

## **Executive Summary**

*"I believe that the reason for our success in the last 7 years is because of my approach to governance from day one around 3 principles:*

- 1. Putting in place strong fiscal discipline, and accounting for each taxpayer dollar spent so we were not being wasteful of your money, but efficient. Expenditures for my administration have been based on outcomes for people now and for decades from now.*
- 2. Not being afraid to make tough fiscal and policy decisions based on the best outcome for individuals and families to live up to their full potential in Newton--the decisions must be made with directness, honesty, and transparency.*
- 3. Listening and bringing people together to solve difficult challenges by identifying the common good and working toward that end with an eye toward the future.*

*These principles are based on my lifelong commitment to public service inspired by my family, my nine years in the armed services, and love of this city. "*

Mayor Setti D. Warren  
Monday, February 21, 2017

## **Achieving the Vision**

Throughout the past seven plus years Mayor Setti Warren has worked diligently to deliver on the promises of the 2009 mayoral campaign: improved City services, streamlined government, excellence in education, unparalleled public safety, a vibrant, diverse community life, improved infrastructure, robust economic development, environmental sustainability, and long term financial stability while eliminating the City's structural deficit and creating a new level of community engagement.

The Administration has utilized a targeted approach of negotiating affordable collective bargaining agreements, zero-basing department budgets, utilizing performance metrics to drive management and funding decisions, completing a comprehensive 20 Year, Long Range Capital Plan, and facilitating economic development where appropriate.

The successful passage of the override package on March 12, 2013 provided the necessary funding to enable the City to address the deplorable conditions, inadequate teaching areas, and capacity issues at the Angier, Cabot, and Zervas Elementary Schools, support increasing student enrollment throughout the City, relocate the Fire Department's Wires Division, replace the antiquated Fire Headquarters and Fire Station in Newton Centre, accelerate pavement schedules of streets and sidewalks, and add public safety personnel dedicated to ensuring the safety and security of the citizens of the City of Newton.

This budget has been developed with the specific intent of improving the delivery of municipal services, creating efficiencies, and reducing costs while dedicating resources toward several strategies designed to enable the City to achieve eight primary desired outcomes:

- Excellence in Education
- Unparalleled Public Safety
- Vibrant, Diverse Community Life
- Improved Infrastructure
- Robust, Economic Development
- Environmental Sustainability
- Long-Term Financial Stability
- Community Engagement

# The City of Newton’s Strategy for Financial Stability

## Collective Bargaining Agreements

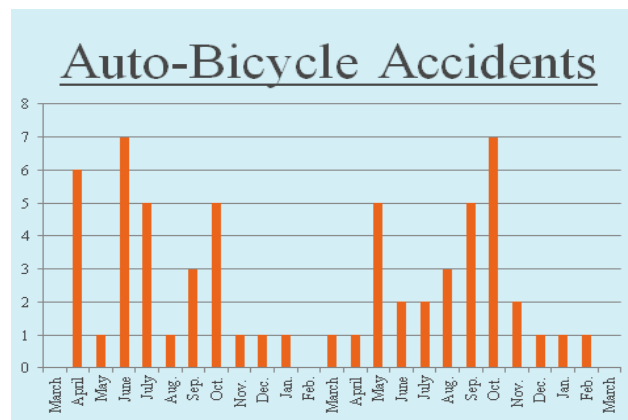
As of April 18, 2017 the City of Newton has executed collective bargaining agreements through FY17 or FY18 with all but two of its unions and continues to meet with the remaining groups. It is the expectation of the Administration that collaboration with union leadership will allow new contracts to be structured with the remaining groups that will maintain parity between the growth rate of both revenue and expenditures. Successful negotiations that maintain this parity have had a profound impact on the ability of the City to develop a sustainable and balanced budget. The Administration will again work respectfully and cooperatively to develop contracts that continue to uphold a viable budget strategy.

## Zero-Based Budgeting

The City utilizes zero-based budgeting techniques as the basis for developing its outcomes-based budget, thus ensuring that every department function has been reviewed comprehensively, that all expenditures are analyzed, and that planning and decision making is enhanced in order to maximize both administrative and operational efficiencies. The zero-based budgeting process requires all departments to validate and prioritize all activities and expense items before the city allocates any resources. Zero-based budgeting has directly enhanced efficient allocation of resources, requiring departments to find cost effective ways to improve operations, increase communication and cross department coordination, uncover and eliminate duplicative efforts, and identify opportunities for savings. It is apparent that continued cost savings through this budget strategy are attainable, and therefore the City will continue to utilize this process as the basis for budget preparation, continuing to maximize cost and operational efficiencies citywide.

