was granted Home Rule legislation to allow a new upset limit of \$60,000. Although the City had the greatest number of participating homeowners (64 in FY2018) in the Commonwealth, Mayor Fuller requested additional Home Rule legislation to once again increase the upset limit of income in order to enable our older residents to remain in their homes as long as they are able.

Following the approval of Home Rule legislation, the City Council increased the income limit for participation in this program to \$86,000. As a result of these changes, last year 71 older residents were approved for a waiver, more than we have had in any year in the past decade. This year, we are hopeful that the extension of the filing deadline will enable additional residents to apply and qualify for this very helpful program.

To reiterate, this is a “tax deferral” program. Eventually, the City will collect all taxes owed on these properties with interest accrued based on the Federal Reserve Discount Rate as of June 30th of each year that taxes were deferred.

Economic Development - New Growth & Redevelopment

Mayor Fuller is committed to supporting the business and non-profit community in Newton, preserving and improving the economic health and vitality of Newton’s village centers and commercial areas, and continuing to expand the City’s property tax base from new growth and redevelopment where appropriate. Toward that end,

in February 2020 prior to the COVID-19 pandemic, the City had a very successful bond sale. Significant projects such as the West Newton Square and the Newtonville Walnut Street complete streets improvement projects, as well as the replacement of all city parking meters, were included in that bond sale.

These projects are specifically designed to enhance the village character and experience by shoppers and diners by providing a safer, more walkable and bikeable, and more aesthetic environment to be complemented by improved lighting and the addition of street trees and sidewalk furniture. Therefore, those projects are currently moving forward, as the proceeds of that bond sale were received on February 27, 2020 and must be expended.

Mayor Fuller is focused on how the City can quickly assist Newton businesses regain their economic footing. In early April 2020, the Mayor asked the members of the City’s Economic Development Commission to develop a list of recommendations that the City could consider immediately to jump-start business recovery. The Mayor also authorized the use of \$300,000 in Community Development Block Grant funds to provide one-time grants to Newton’s “mom and pop” village center businesses. In the upcoming months, the Mayor will continue work closely with the City Council, the Economic Development Commission and Newton’s Economic Development Director to find ways to restore and support our important local business community.

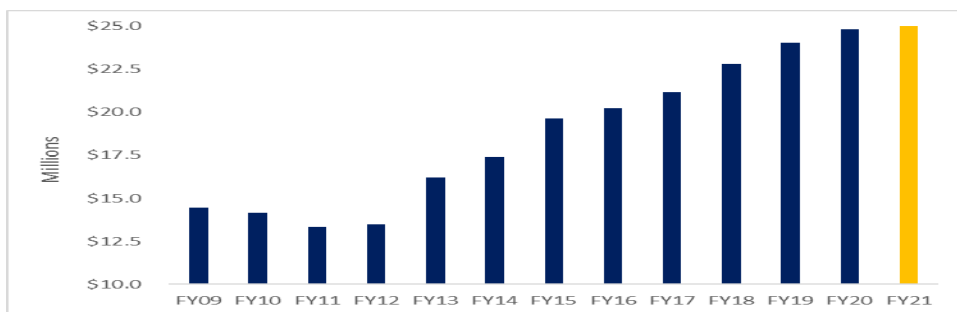
Planning for Newton’s future remains a priority for the Administration. Efforts to develop a new zoning ordinance for the City will continue through FY2021. Important transportation planning initiatives, including design work to extend the Upper Falls Greenway and refresh Pettee Square as well as the introduction of a new bike share program, are all scheduled for the upcoming year.

State Education Aid - Chapter 70

Governor Baker signed into law the Student Opportunity Act on November 26, 2019, the most significant statewide update to the education funding formula since its inception in 1993. The bill, passed before COVID-19, is intended to infuse an additional \$1.5 billion annually into the state’s education aid over the next seven years, as well as to increase funding to districts for transportation, school construction and renovation, and special education.

The bulk of the new funding has been directed to school districts with the highest concentrations of low-income students, thereby aiming to close achievement gaps and provide opportunity for all students in the Commonwealth. Prior to the COVID-19 pandemic, the Governor’s FY2021 Budget (submitted in January 2020) proposed an increase of \$786,504 in State Education Aid for the City of Newton for a total Chapter 70 grant of \$25,601,000. We are closely watching the State House and Legislature as they begin to grapple with a re-imagined state budget. The leaders on Beacon Hill are very committed to education throughout the Commonwealth. Consequently, we are hopeful that our Chapter 70 State Education Aid will not be negatively impacted but the City may not know our final Chapter 70 allocation until June or even July 2020.

Projected FY2021 Chapter 70 State Education Aid – Governor’s Budget Increase of \$786K (3.2%)

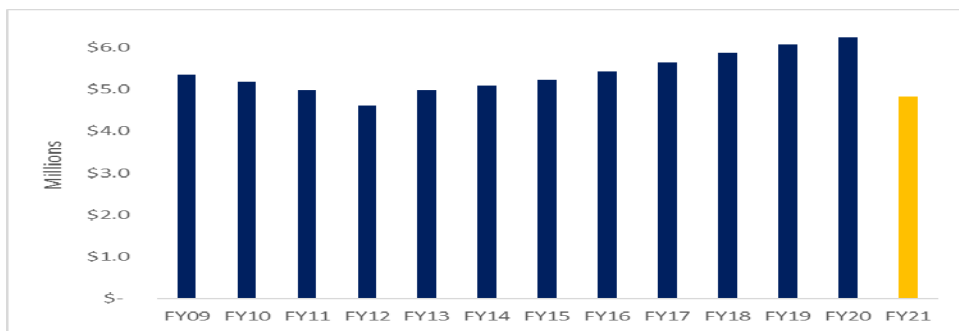


It should be noted that the Administration has required the municipal departments to absorb the majority of budget adjustments, \$4 million or 73%, while NPS has been asked to absorb \$1.5 million or 27% of the \$5.5 million required departmental adjustments. Therefore, should the FY2021 Chapter 70 State Aid be reduced when the Legislature passes the state’s final budget, the Newton Public Schools will be responsible for a much larger portion of those reductions.

Unrestricted General Government State Aid

The City of Newton recognizes that these uncertain economic times will most certainly impact some of our state aid. Therefore, we are forecasting a 25% reduction in the Governor’s January 2020 originally proposed FY2021 Unrestricted General Government State Aid from \$6.4M to \$4.8M, a decrease of \$1.6M.

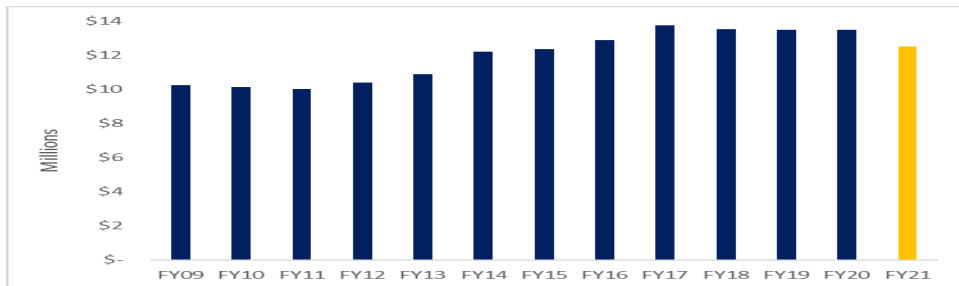
Projected FY2021 Unrestricted General State Aid



Motor Vehicle Excise Tax Revenue

Massachusetts residents who own and register a motor vehicle annually pay a motor vehicle excise tax for the privilege of road use and those tax revenues go to the local community treasury. The amount of excise tax levied on each motor vehicle is \$25 per one thousand dollars of valuation. Over the past decade, total excise tax revenue has fluctuated from a low of just over \$9.5 million in FY2011 (following the Great Recession) to just over \$13.6 million in FY2017. While there was significant pent-up demand after the Great Recession of 2008, that demand had somewhat stabilized. However, with the significant impact of COVID-19 on the financial health of so many people in Newton, we expect new car sales to be lower than they otherwise would have been. Therefore, we have reduced our FY2021 Motor Vehicle Excise Tax Revenue assumption by \$1 million compared to eight weeks ago to \$12.5M.

