

## **Executive Summary**

*“I know it’s the love we have for this great city that will enable us to have vision—to be bold, imaginative and to not be afraid to make the tough decisions to move our city forward for our residents now and in the future. That’s what Newton Leads 2040 really is all about.”*

Mayor Setti D. Warren  
Monday, February 1, 2016

## **Achieving the Vision**

Throughout the past six 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, and
- Community Engagement.

# **The City of Newton's Strategy for Financial Stability**

## **Collective Bargaining Agreements**

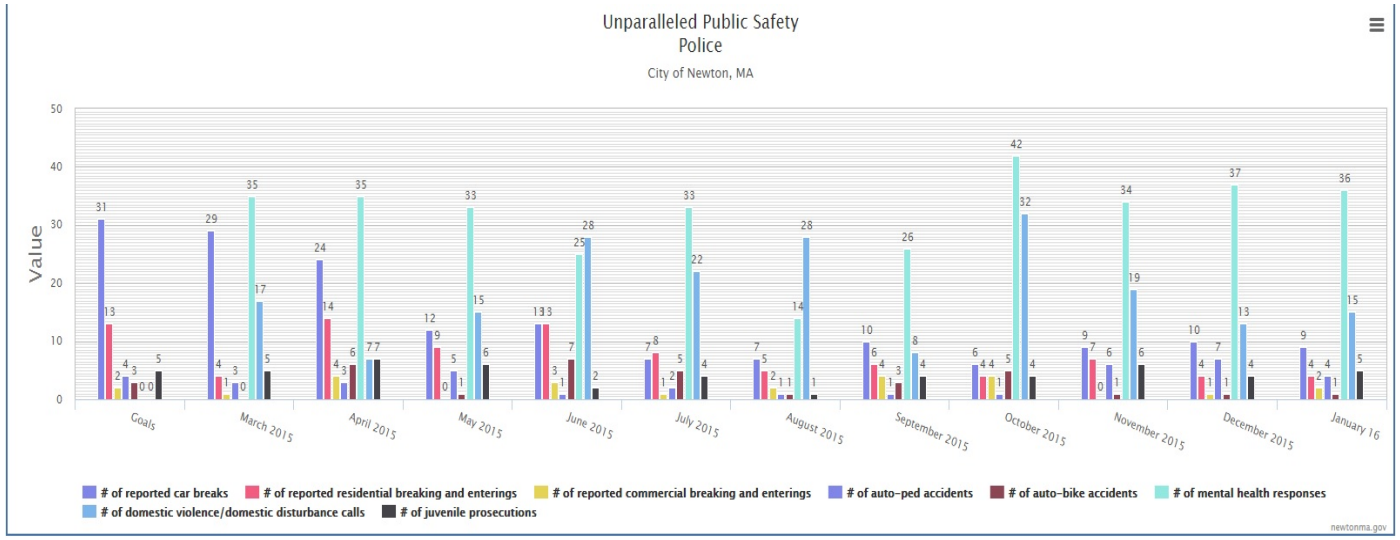
As of April 19, 2016 the City of Newton has executed collective bargaining agreements through FY17 or FY18 with most of its unions and continues to meet with the remaining groups. It is the expectation of the Administration that collaboration with union leadership will allow new contracts to be structured 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. Last year, 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 FY17-FY21 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



**Angier Elementary**



**Zervas Elementary**



**Fire Station 10**

## Economic Development

Increasing the commercial tax base is a very important goal of the Administration. The Chestnut Hill Square project, now complete, generates more than \$1 million annually in additional property tax revenues to the City. The Administration continues to work closely with the Honorable City Council to facilitate the successful completion of several other development opportunities including Austin Street, the Atrium Center, and Riverside. Additional economic development initiatives that will be active in FY17 focus on two major regional efforts – the N2 Corridor 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.



