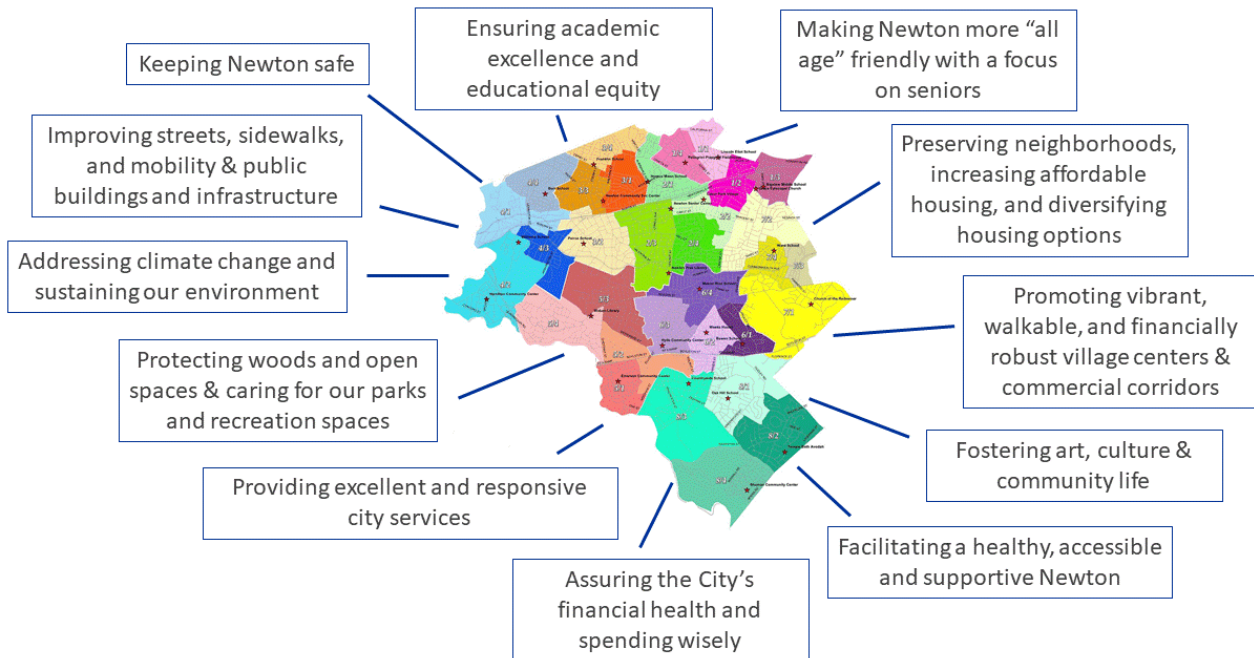


City of Newton Overarching Goals



“We will strive unceasingly to quicken the public sense of civic duty... that we may transmit our city not less, but greater, better and more beautiful than it was transmitted to us.”

***Athenian Ephebic Oath, 4th Century BC
Posted on Newton North High School Wall
Mayor Ruthanne Fuller
January 1, 2018***

CITY OF NEWTON, MASSACHUSETTS **ACHIEVING OUR SHARED GOALS**

As Mayor Ruthanne Fuller assumed the Office of the Mayor of the City of Newton, Massachusetts, on January 1, 2018, she cited the above quote which would set the course and the vision for all that she would look to accomplish during her administration.

“To me, those ancient words resonate today and capture my sense of our mission on this first day of 2018 to build a greater, better and more beautiful Newton to transmit to our children and grandchildren – grounded in our sense of civic duty, inspired by our shared vision, and fueled by our long tradition of working together.”

***Mayor Ruthanne Fuller
January 1, 2018***

It is with that vision that the Mayor has defined the goals that will guide her and her team and will inform every decision made so as to make Newton truly even greater, better and more beautiful than it is today.

Those twelve fundamental shared goals are:

Overarching Goals for the City of Newton

- 1) Ensuring academic excellence and educational equity
- 2) Keeping Newton safe
- 3) Making Newton more “all age” friendly with a focus on seniors
- 4) Improving streets, sidewalks, and mobility & public buildings and infrastructure
- 5) Preserving neighborhoods, increasing affordable housing, and diversifying housing options
- 6) Promoting vibrant, walkable and financially robust village centers & commercial corridors
- 7) Addressing climate change and sustaining our environment
- 8) Protecting woods and open spaces & caring for our parks and recreation spaces
- 9) Fostering art, culture & community life
- 10) Facilitating a healthy, accessible and supportive Newton
- 11) Providing excellent and responsive City services
- 12) Assuring the City’s financial health and spending wisely

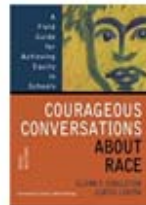
This budget is by necessity organized around departments. Nonetheless, many of these overarching goals will be achieved by employees in many different areas so we begin by highlighting some of the major and new initiatives that the City will undertake in Fiscal Year 2019 to achieve these shared goals.

Major or New Initiatives to Achieve our Shared Goals

Ensuring Academic Excellence and Educational Equity



150 Jackson Road Complex



Cabot School Move-In

- Support our Students, Educators and Staff with Funding and Facilities
- Assist with High School Class Size and Electives
- Foster Connectedness, Physical, Mental and Social Well Being
 - City and NPS increase in School Nurses
 - Additional Support for Social/Emotional Programming (Social Worker, Psychologist, In-District Special Ed)
- Undertake 150 Jackson Road Feasibility Study
- Complete Cabot School and Move-In September 2019
- Increased Building Maintenance Budget for School Buildings, Aged Boiler Replacements, Remote Management of Building System Efficiencies

Keeping Newton Safe



NFD fighting house fire in storm 3/13/18



Comprehensive NPDCrime Stats and Maps



NPD

- Police Command Vehicle - New NPD software system - Active Shooter Training
- Radios for Police & Fire - Improved Radio Communications across City and Schools
- Full staffing in Fire – increased by 12 during past 2 years with Tech Rescue Truck
- Gear Replacement Program and Training in Fire Department
- Staffing for Details for Construction/Paving Projects
- Effective Emergency Response Coordination at EOC with City Departments
- Expanded use of Mobile Technology in Fire Response and Fire Prevention

Making Newton More “All Age” Friendly with a Focus on Seniors



- Undertake the Feasibility Study for the new facility – “Newton Center for Active Living”
- Increase Transportation Funding to better enable Seniors to get to Programs and Services
- Improve Maintenance of Senior Center
- Expand Parks & Rec Department activities – Cornhole, Pickle Ball, Exercise Stations on walking trails at Cold Springs Park
- Help Seniors afford to stay in Newton by expanding Senior Property Tax Deferral Program