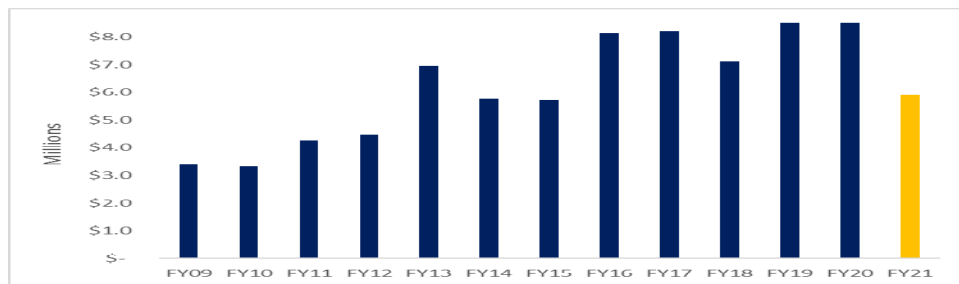
Projected FY2021 Revenue from Excise Taxes – Reduced to \$12.5M



Revenue from Building Permits and Licenses

Permitting and licensing activity is influenced heavily by the economy. These revenues to Newton’s Inspectional Services Department saw a decline from Fiscal Year 2008 through Fiscal Year 2010 during the Great Recession. With the improvement of the economy and the City’s promotion and facilitation of economic development projects, including Chestnut Hill Square and The Street along Route 9, the City saw a sizable increase in the total revenue collected in FY2013 and more moderate growth in FY2014 and FY2015. The City experienced unprecedented numbers of building permit applications in FY2016 and FY2017. Although the Northland project was approved by both the City Council in 2019 and Newton voters in 2020 and while there are some very large projects in the special permit process currently, the onset of the Coronavirus pandemic has and will continue to impact new permits and licenses. As a result, we have adjusted this budgeted revenue stream downward from \$6.9 million eight weeks ago to \$5.9 million.

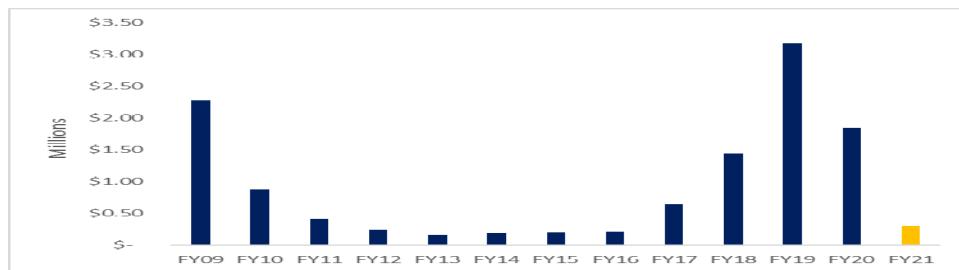
Projected FY2021 Revenue from Building Permitting and Licensing - \$5.9M



Revenue from Interest

Interest income earned on the City’s financial cash reserves and investments has been as low as \$200,000 during the past decade when interest rates reached a record low of 0.25 percent in December 2008. The Federal Reserve Bank raised rates through 2018 but implemented a sequence of rate decreases starting in July 2019. In late April 2020, the Federal Reserve Bank decided in response to COVID-19 to lower the Federal Funds Rate to its historical low of 0.25 percent. With interest rates as low as they have ever been, we have therefore adjusted this revenue stream down significantly to \$300,000 for FY2021.

Projected FY21 Revenue from Interest on Investments - \$300K



Revenue from Medical and Retail Marijuana Establishments

COVID-19 has even impacted the City’s revenue from Medical and Retail Marijuana sales. While we have entered a new era with retail marijuana stores in the City, retail sales have been suspended through the pandemic as a non-essential service.

Normally, the City of Newton receives two streams of money from stores selling marijuana. Three percent of the tax revenue collected by the State for adult recreational sales (non-medical marijuana) will come to the City and go into the general fund to support our operating budget. An additional three percent of revenues from both

medical and recreational retail marijuana sales may, to repeat, may, come to us as a community impact fee if agreed to as part of a Host Community Agreement (HCA). These HCA funds must be used to address the public health, safety, education, administrative, infrastructure and other effects or impacts by the marijuana establishment on the City and our municipal and school programs, services, personnel and facilities.

As this is an emerging industry with significant uncertainty about the level of the funding stream, the Administration under Mayor Fuller will be conservative in our budgeting of this new source of funding. Knowing that the funds may be limited to only five years and that we may see a shake-out in the number of stores and fluctuations in the level of sales (even before COVID-19), the Administration will lean to using the funds for one-time expenditures rather than ongoing operating expenses. While the Administration will be inclined to fund new programs and services (as we are this year), the funds may also be used for current ones, especially if the City is facing economic pressures.

Since the development of the HCA, the one existing medical marijuana establishment, Garden Remedies, has provided the City of Newton with more than \$420,000 in funds from its Host Community Agreement; a new section has been added to this budget document where all revenues and related expenditures are tracked in one place and in a transparent manner.

Projected Expenditures – Fiscal Year 2021

As was mentioned earlier in this narrative, to deal with this projected reduction in anticipated revenue, we have created a multi-pronged plan. We intentionally have been conservative in the development of this budget as we know it is easier to relax spending constraints during the course of the year if revenues are higher than anticipated, than to scramble to make cuts if we experience a shortfall. We have judiciously reviewed all line items, including vacancies, fixed costs, discretionary expenditures, and major capital equipment investments. We have slowed or stopped spending except on necessary expenditures. We are only filling open positions that are critical and have revised our plans for future new hires. We have adjusted our departments' budgets based on strategic decisions, prioritizing key services, including spending categories addressing the pandemic. We have worked closely with the leaders of the Newton Public Schools to determine the appropriate budget adjustment to our largest department while continuing our deep commitment to teaching and learning. We have also paused any major capital projects, except those for which we have already received funding, or those projects that are critical to the operation of the City. We will monitor our revenues and expenses frequently in the months ahead, with close analyses of budgets-to-actuals and will be prepared to make any adjustments, if necessary.

In addition to utilizing an additional \$2.5 million from Free Cash to balance the impact of the reduction of revenues, the Administration was required to reduce the FY2021 Proposed Expenditures by another \$7.1 million in order to balance the budget.

In order to accomplish this, the Newton Public Schools (NPS) have agreed to adjust their FY2021 Proposed Budget by \$1.5 million compared to eight weeks ago. The budget of the Newton Public Schools will continue to increase by \$6.8 million, or 2.9%. The Administration recognizes the impact that the closure of schools has had on our students and wants to ensure that NPS has the resources to address the emotional, social and academic issues that they will be faced with when schools hopefully reopen in the fall.

Additionally, Mayor Fuller met with the Newton Contributory Retirement Board of Trustees in April and requested a one-time adjustment to the Newton Pension Funding Schedule. She requested a pension system funding increase of \$1.4 million or 4.8% rather than the \$2.8 million or 9.6% that the Administration had recommended eight weeks ago. On April 22, 2020, the members of the Newton Retirement Board approved the following motion unanimously: Vote to have the City's Actuary prepare the 1/1/20 valuation report using a funding schedule that changes the FY2021 line item increase from 9.6% to 4.8% (all other assumptions remaining the same).

The Mayor also turned to the expenditure budget for the municipal departments. Every effort has been made to develop an expenditure budget that is sufficient to address projected operating requirements of the various departments of the City for the next fiscal year while being ever mindful of the complicated, unprecedented times that we face.