*Riverside*



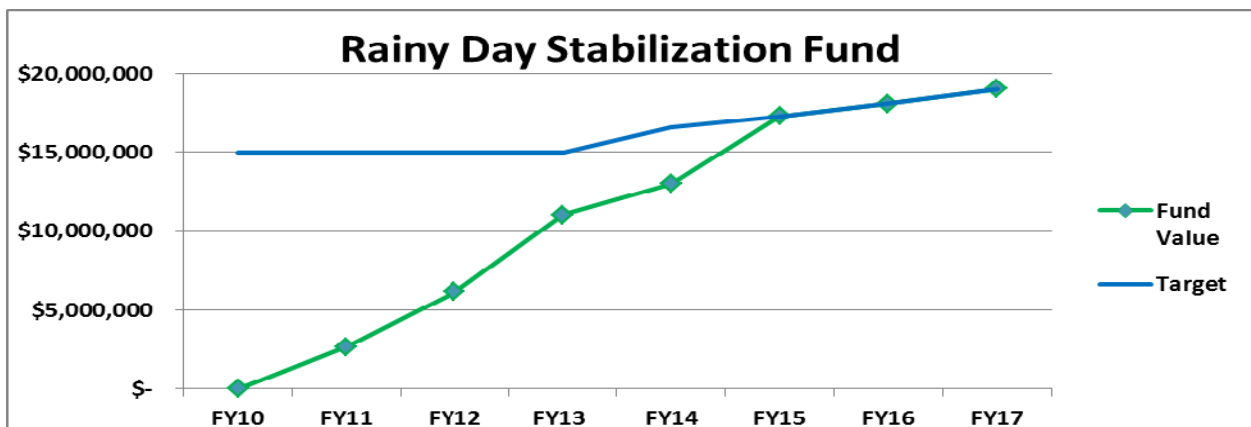
*Needham Street*



*The Street*

## Rainy Day Stabilization Fund

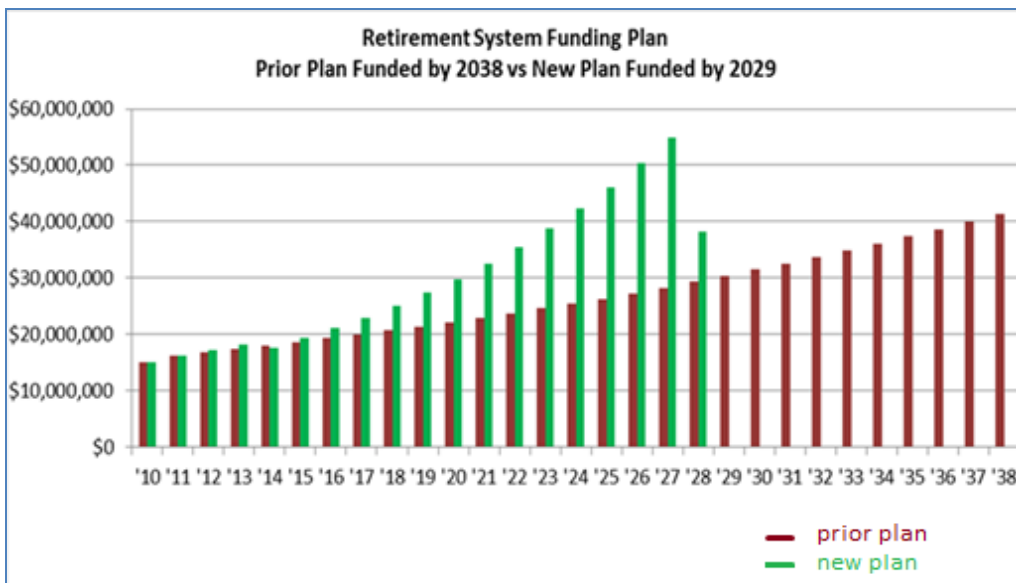
In 2010 the City of Newton established a Rainy Day Stabilization Fund to serve as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic, expenditure. These funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting 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 is \$18,144,027. The City intends to continue to contribute to the fund each fiscal year to maintain the target goal of 5% of the annual operating budget.



## Contributory Retirement Plan

The City of Newton Contributory Retirement Plan covers approximately 3,500 active 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 has increased to almost 51% as of January 1, 2015. 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 2017 Budget includes an annual increase of 8.75% in support of this decision.