## DataStat Newton/Performance Management

Since 2010, the City has also utilized Performance Management strategies throughout all departments. Using data to help inform key decisions allows the Administration to make the delivery of services more effective, more efficient, and more capable of adapting to an ever-changing environment. Two years ago, the City took the next step in data-driven decision making, with the launch of its “DataStat Newton” program. This program tracks everything from recycling rates and number of potholes filled, to auto-pedestrian accidents. Mayor Warren and the executive team meet on a monthly basis with all City Department Heads to review the data, and use the information to inform decision making on each of the budget outcomes. In addition to helping the City make critical decisions in each outcome area, DataStat Newton also plays an important role in the City’s commitment to transparency. Data collected from every department is posted on the city website for residents to view, with data from previous months also available so that residents can see trends in each area. This program now plays a critical role in ensuring that the city reaches each of its eight desired outcomes.



## **Capital Infrastructure Assessment**

One of the top priorities for the leadership of the City of Newton is to maintain and improve its infrastructure, which is comprised of some of the city's most valuable assets. The school buildings, police and fire stations, parks, libraries, roadways, and emergency vehicles are some of the many assets that require continuous upgrades and maintenance to continue to meet the needs of an evolving 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 FY18-FY22 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 required 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.



*Zervas Elementary – opening September 2017*

## **Economic Development**

Having a strong commercial tax base and a thriving local economy remains one of the priorities for the Administration. In recent years, large retail /mixed-use centers including Chestnut Hill Square and The Street as well as upgrades to the Shops at Chestnut Hill have provided consumers with many shopping and dining experiences while generating additional revenue in commercial property taxes. The Administration continues to work closely with the Honorable City Council to facilitate the successful approval of several other development opportunities including Newton Nexus, a large retail and office redevelopment on Needham Street, office building expansion and redevelopment activity on Wells Avenue, as well as the recent opening of the corporate headquarters for the Rockport Group in West Newton Square. Economic development initiatives that will continue to be active in FY18 are two major regional efforts – the N2 Innovation District with the Town of Needham, which includes both Needham St. and Wells Avenue, and the Charles River Mill District with Watertown and Waltham, which includes the Chapel Street business district in Nonantum. The Administration also welcomed the announcement of the Northland Investment Corporation plans to redevelop close to thirty (30) acres along Needham Street into a vibrant mixed-use development.

The recent release of the City's Transportation Strategy will bolster efforts to improve Newton's transportation network. Strategic investments through the road improvement program, traffic signalization upgrades and village center streetscapes will make it easier, safer and visually attractive to get in and around Newton. Additional investments in bike infrastructure and shared shuttle transportation will provide convenient options for both residents and businesses and satisfy a growing demand for alternative transportation. With both the Housing and Transportation plans complete, the City has laid the necessary groundwork for future economic development success.



**Rockport**

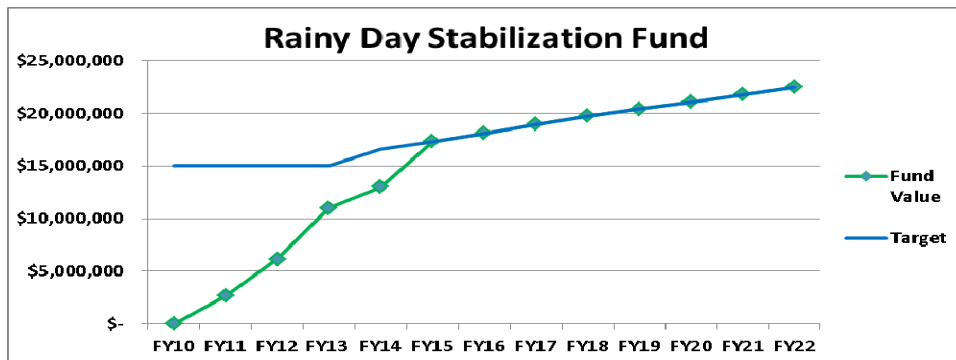


**2 Wells Ave**

**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, expenditure. 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 unrelated city needs, and to demonstrate that resources are being set aside for extraordinary and unforeseen revenue disruption or catastrophic expenditure. Through collaboration with the Chairman of 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 \$19 million.

Sustaining a Rainy Day Stabilization Fund that totals 5% of the Municipal Budget requires the annual addition of more than \$750,000. 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 appropriate investment strategies.

