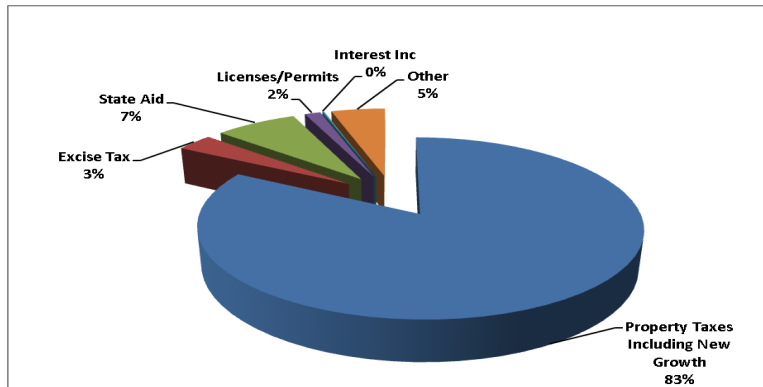


FY2020 Budget Analysis by Revenues and Expenditures

Projected Revenue - Fiscal Year 2020

The Administration’s policy is to project revenues both carefully and conservatively so we do not overestimate. Fiscal Year 2020 Revenue is projected to total just under \$430.3 million, a \$17.8 million or 4.3% increase over the FY2019 original budget. This increase includes an additional \$14.7 million from property taxes and an additional \$817,961 of state education and unrestricted aid.

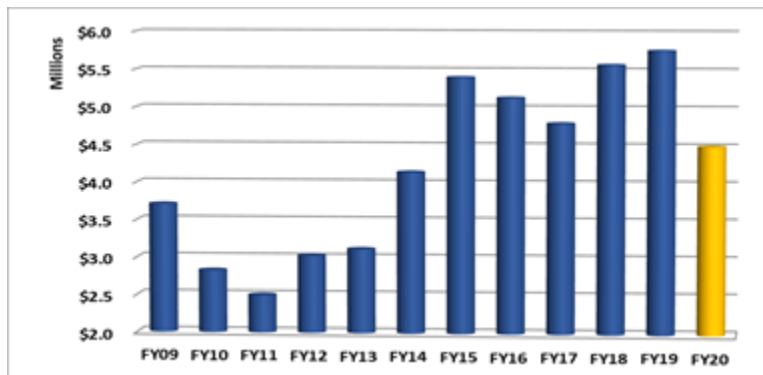
Projected FY2020 Revenue Sources - \$430.3M



Property Tax 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. As shown in the previous pie chart, property taxes account for the vast majority of the City’s total operating revenue. FY2020 property tax revenue is estimated to total \$357 million including the 2½ percent increase over last year as well as a projection of \$4.5 million from “new growth or redevelopment,” an increase of 1.3%. Notably, the 30 year average annual increase of growth and redevelopment as a percent of the tax levy is 1.3% and this year the projection is based on that average. 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 the debt exclusion votes amounts to \$3.3 million of the property tax revenue in FY2020.

Projected FY2020 Revenue from New Growth and Redevelopment - \$4.5M



Senior Tax Deferral Program - Clause 41A

The Mayor and the City Council collaborated to expand the eligibility for seniors to delay paying their property taxes to allow more seniors to be able to afford to stay in Newton.

Under the Commonwealth's Clause 41A, seniors 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 senior sells the property or passes away. A deferral allows seniors to use resources that would go to pay taxes to defray living expenses with the goal of enabling seniors 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. This amount had not been adjusted since then. Although the City of Newton has the greatest number of participating homeowners (64 in FY2018) in the Commonwealth, Mayor Fuller requested and the City Council approved a request for additional Home Rule legislation to once again increase the upset limit of income in order to enable our seniors to remain in their homes as long as they were able.

Following the approval of Home Rule legislation, the City Council increased the income limit for participation in this program to \$86,000.

As of April 1, 2019, the deadline for filing for a FY2019 deferral, the City has received an additional 23 applications, 16 of whom have income that exceeded the former limit of \$60,000 but are within the new limit of \$86,000. These applications are currently under review to ensure that all other requirements of the program have been met.

To reiterate, this is a "tax deferral" program. Eventually, the City will collect all taxes owed on these properties with an appropriate interest rate (currently 2.5%) applied. However, assuming all applicants are eligible to participate, the City will need to "set aside" \$160,000 of tax revenue that will not be collected this year. This assumption has been incorporated in the proposed budget.

Economic Development - New Growth & Redevelopment

Mayor Fuller is fully committed to 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 FY2020, the Administration will be making significant investments in village center traffic and streetscape projects in both West Newton Square and Newtonville. These projects are specifically designed to enhance the village character and experience by shoppers and diners by providing a safer, more walkable and bikeable environment to be complemented by improved lighting and the addition of street trees and sidewalk furniture. In addition, the Administration will be moving forward with preliminary planning and design engineering for a "Complete Streets" conceptual design of Washington Street between West Newton Square and Newton Corner.

Under Mayor Fuller, the Administration is also focused on a pro-active planning approach to clearly articulate the City's vision for economic development. Implementing actions found in the recently approved Economic Development Action Plan will be a high priority. Among the highest priorities will be to locate a new home for the Newton Innovation Center which, with 170 members and 30 companies, has outgrown the space at the former Newton Corner Library. The Mayor will continue to work closely with the Newton Economic Development Commission to build on Newton's successes including the recent accreditation of Newton as a gold level community for life science companies. Efforts will continue in marketing both Wells Avenue and the N2 District as a place for businesses to invest. Special attention will be paid to engaging with and hearing from

Newton's existing businesses by informal stop-ins with Newton's Economic Development Director as well as more formal business roundtables.

Pro-active planning remains at the forefront of Mayor Fuller's agenda for FY2020. The Washington Street Vision and Zoning Plan is expected to be presented to the City Council for adoption in the first quarter of FY2020. Work will also continue to advance the full redrafting of the City's Zoning Ordinance which is anticipated to be presented to the City Council in the second half of FY2020.

State Education Aid - Chapter 70

Sections 124 and 278 of the FY2015 State Budget established the Foundation Budget Review Commission (Commission) to "determine the educational programs and services necessary to achieve the Commonwealth's educational goals" and to "review the way foundation budgets are calculated and to make recommendations for potential changes in those calculations as the Commission deems appropriate."

In conducting its review, the Commission was charged with determining "the educational programs and services necessary to achieve the Commonwealth's educational goals and to prepare students to achieve passing scores on the Massachusetts Comprehensive Assessment System examinations." The statute also directed the Commission to "determine and recommend measures to promote the adoption of ways in which resources can be most effectively utilized and consider various models of efficient and effective resource allocation."