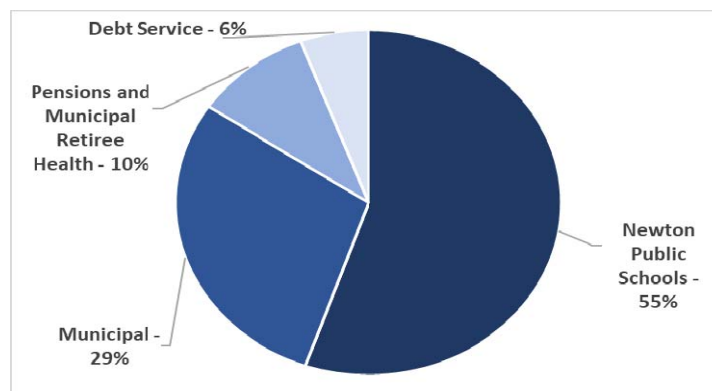
As the City of Newton had sold bonds in February 2020, the debt service for the City of Newton for FY2021 is already established. Decisions we make in the coming months about major capital investments and bonding will impact FY2022 debt service and beyond.

The following chart summarizes the many, many decisions that were made in the development of this budget as a result of the impacts of the Coronavirus Pandemic. Every decision has been made thoughtfully and strategically so as continue to provide the highest level of municipal services while recognizing the financial impact of COVID-19.

COVID-19 IMPACT TO FY21 GENERAL FUND EXPENDITURE BUDGET						
(\$ 000)	FY21 Projected		Variance FY20	FY21 Budget		Variance FY20
	FY20 Budget	Pre COVID-19	vs Pre COVID-19	FY20 Budget	Post COVID-19	vs Post COVID-19
Employee Compensation & Benefits						
Salaries, Compensation & Benefits	\$85,426.27	\$87,691.18	\$2,264.91	\$85,426.27	\$86,569.59	\$1,143.32
Overtime	\$2,726.00	\$2,748.00	\$22.00	\$2,726.00	\$2,296.00	-\$430.00
Training, Edu Asst, Public Safety Academy	\$327.70	\$324.17	-\$3.53	\$327.70	\$275.26	-\$52.44
Total Emp Comp & Benefits	\$88,479.97	\$90,763.35	\$2,283.37	\$88,479.97	\$89,140.85	\$660.88
Key DPW Infrastructure Accounts						
Street Maintenance	\$1,265.00	\$1,270.00	\$5.00	\$1,265.00	\$1,265.00	\$0.00
Street Light & Signal Rprs & Knock-Downs	\$750.00	\$750.00	\$0.00	\$750.00	\$625.00	-\$125.00
Pavement Markings	\$275.00	\$300.00	\$25.00	\$275.00	\$225.00	-\$50.00
Traffic Calming Supplies	\$175.00	\$225.00	\$50.00	\$175.00	\$175.00	\$0.00
Solid Waste & Recycling	\$8,794.49	\$9,712.72	\$918.23	\$8,794.49	\$9,682.43	\$887.94
Total Key DPW Accts	\$11,259.49	\$12,257.72	\$998.23	\$11,259.49	\$11,972.43	\$712.94
Parks, Rec, & Culture						
Public Grounds Maintenance	\$877.00	\$931.69	\$54.69	\$877.00	\$832.19	-\$44.81
Forestry/Tree Services	\$665.00	\$670.00	\$5.00	\$665.00	\$570.00	-\$95.00
Playground Equipment	\$150.00	\$150.00	\$0.00	\$150.00	\$0.00	-\$150.00
Total Key Parks & Rec Accts	\$1,692.00	\$1,751.69	\$59.69	\$1,692.00	\$1,402.19	-\$289.81
Public Buildings						
Municipal Bldgs - Rprs & Maint	\$630.58	\$686.68	\$56.10	\$630.58	\$581.08	-\$49.50
Public Buildings R & M	\$630.58	\$686.68	\$56.10	\$630.58	\$581.08	-\$49.50
Other Difficult Decisions						
Library Sunday Hours	\$136.00	\$136.00	\$0.00	\$136.00	\$0.00	-\$136.00
Consulting & Other Services	\$1,807.31	\$1,842.54	\$35.23	\$1,807.31	\$1,645.54	-\$161.77
Automobiles/Light Trucks	\$760.00	\$810.00	\$50.00	\$760.00	\$400.00	-\$360.00
Removal of Snow & Ice	\$4,500.00	\$4,750.00	\$250.00	\$4,500.00	\$4,500.00	\$0.00
Hardware, Software, Computers	\$1,017.21	\$1,218.27	\$201.06	\$1,017.21	\$1,093.77	\$76.56
Pensions & Municipal Retiree Health Insurance	\$41,817.88	\$44,936.98	\$3,119.11	\$41,817.88	\$43,368.56	\$1,550.68
Other Difficult Decisions	\$50,038.40	\$53,693.79	\$3,655.39	\$50,038.40	\$51,007.87	\$969.47
Debt Service	\$24,488.10	\$25,116.18	\$628.08	\$24,488.10	\$25,116.18	\$628.08
Utilities/Gas/Diesel, etc	\$3,659.81	\$3,963.41	\$303.60	\$3,659.81	\$3,898.14	\$238.33
State Assessments	\$6,446.78	\$6,370.58	-\$76.20	\$6,446.78	\$6,370.58	-\$76.20
Additional Approp to Rainy Day	\$150.00	\$150.00	\$0.00	\$150.00	\$0.00	-\$150.00
All Other	\$7,066.94	\$7,195.07	\$128.13	\$7,066.94	\$6,904.80	-\$162.14
FY2021 FINAL BUDGET DECISIONS	\$193,912.07	\$201,948.46	\$8,036.39	\$193,912.07	\$196,394.11	\$2,482.04
Newton Public Schools	\$236,372.31	\$244,645.34	\$8,273.03	\$236,372.31	\$243,145.34	\$6,773.03
FY2021 PROPOSED BUDGET	\$430,284.38	\$446,593.80	\$16,309.42	\$430,284.38	\$439,539.45	\$9,255.07

COVID-19 IMPACT TO FY21 EXPENDITURE BUDGET			
(\$ M)	FY21 Projected	FY21 Projected	
	Pre COVID-19	Post COVID-19	Variance
Projected Expenses			
Newton Public Schools	\$ 244.65	\$ 243.15	\$ (1.50)
Debt Service	\$ 25.12	\$ 25.12	\$ -
Pensions/Muni Ret Health	\$ 44.93	\$ 43.37	\$ (1.56)
Municipal Departments	\$ 131.90	\$ 127.86	\$ (4.04)
TOTAL BUDGETED REVENUE	\$ 446.59	\$ 439.49	\$ (7.10)

Projected FY2021 Appropriations Budget - \$439.5 Million



Commitment to Our Students

The delivery of an excellent education to our students by the Newton Public Schools (NPS) is perhaps the single most important municipal service as education is a ‘bedrock’ value of our community. Therefore, the Mayor again has made a significant commitment to NPS in the City’s Fiscal Year 2021 Operating Budget.

In 2020-2021, the Newton Public Schools is projected to serve close to 12,600 in an integrated preschool, fifteen elementary schools, four middle schools, two high schools, and alternative high school programs. The FY2021 Superintendent’s Proposed Budget is now \$243,145,343, and still includes a \$6.77 million increase, 2.9% over the FY2020 budget of \$236,372,312. Salaries and benefits make up 88% of this proposed budget.

The COVID-19 global pandemic has been one of the most unprecedented and challenging events of all our lives. The impact of COVID-19 on so many fronts for NPS students, families, teachers and staff cannot be underestimated. Teachers and staff overnight had to transform face-to-face teaching and learning into virtual settings, an endeavor never undertaken before. This has led to educational, operational and financial challenges for NPS. Simultaneously, as the City as a whole and NPS as our largest department grapples with declining revenues and additional expenses associated with COVID-19, the school department will continue to have an increased budget for FY2021, but the increase is smaller by \$1,500,000 at the request of the City.