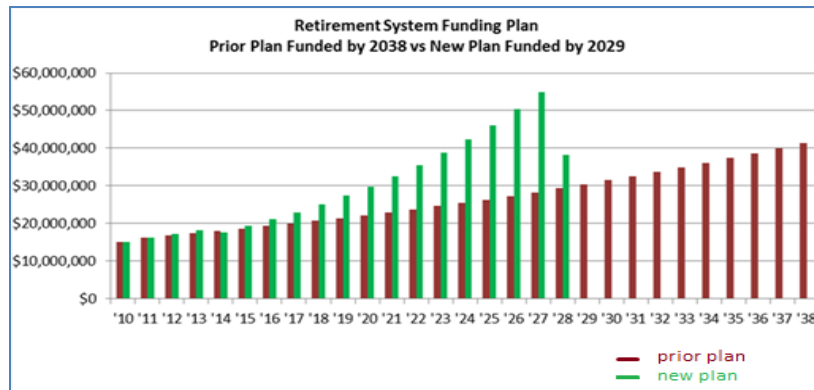


**Contributory Retirement Plan**

The City of Newton Contributory Retirement Plan covers more than 3,650 active, inactive, and retired employees. Prior to the 2008 downturn in the economy the total unfunded actuarial accrued liability was approximately 33%. However, as a result of the less than favorable economic pressures 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 and was projected at 48.5% as of January 1, 2016. This increase in the unfunded liability is not unique to Newton, and

consequently the Massachusetts State Legislature passed legislation enabling cities and towns to have until the year 2040 to “fully fund” retirement plans.

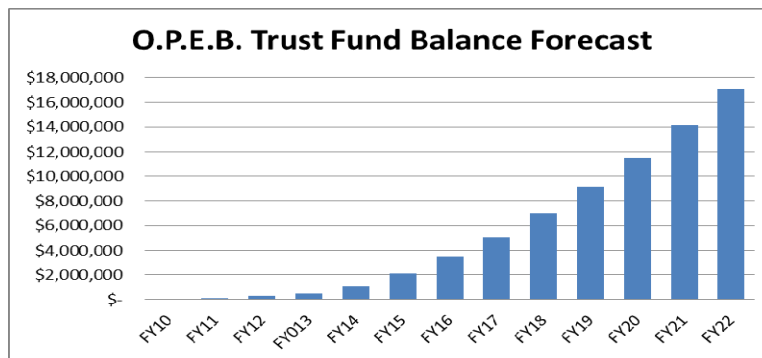
Although the City had been willing to extend plans to fully fund its Retirement Fund to 2038, when leaders were dealing with the financial crisis of the structural deficit, financial sustainability requires more. Therefore, the City of Newton Contributory Retirement Board, with full support from the Administration, voted to implement a funding schedule which will fully fund the Newton Retirement Fund by the year 2029. The FY 2018 Budget includes an annual increase of 9.60% in support of this decision.



**Other Post-Employment Benefits (O.P.E.B.)**

In 2010 the City established an Other Post-Employment Benefits (O.P.E.B.) Liability Trust Fund, which currently totals \$5 million, 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 retirement health care benefits. Conservatively, the City has identified an updated O.P.E.B. unfunded liability of roughly \$700 million, requiring a \$55 million Annually Required Contribution or (ARC).

The FY2014 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. Although the percentage of 3.25% has not been increased for the FY18 Budget, due to the continued increase in employees covered under this methodology, the FY18 O.P.E.B. appropriation has grown to approximately \$2 million. The Administration intends to continue the policy of “pay as you go” for all O.P.E.B. liabilities for current and former employees.



## **Commitment to Education**

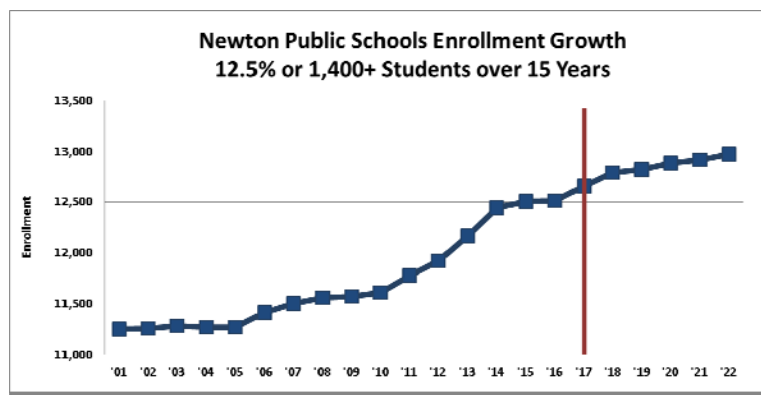
The delivery of an excellent education by the Newton Public Schools is perhaps the single most important municipal service in the minds of many of Newton’s residents and is considered to be a ‘bedrock’ of the community. Therefore, inherent in the City’s Fiscal Year 2018 Operating Budget is the Mayor’s commitment to the Newton Public Schools.

As noted in the School Department Budget, the Newton Public School district serves students in fifteen elementary, four middle, two high schools, an alternative high school and an integrated preschool. The FY18 Superintendent’s Proposed Budget is \$219,436,486, an increase of \$8.2 million or 3.9%, and is expected to serve 13,037 students in grades K-12.