The Commission published its report on October 30, 2015. The state legislature is actively reviewing its recommendations and the Foundation Budget formula. The Commission issued the following recommendations.

Recommended Changes to the Foundation Budget Formula

Regarding Health Insurance

- Adjust health insurance to be in line with average GIC rates
- Add retiree health insurance to the foundation budget
- Calculate health insurance inflation separately from inflation of the rest of the budget

Regarding Special Education

- Change the assumed in-district special ed cost (from an assumed 15% of students to an assumed 16% of students)
- Increase the out-of-district special ed cost rate to capture full cost before the circuit breaker is triggered
- Recognize "the growing use of inclusion as the preferred pedagogical model in the Commonwealth"

Regarding English Language Learners (ELL)

- Make ELL an increment added to the base rate per pupil
- Include ELL costs for vocational students
- Make the increment the same rate at all levels, choosing the middle school level; this is to make up for the previous incorrect assumption that older students required fewer services (or less funding)

Regarding Low Income

- Change the weighting to fall between 50-100% due to the large number of programs -- extended learning time, wraparound services, instructional improvement, class size reduction, early education -- that have been found to be successful with low income students
- Requires districts to post a plan of what the district will do with additional dollars but includes district flexibility to best meet student needs

Regarding Data Collection

- Recommends establishment of a committee to improve data reporting, specifically around reporting of use of funding at a school level

Regarding Preschool

- Recognizes (but does not recommend) the State's needs in early childhood and the positive effects of early childhood education

Regarding Inflation

- Recognizes (but does not recommend) a need for an adjustment for the missed quarter in 2010 (= \$55 million statewide) and an adjustment for the statutory cap (= \$158 million statewide)

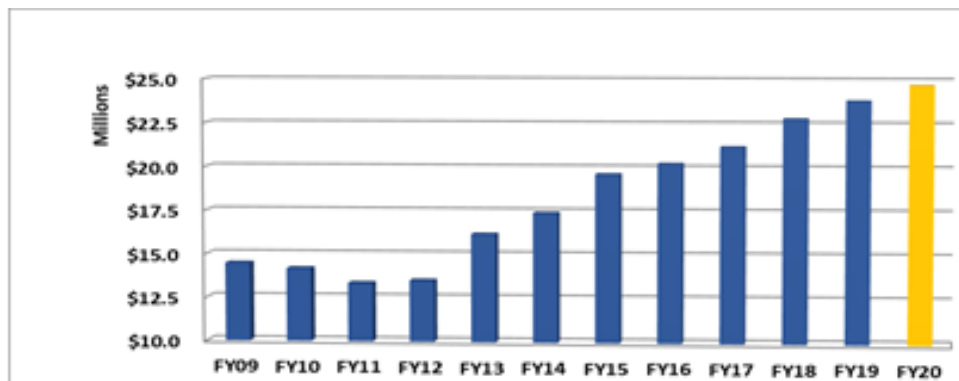
Governor Baker's Fiscal Year 2020 Proposed Budget is based on *An Act to Promote Equity and Excellence in Education*, a comprehensive school finance bill filed by the Baker-Polito Administration. The bill implements the major recommendations of the Foundation Budget Review Commission (FBRC), incorporates other enhancements to the Commonwealth's school funding framework, and codifies the formula changes that have previously been implemented through annual provisions in the state budget. The proposed legislation sets targets for changes to the foundation budget calculation to be fully phased-in by FY2026.

These changes to the school funding framework may have a significant impact on the amount of Chapter 70 State Aid for Education that the City of Newton will receive in years to come. Therefore, we will watch the implementation of these changes very carefully and will develop financial forecasts accordingly.

The Fiscal Year 2020 Budget for total State Aid for the City of Newton has been increased from the previous year budget by \$817,961 for a total of more than \$29M. The Governor's Proposed FY2020 Budget includes an increase of \$653,892 for Chapter 70 State Education Aid and an additional \$164K for Unrestricted Government State Aid. The increase of \$653,892 in Chapter 70 State Education Aid is significantly less an increase than the City of Newton received in recent years, when five out of the last six years included an increase of more than \$925,000.

The amount of state aid to the City may still change before Fiscal Year 2020 begins; changes are not uncommon in the late spring and typically are increases. We will watch these potential changes very carefully.

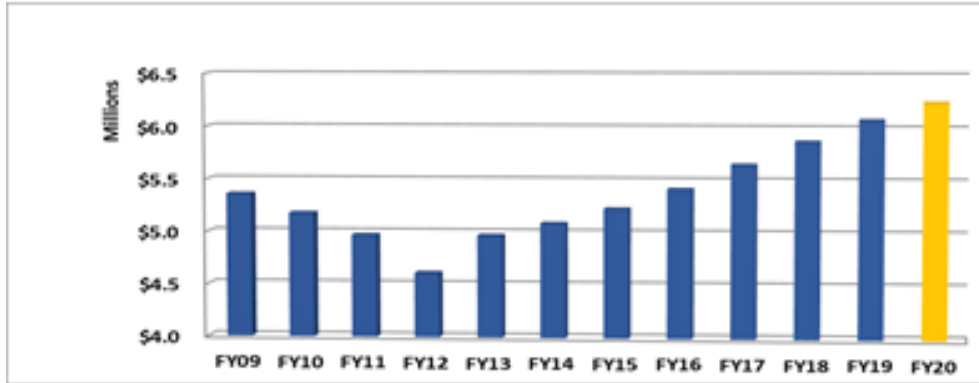
Projected FY2020 Chapter 70 State Education Aid – Governor's Budget Increase of \$654K (2.7%)



Unrestricted General Government State Aid

In FY2010, the Lottery Aid Program (revenue from state lottery profits) and the Additional Assistance Program were combined to form a single revenue source now known as Unrestricted General Government Aid. As indicated in the chart below, this revenue source has seen steady increases over the past several years. The Governor's FY2020 Budget includes an increase of General Government Aid to the City of Newton of \$164,069 or 2.7% for a total of \$6.24M.

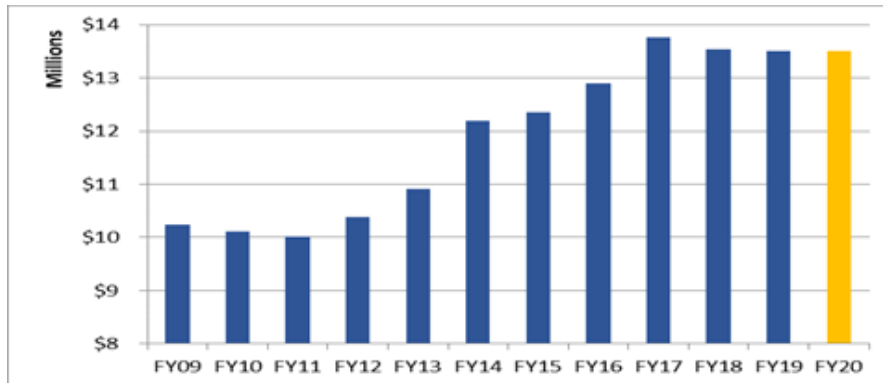
Projected FY20 Unrestricted General State Aid – Governor's Budget Increase of - \$164K (2.7%)



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 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 seven years, total excise tax revenue has fluctuated from a low of just over \$9.5 million in FY2011, to just over \$13.6 million in FY2017. While there was significant pent-up demand after the Great Recession of 2008, that demand has somewhat stabilized so total excise revenue for FY2020 is projected at \$13.5 million representing more than 72,000 cars.