The Newton Public Schools are using two techniques to manage the lower allocation of \$1.5M compared to the expectations from eight weeks ago. NPS has increased the Circuit Breaker Carry Forward assumption to cover this revised budget due to savings this spring in FY2020 when in-person teaching and learning had to stop suddenly (e.g., savings in Utility costs and transportation). Additionally, NPS will significantly reduce the scope of summer facility maintenance projects at our schools, which are needed, but can be deferred. There are still

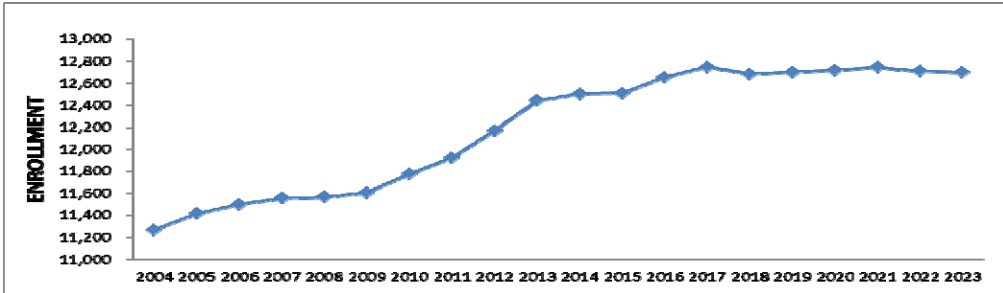
many unknowns and risks including state and federal education funding that could have further negative impacts on the City and NPS. We will continue to closely monitor and assess our financial situation and work with our NPS partners to address the highly complex challenges that we face.

While the rate of change has been incredible, what will remain constant is the City of Newton’s and the Newton Public Schools’ commitment to serve all students, and this budget ensures that. Whatever school looks like in Newton in the fall, we will continue our commitment to meeting the academic, social and emotional needs of our children and supporting our teachers and educators who do this important work.

Student Enrollment Trends

The NPS systemwide K-12 enrollment of 12,611 students in the 2019-20 year is a decrease of 74 students from the previous year. The FY2021 budget is formulated based upon a projected 2020-21 enrollment of 12,596 students, a slight decrease from the current year. Several elementary schools currently enjoy relief from enrollment pressure while other elementary schools continue to be enrolled at capacity. Newton’s secondary schools are expected to be enrolled at capacity for the next five years. Detailed enrollment information is found in the [Enrollment Analysis Report](#) and the [Class Size and Enrollment Planning Report](#) available online.

Newton Public Schools – Historical and Projected Enrollment Trends



Long-Range School Facilities Planning

Newton’s successful capital investments in school facilities have significantly improved the district’s ability to implement full day kindergarten in 2019-2020 as widespread school crowding has diminished. Improvements in space for districtwide programs also have allowed in-district programming for diverse learners to flourish and may be contributing to the current decreases seen in the number of students placed out of district and subsequently lower tuition costs. Detailed information about the NPS [Building Projects and Long-Range Facilities Plan](#) is also found online.

As a result of the financial impact of the Coronavirus pandemic, we have put a pause on all but the most critical of our school capital improvement projects. One project that will move forward is the addition of 3 classrooms at the Oak Hill Middle School. The district will experience significant space needs at the middle school level for the 2021-22 school year. Therefore, the Oak Hill Middle School project will continue.

Two important projects, the Newton Early Childhood Program (NECP) (currently at 150 Jackson Road but scheduled to move to the former Horace Mann Elementary School) and the new Lincoln-Eliot Elementary School at 150 Jackson Road, are being delayed. The former Horace Mann building was set to begin construction this summer to accommodate NECP. However, given the dramatic impact on City revenues and expenses brought about by COVID-19, we have made the difficult decision to postpone the bidding and construction before committing to the \$13 million in total NECP project costs. This in turn means that we must also pause the L-E project which has been in the design phase.

An additional consideration is that the funding capacity to undertake the new Lincoln-Eliot project has been significantly impacted. COVID-19 repercussions on City of Newton revenues and expenses are already apparent, and this will put significant financial pressure on not just the Fiscal Year 2021 budget but also on FY2022. We do not want to move forward with design when Lincoln-Eliot construction must unfortunately be delayed.

While these project delays are disappointing, our top priority is to protect our core services in our classrooms and in our buildings. We believe this is the most prudent measure we can take to preserve educational services given the severity of the financial impact and the unknown duration of the public health crisis.

We will continue to assess the financial conditions in order to determine when NECP and the new Lincoln-Eliot project are able to move forward.

City Investments in Education

The NPS budget of \$243.1 million is supplemented by more than \$32 million funded by the City in the municipal operating budget but are education related costs. These municipal costs for education include school building debt service, pension and retiree health care for certain school employees, school health and nurse services, school crossing guards, school property insurance, removal of solid waste and recyclables from schools, snow and ice control at school locations, as well as school building water and sewer charges.

Commitment to Municipal Services

Salaries and Compensation

This Administration is deeply grateful to the more than 940 municipal employees of the City who are working to make Newton greater, better and more beautiful. The costs of salaries, compensation, and health benefits for the City's current employees are 74% of the municipal operating expenditures (excluding retiree pensions, retiree health benefits, debt service, and state assessments) and are consequently the single most important cost element in the municipal budget.

When the Administration was tasked with making the very difficult decisions of reducing the previously planned FY2021 department expenditure budgets, naturally one of the places that we had to evaluate was personnel. Funding the appropriate number of employees to provide City services, keep Newton safe, improve streets, sidewalks, and mobility as well as public buildings and infrastructure, cultivate economic, artistic and cultural development, plan for Newton's future, make Newton more "all age" friendly, address climate change, and provide appropriate financial and administrative staff to support the operations of the City continues to be a critical priority.

Although we have made many adjustments to the number of positions that will be funded in the FY2021 Municipal Budget, this proposal contains no layoffs of permanent, full-time employees. In April, we did make the difficult decision to furlough approximately 100 positions of part-time employees who had not been working.

For Fiscal Year 2021, we have proposed the creation of a very few new positions; we are moving forward with only the 4.5 most strategic and necessary hires (one of which is part-time and another which is not funded until January 2021). We have eliminated historically vacant positions (11) and have put many other vacancies on hold for either a year (7) or six months (4). Thus, we will begin FY2021 with 19 fewer full-time equivalents in the budget but with no layoffs of permanent, full-time employees. Further, we have eliminated all intern and co-op positions for the FY21 budget. These decisions have yielded approximately \$1.5 million of the \$4 million budget adjustments required by the municipal departments. We have been very careful to preserve the services provided by and thus the positions and livelihoods of our trusted employees, many of whom have dedicated their lives to the service of the residents of this good City. Key changes are in the following areas:

FY21 POSITIONS ADDED						
				FY21 Projected		
				# of Positions	Costs	
New Positions						
Mayor's Office - Energy Coach - 6 mos				1.0	\$ 50,000	
DPW - Assistant Superintendent - Transportation				1.0	\$ 100,000	
Health & Human Svcs - School Nurse				1.0	\$ 60,000	
Health & Human Svcs - Social Svcs Asst				0.5	\$ 25,000	
DPW Utilities - Payroll Assistant				1.0	\$ 50,000	
TOTAL NEW POSITIONS				4.5	\$ 285,000	

COVID-19 IMPACT TO FY21 EXPENDITURE BUDGET						
				FY21 Projected		
				# of Positions	Savings	
Positions Eliminated						
Public Buildings Dept - Administrative Assistant				1.0	\$ 60,000	
DPW - Streets Division - 2 HMEO, 2 SHMEO				4.0	\$ 240,000	
Parks, Recreation, Culture - Small Engine Repair				1.0	\$ 60,000	
DPW Utilities - 4 HMEO's, 1 SHMEO				5.0	\$ 300,000	
TOTAL POSITIONS ELIMINATED				11.0	\$ 660,000	
Positions "ON HOLD" for 1 Year						
Information Technology - Network Administrator				1.0	\$ 70,000	
Planning Dept - Executive Assistant				1.0	\$ 70,000	
Public Buildings - Plumber				1.0	\$ 70,000	
DPW Motor Equipment Repairman				1.0	\$ 60,000	
DPW Transportation - Snr Traffic Engineer				1.0	\$ 110,000	
Library - Librarians				2.0	\$ 125,000	
TOTAL POSITIONS "ON HOLD" for 1 Year				7.0	\$ 505,000	
Positions "ON HOLD" for 6 Months						
Assessing - Excise Data Clerk				1.0	\$ 27,500	
Law Dept - Assistant City Solicitor				1.0	\$ 60,000	
Human Resources - HR Generalist				1.0	\$ 30,000	
Parks, Rec, Culture - Beautification - HMEO				1.0	\$ 25,000	
TOTAL POSITIONS "ON HOLD" for 6 Months				4.0	\$ 142,500	
TOTAL SAVINGS FROM ELIMINATIONS/HOLDS - FULL TIME				22.0	\$ 1,307,500	

Further, we have eliminated all intern and co-op positions for the FY21 budget. These personnel decisions have yielded more than \$1.3 million of the \$4 million budget adjustments required by the municipal departments.