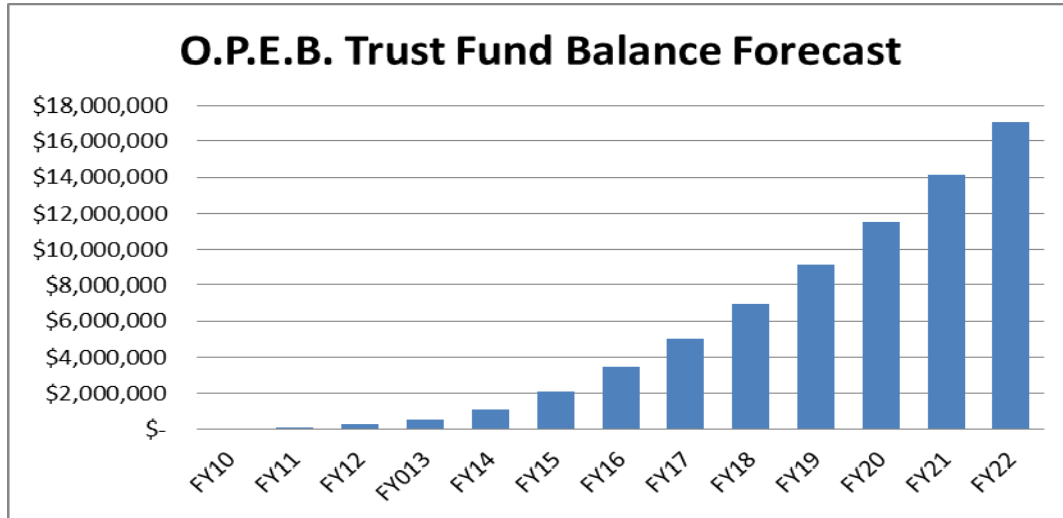


## Other Post Employment Benefits (O.P.E.B.)

In 2010 the City established an Other Post-Employment Benefits (O.P.E.B.) Liability Trust Fund and has 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 is anticipated that as the City brings on more and more new

employees, this funding method will cause this appropriation to grow exponentially. Consequently, the FY2017 Budget includes an appropriation of approximately \$1.75 Million or 3.25% of the salary for all employees newly insured since July 1, 2012. 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 2017 Operating Budget is the Mayor’s commitment to the Newton Public Schools.

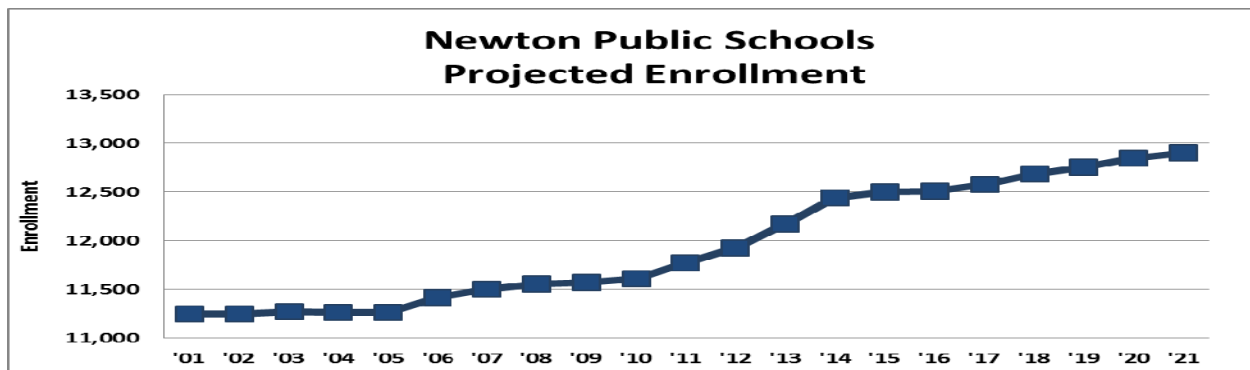
As noted in the School Department Budget, the Newton Public School district serves students in fifteen elementary, four middle, two high schools, an alternative high school and an integrated preschool. The FY17 Superintendent’s Proposed Budget is \$211,177,825 and is expected to serve 12,580 students in grades K-12. The following five areas are the factors considered in the development of the NPS FY17 Budget:

- 1) Class Size
- 2) Breadth of Program – electives, Fine Arts Programs, Extra Curricular Activities, etc.
- 3) Student Services – Special Education, Mental Health Services, Guidance
- 4) Operational Infrastructure – Custodial, Clerical, Maint, Utilities, Technology, Transportation
- 5) Educational Infrastructure – Prof Dev’t, Curriculum and Tech Support, School Admin

Every effort has been made to devote the resources necessary to control class size (especially in grades K through 2), to maintain the breadth of program that Newton is known for, and to continue to maximize savings from non-curriculum based initiatives.