Projected FY20 Revenue from Excise Taxes – Held Flat - \$13.5M

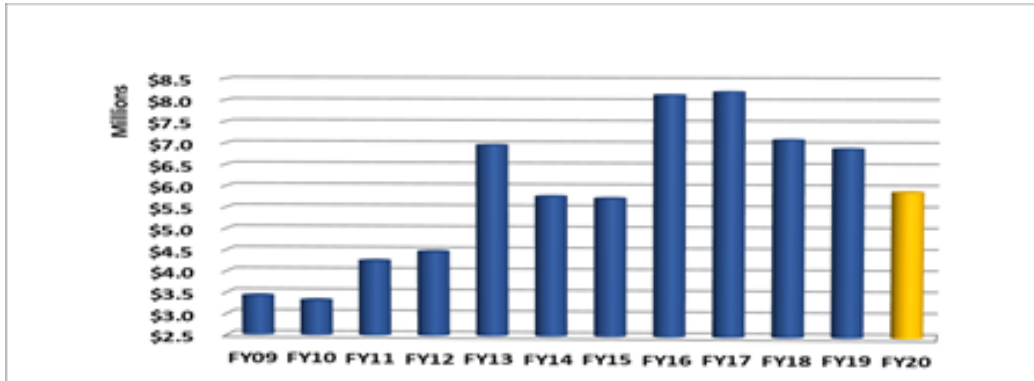


Revenue from Inspectional Services Building Licenses and Permits

Revenue from permitting and licensing fees is influenced heavily by the economy. These revenues 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. However, although there are some very large projects in the special permit process, the City has seen a recent drop in the number of permit applications and has budgeted accordingly at \$5.9 million.

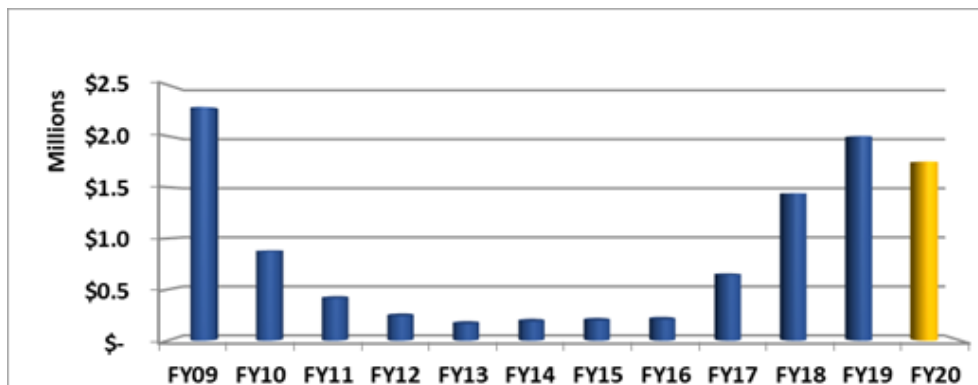
Projected FY20 Revenue from Inspectional Services Building Permitting – Budgeted at \$5.9M – Must remain Conservative



Revenue from Interest

Interest income earned on the City’s financial investments has been as low as \$200,000 over the past several years. However, the Federal Reserve Bank continued to raise rates through 2018 but has signaled that rates may remain stable throughout the remainder of calendar year 2019. Although we believe that FY2019 Revenue from Interest on Investments may be \$2.0 million, we are conservatively budgeting \$1.75 million for the FY2020 budget.

Projected FY20 Revenue from Interest on Investments - \$1.75M



Revenue from Medical and Retail Marijuana Establishments

We are entering a new era with retail marijuana stores in the City. 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 (not medical) 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 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, 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. The Fuller Administration will transparently track both the revenues and related expenditures.

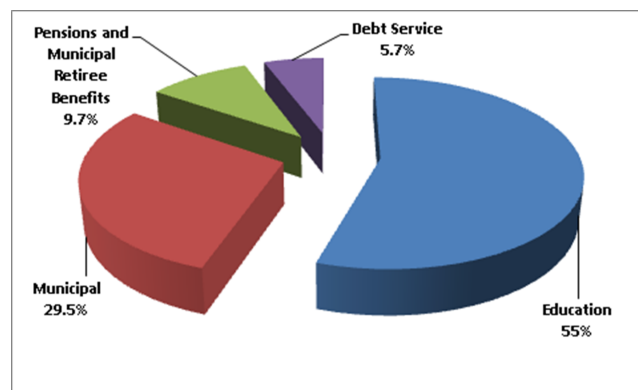
In the very end of Fiscal Year 2018 and thus far in Fiscal Year 2019, the one existing medical marijuana establishment has provided the City of Newton with more than \$170,000 in funds from its Host Community Agreement; these revenues will be expended in Fiscal Year 2020. Looking ahead, we are conservatively building into the FY2020 budget \$140,000 in additional HCA marijuana revenues.

Projected Expenditures – Fiscal Year 2020

To ensure that expenditures do not exceed revenues, the Administration projects revenues conservatively while simultaneously moving toward developing expenditure budget estimates sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year. Although the City has made significant progress in budgeting anticipated expenditures sufficiently, much remains to be done. Therefore, the FY2020 municipal budget includes a significant commitment to funding increases in maintenance of buildings and infrastructure, as well as increased funding to bolster the City’s snow and ice control budget, rainy day reserves, and pension and retiree health care liabilities.

Along with the Newton Public Schools, the City must remain committed to our long-term financial health and to being disciplined in our expenditures. This includes three areas in particular: (1) settling collective bargaining agreements that maintain parity between growth in revenue and expenditures, (2) following the planned funding schedules for pension and retiree health care (a.k.a., OPEB) liabilities, and (3) remaining vigilant in committing to and managing other municipal and school expenditures, both large and small. Fiscal Year 2020 expenditures will total \$430.3 million and are invested as follows:

Projected FY2020 Appropriations Budget - \$430.3 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 makes a significant commitment to the Newton Public Schools in the City’s Fiscal Year 2020 Operating Budget.