The proposed FY18 budget preserves Newton’s commitment to excellence and equity for all students. This budget dedicates resources to continue existing programs and initiatives, preserves favorable and equitable class sizes across the district, and continues to support special education programs, a number of which have been adjusted to account for student movement through the grade levels. Funds are made available to replenish technology equipment and support technology infrastructure. Charter maintenance funding is sustained to ensure that the district keeps pace with required maintenance, and as necessary, for appropriate stewardship of school buildings.

## **Growth in Enrollment**

The Newton Public Schools continue to see consistent enrollment growth affecting all grade levels citywide. Net growth of approximately 1,240 students from 2004-05 through 2015-16, an increase of 11%, initially affected the elementary schools and 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 with an overall increase of 130 students. Over the next five years, an increase of approximately 400 students, or 3%, is projected; the largest growth is expected at the high school level, as larger grade cohorts continue to move up from the middle schools.



## **Long-Range Elementary Plan**

Newton Public Schools’ Long-Range Facilities Plan is updated annually to take into account changes in enrollment and other conditions. The FY17 Recommended Plan includes the submission of the MSBA Statement of Interest for a renovation/addition for Lincoln-Eliot and Newton Early Childhood Program at 150 Jackson Road/former Aquinas building. If accepted, Lincoln-Eliot project feasibility and design (FY18 & FY19) would proceed with construction in FY20 through FY22. Following the completion of the two year Cabot Construction (FY18 & FY19), the Carr building will no longer be used as swing space but will become the new home of the Horace Mann community. Following these moves, the long-range plan sequences a joint feasibility study for both Countryside and Franklin to determine strategic priority for a mid-sized renovation.

## **Comprehensive Plan for North Side Elementary Schools**

The neighborhoods of Newton, north of the Massachusetts Turnpike, have the highest density in the city and great socioeconomic diversity. These neighborhoods have experienced overcrowding since 2004 which continues today. 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 facilities. With the opening of Angier in 2016 and Zervas in September 2017, NPS will have been able to re-assign students to ease crowding at six other schools. Additionally, the Cabot project (a review of student assignment is currently underway) will ease crowding at adjacent schools, potentially including Mason-Rice, Ward, Underwood and Horace Mann.

However, the completion of the new Cabot School will not add sufficient capacity to correct space deficiencies in the Lincoln-Eliot, Horace Mann, and Franklin school districts. Since 2004, Lincoln-Eliot has had population growth of 43%. Horace Mann to the immediate west has had enrollment growth of 25% and is heavily reliant on modular classrooms. The building is inadequate for elementary use, is not accessible, lacks space for small group instruction, music, art, cafeteria and special education. Franklin to the immediate west of Horace Mann, with 12% growth since 2004, is currently overcrowded and dependent upon a sub-standard kindergarten wing and several basement spaces never intended to be used as instructional spaces. The feasibility study for Lincoln-Eliot will solidify comprehensive plans for each of these north side elementary schools.

## **The City of Newton's "Triple A" Bond Rating**

In January of 2016, the City of Newton was pleased to announce that not only did it earn a "Aaa – Stable" rating (the highest possible) from Moody's Investors Service, but also received the highest possible rating of AAA from Standard and Poor's following S&P's first time review of the City's finances.

These ratings were reaffirmed in July 2016, and as a result, the City sought competitive bids from bond underwriters for a \$65,775,000 20-year refunding bond issue. The City received a total of 8 bids for the Bonds with the winner bidding an average interest rate of 2.463%. **This single refunding will generate total savings of \$12,925,377 over the remaining life of the bonds.**

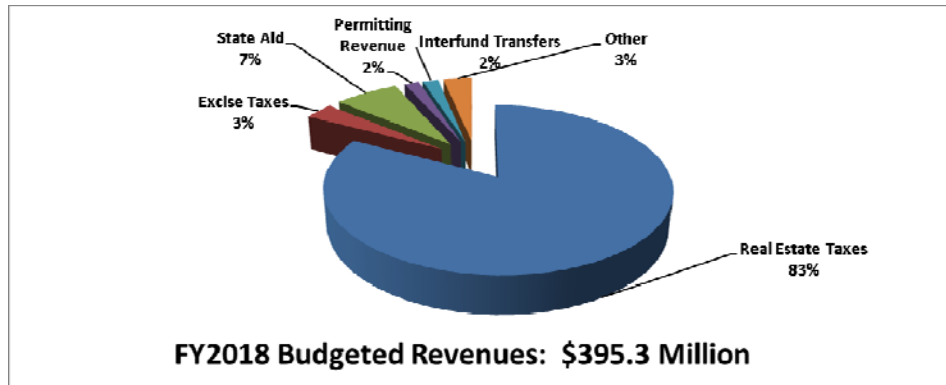
Again in January of 2017, the City was pleased to announce that not only did it earn a "Aaa-Stable" rating from Moody's and AAA from Standard and Poor's, but also received a revised management assessment from S&P who *"revised their assessment of the city's management to "very strong" from "strong" based on the introduction of a debt policy that formalized a historical practice. An assessment of "very strong" indicates that financial practices are strong, well-embedded and likely sustainable."*