## **Growth in Enrollment**

Newton Public School enrollment has grown over each of the past ten years (2005-06 to 2014-15) and is projected to continue to increase for the next five years with growth affecting all grade levels. Accumulated net growth of 1,240 students through 2014-15, 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 2012-13. In 2016-2017, Newton Public Schools will again experience enrollment growth with a projected net increase of 72 students. Over the next five years, enrollment growth is projected to be strongest at the high schools, with a projected net increase of 207 students through 2020-21. Over the same time period, the projected net increase is 5 students at the elementary level and 181 students at the middle school level.



## **Consolidated Integrated Preschool and Long-Range Elementary Plan**

A full review of Newton's elementary facilities long-range plan was done during 2015 following the acquisition of the Aquinas building and site which is a unique and strategic opportunity for Newton due to the building's large size and layout, the 7-acre site and its location near the current Lincoln-Eliot School on Newton's crowded north side. Newton is currently planning for a cost effective renovation/addition of the building for the Lincoln-Eliot School and to use the remaining space for Newton's integrated preschool program that also has been in need of remediation for serious space deficits. The preschool has been located at both Lincoln-Eliot and the Education Center and serves 150 children in 12 classrooms, with another 100 students receiving services for needs relating their special needs. With an elementary and early childhood facility envisioned for the site, a Statement of Intent (SOI) has been submitted to the Mass School Building Authority in April 2016 that demonstrates Newton's high level of need for a new Lincoln-Eliot Elementary School due to the age and condition of the building, the building's suitability for the educational program and overcrowding at Lincoln-Eliot and on Newton's north side. In the short-term, the preschool program will be relocated to the Aquinas main building as of September 2016 while planning for the permanent solution continues.

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

The renovation/addition at Aquinas has become an integral part of a comprehensive plan to address the needs of several school communities on Newton's north side, particularly those communities located in Wards 1 and 2. The fourth of Newton's major school building projects, Lincoln-Eliot is the

first project that would not require swing space since there is an alternate and preferred site. The Angier, Zervas and Cabot projects all had or have requirements for swing space and are utilizing the Carr Building during construction. After the Cabot School is complete, Carr would be available to become a new home for the Horace Mann Elementary School, where facility conditions and crowding have been problematic. Thus, the facility issues of two of Newton's four north side schools could be addressed within an escalated time frame, plus meeting the needs of the integrated preschool. It may also be possible to expand the enrollment capacity of Lincoln-Eliot beyond its current 18 classrooms to relieve crowding further on the north side, but the future size of Lincoln-Eliot will not be finally determined until the feasibility stage. Newton Public Schools is currently seeking feedback in upcoming public open meetings with the communities of both Lincoln-Eliot and Horace Mann on the plan. A joint meeting of the City Council and School Committee is anticipated in the fall as the plan continues to be developed and refined. The final two pieces of this comprehensive plan are to renovate the Lincoln-Eliot building as swing space to support future years of the long-range elementary facilities plan and the re-use of the Horace Mann building as a Parks & Recreation multi-generational community center.

## **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 Investor Services, 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. The City of Newton is now one of a very small number of communities to have received a AAA-Stable bond rating from both Moody's Investors Service and Standard and Poor's.

In their report, Standard and Poor's Ratings Services highlighted the very strong economy, strong management, strong budgetary performance, very strong budgetary flexibility, very strong liquidity, very strong debt and contingent liability profile, and strong institutional framework.