In the coming year, it is projected that the Newton Public Schools will serve 12,952 students in fifteen elementary schools, four middle schools, two high schools, two alternative high school programs and an integrated preschool. With the allocation from the Mayor, the FY2020 Superintendent's Proposed Budget is \$236.4 million, an increase of \$8.8 million or 3.9%.

With Mayor Fuller's inclusion of a \$1 million additional appropriation to the base of the School Department budget, an exciting addition to the breadth of programs that the Newton Public Schools (NPS) offers this year is the implementation of the long awaited Full Day Kindergarten program to better serve our youngest students and their families. The introduction of Full Day Kindergarten will have a lasting positive impact for our kindergarten students as teachers implement high quality, research-based early childhood practices that integrate physical, academic, social-emotional, and behavioral development throughout the school day, for our youngest learners. This initiative is made possible with dedicated additional funding to support the specialized new role of Kindergarten Aides working in partnership with Kindergarten Teachers in the classroom and with the close collaboration between our teachers and educators.

The proposed FY2020 NPS budget preserves Newton's commitment to academic excellence and equity for all students. This budget dedicates resources to continue vast and broad programs and initiatives, to maintain favorable and equitable class sizes across the district, and to continue to support a deep array of special education programs. Particular attention is focused on building the capacity to support not just the academic but the social and emotional needs of students as well as implementing promising initiatives to address race and achievement gaps. Altogether, 15.5 new positions are being added. Funds are made available to replenish technology equipment and support technology infrastructure that is critical to teaching and learning in Newton Public Schools. Building maintenance funding of \$3.2 million dollars is increased by 3% in FY2020 to ensure that NPS keeps pace with required upkeep.

No fees in the FY2020 budget are increased. Participation and collections are strong, so, an additional \$180,000 in revenue offsets is available in the FY2020 budget. The NPS budget contains revenues from student user fees paid by parents in the amount of \$905,000 that directly support critical co-curricular and extra-curricular programs. These user fees, which are kept level in the FY2020 budget, continue to be coupled with a highly supportive financial waiver program that emphasizes student participation over fee collection. NPS is strongly committed to reducing the financial barriers to participation for families. Typically 15% of participants receive relief from fees in the form of financial waivers or caps and another 10% typically are not paid in full. NPS has no fixed income cut off in the approval of fee waivers; special circumstances are considered on an individual basis.

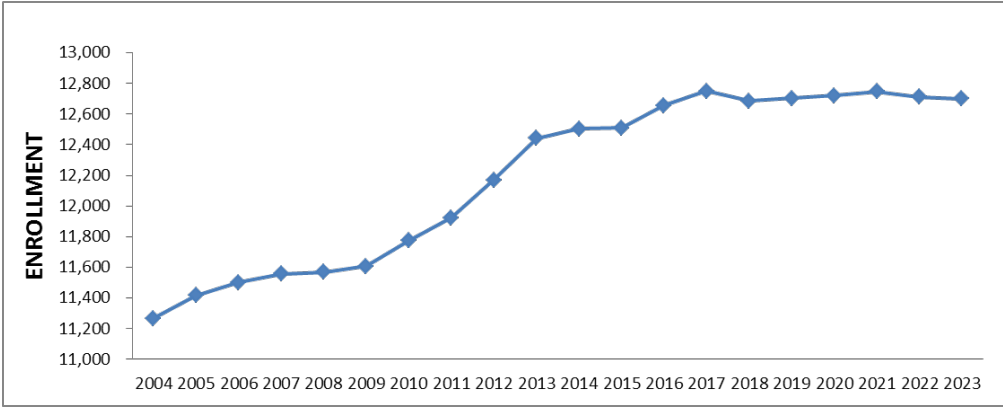
Student Enrollment Trends

The Newton Public Schools are projecting stable enrollments in the next five years citywide, with growth at the high school level offset by decreasing enrollment at the elementary school level. The rate of growth at the secondary level has also diminished from prior enrollment projections. The Newton Public Schools system-wide K-12 enrollment is 12,685 students this year in 2018-19, a decrease of 65 students from last year, ending a thirteen year trend of rising enrollments from 2004 to 2017 when 1,482 students (13%) were added to the system. During this sustained student growth period, every grade cohort experienced growth. The decline this year was caused by a large exiting grade 12 class of 1,006 students that was replaced by a kindergarten class of 848 students, without in-migration in other grades to fill the gap in enrollment. Over the next year, slight growth is projected to return when a smaller grade 12 class graduates than the combined total of the number of projected incoming kindergarteners and students moving into the district. On average, the district has had 1% growth per year since 2004 until this year, which had a -0.5% decline in enrollment.

The current five-year enrollment projections through 2023-24 show that the district is expected to have three small growth years (between 0.1% and 0.2% growth) followed by two years of small enrollment declines. District enrollment is projected to remain relatively stable around 12,725 – 12,850 students in the next five years.

The City and the Newton Public Schools continue to look carefully at enrollment projections. In addition to the annual enrollment analysis, a demographic study has also been completed in April 2019 that includes fertility rates, in-migration, an analysis of empty nest household turnover, construction of new housing units, and home sales. The study projects an increase of 83 students, or 0.7%, between 2018-19 and 2023-24 with total enrollment increasing by another 82 students, or 0.6%, from 2023-24 to 2028-29.

Newton Public Schools – Historical and Projected Enrollment Trends



Long-Range School Facilities Planning

The Newton Public Schools’ Long-Range Facilities Plan is updated annually to take into account changes in enrollment and the need for upgrading the condition and size of schools. Newton is advancing solutions using only Newton funding for Lincoln-Eliot and the Newton Early Childhood Program (NECP). The FY2019 Capital Improvement Plan feasibility and design for Lincoln-Eliot and NECP resulted in two preferred sites at 150 Jackson Road (former Aquinas) and 687 Watertown Street (former Horace Mann) respectively to best accommodate the educational programs for each. Project Feasibility and Design this year and next (FY2019 and FY2020) will proceed to NECP construction in the next two years (FY2020/FY2021) and Lincoln-Eliot Construction following shortly (FY2021/FY2022).

Following the completion of the two year Cabot School construction (students will move to the renovated Cabot this September 2019), the Carr building will no longer be used as swing space and will become the new home of the Horace Mann school community, re-named officially as such.

We are also moving forward with the beginning phase of the renovation of the Countryside Elementary School. We have submitted a statement of interest to the MSBA, the first step in asking for state funding.

Potential residential development and the turnover of homes owned by empty nesters in the next decade could impact multiple schools. The Administration anticipates we will continue Newton’s long-standing practice of balancing enrollment among schools and, when needed, increasing school capacities. The City of Newton will actively continue its proactive planning and evaluation of facilities – both condition and space -- for our elementary, middle and high schools.