"The announcements.....from Moody's Investors Service and Standard and Poor's Ratings Services affirm the hard work that we have done to ensure our long-term financial sustainability. Since taking office seven years ago, we have established a rainy day stabilization reserve which now totals more than \$19 million and adopted aggressive funding schedules to address our long-term liabilities. The strength of our financial position is what is allowing us to pursue an unprecedented roads program, a school building program that includes five new elementary schools in six years, and the rebuilding of antiquated Fire Stations while continuing to rank as one of the safest cities in the country." Mayor Setti Warren said. "This would not have been possible without the hard work and partnership of City Council Finance Chair Lenny Gentile and his colleagues, Comptroller David Wilkinson and CFO Maureen Lemieux."

The City's position on funding long term liabilities, particularly pensions and OPEB, preserving sound financial policies and developing conservative budgets and forecasts will be key factors in the City's ability to maintain the "Double Triple A Rating" from these two prestigious institutions.

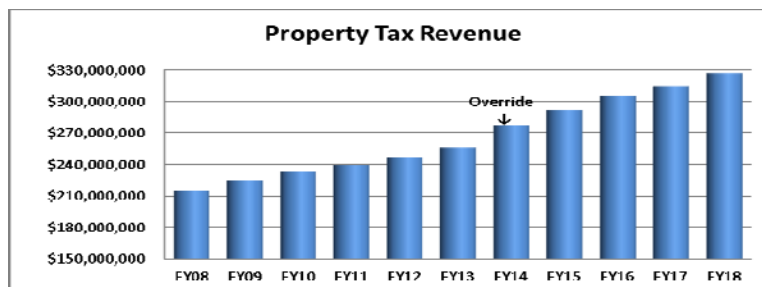
## Projected Revenue- Fiscal Year 2018

A integral component of the overall budget process involves forecasting the total operating revenue that the City will take in over the next fiscal year. Fiscal Year 2018 Revenue is projected to total just over \$395 million, a \$17 million increase over the FY2017 original budget. This increase includes \$1.65 million of debt excluded revenue, and \$400,000 of transfers from the Capital Stabilization Fund for Operating Override Debt Service. The breakout of projected revenue sources for Fiscal Year 2018 is as follows:



## Property Tax Revenue

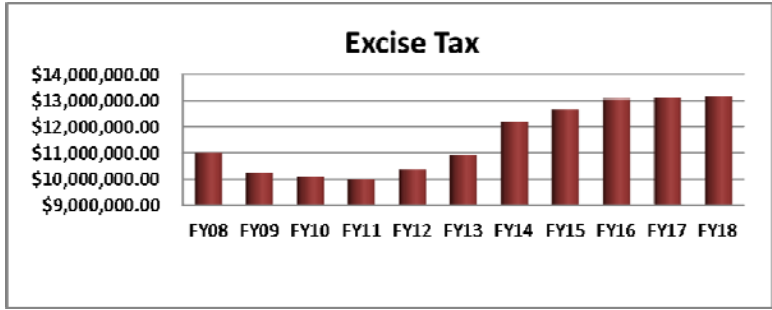
Proposition 2½, passed by the citizens of the Commonwealth in 1980, states that the annual increase of the tax levy for the City of Newton cannot exceed 2½ percent of the prior year's tax levy, in addition to the total amount attributable to taxes raised from new real property. As shown above, property taxes account for the largest funding source for the City's total operating revenue. The City's policy is to utilize the maximum increase allowed by the Commonwealth to aid in funding municipal expenditures. FY2018 Property Tax Revenue is estimated to total \$326.9 million including a projection of \$4 million from "new growth or redevelopment".