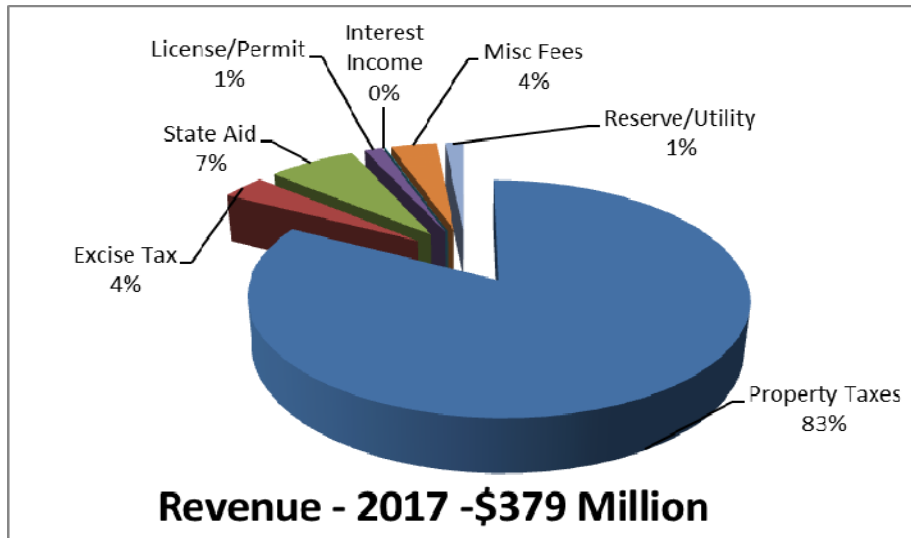
Citing Newton's "Strong management," the S&P report stated that "In developing the budget, the city references 10 years of historical data as well as projections contained within the long-term financial plan. Assumptions have generally been conservative, leading to a track record of balanced budgets. As early as 2010, the City adopted a form of zero-based budgeting to better align rising expenditures with a consistent revenue profile. As a result, expenditures that were not tied to performance outcomes were streamlined." Additionally, the report went on to state, "The city's strong management practices, which include detailed long-term financial and capital planning as well as the necessary policies to ensure favorable financial outcomes, lend stability to the rating."

"The announcements this winter from Standard and Poor's Ratings Services and Moody's Investors Service affirm the hard work that we have done to ensure our long-term financial sustainability. Since taking office six years ago, we have established a rainy day stabilization reserve 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 building program, which includes five new elementary schools in six years, the rebuilding of antiquated Fire Stations; a record amount of road and sidewalk repair; 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 our Administration."



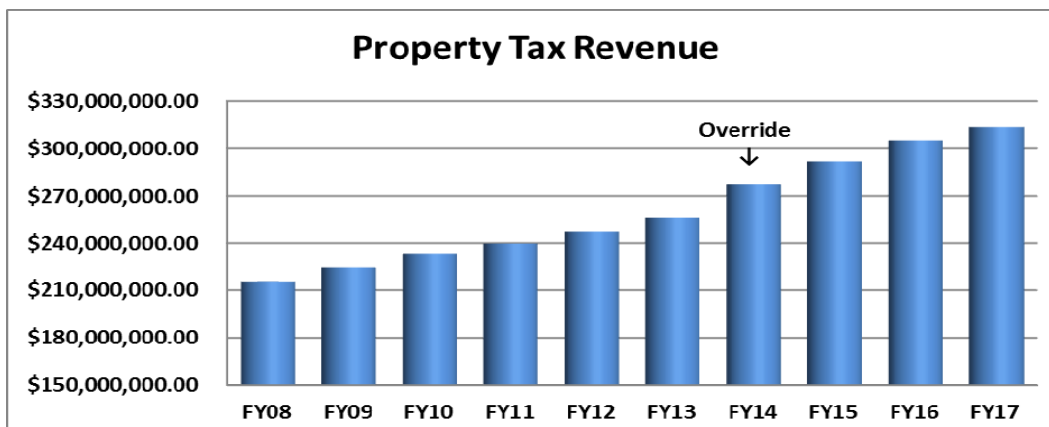
## Projected Revenue- Fiscal Year 2017

A vital 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 2017 Revenue is projected to total just under \$379 million, a \$17 million increase over the FY2016 original budget. This increase includes \$1.65 million of debt excluded revenue, and \$1.4 million of transfers from the Capital Stabilization Fund for Operating Override Debt Service. The breakout of projected revenue sources for Fiscal Year 2017 is as follows:



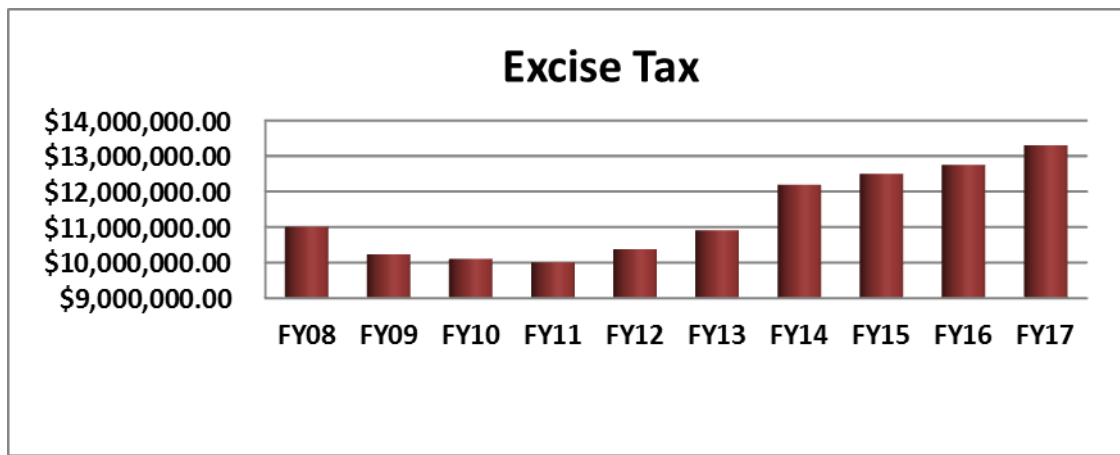
## Property Tax Revenue

Proposition 2½, passed by the Commonwealth of Massachusetts 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. FY2017 Property Tax Revenue is estimated to total \$313.8 million including a projection of \$4.0 million from “new growth or redevelopment”.



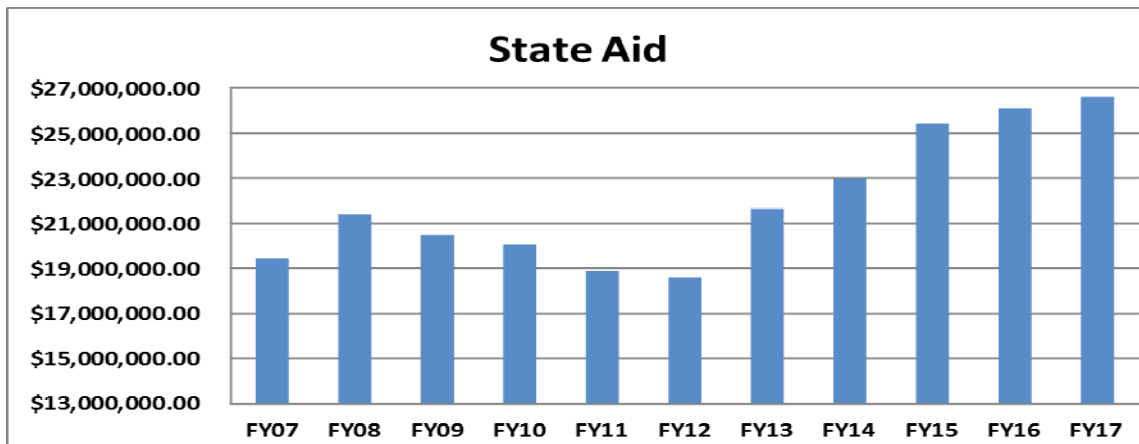
## Excise Tax Revenue

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, \$12,750,000, in FY2016. Total excise tax accounts for almost 4% of the overall operating revenue and has been budgeted at \$13.1 million.