Health Insurance Benefits

The City provides health insurance benefits for more than 8,600 people. This includes approximately 2,550 active employees and their dependents and more than 2,840 retirees and their spouses.

The City has been able to provide excellent health benefits at a reasonable cost by being self-insured because the City's insured population is a substantial size. The cost of a self-insured program is comprised of costs in three main areas: (1) the actual cost of claims, (2) the administrative fees charged by the health insurance carriers, and (3) an "Excess Policy" or "Stop Loss Policy" for catastrophic claims. Rather than paying "premium" rates, the City works with its two insurance carriers to develop "working" rates. These working rates are projections of costs. If actual costs are less than projected, the City "saves" money. Conversely, if the actual costs are more than projected, the City must pay the difference. In order to do this, the City maintains a Health Insurance Trust Fund to manage any variances between the projections and actuals.

As a result of the COVID-19 pandemic and the elimination of elective procedures for such a long period, we have seen a decrease in our actual cost of claims this fiscal year. We have consulted our health insurance carriers and will work with them as they try to determine what a surge in elective procedures will look like when the physical distancing guidelines are relaxed and elective procedures are once again performed.

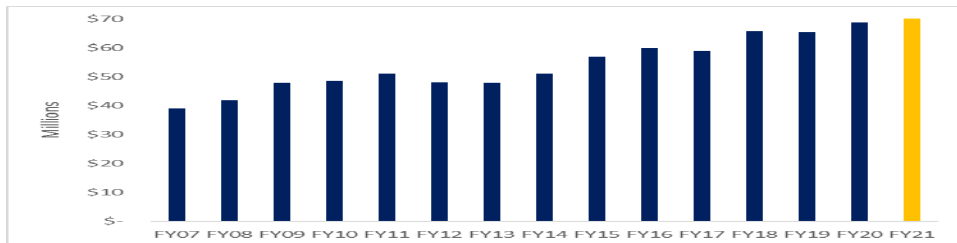
The FY2021 total cost of the City’s Health Insurance is projected to approximate \$70 million comprised of the following:

- City portion of Active Municipal Employees (including Water/Sewer/Storm) \$11.8M
- City portion of Municipal Retirees \$12.1M
- School Department portion of Active School Employees \$25.5M
- School Department portion of School Retirees \$ 7.4M
- Contributions from Active Employee and Retirees \$13.3M

As of March 31, 2020, the City’s Group Health Self-Insurance Fund has reserves of just under \$13 million which is the equivalent of 10 weeks of paid claims. The City’s fund balance policy is 1.5 to 2 months of paid claims.

In order to maintain financial sustainability, the Administration must continuously evaluate health insurance options. One such option is the Group Insurance Commission (GIC) run by the Commonwealth of Massachusetts. On a yearly basis, the City has and will continue to monitor this option so as to be in a position to make the most informed decisions possible in the ever-changing health insurance market.

FY2021 Total Cost of Health Insurance Program ≈ \$70M



Retiree Benefits: Pensions and Healthcare

The City’s long-term pension and retiree health insurance obligations approximate \$950 million. Our employees earn two types of compensation — current and deferred. Salaries and other forms of current compensation (e.g., health insurance) are received by employees during their employment. Deferred compensation is received after the employee retires and only when vesting and age requirements have been met.

There are two major categories of deferred compensation for City of Newton employees. First are pensions, monthly payments to a retiree from an investment fund to which both the employee and the City of Newton have contributed. Notably, public employees in Massachusetts, including employees of the City of Newton, are not covered by, and therefore do not receive, Social Security benefits. The second category of deferred compensation is retiree health insurance and life insurance, otherwise known as non-pension post-employment benefits or “Other Post-Employment Benefits” or OPEB.

The City’s commitment to funding long-term retiree obligations, specifically pensions and OPEB, following sound financial policies, and developing conservative budgets and forecasts will be key factors in the City’s ability to maintain the Aaa rating it has earned from Moody’s Investors Service. Commitment to fully funding the long-term retiree liabilities is also critical to maintaining the City of Newton’s financial sustainability.

As mentioned earlier in this narrative, Mayor Fuller met with the Newton Contributory Retirement Board of

Trustees in April and requested a one-time adjustment to the Newton Pension Funding Schedule. Per her request, the funding of the pension system would increase by \$1.4 million or 4.8% rather than \$2.8 million or 9.6% that the Administration had recommended eight weeks ago. On April 22, 2020, the members of the Newton Retirement Board approved the following motion unanimously: Vote to have the City’s Actuary prepare the 1/1/20 valuation report using a funding schedule that changes the FY2021 line item increase from 9.6% to 4.8% (all other assumptions remaining the same).

This vote of the City of Newton Contributory Retirement Board of Trustees maintains anticipated full funding of the City’s unfunded pension liability by FY2030 while full funding of the City’s OPEB (Other Post-Employment Benefits) liability is anticipated by the year 2045.

Pensions

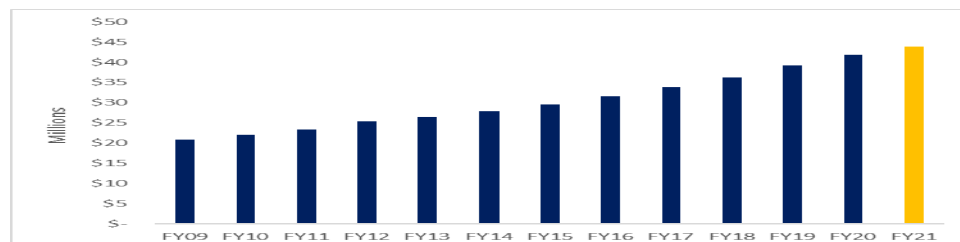
The City of Newton Contributory Retirement Plan is our pension plan. It covers more than 3,500 current active employees, inactive participants, and retired employees and beneficiaries. (Inactive refers to people who no longer work for us but have left their contributions on deposit in the plan to take at a later date.)

Notably, the teachers of the Newton Public Schools are not a part of the City of Newton Retirement plan. Rather, they are part of the Massachusetts Teachers Retirement System and the City is not “responsible” for their pensions. However, other school employees (e.g., aides, custodians and secretaries) are part of the City’s plan. In the City of Newton Contributory Retirement Plan, school employees make up 42% of the active employees and account for slightly more than 20% of the unfunded liability.

Prior to the 2008 downturn in the economy, the total funded actuarial accrued pension liability was approximately 67%. However, as a result of the dramatic drop in the value of the stock market experienced by the fund in the years of the “Great Recession” combined with the increased life expectancy of Americans, the total funded actuarial accrued liability had reached a low of 50.8% but has now finally begun to increase slightly and was 54.9% as of January 1, 2020. Obviously, all of this was prior to the COVID-19 pandemic. Maintaining our full funding schedule of 100% by FY2030 will remain one of the highest priorities for the Fuller Administration. Unfortunately, Newton continues to lag many of the surrounding communities in percent funded for this significant liability.