## Excise Tax Revenue

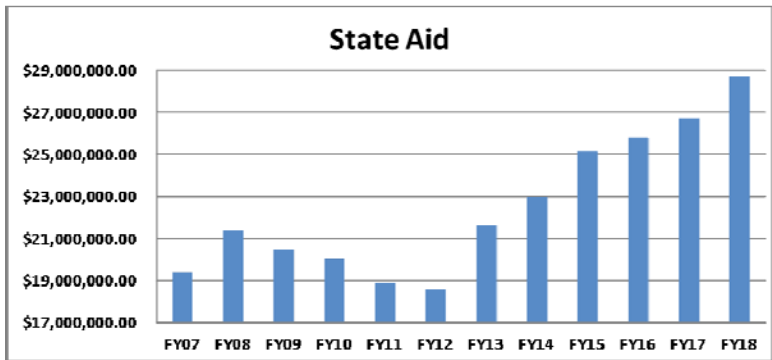
Massachusetts General Law Chapter 60A, states that all Massachusetts residents who own and register a motor vehicle must annually pay a motor vehicle excise for the privilege of road use and those revenues become part of the local community treasury. The amount of excise tax levied on each motor vehicle 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 \$9,500,000 in FY2011, and is projected to peak to its highest point ever, just over \$13 million in FY2017. Because there was significant pent-up demand as a result of the great recession of 2008 which is starting to wane, total excise revenue for FY18 is not expected to increase substantially, and therefore been increased only minimally.





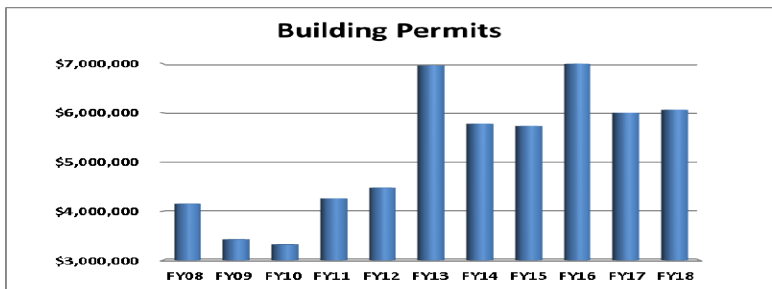
**Revenue from State Aid**

State Aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2012. As represented in the chart below, the previous five fiscal years have seen an increase in the amount allotted to the City. The Fiscal Year 2018 Budget for total State Aid has been increased from the previous year budget. Unrestricted Government Aid has been forecasted at \$5,870,797, while Chapter 70 revenue is projected to be \$22,647,802, an increase of \$220,367 and \$1,467,437 respectively.



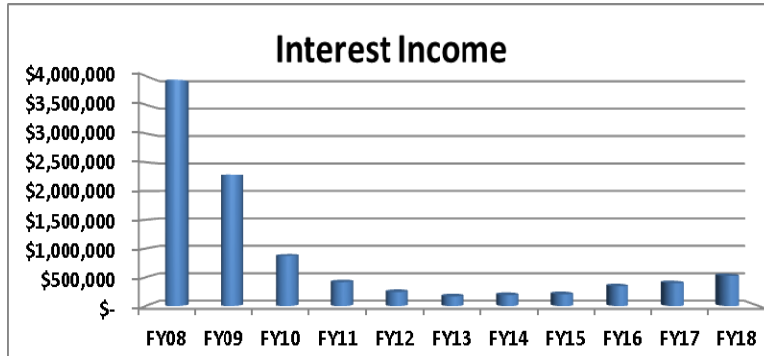
**Revenue from Building Permits**

Revenue from permitting and licensing fees, dependent upon the economy, saw a decline from Fiscal 2008 through Fiscal 2010. With 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 in FY2013. Unprecedented numbers of building permit applications continued through FY16, however, the City has seen a drop in the number of permit applications and has budgeted accordingly.



## Interest Income

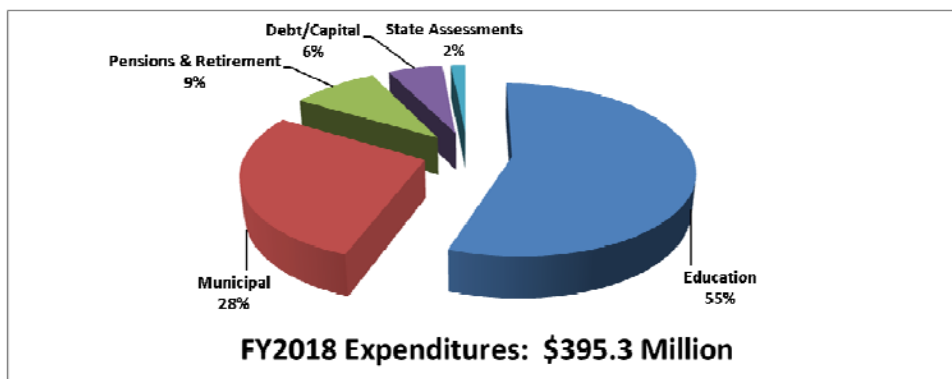
Interest income earned on the City's financial investments has been negligible over the past several years. However, the Federal Reserve Bank has raised rates in recent months and has signaled that the economy may warrant small increases in the future. Therefore, the City has budgeted a slight uptick in this revenue stream.