Elementary School Student Assignments

The neighborhoods of Newton located north of the Massachusetts Turnpike have the highest density in the City and great socioeconomic diversity. Elementary schools in these neighborhoods have experienced crowding since 2004. Upon Cabot's completion in September 2019, Newton will have made substantial progress in the first five years of its long-range plan to address crowding and inadequate buildings (both condition and size). With the opening of new and expanded facilities at Angier in 2016 and Zervas in 2017, NPS has been able to re-assign students to ease crowding at six other schools.

Another phase of student assignment changes was approved in October 2018 for Cabot that similarly will balance enrollment at adjacent schools. The student assignment process is accounting for residential development that is either underway or has been approved; both the City and NPS will continue to review actively and assess the impact of proposed new residential development.

City Investments in Education

The NPS budget of \$236.4 million is supplemented by an additional almost \$32 million funded by the City in the municipal operating budget. These municipal costs 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, as well as school building water and sewer charges.

Altogether, the City of Newton's commitment to education totals more than \$268 million and accounts for more than 62% of City of Newton General Fund expenditures.

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 every day 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.

The Administration has settled collective bargaining agreements with several of its ten unions through June 30, 2019, while several others expired on June 30, 2018. Unfortunately, one of our Collective Bargaining Agreements (covering 35 employees, the Police Superior Officers) expired on June 30, 2014. Although every effort has been made to reach an amicable settlement, we have been unable to come to agreement. Therefore, this spring, the City and the Newton Police Superior Officers' Association will appear before a tripartite interest arbitration panel of the Massachusetts Department of Labor Relations Joint Labor Management Committee for Municipal Police and Fire.

The Administration will continue to work collaboratively and respectfully with union leadership to develop compensation packages that are fair to the employees and taxpayers alike. This is one of the most important factors ensuring the future financial stability of the City of Newton and an attractive work environment for our employees.

Leap Year

The City of Newton operates on a fiscal year basis beginning on July 1st and ending on June 30th every year regardless of the day of the week. Because actual dates fall on different days of the week each year, it causes the number of days worked during a Monday through Friday period to fluctuate. Therefore, typically the City

must budget for salaries for 52.2 weeks per year. Because the first and last days of each of the two past years have fallen on the weekend, we needed to only budget for 52.0 weeks of payroll. Fiscal Year 2020 not only reverts back to the more common pattern of 52.2 weeks, it will also be a leap year, requiring the City to budget for 52.4 weeks this year. The impact of this may be confusing for those reviewing the budget and for our employees. All salaries will appear to be inflated by 2 days or 1%, with a total budgetary impact of an additional \$600,000 increase in salaries over last year.

Health Insurance Benefits

The City provides health insurance benefits for approximately 2,550 active employees and their dependents, and more than 2,840 retirees and their spouses, for a total insured population of more than 8,600 people. Because the City’s insured population is a substantial size, the City has been able to provide excellent health benefits at a reasonable cost by being self-insured. The cost of a self-insured program is comprised of costs in two main areas: (1) the actual cost of claims, and (2) the administrative fees charged by the health insurance carriers. 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.

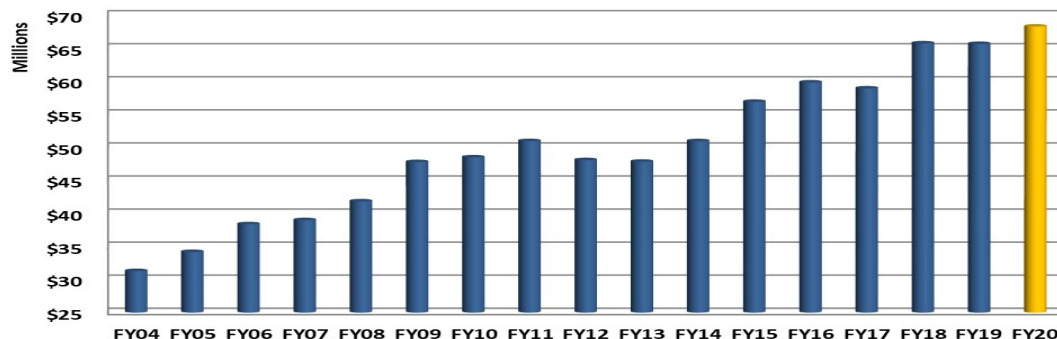
The FY2020 total cost of the City’s Health Insurance is projected to approximate \$68 million comprised of the following:

- City portion of Active Municipal Employees (including Water/Sewer/Storm) \$12.3M
- City portion of Municipal Retirees \$11.4M
- School Department portion of Active School Employees \$24.9M
- School Department portion of School Retirees \$ 7.2M
- Contributions from Active Employee and Retirees \$13.5M

As of February 28, 2019, the City’s Group Health Self-Insurance Fund has reserves of \$14.6 million which is the equivalent of 2.98 months 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.

FY2020 Total Cost of Health Insurance Program ≈ \$68M



Municipal 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 top priority. The Administration has worked diligently to review all staffing levels and is increasing or supplementing staffing only where necessary. While last fiscal year, the City added 8 full time equivalents (FTEs), the result of the review this year has produced a smaller net increase. Key additions are in the following areas:

- | | |
|---|---------|
| ▪ Fire Department – Chief Proia – Emergency Operations through transition | 0.4 FTE |
| ▪ Planning Department – Administrative Assistant | 0.5 FTE |
| ▪ Inspectional Services Department – Development Services Assistant | 0.5 FTE |
| ▪ Public Works – Design Project Manager | 1.0 FTE |
| ▪ Public Works – Parking Ticket Appeals Administrator | 0.5 FTE |
| ▪ Public Works – Deputy Director of Utilities | 1.0 FTE |
| ▪ Parks, Recreation & Culture Department – Administrative Assistant | 1.0 FTE |

Notably, a School Nurse position that has been grant funded for the past 10 years will no longer be funded by that grant, necessitating that the salary and FTE be assumed by the general fund budget. While not a new FTE, this is a new cost to the City. The City will have a net increase of 5.9 FTEs and have a total headcount of 949 FTEs in FY2020.

Retiree Benefits: Pensions and Healthcare

The City of Newton’s current long-term pension and retiree health insurance obligations approximate \$950 million. The City of Newton 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 is non-pension post-employment benefits – retiree health insurance and life insurance. These are known as “Other Post-Employment Benefits” or OPEB.

The City’s commitment to funding long-term retiree liabilities, 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. The Fuller Administration continues to follow an aggressive funding schedule. Unfortunately, due to the poor performance of the City’s investments in the last quarter of calendar year 2018, anticipated full funding of the City’s unfunded pension liability is now projected to have been extended to FY2031 while full funding of the City’s OPEB (Other Post-Employment Benefits) liability is anticipated by the year 2045.