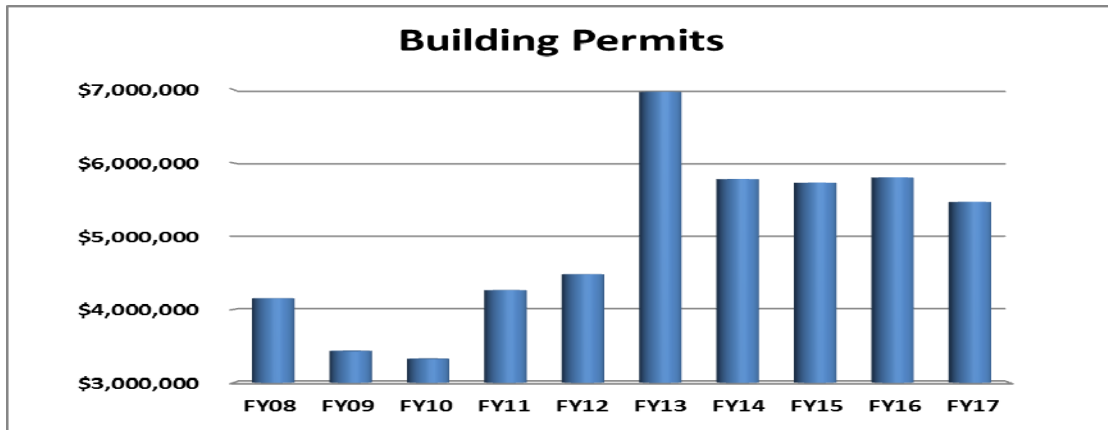
## Revenue from State Aid

State Aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2012. As represented in the chart below, the previous four fiscal years have seen an increase in the amount allotted to the City. The Fiscal Year 2017 Budget for total State Aid has been increased from the previous year budget. Unrestricted Government Aid has been forecasted at \$5,650,430, while Chapter 70 revenue is projected to be \$20,480,657, an increase of \$232,952 and \$442,530 respectively.



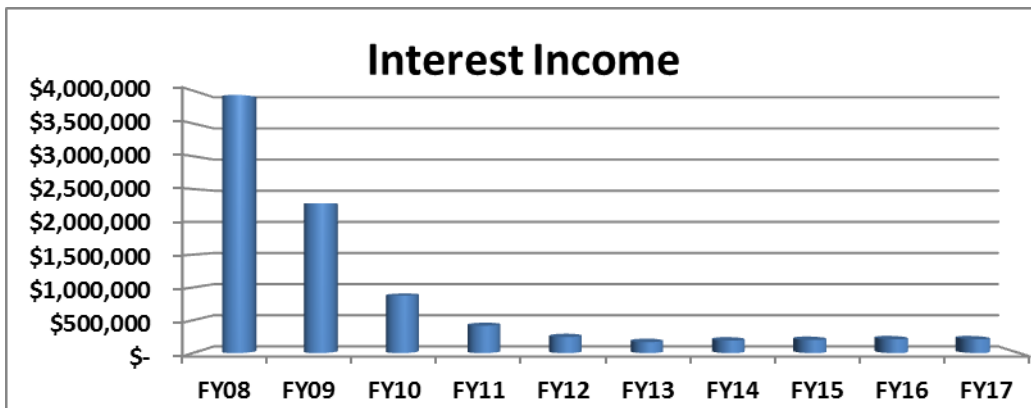
## Revenue from Building Permits

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. Although unprecedented numbers of building permit applications have continued this year, the Administration has budgeted this revenue conservatively at \$5.4 million.



## Interest Income

Interest income earned on the City’s financial investments has been negligible over the past several years. Unfortunately, forecasts indicate that this trend will continue throughout the next year.