## Projected Expenditures – Fiscal Year 2018

The successful passage of the override package provided the necessary funding to enable the City to address the substandard conditions, inadequate teaching areas, and capacity issues at the Angier, Cabot, and Zervas Elementary Schools, as well as provide operational funds to support the increasing student enrollment throughout the City. These funds also provided for the relocation of the Fire Department's Wires Division, replacement of the antiquated Fire Headquarters and Fire Station 3 in Newton Centre, accelerated pavement schedules of streets and sidewalks, and increased public safety personnel dedicated to ensuring the safety and security of the citizens of the City of Newton.

Further, and most importantly the City has been 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. All of this is attainable as long as the City and Newton Public Schools remain committed to and disciplined in their resolve to settle collective bargaining agreements that maintain parity between revenue and expenditures, follow the planned funding schedules for pension and O.P.E.B. liabilities, and remain vigilant in managing other large municipal and school expenditures. Fiscal Year 2018 Expenditures total \$395.3 million broken out as follows:



## **Salaries, Compensation and Health Benefits**

Salaries, compensation, and health benefits for the City’s active employees total 67% of the general fund operating budget, and are consequently the single most important cost driver.

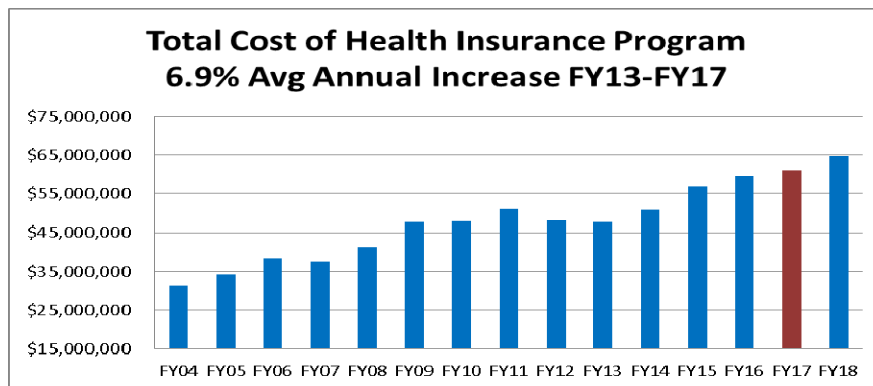
During the prior decade the average increase in salaries, compensation, and health care benefits for active employees for the period FY2006 through FY2010 was 4.37%. This previous growth rate was unsustainable and contributed in large part to the City’s “structural deficit”.

As mentioned earlier, the Administration has reached agreement with all but two of its 17 unions and is currently continuing negotiations with the remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy to the previous collective bargaining agreements. It is clear that developing compensation packages that do not exceed the rate of growth of revenue is the single most important factor ensuring the future financial stability of the City of Newton.

## **Health Insurance Benefits**

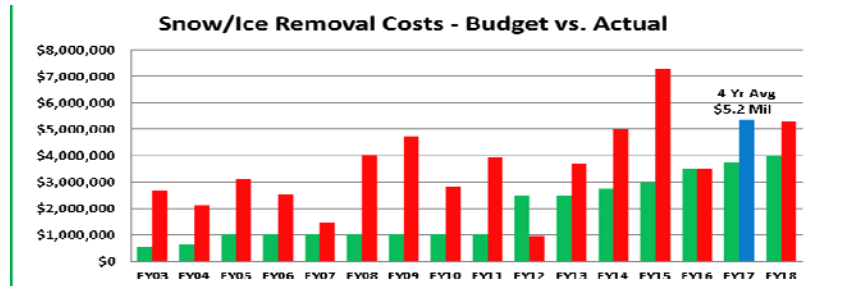
The City provides health insurance benefits for almost 2,500 active employees and their dependents, and more than 2,800 retirees, for a total insured population of more than 8,600 members. Because the City’s insured population is as large as it is, the City is “Self Insured”. The cost of a Self-Insured Program is comprised of costs in three main areas: actual cost of claims, administrative fees charged by the health insurance carriers and the cost of an excess policy to protect the City from exposure to unusually large claims (greater than \$275,000). 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.

In order to maintain financial sustainability, the administration must continuously evaluate health insurance options. One such option is the State run Group Insurance Commission (G.I.C.). On a yearly basis the City has and will continue to perform a loss ratio analysis in order to determine whether or not the G.I.C. plan would have been more or less expensive for the City. The City will continue to closely monitor G.I.C. costs as compared to the costs of the City’s self-insured plans so as to be in a position to make the most informed decisions possible in the ever changing health insurance market.



## **Removal of Snow/Ice**

The City will continue to increase the Snow/Ice Removal Budget until such time as it is equal to a conservative four or five year average. Therefore, the FY18 appropriation has been increased by \$250,000.