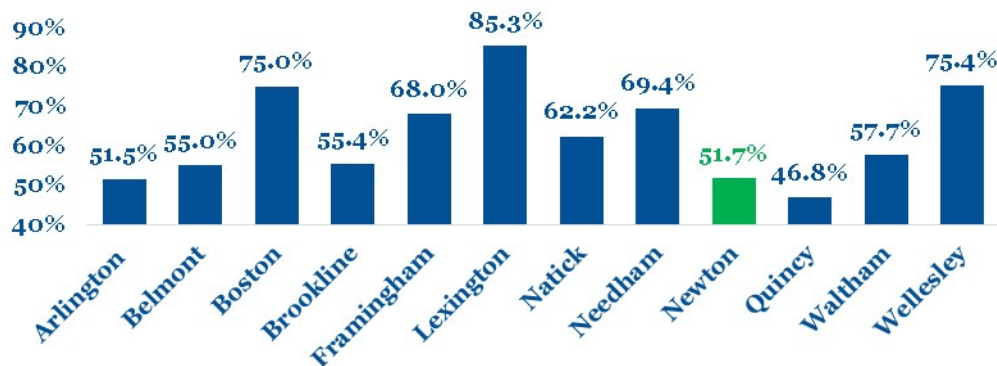
Pensions

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 unfunded actuarial accrued pension liability was approximately 33%. (In other words, the pension liability was 67% funded.) 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 unfunded actuarial accrued liability had reached a high of 49.2% but has now finally begun to decrease slightly and was 48.3% as of January 1, 2018. Although the increase in the unfunded pension liability is not unique to Newton, Newton lags many of the surrounding communities in percent funded for this significant liability.

Percent of Pensions Funded by Community (July, 1 2018)

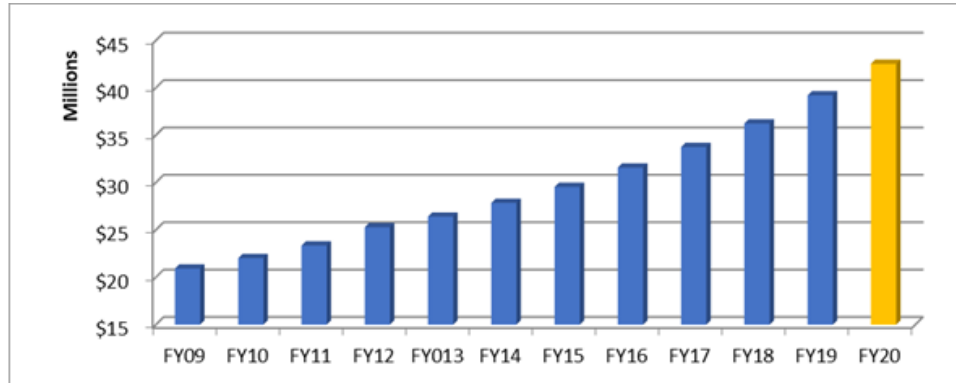


These funding gaps matter. Newton’s employees, like all Massachusetts public employees, do not pay into, nor do they receive, Social Security in their retirement. Police, firefighters, and other Newton employees depend on their pensions for income (and for health insurance) in their retirement. The funding 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 an 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.

As a result of the negative impact to funding ratios in most communities in 2008, the Massachusetts State Legislature passed legislation enabling cities and towns to have until the year 2040 to “fully fund” pension retirement plans. Although the City of Newton extended the time period to fully fund its retirement fund to 2038 when leaders were dealing with the financial crisis of the structural deficit, financial sustainability requires more. In 2014, the City of Newton Contributory Retirement Board, with full support from the previous and current Administration, voted to implement a funding schedule which would fully fund the Newton retirement pension fund by the 2029/2030 timeframe. Although the fund experienced a decline in the 4th quarter of 2018, the Retirement Board recognizes that there will be variations in value over time but remains confident that the

funding schedule should remain in place. Therefore, the FY2020 Budget includes an annual increase of 9.60% in pension funding and a \$2.6 million increase in Pension and the City’s “Pay as You Go” portion of Municipal Retiree Health Care Costs.

FY20 Pension and Municipal Retiree Health Care - \$41.8M



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 all 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.

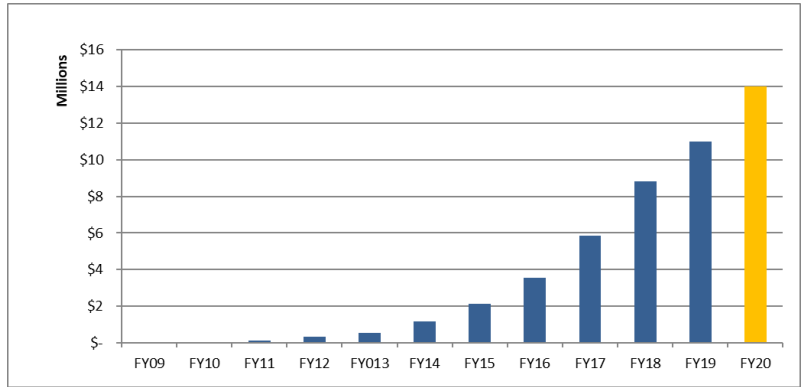
In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

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 will increase the percentage further to 3.6% in the FY2020 budget. This is important to note as the City should be setting aside approximately 8% of the salary of all employees.

Due to the continued addition of employees covered under this methodology as well as the increased percentage, the January 31, 2019 value of the OPEB liability trust fund totaled \$10.1 million and the FY2020 OPEB appropriation has grown to more than \$3.0 million.

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



As of June 30, 2018 the long-term OPEB unfunded liability approximates \$635 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 eleven 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 tax payers to current and future Newton tax payers, 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.

Investing in Capital Infrastructure

One of the top priorities for the leadership of the City of Newton is to maintain and improve its 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 an evolving and 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 FY2020-FY2024 Capital Improvement Plan is a mission and risk-based prioritized list of investments in the capital assets of the City of Newton that 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.

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 taxable value of the real estate tax base). The City’s current (October 2018) equalized valuation is approximately \$30 billion, which means that the current statutory debt limit is approximately \$1.5 billion.