Improving Streets, Sidewalks, and Mobility & Public Buildings and Infrastructure



West Newton Square Design Plans

- West Newton Square: Safety for Car/Bike/Pedestrian Travel, Village Feel
- Newtonville: Walnut Street Improvements
- Newton Corner: Landscaping, Curb Cuts, Pedestrian Signal and Sidewalk Upgrades
- Increase miles of Marked Bike Lanes
- Finish Street Design Guide for City-Wide Use
- Introduce Newton Dockless Bike-Share Program July 2018

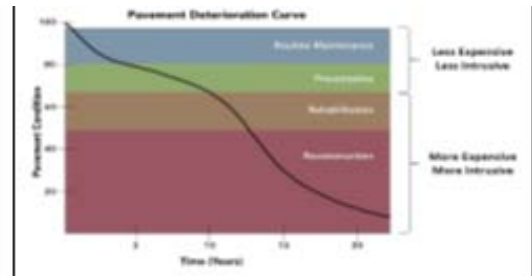
Improving Streets, Sidewalks and Mobility & Public Buildings and Infrastructure



Accelerated PMP



Street Scan Analysis of Road Conditions for Prioritization



- FY19 Accelerated Pavement Management Program
 - Mill & Overlay: \$5.4 M
 - Reclaim or Cold-in-Place: \$1.4 M
 - Safety Repairs: \$1.8 M
- Continue \$9.5 million on Accelerated Pavement Management Program
- Concurrently – 7.3 miles of Sidewalks, Curb Ramps, New or Reset Curbing, Street Tree Work
- New/Increased Funding for Pavement Markings, Street Light Repairs, Traffic Signal Repairs

Improving Streets, Sidewalks and Mobility & Public Buildings and Infrastructure



Water Valve Replacement



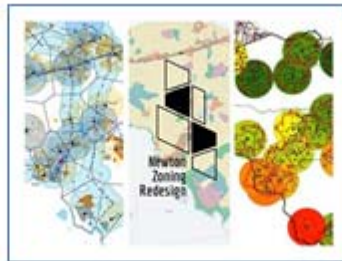
Box Culvert Installed for Laundry Brook at Cabot School



Replacing Tuberculated old water mains

- Invest in Water, Sewer, Stormwater Capital Plans
- Refine New Stormwater SIP Plan
- Work Aggressively with homeowners to finish Lead Service Line Replacements
- Invest more in Building Maintenance
- Take Significant Steps Forward on Buildings: 150 Jackson Road/Aquinas, Lincoln Eliot, Newton Center for Active Living, 1294 Centre Street, Possible Police HQ Project

Preserving Neighborhoods, Increasing Affordable Housing, and Diversifying Housing Options



- Present New Zoning Ordinance to City Council
- Develop Consensus Plan for increasing Newton's Housing Options
- Complete Crescent Street Affordable Housing Initiative along with Long-Term Funding Mechanism for Future Affordable Housing
- Amend Inclusionary Zoning Ordinance to Increase Percentage of Affordable Units
- Renew Newton Housing Partnership

Promoting Vibrant, Walkable and Financially Robust Village Centers and Commercial Corridors



Newtonville Center - Walnut St. Redesign



Newton Nexus Development

- Washington Street Community Based Planning and Zoning
- Needham Street Visioning Project
- Newtonville Center – Walnut Street Redesign
- Improvements to Municipal Parking Lots
- Austin Street and Washington Place Neighborhood Liaison Groups
- Re-Imagining 1294 Centre Street (old Newton Centre Library building)
- Employ Economic Development Strategies to Increase Commercial Tax Base

Addressing Climate Change and Sustaining our Environment



NSHS Solar Canopies



Nissan Leaf with Charger

- Launching “Newton PowerChoice” – Citywide Municipal Aggregation Program – Clean Power
- E-Vehicles – Purchasing 3 and initiating All Electric Motor Pool Replacement Program
- Environmental Affairs – Additional Staffing & Curbside Organics Collection Pilot
- Green Communities Grant – LED Lighting Upgrades in City/School Buildings
- Phase 3 Solar – Installations on Additional Municipal Facilities
- Lincoln-Eliot School HVAC Improvements
- MSBA Request for Bigelow and Day Middle School Boiler Replacements
- Implement Climate Vulnerability Plan and Develop Climate Action Plan

Protecting Woods and Open Spaces & Caring for our Parks and Recreational Spaces



Storm damage to trees, need for increased plantings

Waban Hill Reservoir Park Area

- Work with Advisory Panel to preserve Webster Woods
- Increase funding for Street Trees
- Start Waban Hill Reservoir Improvements
- Improve Trails at Kessler Woods
- Continue Playground Upgrades
- Improve implementation of new Leafblower Noise Ordinance, with improved Public Outreach

Fostering Arts, Culture and Community Life



- Start Strategic Plan for Cultural Development
- Open New Teen and Tween Room at Library
- Evaluate options for Children's Room at Library
- Match Cultural Arts Grant
- Foster a Welcoming, Inclusive Newton

Facilitating a Healthy, Accessible and Supportive Newton



- New Social Worker to Work Across the Lifespan, with Substance Use Disorder Expertise, and to Provide Outreach to Vulnerable Residents
- New Pilot Summer Food Program for Income Eligible Families - Target 200-300 Families - Backpacks with Staples
- Increase focus on Opioid Addiction Services
- Continue Accessibility Improvements, including Playgrounds

Providing Excellent and Responsive City Services



Mayor and City Hall For Pats Event



Newton Free Library - #1 in State



Mayor with DPW Team after January Ice Storm Response

- Human Resources – New Director - Funding for Training and Support
- Negotiate Fair Collective Bargaining Agreements
- New FTE's - Law Department Litigator – and Paralegal for New FOIA Laws and Succession Planning for Key Law Retirements
- Migrate General Ledger and Citywide Financials to MUNIS
- Improve 311 Coordination and Response with Departments

Assuring the City's Financial Health and Spending Wisely



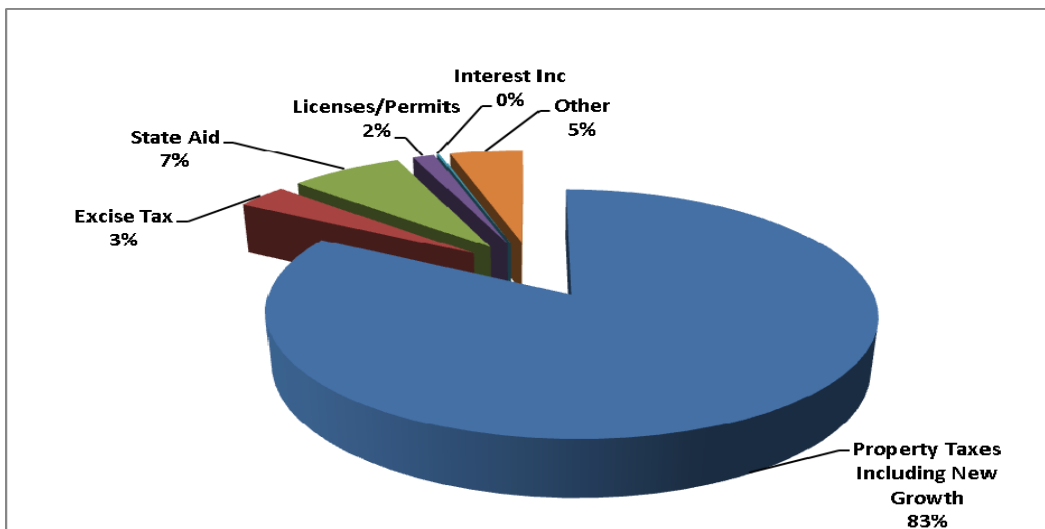
- Continue Aggressively funding Pensions
- Increase OPEB funding to 3.5%
- Increase Snow Budget
- Fund Rainy Day Reserves
- Prioritize Operating & Capital Expenditures: We Cannot Do Everything Immediately
- Match Salaries and Benefits to Revenues
- Find Efficiencies and Savings – Electricity, Fleet, Phones . . .