These funding gaps matter. Newton’s employees, like all Massachusetts public employees, do not pay into, nor do they receive, Social Security in their retirement. Police officers, firefighters, and other Newton employees depend on their pensions for income (and for health insurance) in their retirement. The funding gaps also matter because if a greater portion of Newton’s budget is needed to fund commitments to retirees that were made years ago, funds available for current services may be impacted. The challenge lies in proactively managing tax revenues, operating expenditures, capital investments and retiree benefit expenses while maintaining a Aaa credit rating. The magnitude of the pension and healthcare liabilities and the complexity of the issue as well as changes in accounting requirements require the City of Newton to focus on long-term financial sustainability by creating a financial strategy that extends through FY2030 and beyond.

FY21 Pension and Municipal Retiree Health Care - \$43.8M



Retiree Health Insurance or OPEB

In addition to pension obligations, the City of Newton (like most municipalities) provides health insurance to retirees (also known as Other Post-Employment Benefits or OPEB). The Commonwealth prescribes the minimum percentage that a city or town must contribute towards retiree health insurance (50%) and the minimum level of benefits. The City of Newton provides 80% for most of our current retirees which is more than the minimum required level of contributions and benefits. However, in contrast to pensions, the State does not yet require pre-funding for retiree health and life insurance benefits.

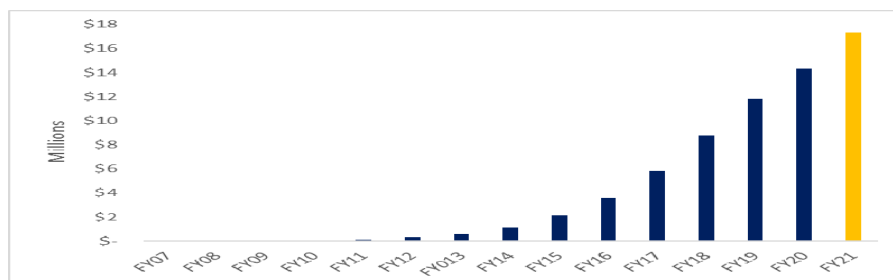
In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

In 2010, the City established an Other Post-Employment Benefits (OPEB) Liability Trust Fund and subsequently established an OPEB Trust Agreement for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for these retirement health care benefits.

The FY2014 Budget included the implementation of a funding schedule for the City’s OPEB liability by appropriating approximately \$200,000 or 2.5% of the salary for all newly insured employees beginning July 1, 2012, with the expectation that this percentage would increase gradually over time. Additionally, it was anticipated that as the City brought on more and more new employees, this funding method would cause the appropriation to grow exponentially. For the first time in several years, the Fuller Administration increased the percentage in the FY2019 Budget from 3.25% to 3.50% for newly insured employees beginning in July 1, 2012, and increased the percentage further to 3.6% in the FY2020 budget. As a result of the financial impact of COVID-19, the Administration has made the decision not to increase this percentage in FY2021 but rather to hold it level at 3.6%. It is important to note that the City should be setting aside approximately 8% of the salary of all employees.

Due to the continued addition of employees covered using this financial strategy as well as the increased percentage, the March 31, 2020 value of the OPEB liability trust fund totaled \$13.2 million (an increase of \$2.3 million over the March 31, 2019 value) and the FY2021 OPEB appropriation has grown to well over \$3.0 million.

Projected OPEB Trust Fund Value (June 30, 2020 - \$14.0m)



As of June 30, 2019 the long-term OPEB unfunded liability approximates \$688 million. Instead of pre-funding, most municipalities use a policy of pay-as-you-go for retiree health insurance benefits. In other words, the city or town pays the cost of health insurance benefits for retirees from current operating revenues as those benefits come due. While Newton is setting aside a very small portion of its liability, the City’s policy is primarily pay-as-you-go for the next ten years.

The way that the City has dealt with each of these significant long-term retiree liabilities over the past several decades is problematic. This practice has transferred costs of former Newton taxpayers to current and future Newton taxpayers, costs that were accrued throughout the past few decades.

The year in which residents receive services from employees is the year the City should set aside funds to pay for the compensation the employees will receive in their retirement. The Fuller Administration is committed to increasing gradually the funding for current employees for their retiree health insurance.

The Fuller Administration remains committed to the funding strategy of investing significantly in the pension system liabilities for the next ten years until full funding, still currently projected in the year 2030. Then the City of Newton will begin significant investments in the retiree health care or OPEB liability so all of the City's retiree costs will be fully funded by FY2045. Even with the COVID-19 financial repercussions, this strategy is still intact at this time.

Investing in Capital Infrastructure

One of the top priorities for the Fuller Administration is to maintain and improve the City of Newton's infrastructure. The school buildings, police and fire stations, parks, libraries, roadways, and emergency and public works vehicles are some of the many assets that require regular replacement and/or maintenance to continue to meet the needs of this active city. In order to plan funding for these projects, the City of Newton has created a Capital Improvement Plan, updated semiannually, that provides a five-year outlook for capital investments.

The FY2021-FY2025 Capital Improvement Plan (CIP) is a mission and risk-based prioritized list of investments in the capital assets of the City of Newton. The CIP addresses infrastructure needs, reflects community values, supports city operations, programs and services, and exemplifies sustainable financial, accessibility and environmental best practices. The prioritization plan was developed by thoroughly evaluating the City's capital needs, the vision and goals of each department along with the services they will provide over the coming years, and Mayor Fuller's twelve overarching goals. This results in a plan put into a financial context by which to evaluate investments over the next five years.

The economic repercussions on the City's finances as a result of the COVID-19 pandemic are very uncertain. Determining the most likely outcomes in comparison to the worst-case scenario is very difficult. As a result, the Administration has made the unpleasant but necessary decision to delay or put "on hold" most capital improvement projects and investments for now. We will carefully evaluate the financial impacts of the re-opening of the economy as well as any resurgence of the virus before we make the decision to move forward with almost all projects and purchases.

Debt Service

Capital assets with a life expectancy of ten or more years that cost more than \$150,000 are typically paid for through bond sales by the City of Newton. Massachusetts' municipal finance law limits the total amount of long-term debt that the City can incur for most purposes to not more than 5% of the City's equalized valuation (i.e., the full and fair cash value of the property in Newton). The City's current (October 2019) equalized valuation is just slightly more than \$31.7 billion, which means that the current statutory debt limit is almost \$1.6 billion. The City's current outstanding principal of bonded debt is significantly lower and approximates \$344 million or 21.5% of the City's debt capacity.

In conjunction with the state statutory debt limit, the City of Newton has developed its own financial policy of limiting debt service on long-term bonded debt to between 4.0% and 7.5% of the annual General Fund budget.

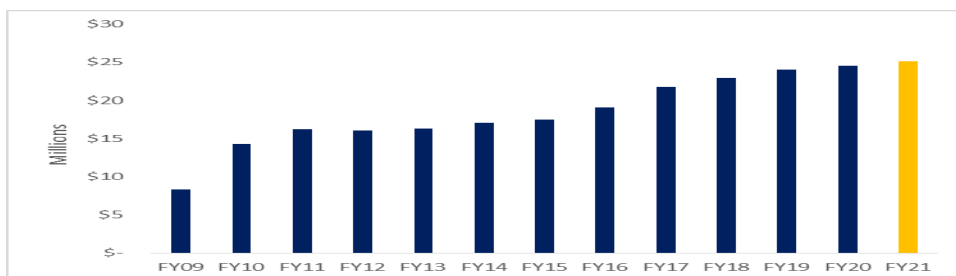
General Fund Debt service, which includes both principal and interest, totals 5.71% of the Fiscal Year 2021 General Fund Budget.