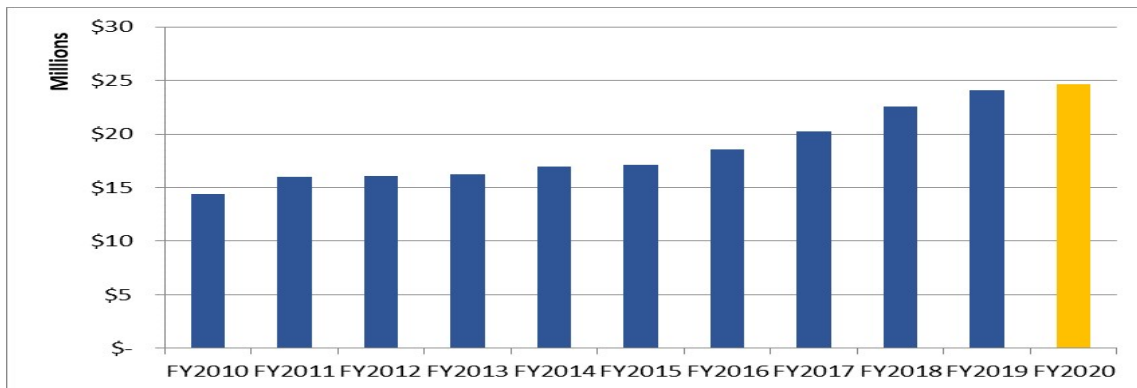
Current outstanding principal of bonded debt is significantly lower and approximates \$335 million or 24% of the City's debt capacity.

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 5.72% of the Fiscal Year 2020 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, 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 the federal Community Development Block Grant (CDBG) funds. Private developers also provide mitigation funds that help with such areas 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 infrastructure.

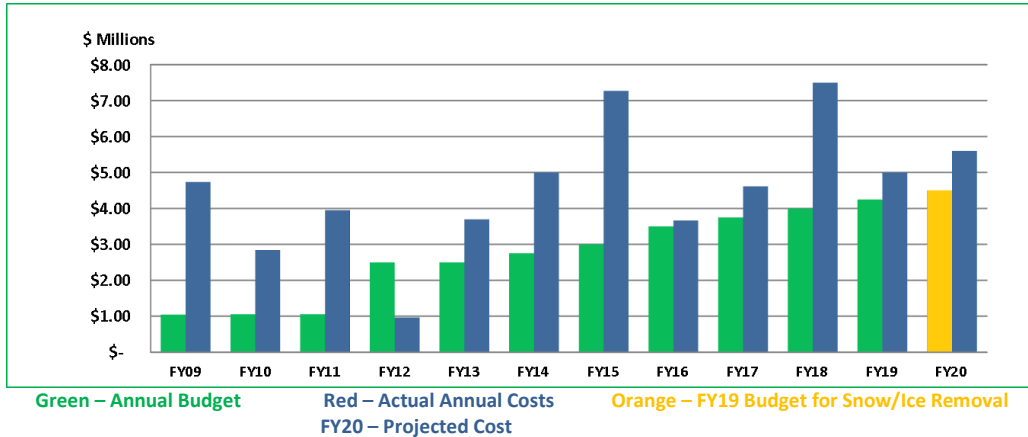
General Fund Projected FY2020 Debt Service - \$24,628,912 – Approx. \$600K Increase



Removal of Snow and Ice

The policy of the Administration is to keep increasing the amount of the snow and ice removal budget (which also includes tree damage from storms) until it equals the average cost of the previous five years. The average of the previous five years is \$5.6 million. The appropriation for FY2020 will increase by \$250,000 for a total of \$4.5 million, or 80% of the average annual cost. We will continue to increase this appropriation each year by \$250,000 until the budgeted amount covers 100% of the average annual five-year cost.

FY2020 Budgeted Reserves for Costs of Snow/Ice Removal



Additional Expenditures Funded in FY2020

Funding for several current, as well as accelerated, initiatives for the maintenance of the City’s infrastructure, commitment to the environment, and the social and mental well-being of Newton’s citizens of all ages are included in the FY2020 Budget. Some of these appropriations are:

Maintenance & Infrastructure

Storm Costs – Snow/Ice Removal & Tree Damage	<u>Increased Appropriation</u>
Public Buildings – Repairs & Maintenance	\$ 250,000
DPW Traffic Calming and Signal Knockdowns	\$ 50,000
Athletic Fields Maintenance	\$ 100,000
	\$ 50,000

Commitment to the Environment

Processing Recyclables	<u>Increased Appropriation</u>
Leasing Electric Vehicle Sedan Fleet	\$ 350,000
Tree Plantings	\$ 160,000
Climate Action Plan – Implementation	\$ 55,000
	\$ 25,000

Commitment to Citizens of All Ages

Transportation – Senior Services	<u>Increased Appropriation</u>
Drug Recognition Expert Training	\$ 100,000
Additional prevention, education, and supportive services around substance use	\$ 25,000
	\$ 45,000

To be more specific about expenditures linked to Host Community Agreement marijuana revenues, with the \$140,000 in funds from the one host community agreement we currently have received for medical marijuana sales, we will fund an additional clinical counselor in our high schools to address both substance abuse prevention and mental health, add training for additional Drug Recognition Experts in our Police Department and, through our Health and Human Services Department, increase community education and prevention drug abuse programming as well as support residents with recovery.

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 Administration, the fund has reached its goal of 5% of the total operating budget. The current fund balance totals more than \$21 million.

As the operating budget grows annually, sustaining the Rainy Day Stabilization Fund at 5% of the budget requires the annual addition of more than \$850,000. Therefore, the City Council has established an Investment Advisory Committee, whose purpose is to advise the City Treasurer/Collector on investment management options that minimize the need for ongoing tax levy subsidies for the City's Rainy Day Stabilization Fund, while maintaining appropriate levels of safety and liquidity, and complying with State law governing the investment of Stabilization Fund assets. This committee has been meeting throughout the past year and continues to study investment strategies.

With a General Fund operating budget of \$430.3 million in FY2020, the total Rainy Day Stabilization Fund is required to be \$21.5 million or an increase of \$890,000. Three different funding sources will be utilized to provide this increase:

- Interest Income earned throughout FY2019 ≈ \$500K
- FY2020 Budget Appropriation - \$150K
- Transfer from June 30, 2018 Certified Free Cash - \$240K

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

The 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 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. Combined revenue for all three services exceeds \$60 million, with more than \$34 million of that payable to the MWRA.

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. That commitment is being continued by the Fuller Administration and is reflected in the FY2020 Budget.

Water Enterprise Fund

The City of Newton has been identifying, evaluating and improving Newton's water main distribution system for many years. In fact, the Newton Fire Department was recently 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 over the last few years 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.