Budget Analysis by Revenues and Expenditures

Projected Revenue- Fiscal Year 2019 (FY19)

The Administration's policy is to project revenues both carefully and conservatively so we do not overestimate. Fiscal Year 2019 Revenue is projected to total just over \$412.5 million, a \$17 million or 4.35% increase over the FY18 original budget. This increase includes an additional \$15.3 million from property taxes and an additional \$1.2 million of state education and unrestricted aid.

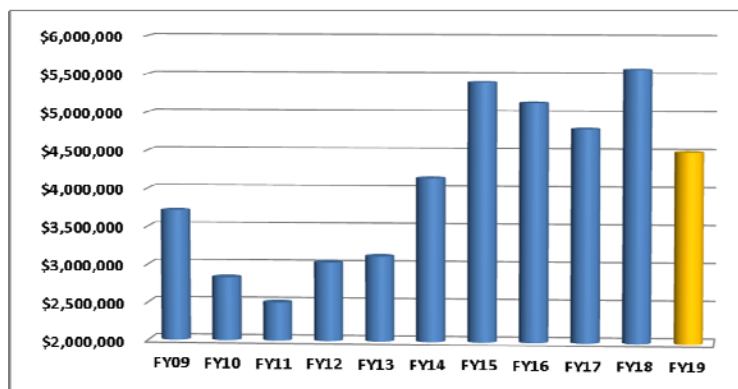
Projected FY19 Revenue Sources - \$412.5M



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. FY19 property tax revenue is estimated to total \$342 million including the 2½ percent increase over last year as well as a projection of \$4.5 million from “new growth or redevelopment.” Notably, the 15 year average annual increase of growth and redevelopment as a percent of the tax levy is 1.4% and this year the projection is 1.36%. In addition, Newton voters passed two debt exclusion overrides in 2013 to fund the Angier and Cabot buildings and that debt exclusion debt service revenue amounts to \$3 million.

**Projected FY19 Revenue from
New Growth and Redevelopment - \$4.5M**



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 increase property tax revenue from new growth and redevelopment where appropriate. Toward that end, the Administration is making significant investments in village center streetscape projects in both West Newton Square and Newtonville. These projects are specifically designed to enhance the village character and experience by providing a safer, more walkable and bikeable environment to be complemented by improved lighting and the addition of street trees and sidewalk furniture.

Under Mayor Fuller, the Administration is also focused on a pro-active planning approach to clearly articulate the City’s vision for economic development. Examples of this pro-active approach include the delivery of a draft Newton Zoning Ordinance to the City Council in the fall of 2018, the formulation of an economic development strategy to be completed by the summer of 2018, the completion of a vision plan for the Needham Street area by June 2018, and the initiation of a community-based master plan for Washington Street from West Newton to Newton Corner beginning this spring.

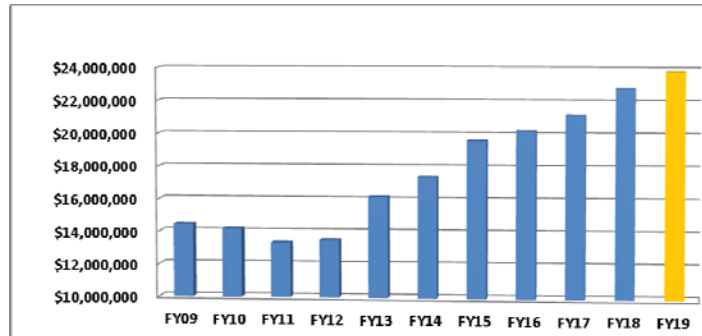
The Mayor will work closely with the Newton Economic Development Commission to build on Newton’s successes including the recent accreditation of Newton as a gold level community for life science companies. Efforts will continue in marketing both Wells Avenue and the N2 District as a place for businesses 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.

While the administration is in the process of developing both Marijuana Ordinances and Host Agreements, there is such a high level of uncertainty that we did not build this revenue stream into the FY19 Budget.

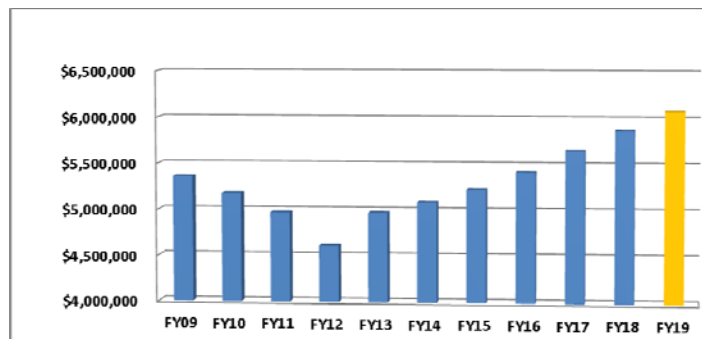
Revenue from State Aid

As a result of the recession in 2008, state aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2012. As represented in the charts below, starting in FY13 the next six fiscal years have seen an increase in the amount allotted to the City from the Commonwealth. The Fiscal Year 2019 Budget for total State Aid has been increased from the previous year budget by \$1.27 million for a total of more than \$29M. The Governor's Proposed FY19 Budget includes an increase of just over \$1 million for Chapter 70 State Education Aid and an additional \$205K for Unrestricted Government State Aid.