In addition to the current bonded debt in the City’s operating budget, significant capital investments are currently underway in the Water, Sewer and Stormwater infrastructure systems. The water, sewer and stormwater systems are in separate enterprise accounts rather than part of the City’s General Fund because fees, rather than taxes, pay for these services. Further, the City includes annual appropriations within the operating budget, the CIP, the Community Preservation Act as well as the use of Free Cash to accomplish additional infrastructure improvements.

The City also leverages funding from the State and Federal government to pay for capital improvements. Funding sources range from the Massachusetts School Building Authority and the State Chapter 90 infrastructure funds to the Massachusetts Transportation Improvement Program 3 (TIP) and federal Community Development Block Grant (CDBG) funds. Private developers also provide mitigation funds that help pay for such improvements as street, sidewalk and traffic signal improvements, undergrounding of utilities, and water and sewer upgrades. The Fuller Administration will continue to utilize these different strategies to further improve the City’s infrastructure.

As noted earlier in this narrative, in February 2020 prior to the COVID-19 pandemic, the City had a very successful bond sale, receiving an “true interest rate” of 2.03%. Significant projects such as the West Newton Square complete streets improvement project, the Newtonville Walnut Street complete streets improvement project, as well as the replacement of all city parking meters, were included in that bond sale. The proceeds of that bond sale were received on February 27, 2020, established the debt service level for the City for FY2021 and must be expended. Decisions we make in the coming months about major capital investments and bonding will impact FY2022 debt service and beyond. Bonding decisions this coming year may also be impacted by the turmoil that COVID-19 has had on the municipal bond market.

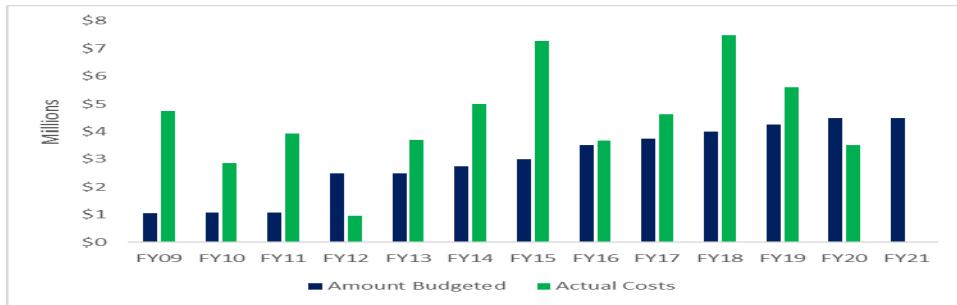
General Fund Projected FY2021 Debt Service - \$25,116,177 – \$628K Increase



Removal of Snow and Ice

The policy of the Administration has been to increase the annual amount appropriated for the removal of snow and ice and to address the cost of other significant storm damage until the appropriation equals the average cost of the previous five years. This target average is \$5.6 million. Although, the intent had been to increase the FY2021 appropriation by \$250,000, as a result of the necessary COVID-19 expenditure adjustments, we will level fund this expenditure in the amount of \$4.5 million (\$3 million in the DPW Budget and \$1.5 million in the Comptroller’s Reserve for Snow & Ice Removal). Notably, the Administration has carry-forward funds available from our FY2020 snow and ice appropriation in excess of \$700,000 and an additional reimbursement for costs incurred in the winter of 2018 in the amount of \$880,000, for a total of \$1.6 million. This additional \$1.6 million will be held in reserve for the FY2021 winter season so the City has \$6.1 million available to address snow, ice and storm costs before Free Cash will be required.

FY2021 Budgeted Reserves for Costs of Snow/Ice Removal



Other Municipal Expenditures Funded in FY2021

Funding for several current, as well as a few accelerated, initiatives for the City’s infrastructure, the environment, and the social and mental well-being of Newton’s citizens of all ages are included in the FY2021 Budget. However, as a result of the financial pressures stemming from COVID-19, many difficult decisions have been made by the Administration to level fund many other accounts and, in some cases, to reduce the funding. Each and every decision was made thoughtfully and strategically with the intent of continuing to provide a level of municipal services that our residents expect. A more complete description of the key municipal funding decisions is presented earlier in this report.

Rainy Day Stabilization Fund

In 2010, the City of Newton established a Rainy-Day Stabilization Fund to serve as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic event requiring a significant expenditure. More specifically, these funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the City’s control, or an unusually large expenditure resulting from such things as a catastrophic weather event. The funds remain segregated to prevent the reserves from being depleted for other city needs, and to demonstrate that resources are being set aside for extraordinary and unforeseen revenue disruption or catastrophic expenditure. Through collaboration with the City Council’s Finance Committee, the Comptroller, members of the City Council, and the Warren and Fuller Administration, the fund has reached its goal of 5% of the total operating budget. The current fund balance totals approximately \$21.9 million.

One of the most important recommendations that the Fuller Administration has made in the preparation of this FY2021 Municipal Budget is the maintenance of the 5% balance in the City’s Rainy-Day Reserve Fund. Although we are currently experiencing unprecedented and tremendously uncertain times, and we know “it is raining, and raining very hard,” we do not yet know what is ahead of us. We may be facing a deep and protracted crisis. We have maintained this fund so that we can absorb any additional reductions in state aid and revenues, catastrophic weather events that may happen within the next year or two, and most notably, the economic impact of a new surge in Coronavirus cases that many predict will happen in the fall of 2020. Instead, we chose to address the current “known unknown” revenue decreases in the FY2021 budget. We are saving the Rainy-Day Stabilization Fund for the “unknown unknowns” that may confront the City in the coming months and years.

Beyond the General Fund: Water, Sewer, Stormwater Enterprise Funds

Newton's Public Works Department through its Utilities Division supplies all water distribution and provides all sewer operations to more than 32,000 households, institutions, and business, and maintains stormwater drainage systems throughout more than 300 miles of roadways. While Newton purchases its water from the Massachusetts Water Resources Authority (MWRA) and sends its sewage to the MWRA treatment facility at Deer Island, the City owns all the pipes, drains, and infrastructure required to supply these critical services.

As is customary in many municipalities, the City of Newton has established a Water Enterprise Fund, Sewer Enterprise Fund, and a Stormwater Enterprise Fund. Through these Enterprise Funds, fees are charged to all property owners to support each of these three different enterprise activities. These funds are separate from the general operating fund of the City (which is supported primarily through tax revenues). Rates are set on an annual basis and must cover all operations of each enterprise activity.

Several years ago, the City recognized that the aging water, sewer, and stormwater infrastructure needed repair. The capital investment needs for these three enterprise funds exceeds \$100 million. Therefore, the City developed a capital improvement plan and funding schedule with the commitment of maintaining no more than a 3.9% total annual increase in fees in the combination of these three funds.

The Coronavirus pandemic is also impacting the City's water and sewer revenues. Boston College, historically the City's largest Water/Sewer customer, was forced to suspend in-person classroom teaching in mid-March and at the present time may continue to only provide online instructions for the Fall 2020 semester. The City has analyzed the April 2019 vs. April 2020 water utilization by all customers. April 2020 utilization was only 87% of the 2019 utilization. Therefore, we have conservatively proposed FY2021 Water and Sewer Budgets that reflect 15% less water consumption than we proposed for FY2020.

Mass Water Resources Authority (MWRA) recognizes that many communities will also be faced with declining revenues during FY21. Therefore, they have approved several measures to assist communities throughout this uncertain time. One such measure is a deferral of all debt payments owed to the MWRA for the remaining two months of FY20, payments due in FY21, and all payments due in FY22. Fortunately, the City has built up healthy reserves in both the Water and Sewer funds. Therefore, we have made the decision to forego the option of deferring debt payments to the MWRA for the remainder of FY20 and for FY21. We will utilize our reserve account in both funds to supplement what we hope will be a temporary loss of revenue.

Water Enterprise Fund

The City of Newton has been identifying, evaluating and improving Newton's water main distribution system for many years. In fact, in 2016, the Newton Fire Department was rated a Class 1 agency, the highest possible ranking from the Insurance Service Organization (ISO). Improvements made to water flow and water pressure through the fire hydrants played an integral part in this upgrade. The ISO grades on a point system, with fire department operations accounting for 50 percent of the rating, fire flow or available water supply 40 percent of the grade, and dispatch operations constituting the remaining 10 percent.