## **Municipal Personnel**

Providing appropriate staffing dedicated to protecting core City services, maintaining emergency personnel, improving capital infrastructure, cultivating economic development, and providing appropriate financial and administrative staff to support the operations of the City continues to be a top priority. Throughout the past seven years the Administration has worked diligently to reduce unnecessary or duplicative positions while increasing or supplementing staffing where necessary. Examples of this focus can be seen through increased staffing in the areas of Public Safety, Finance, Planning and Development, and the Public Buildings Department.

## **Environmental Sustainability**

Furthering the City's environmental sustainability position continues to be a key objective and will require a comprehensive approach that goes beyond counting kilowatt hours. The City takes a holistic view of sustainability to ensure the roads are designed as "complete streets", safe for all modes of non-motorized transportation, that buildings are constructed to meet stringent energy codes, and that the declining tree population trend is reversed – all with the purpose of safeguarding the future long term environmental sustainability of the City and its neighborhood vitality.

The City of Newton is actively engaged in energy initiatives on several fronts. Energy efficiency and solar energy projects implemented over the last three Fiscal Years will save the city more than \$1 million per year and over \$20 million in the course of the next 20 years. Currently, the city is involved in plans for Phase 3 of the solar projects and Phase 4 of the energy efficiency projects that will greatly expand on these savings. The City is currently evaluating up to 30 sites on City owned properties in order to determine the most appropriate locations throughout the City for future solar projects.

The City of Newton has also received \$1,500,000 in energy rebates from Eversource and National Grid for energy efficiency projects implemented in 2014 through 2016 and State grants totaling \$836,000 from the Green Communities program during this time period. A grant application has been submitted to the Green Communities Program for another \$250,000 grant for 2017. Newton has entered into a contract for natural gas that ensures that the City gets low stable gas rates and a reliable gas supply for the next two heating seasons.

Further, the City has been using an electricity broker/advisor to get the best possible electricity prices in what has become a more complex and higher priced market than it was just a few years ago. Finally, Newton is in the process of designing and constructing some of the most energy efficient schools in the State to replace Angier, Zervas, and Cabot schools. Newton was awarded \$110,000 in energy efficiency rebates for the Angier School under the utility energy efficiency programs. The Angier School received the LEED Gold rating by the U.S. Green Buildings Council.

## **Additional Expenditures Funded in FY2018**

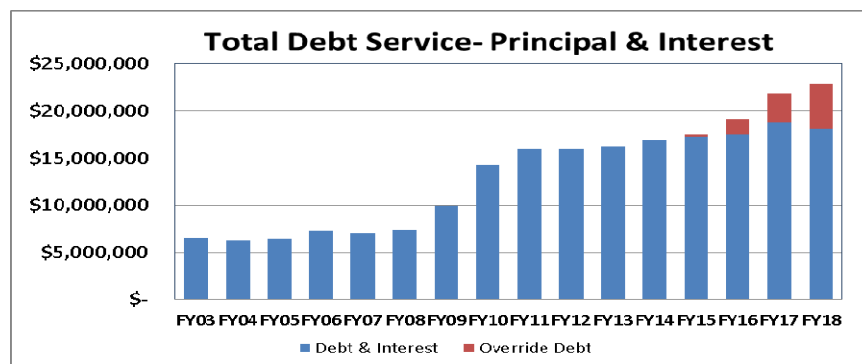
Funding for several current, as well as accelerated initiatives designed to target core City needs have been included in the Fiscal Year 2018 Budget. Some of these appropriations are as follows:

- Increased funding for Other Post-Employment Benefits (O.P.E.B.) and the City of Newton Contributory Retirement System;
- Remaining firefighter positions to complete the staffing of the Technical Rescue Team;
- General Fund absorption of expenses for the “Ride Along Social Worker” in the Police Department; grant funding for this position expires fall 2017;
- Full City funding for Case Managers
- Additional part-time staff to improve senior quality of life and social connectedness;
- Continued resources focused on the traffic signalization plan, improving public safety and traffic flow throughout the City;
- Unprecedented road improvement program;
- Development of complete streets and improved village vitality throughout the City;
- Increased allocations for a comprehensive tree plan for the City,
- Funds allocated to replace equipment and gear in both the Fire and Police Departments;
- Targeted enhancement of the City’s technology; and
- Additional resources to assist in environmental planning and new stormwater regulations.

## **Debt Service**

As was mentioned earlier both Moody’s Investors Service and Standard and Poor’s reaffirmed their Triple A ratings assigned to the City in July 2016, as well as January 2017. As a result the City was able to sell a \$65,775,000 20-year refunding bond issue last summer generating a total savings of \$12,925,377 over the remaining life of the bond.

Additionally, the City has established a Debt Management Policy as recommended by the Ratings Agencies and the Government Finance Officers Association (GFOA). Per the GFOA, *“Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. A debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations in a timely manner.”*



# 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.