Projected FY19 Chapter 70 State Education Aid – Governor's Budget Increase of \$1.02M (4.5%)



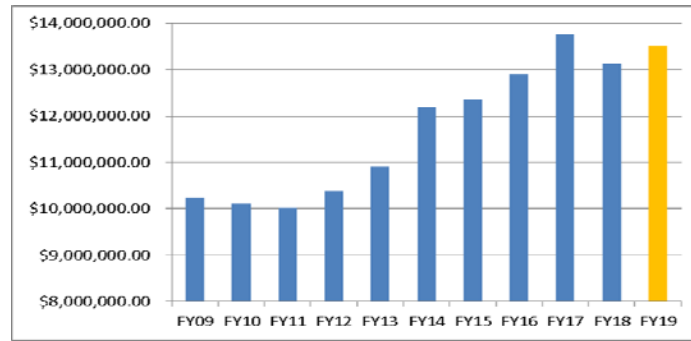
Projected FY19 Unrestricted General State Aid – Governor's Budget Increase of - \$205K (3.5%)



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 FY17. While there was significant pent-up demand as a result of the great recession of 2008, that demand has somewhat stabilized so total excise revenue for FY19 is projected at \$13.5 million.

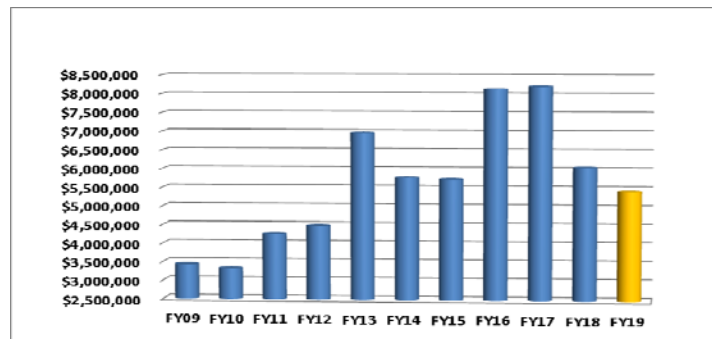
Projected FY19 Revenue from Excise Taxes – Increase \$375K (2.9%)



Revenue from Inspectional Services Building Licenses and Permits

Revenue from permitting and licensing fees is dependent upon the economy. These revenues saw a decline from Fiscal Year 2008 through Fiscal Year 2010. With the improvement of the economy and the City’s promotion and facilitation of large economic development projects, including Chestnut Hill Square and “The Street” along Route 9, the City saw a sizable increase in the total revenue collected since FY13. Unprecedented numbers of building permit applications continued through FY17. However, the City has seen a recent drop in the number of permit applications and has budgeted accordingly at \$4.5 million.

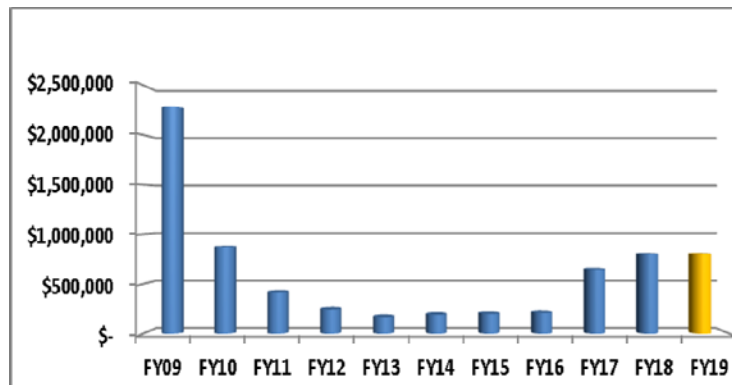
Projected FY19 Revenue from Inspectional Services Building Permitting –
Decreased Forecast of \$628K (10.3%)



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 has continued to raise rates in recent months and has signaled that the economy may warrant small interest rate increases in the future. Therefore, the City has budgeted a slight uptick in this revenue stream.

Projected FY19 Revenue from Interest on Investments - \$800K

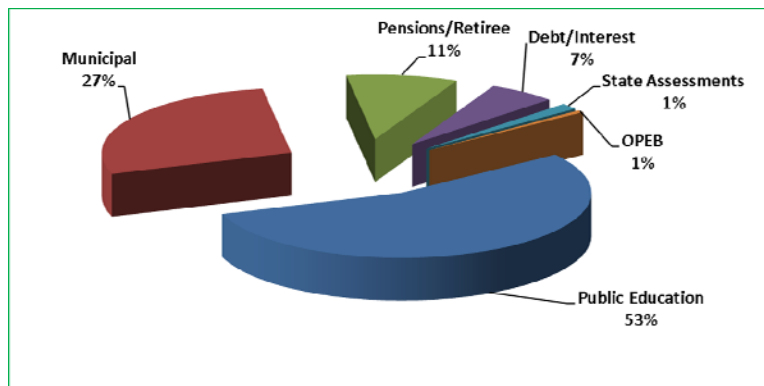


Projected Expenditures – Fiscal Year 2019

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 this endeavor, much remains to be done. Therefore, the FY19 municipal budget includes a significant commitment to funding increases in building maintenance and infrastructure, as well as increased funding to bolster the City’s snow 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 revenue and expenditures, (2) following the planned funding schedules for pension and OPEB liabilities, and (3) remaining vigilant in committing to and managing other large municipal and school expenditures. Fiscal Year 2019 expenditures will total \$412.5 million and are invested as follows:

Projected FY19 Appropriations Budget - \$412.5 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 the community. Therefore, inherent in the City’s Fiscal Year 2019 Operating Budget, is the Mayor’s commitment to the Newton Public Schools.

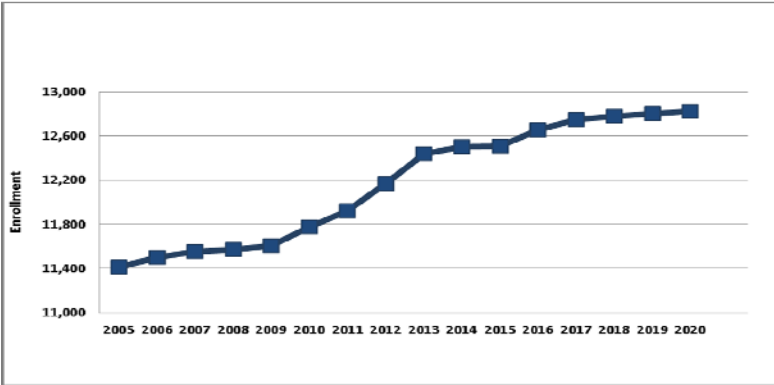
In the coming year, it is projected that the Newton Public Schools will serve 13,171 students in fifteen elementary, four middle, two high schools, two alternative high school programs and an integrated preschool. The FY19 Superintendent’s Proposed Budget is \$227.5 million, an increase of \$8.4 million or 3.8%.

The proposed FY19 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 continues 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 over \$3 million dollars is increased by 3.5% in FY19 to ensure that the NPS keeps pace with required upkeep.