The City recognized the need to increase the renewal of the aging water distribution pipe network, much of which dates back to the 1870s, and developed a comprehensive capital improvement program as part of the Water and Sewer Strategic Plan initiative.

From 2013 through 2016, we aggressively targeted water main improvements for fire flow purposes. This required the replacement of pipes, not just cleaning and lining old pipes. We completed a hydraulic model analysis in 2016, and we redirected our efforts to target and replace leak prone pipes, especially the pipes

installed circa World War II. FY2021 will be the fifth year of this twenty-year water main repair, replacement, cleaning and lining program.

The City utilized a pipe renewal needs forecasting software program to provide a long-range calculation of the anticipated pipe replacement quantities required to keep pace with the expected end of useful service life of pipe assets in the distribution system. The results take the form of a customized pipe replacement needs distribution curve for the City's pipe assets. It shows graphically, by pipe type, how much replacement is required annually. The results of the analysis indicate that the City should be renewing approximately 4 to 5 miles of water main pipe per year.

In addition, a risk-based ranking system was developed for integrating and managing the water system pipe assets. The ranking takes into account the consequence of failure of the pipe and the probability of its failure. Consequence of failure reflects the proximity of the pipe to critical facilities (e.g., hospitals, schools) as well as the potential for flood damage due to breakage. Probability of failure takes into account pipe type, age, joint type, and vibrations under heavy loads (highways, railroad tracks). The water main assets were then grouped into a risk matrix by condition and criticality, from low priority to high priority, with recommended actions that range from immediate pipe replacement to acoustic monitoring, advanced in-pipe inspection, cleaning and cement lining.

The Water Department received \$3.2 million of bond proceeds from the bond sale that we completed in February 2020. Consequently, that work will continue. All other work will continue to be evaluated, while we manage the financial impact of COVID-19 has had on our water revenues.

More detailed information on the City's water system infrastructure plan can be found in the City's FY2021-FY2025 Capital Improvement Plan.

Sewer Enterprise Fund

Prior to the development of the City's comprehensive strategic plan for the improvement of the sewer infrastructure, more than 60% of the sewage and wastewater that was sent to the Massachusetts Water Resource Authority (MWRA) for processing by the City of Newton was the result of inflow (stormwater from direct illegal connections) and infiltration (groundwater that seeps into the sewer pipes through cracks and other imperfections). Inflow and infiltration had been costing the City in excess of \$5 million per year. Furthermore, back-ups in the sewer lines due to insufficient capacity combined with the additional groundwater/stormwater resulted in sewer surcharges/overflows from some manholes in the streets and parks.

The City developed a 10-year program to address systematically the approximately 300 miles of sewer mains and related manhole structures. The program began with those areas known to have significant inflow and infiltration problems, as well as those areas that were experiencing flooding or sewer surcharging problems. The work in each project area is divided into 3 categories: Inspection and Assessment, including heavy cleaning; Design of repair work; and Construction, including post-construction flow assessment. Sewer work in each project area is generally completed over a two-year period. As a result of the financial benefits of recent lower MWRA sewer assessment increases for Newton than most other MWRA communities, the funding and schedule for this program had been accelerated.

Sewer revenue, however, has also been impacted by COVID-19. Some of our largest customers of the sewer system (e.g., hotels and colleges/universities) have dramatically reduced their use, and thus negatively impacted our revenues. Therefore, all intended work and expenditures will continue to be evaluated, while we manage the financial impact of the Coronavirus pandemic has had on our sewer revenues.

More detailed information on the City's sewer system infrastructure plan can be found in the City's FY2021-FY2025 Capital Improvement Plan.

Stormwater Enterprise Fund

Like many communities, Newton's storm water system is old and we face challenges related to storm water quantity and quality, system maintenance and upgrades, and localized flooding. In 2006, the City instituted a Storm Water Fee to fund necessary improvements.

While the City has completed localized drainage repairs, the Department of Public Works Utilities Division has recognized the need to develop a comprehensive plan to identify and address storm water needs throughout the City and the associated funding to accomplish this work. This includes addressing the National Pollutant Discharge Elimination System (NPDES) MS4 Permit, which is mandated for all communities by the EPA, which took effect on July 1, 2018 and has increased requirements for maintaining and improving storm water quality.

Sustainable Budget Strategy

To summarize, a well-managed, fiscally-sound City of Newton is essential to provide exceptional teaching and learning to almost 12,600 students, deliver top-notch city services to our residents and people who work here, and make important updates to our infrastructure. Similarly, we must ensure our tax dollars are being used in an effective and accountable manner. Perhaps most importantly, we must make smart and sustainable financial decisions to create the funding for thoughtful investments in Newton's future and to weather difficult economic cycles. We must also ensure that we maintain our deep commitment to the health, well-being, and safety of our approximately 3,000 valued employees and honor our commitments to them in their retirement years.

In order for the City's budget and finances to remain sustainable, we must remain steadfast in our determination to balance the annual operating budget while addressing infrastructure needs, provide services our residents need and want, fully fund all liabilities from debt service to pensions to retiree health care, and develop and maintain an appropriate level of reserves for economic downturns, dramatic weather events and other unpredictable events.

The COVID-19 pandemic has certainly been a dramatic, unpredictable event. The first reported death in the United States occurred on February 29, 2020. At the date of this printing, May 11, 2020, more than 67,500 Americans have perished with COVID-19. Our world has changed dramatically in the past two months. Physical distancing, isolation, quarantine, unemployment, and uncertainty have all become a way of life in these unprecedented times.

The role of our municipal government in this emergency is critical.

- Assuring the health and safety of our first responders and employees – the members of our Police and Fire Departments as well as the staff of all our departments who have continued essential services in the midst of this pandemic,
- Maintaining a fully functioning Department of Health & Human Services – our public health professionals who are providing guidance and conducting contact tracing seven days a week,
- Providing the best education that we can – including ensuring that all students of the Newton Public Schools have access to the technology required for distance learning,
- Distributing meals to people experiencing food insecurity – older residents, those experiencing financial hardship, and of course our school children,

- Issuing building permits and licenses so that our contractors and small businesses will be able to work as restrictions are lifted, and
- Continuing to provide so many other services that, you, our residents and businesspeople need.

We have worked diligently to not only propose a FY2021 City of Newton Budget that we believe is responsive to the financial challenges that the City is sure to continue to face, but have also put financial controls in place so that if the impact to the City's finances is greater than anticipated at the time of this submission, we will be ready to respond by lowering expenditures further.

We also firmly believe the City will continue to face financial challenges in Fiscal Year 2022. We expect that our FY2022 revenue from New Growth and Redevelopment will suffer as might our revenue from State Aid. We have worked right now to position the City for a multi-year impact to our revenues.

As stated at the beginning of this analysis, we have been conservative in the development of this budget as we know it is easier to relax spending constraints during the course of the year if revenues are higher than anticipated, than to scramble to make cuts if we experience a shortfall. We have judiciously reviewed all line items, including vacancies, fixed costs, discretionary expenditures, and major capital equipment investments. We have slowed or stopped spending except on necessary expenditures. We are only filling open positions that are critical and have revised our plans for future new hires. We have adjusted our departments' budgets based on strategic decisions, prioritizing key services, including spending categories addressing the pandemic. We have worked closely with the leaders of the Newton Public Schools to determine the appropriate budget adjustment to our largest department while continuing our deep commitment to teaching and learning. We will monitor our revenues and expenses frequently in the months ahead, with close analyses of budgets-to-actuals and will be prepared to make any adjustments, if necessary.

Above all else, we will make all decisions with the best interest of each and every Newton resident and the business and non-profit community in mind and will remain vigilant in the careful use of every hard-earned taxpayer dollar that has been entrusted to us.