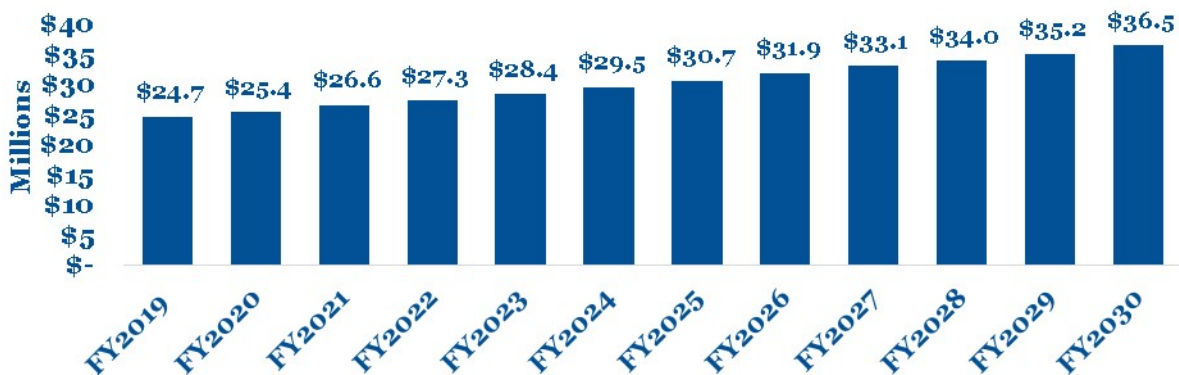
The City recognized the need to increase the renewal of the aging water distribution pipe network, much of which dates back to the 1870's and developed a comprehensive capital improvement program as part of the Water and Sewer Strategic Plan initiative.

From 2013 through 2016, we aggressively targeted water main improvements for fire flow purposes, which 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. FY2020 will be the fourth year of a 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 showing 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, which is supported within the FY2020 Budget.

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.

Water Enterprise Fund Expenditure Forecast



More detailed information on the City's water system infrastructure plan can be found in the City's FY2020-FY2024 Capital Improvement Plan.

Sewer Enterprise Fund

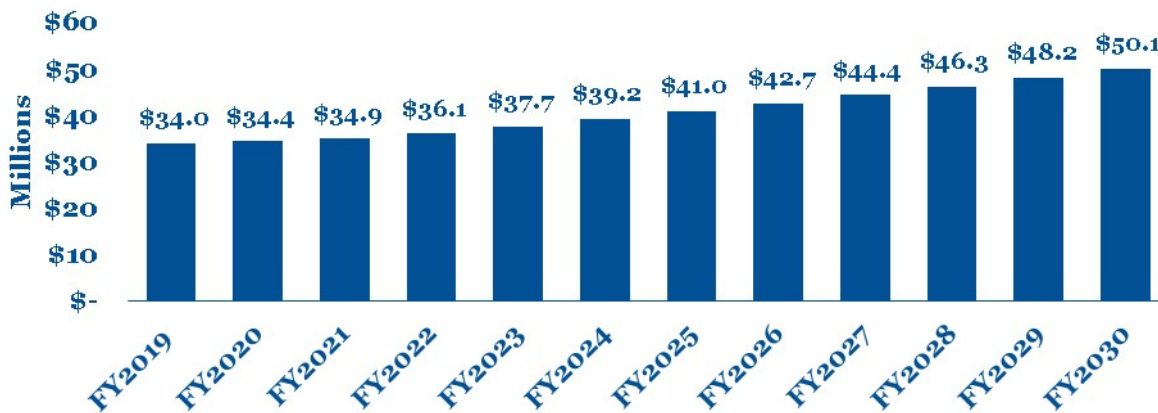
Prior to the development of the City's comprehensive strategic plan for the improvement of the sewer infrastructure, more than 60% of the sewage and wastewater that was sent to the Massachusetts Water Resource Authority (MWRA) for processing by the City of Newton was the result of inflow (stormwater from direct illegal connections) and infiltration (groundwater that seeps into the sewer pipes through cracks and other imperfections). Inflow and infiltration was costing the City in excess of \$5 million per year. Furthermore,

back-ups in the sewer lines due to insufficient capacity with the additional groundwater/stormwater resulted in sewer surcharges from some street and park manholes.

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 MWRA sewer assessment increases that are much lower for Newton than most other MWRA communities, the funding and schedule for this program has been accelerated.

In FY2020, the Department of Public Works expects to complete Post Construction Flow Evaluation in Project Area 5 (Newton Centre/Newtonville & Chestnut Hill), complete Construction in Project Area 6 (Newtonville/Newton Centre/Nonantum & Chestnut Hill), complete Design and start Construction in Project Area 7 (Newton Upper Falls/Newton Highlands & Thompsonville), Complete Inspection and Assessment and Design for Project Area 8 (Upper Falls, Newton Highlands, Thompsonville & Oak Hill). We are currently in year 5 of the 10 year sewer main capital improvement program.

Sewer Enterprise Fund Expenditure Forecast



More detailed information on the City’s sewer system infrastructure plan can be found in the City’s FY2020-FY2024 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 recognized the need to develop a comprehensive plan to identify and address storm water needs throughout the City and to establish a funding plan to accomplish this work. In addition, the National Pollutant Discharge Elimination System (NPDES) MS4 Permit, which is mandated for all communities by the EPA, took effect on July 1, 2018 and will increase requirements for maintaining and improving storm water quality.

In addition to increased catch basin cleaning and street sweeping, the Stormwater Division will be concentrating on two major capital initiatives in FY2020. The rehabilitation of the South Meadow Brook culvert under Needham Street will include removal of sediment, inspection and assessment, design and structural rehabilitation of the culvert. Further, we will complete the Hammond Brook Culvert Rehabilitation Project. The scope of work will include the replacement of 130 feet and lining of 170 feet of vitrified clay pipe in an easement off Glen Avenue, adjacent to the MBTA Green Line Tracks.

Sustainable Budget Strategy

To summarize, a well-managed, fiscally-sound City of Newton is essential to provide exceptional teaching and learning to almost 13,000 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, and perhaps most importantly, we must make smart and sustainable financial decisions to create the funding for thoughtful investments in Newton's future. 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 Fuller Administration's budget proposal, with a budget increase of 4.3% over Fiscal Year 2019, is disciplined; it makes Newton a better city while being mindful of the cost to each Newton taxpayer.

The City of Newton continues to face financial challenges. We still need to invest heavily in pension and retiree health care to fully fund promises we have made. We still need more dollars for infrastructure maintenance, especially our school buildings. We have not set aside enough yet for particularly snowy winters. Additional investments in addressing climate change are still ahead. We have ambitious goals to improve the city which are far ranging, including the desire to invest more in trees and teachers, community policing and community life, athletic fields and artistic endeavors.

As noted last year, such material and numerous ambitions also pose a very real challenge to the financial health and economic sustainability of the City. We must be judicious, ensuring our ambitions do not evolve into unchecked spending.

Achieving each and every one of our objectives is attainable as long as we remain committed to and disciplined in our resolve to settle collective bargaining agreements that maintain parity between the growth in revenue and expenditures on salaries and benefits, follow the challenging but necessary funding schedules for pension and retiree health care liabilities, and remain vigilant in the careful use of every hard-earned taxpayer dollar that has been entrusted to us.