The NPS budget contains revenues from student user fees paid by parents in the amount of \$832,000 that directly support critical co-curricular and extra-curricular programs. These user fees, which are kept level in the FY19 budget, are 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 continue to see enrollment growth citywide but the rate of growth has diminished dramatically. Net growth of approximately 1,240 students from 2004-05 through 2015-16, an increase of 11%, initially affected the elementary schools and additional students subsequently started to arrive at the middle schools in 2008-09 and the high schools in 2010-11. The growth trend leveled slightly in 2015-16, with an overall increase of only 5 students, but picked up again in 2016-17 and 2017-18, with an overall increase of 149 students and 93 students, respectively, mostly at the high school level. Over the next five years, a small increase of approximately 73 students, or 0.6%, is projected. Growth is expected at both the middle and high school levels, as larger grade cohorts continue to move up from the elementary and middle schools.

Newton Public Schools – Historical and Projected Enrollment Trends



Long-Range Elementary Facilities Planning: 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. The FY19 Plan includes the submission of the MSBA Statement of Interest for a renovation/addition for Lincoln-Eliot and the Newton Early Childhood Program at 150 Jackson Road/former Aquinas building. If accepted, the Lincoln-Eliot project feasibility and design (FY19 & FY20) would proceed with construction in FY21 through FY23.

The City of Newton has simultaneously established a 150 Jackson Road Working Group to determine what the program needs are and the work needed at that facility. The Working Group will meet during 2018 to advance potential local solutions in the absence of a MSBA partnership; this planning is critical to keep Newton on track with investments in our school buildings in general and Lincoln-Eliot in particular.

Following the completion of the two year Cabot School construction (students will move to the renovated Cabot in September 2019), the Carr building will no longer be used as swing space but instead will become the new home of the Horace Mann school community. Following these moves, the long-range plan sequences a joint feasibility study for both Countryside and Franklin to determine the strategic priority for a mid-sized renovation.

Potential residential development in the next decade could impact multiple schools, including Countryside and Franklin. It is anticipated that enrollment changes will be a factor in the joint feasibility study. The City of

Newton has launched proactive planning processes for the city, which will be helpful in assessing the facilities plans for our elementary, middle and high schools.

Elementary School Student Assignments: The neighborhoods of Newton 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. 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. A student assignment review process is currently underway for Cabot that similarly will ease crowding 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 proposed new residential development.

City Investments in Education: The NPS budget of \$227.5 million is supplemented by an additional \$29.7 million spent on the City side. These costs include school project debt service, pension and retiree health care for certain school employees, school health/nurse services, school crossing guards, school property insurance, and school building water and sewer charges.

Altogether, the commitment to education totals more than \$257 million and accounts for more than 62% of City of Newton General Fund expenditures.

Commitment to Services

Salaries and Compensation

This Administration is deeply grateful to the more than 940 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 73% of the municipal operating expenditures (excluding retiree pensions and health benefits, debt service, and state assessments), and are consequently the single most important cost element. The Administration has collective bargaining agreements with all but two of its ten unions and the remaining eight expire on June 30, 2018. One of the two unsettled agreements (covering 35 employees, the Police Superior Officers) expired on June 30, 2014 while the other (covering approximately 180 employees who work for the Department of Public Works, Parks & Recreation, and Public Buildings) expired on June 30, 2017.

The City will continue to negotiate with the two remaining groups and will enter into talks very soon for the FY19 – FY21 time period with all other groups. The Administration will 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.

Health Insurance Benefits

The City provides health insurance benefits for almost 2,500 active employees and their dependents, and more than 2,800 retirees and their spouses, for a total insured population of more than 8,600 members. Because the City's insured population is a substantial size, the City has been able to provide excellent health benefits at an attractive cost by being self-insured. The cost of a self-insured program is comprised of costs in three main areas: (1) the actual cost of claims, (2) administrative fees charged by the health insurance carriers, and (3) the cost of an excess policy to protect the City from exposure to unusually large claims (greater than \$300,000). Rather than paying "premium" rates, the City works with its insurance carriers to develop "working" rates. These working rates are projections of costs. If actual costs are less than projected, the City "saves" money.

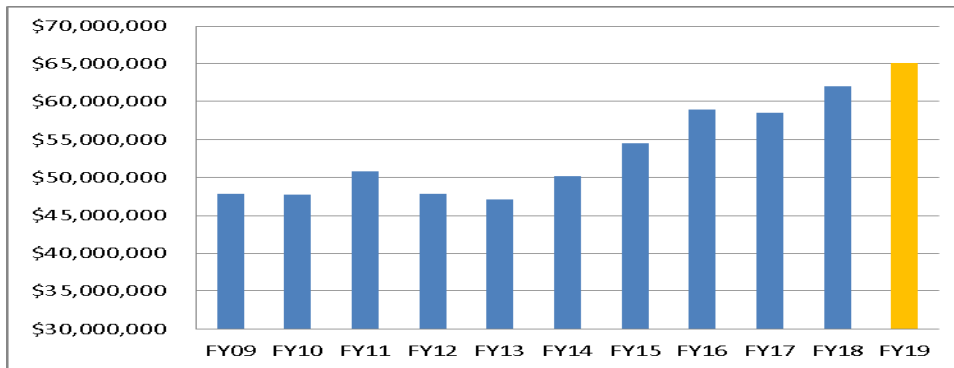
Conversely, if the actual costs are more than projected, the City must pay the difference. In order to do this, the City maintains a Health Insurance Trust Fund to manage any variances between the projections and actuals.

The general fund city share of the health insurance working rates for our active municipal employees in FY19 is projected to be \$10.5 million, 15% of the proposed salaries, wages and compensation.

As of December 2017, the City’s Group Health Self-Insurance Fund has reserves of \$15.9 million which is the equivalent of 3.3 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 (G.I.C.) 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.

Total Cost of Health Insurance Program



Municipal Personnel

Funding appropriate staffing 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 15.9 full time equivalents (FTEs), the result of the review this year has produced a smaller net increase when combined with reductions. Key additions are in the following areas:

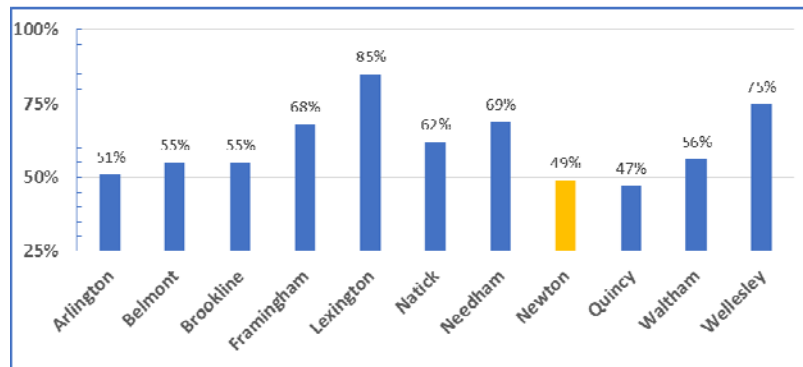
- Law Department – Litigator 1.0 FTE
- Law Department – Paralegal – to comply with the Freedom of Information Act 1.0 FTE
- Information Technology – MUNIS Migration 0.5 FTE
- Planning – Director of Transportation Planning (added in FY18) 1.0 FTE
- Public works – Admin Assistant – Vehicle Maintenance 0.5 FTE
- Public Works Engineering – Survey Technician 1.0 FTE
- Public Works – Sustainable Materials Management (Recycling and Solid Waste) 1.0 FTE
- Health & Human Services – Social Worker 1.0 FTE
- Health & Human Services – School Nurse 1.0 FTE

Notably, two School Health Aides are being upgraded to School Nurses, with no change in FTEs, but increasing the level of service. Additional hours have been added to some other part-time positions in several departments as well as reductions in the Mayor’s Office (.5 FTE), the elimination of a temporary Jr H.R. Coordinator in the Human Resources Department, and the elimination of 1 temporary FTE in the Police Department. The City will have a net increase of 6.5 FTEs and have a total headcount of 945 FTEs in FY19.

RETIREE BENEFITS: PENSIONS AND HEALTH CARE

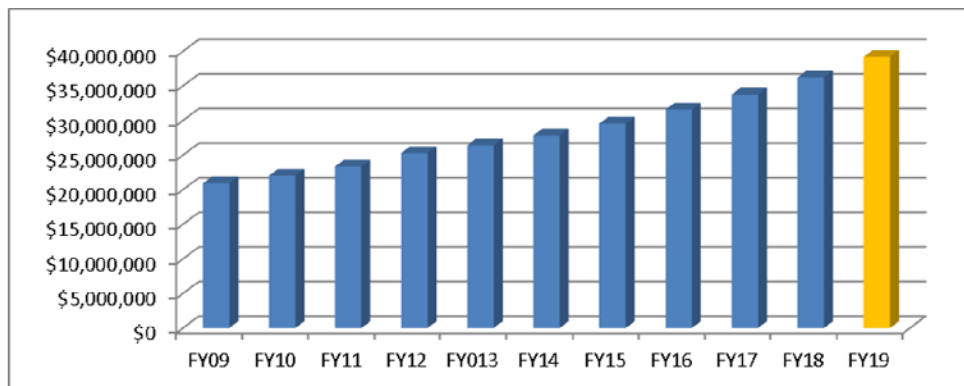
Pensions and the Newton Contributory Retirement System: The City of Newton Contributory Retirement Plan, our pension system, covers more than 3,500 active, inactive, and retired employees. Prior to the 2008 downturn in the economy, the unfunded actuarial accrued liability was approximately 33%. However, as a result of the significant loss in the stock market experienced by the investments by the fund in the years of the “great recession” combined with the increased life expectancy of Americans in general and our retirees in particular, the total unfunded actuarial accrued liability had reached a high of 49.2% but has now finally begun to decrease slightly and was projected at 48.3% as of January 1, 2018. Although the increase and the size in the unfunded liability is not unique to Newton, Newton lags behind many of the surrounding communities in the percentage funded for this significant pension liability.

Pension System Funding Percentage by Community – 2016/2017



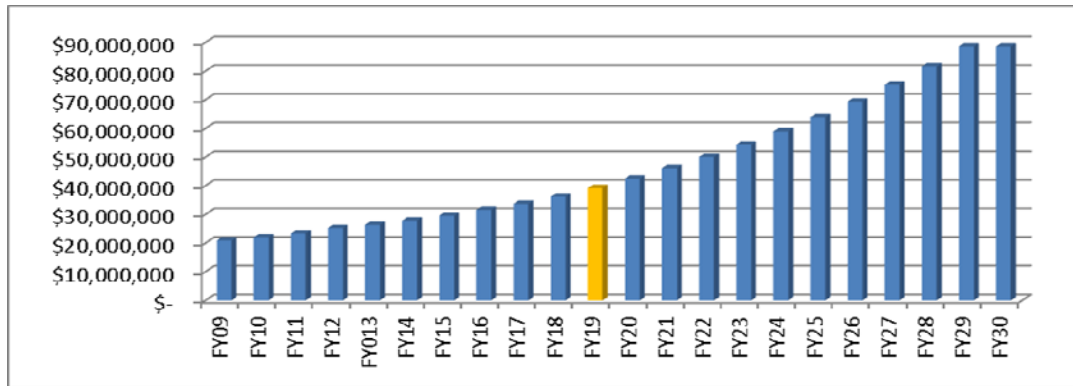
As a result of the negative impact to funding ratios in most communities, the Massachusetts State Legislature passed legislation enabling cities and towns to have until the year 2040 to “fully fund” retirement plans. Although the City had extended the schedule to fully fund its Retirement Fund to 2038 when leaders were dealing with the financial crisis of the structural deficit, financial sustainability requires more. Therefore, the City of Newton Contributory Retirement Board, with full support from the Administration, voted to implement a funding schedule which will fully fund the Newton Retirement Fund by the year 2030. The FY19 Budget includes an increase of 9.60% or \$2.6 million in support of this decision.

FY19 Pension and Retiree Health Care



Accomplishing this task will not be easy and will require a 9.6% annual increase in this appropriation through the year 2030. This will cause the current pension appropriation of \$28.3M to grow to \$70.5M over the next 11 years and will result in total pensions and retiree health care expanding from the current 11% of the overall budget to 15% of the overall budget.

Projected Pension & Retiree Benefits through Pension System Full Funding



Retiree Health Insurance Benefits or Other Post-Employment Benefits (OPEB)

In addition to pension obligations, the City of Newton - similar to all other municipalities in Massachusetts - provides healthcare insurance to retirees. The Commonwealth prescribes the minimum percentage (50%) that a city or town must contribute towards retiree healthcare insurance and the minimum level of benefits. The City of Newton provides 80% which is more than the minimum required level of contributions and benefits.

In contrast to pensions, the state does not require pre-funding for retiree healthcare and life insurance benefits. The City of Newton began to pre-fund these benefits in 2010. As of April 15, 2018, the City’s OPEB Trust Fund has a balance of \$8 million and the FY2019 budget contains a total appropriation of approximately \$2.5 million.

However, this long-term liability now approximates \$600 million. Instead of pre-funding, most municipalities use a policy of pay-as-you-go for retiree healthcare insurance benefits. In other words, the city or town pays the cost of healthcare insurance benefits for retirees from current operating revenues as those benefits come due. Since Newton is still setting aside a very small portion of its liability, the city’s policy is primarily pay-as-you-go.

The way that the City has dealt with each of these significant long-term 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; these costs have been accrued over the past several 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.

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 this irrevocable, dedicated trust fund as a vehicle to make advance contributions for retiree health care benefits.

The FY14 Budget included the set aside of 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 percentage of the salary has been increased from 3.25% to 3.50% of those employees beginning to take health insurance since July 1, 2012. This is important to note as the City should be setting aside approximately 8% of the salary of *all* employees. Due to the continued increase in employees covered under this methodology as well as the increased percentage, the FY19 OPEB appropriation will be approximately \$2.5 million. The Administration intends to continue the policy of “pay as you go” for all OPEB liabilities for current and former employees but will simultaneously continue to increase the percentage of the salary going into the OPEB Trust Fund in order to currently fund more of the health insurance benefits our current employees will receive when they retire.

The current policy calls for a significant increase in the OPEB funding in the year 2030. With the projected full-funding of the Newton Contributory Retirement Fund (the pension fund), the City will then be able to repurpose the pension liability appropriations to the OPEB Trust Fund, thereby fully funding the OPEB liability in the following twelve years.

In the coming months, the Administration intends to review this OPEB funding strategy, as well as the overall financial strategy of the City for the coming decades, to see if an alternative would be preferable.

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 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 FY19-FY23 Capital Improvement Plan is a risk-based prioritized assessment of the capital needs of the City of Newton. Creating and organizing the City’s objectives involves a holistic evaluation of all assets and their life expectancy, the needs of each department, and the value of all projects to the city. This results in a plan put into a financial context by which to evaluate investments over the next five years.

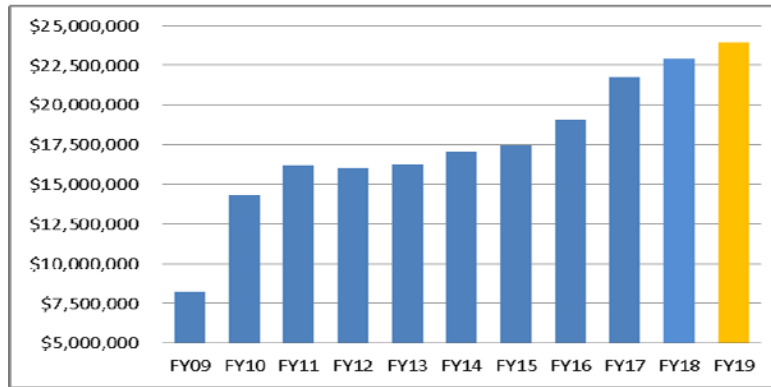
Debt Service

Both Moody’s Investors Service and Standard and Poor’s have awarded the City of Newton a “Aaa” and “AAA” respectively in their most recent ratings of the City’s financial position – the highest possible from each of these distinguished institutions.

Additionally, the City has established a Debt Management Policy as recommended by the ratings agencies and the Government Finance Officers Association (GFOA) which includes a self-imposed 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 is 5.8% of the FY19 Municipal Operating Budget.

The FY19 appropriation for debt service is \$24.1 million, a \$1.17 million or 5.1% increase over the current year.

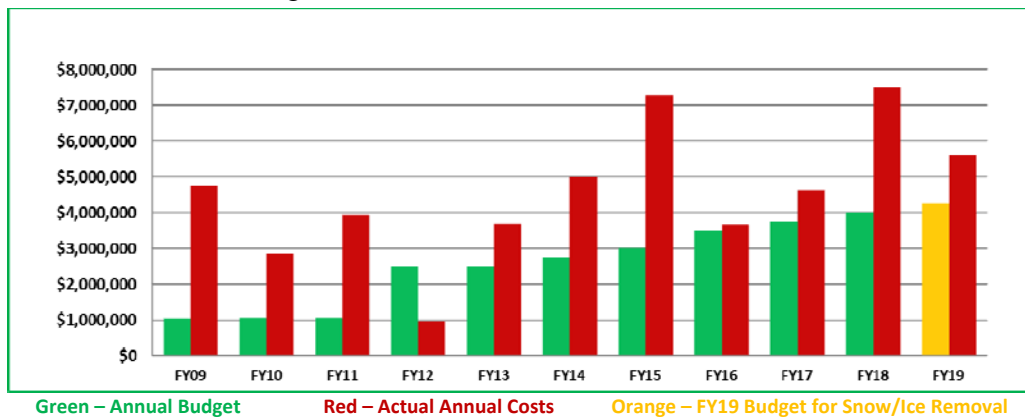
Projected FY19 Debt Service - \$24,088,174 – Approx. \$1M Increase



Removal of Snow and Ice

The policy of the Administration is to keep increasing the amount of the snow and ice budget until it equals the average cost of the previous four or five years. The average of the previous four years is \$5.6 million. The appropriation for FY19 increased by \$250,000 to \$4.25 million so we continue to have work to do to move to the appropriate level. Notably, perhaps due to climate change, we have experienced our two highest years of snow and ice removal costs recently, in FY15 and this year, FY18. When the costs of forestry of \$1 million from the tree damage experience this season are included in the FY18 storm costs, we may exceed the FY15 costs.

FY19 Budgeted Reserves for Costs of Snow/Ice Removal



Additional Expenditures Funded in FY19

Funding for several current, as well as accelerated, initiatives for the maintenance of the City’s infrastructure are included in the FY19 Budget. Some of these appropriations are:

<u>Appropriation/Category of Expenditure</u>	<u>Increased Appropriation</u>
Storm Costs – Snow/Ice Removal & Tree Damage	\$ 250,000
Public Buildings – Repairs & Maintenance	\$ 160,000
Fleet – Repairs, Maintenance & Replacements	\$ 255,000
Pavement Markings, Traffic Calming, etc.	\$ 120,000
Grounds Maintenance & Forestry	\$ 205,000

Additionally, the FY19 Budget demonstrates a commitment to the social and mental well-being of Newton’s citizens of all ages as recognized with the following increased appropriations:

<u>Appropriation/Category of Expenditure</u>	<u>Increased Appropriation</u>
Transportation – Senior Services	\$ 35,000
Restoration of Afternoon Custodian – Senior Center	\$ 20,000
Health & Human Services – Social Worker	\$ 100,000
Increased Hours Health & Human Services Programming	\$ 35,000
School Nurses - 3	\$ 125,000
Summer Food Program for Qualifying Students	\$ 50,000

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 \$20 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 \$412.5 million in FY19, the total Rainy Day Stabilization Fund is required to be \$20.6 million or 5% of the budget.

Sustainable Budget Strategy

In order for the City’s budget and financial plan to remain sustainable, City Leaders must remain steadfast in their determination to balance revenue and expenditures while addressing infrastructure needs, providing for the functions of government, fully funding all liabilities, and developing and maintaining an appropriate level of reserves. Achieving these objectives is attainable as long as the City remains committed to and disciplined in its resolve to settle collective bargaining agreements that maintain parity between revenue and expenditures, follows the planned funding schedules for pension and OPEB liabilities, and remains vigilant in its oversight of every hard earned taxpayer dollar that has been entrusted to it in order to provide the level of municipal services that the people of Newton expect and deserve. By following these steps, the City will be able to attain its goal of being a livable, sustainable, model city for the 21st century.

HOW TO USE INFORMATION IN THE BUDGET BOOK

The budget book can be split into three broad sections:

1. High level overviews of the City's operations and expenses. This includes the Mayor's Summary highlighting key strategies and guidelines to achieving financial stability, a synopsis of the City's different funds, and personnel comparisons across multiple years.
2. In-depth information detailing each of the City's 22 municipal departments' achievements and goals, organizational structure and the expenses associated with their operations.
3. Activity in all the other areas of the City, including grants, enterprise funds and the School Department. This section also gives detailed personnel information for each employee by department.

All municipal departments have a number of cost centers reflecting the activity that occurs within each one. Each cost center is represented by a unique seven digit budget code broken down as follows:

Example: 01 101 03

- 01: The first two digits represent the **fund**.
101: The next three digits represent the **department**.
03: The last two digits represent the specific **cost center** within the department.

In this case, 01-101-03 is the budget code for the Archives Management office (the cost center) in the City Clerk's department (the department), which is part of the general fund (the fund).

See below for a full listing of the different funds and departments and their corresponding numbers:

FUND

01	General Fund
15	CDBG Grant Program
21	CPA Fund
26	Stormwater Management Fund
27	Sanitary Sewer Fund
28	Water Fund

DEPARTMENT

101	City Clerk
103	Mayor's Office
104	Comptroller's Office
105	Purchasing
106	Assessing
107	Treasury
108	Law Department
109	Human Resources
111	Information Technology
114	Planning and Development
115	Public Buildings
118	Financial Information Systems
201	Police Department
210	Fire Department
220	Inspectional Services

DEPARTMENTS (CONT'D)

- 401 Department of Public Works
- 501 Health & Human Services
- 502 Senior Services
- 503 Veterans' Services
- 601 Newton Free Library
- 602 Parks & Recreation
- 603 Historic Newton

ACCOUNT NUMBERS

Similarly, there is a specific purpose to the nomenclature associated with each of the City's specific account numbers.

- 51xxx All Account numbers beginning with "51" represent expenditures associated with salaries, wages and other compensation.
- 52xxx – 56xxx All account numbers beginning with "52" through "56" represent expenditures associated with normal operating expenditures.
- 57xxx All account numbers beginning with "57" represent employee reimbursement and employee benefits.
- 58xxx All account numbers beginning with "58" represent debt service and capital expenditures.

	ACTUAL FY2016	ACTUAL FY2017	AMENDED 2018	YTD 4/12/2018	RECOMMENDED 2019	CHANGE 2018 to 2019	
0111402 - CONSERVATION							
PERSONAL SERVICES							
Salaries and Compensation	511001	63,477	65,135	118,853	75,161	128,244	9,391
	514001	0	0	0	0	750	750
	515005	0	0	0	350	0	0
	515102	500	500	1,000	500	500	-500
	TOTAL PERSONAL SERVICES	63,977	65,635	119,853	76,011	129,494	9,641
EXPENSES							
Normal Operating Expenditures	5341	447	936	1,000	93	1,000	0
	5342	0	83	100	0	100	0
	5420	0	145	200	195	200	0
	5730	148	0	700	135	700	0
TOTAL EXPENSES	595	1,164	2,000	423	2,000	0	
FRINGE BENEFITS							
Benefits and Employee Reimbursements	57DENTAL	0	0	0	71	226	226
	57HLTH	0	0	6,278	0	0	-6,278
	57MEDA	938	1,030	976	1,101	1,878	901
	57OPEB	0	0	3,863	0	0	-3,863
TOTAL FRINGE BENEFITS	938	1,030	11,117	1,172	2,104	-9,013	
DEBT AND CAPITAL							
Debt Service and Capital	5841	92,462	57,026	25,000	0	25,000	0
	TOTAL DEBT AND CAPITAL	92,462	57,026	25,000	0	25,000	0
TOTAL CONSERVATION	157,972	124,856	157,970	77,606	158,598	628	

CITY OF NEWTON

FINANCIAL MANAGEMENT GUIDELINES

Financial Principles

On April 20, 2011 the Honorable City Council adopted a revised set of Financial Management Guidelines. There are several guiding principles that are incorporated into these guidelines which have been included as an integral part of the Fiscal Year 2014 Budget. These guidelines include the following:

- **Long Range Financial Planning:** The City will follow financial planning processes that assess the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, and programs.
- **Revenue Budgeting:** General Fund revenue budgets are expected to capture 99% of total expected revenue for the year.
- **Expenditure Budgeting:** Expenditure budget estimates will strive to be sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year. It is anticipated that this guideline will take 2 to 3 years to fully implement.
- **Capital Outlay and Improvements:** It is the practice of the City to issue a minimum of \$3.5 million in bonds for capital improvements annually; financing for the associated debt service will come from the General Fund. A minimum of 5% of the annual General Fund operating budget will be budgeted for capital outlay and improvements.
- **Free Cash:** Free Cash represents the accumulated difference of unrestricted funds between General Fund revenues and expenditures, on a cash basis of accounting. The City expects to generate a limited amount of Free Cash which comes from unanticipated actual revenues in excess of revenue estimates (including overlay surplus), unexpected unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year.
- **Utilization of Free Cash:** It is the intent of the City to use Free Cash in the following manner, understanding that this will take a number of years to implement fully. First, a maximum of \$1.5 million will be used as a general revenue source for the ensuing year's operating budget. Second, Free Cash will be used to replenish Reserve Funds depleted in the previous year. Third, a minimum of forty percent (40%) of the remaining certified Free Cash will be put in the Rainy Day Stabilization Fund until the Rainy Day Stabilization Fund reaches its target level. Fourth, any additional Free Cash will be used for one-time, non-recurring expenditures. In unusual economic circumstances, an additional portion of Free Cash may be used for the ensuing year's school or municipal operating budget.
- **Inclement Weather Stabilization Reserve:** The Administration intends to establish an Inclement Weather Stabilization Reserve Fund which will be used for unusual (but not extraordinary) weather related costs in departments such as Public Works, Parks and Recreation, Police and Fire. For example, such costs may stem from floods, an unusual number of winter storms, or an unusual level of snow or ice. The goal of this reserve fund is to make sure monies are set aside for unusual weather conditions.
- **Rainy Day Stabilization Reserve:** The Rainy Day Stabilization Fund will be used when the City faces a multiple year economic recession or a rare, catastrophic expenditure. These funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the

control of the City, or an unusually large expenditure resulting from a rare legal settlement or catastrophic weather event. The primary reason for the segregation of such monies is to prevent these reserves from being used for unrelated City needs, and to demonstrate that resources are in fact being set aside specifically for extraordinary and unforeseen revenue disruption or catastrophic expenditure need.

- **Debt Management Policy:** 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 (taxable value of the real estate tax base). The City's current (October 2016) equalized valuation is approximately \$26 billion, which means that the current statutory debt limit is approximately \$1.3 billion. In addition to the statutory debt limit, the City of Newton has a self-imposed policy of limiting debt service on long term bonded debt to between 4.0% and 7.5% of the annual General Fund budget.