## Reserve for Abatements and Exemptions

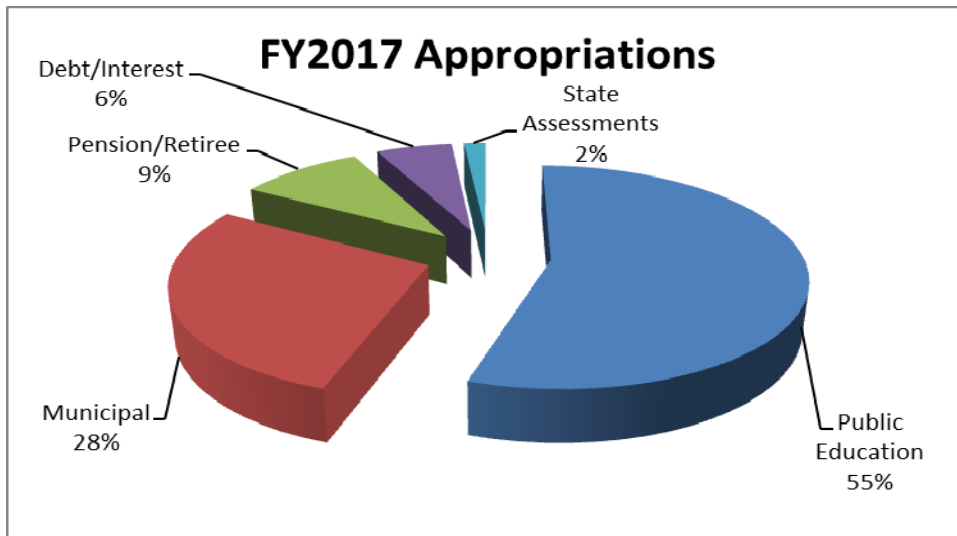
Each year the City of Newton sets aside a reserve for property owners who qualify for tax assistance or who successfully appeal the assessed value of their property. Pending appeals against the City include those by telecommunications companies and by the major electric and gas utilities. The City of Newton is collaborating with a number of communities to share the costs of these appeals. The Assessing Department has a strong record of defending the valuation of the assessed property in the City. This has enabled the Administration to budget the reserve at slightly more than 1% of the total tax levy for abatements and exemptions, amounting to \$3.5 Million for Fiscal Year 2017.

## **Projected Expenditures – Fiscal Year 2017**

The successful passage of the override package has provided the necessary funding to enable the City to address the following factors: 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 have 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 perhaps 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 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 O.P.E.B. liabilities, and remains vigilant managing other large municipal service expenditures.

Fiscal Year 2017 Expenditures total \$379 million broken out as follows:



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

Salaries, compensation, and health benefits for the City’s active employees total 65% of the general fund operating budget, and are consequently the single most important cost driver.

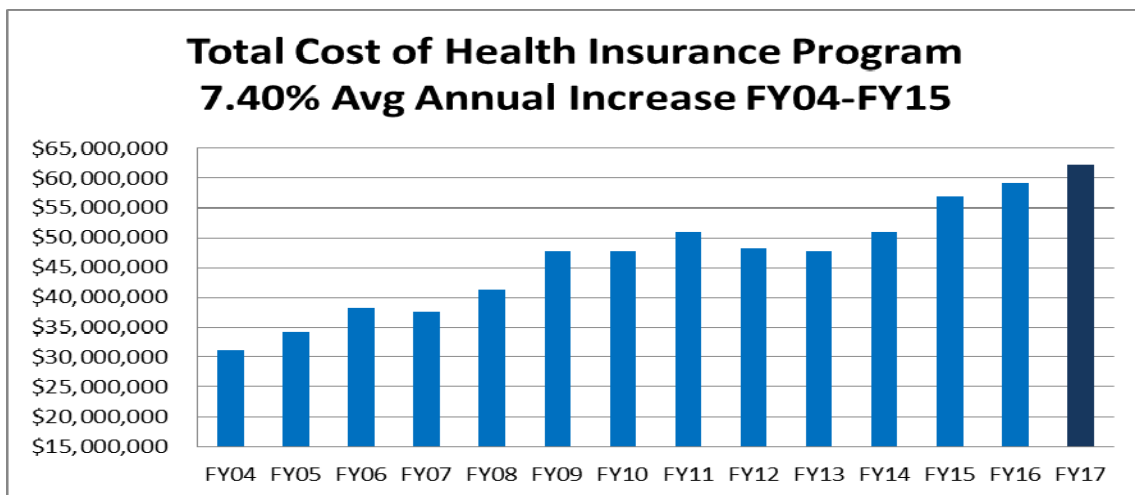
During the prior decade the average increase in salaries, compensation, and health care benefits for active employees for the period FY2006 through FY2010 was 4.37%. This previous growth rate was unsustainable and contributed in large part to the City’s “structural deficit”.

As mentioned earlier, the Administration has reached agreement with most of its 17 unions and is currently continuing negotiations with all 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

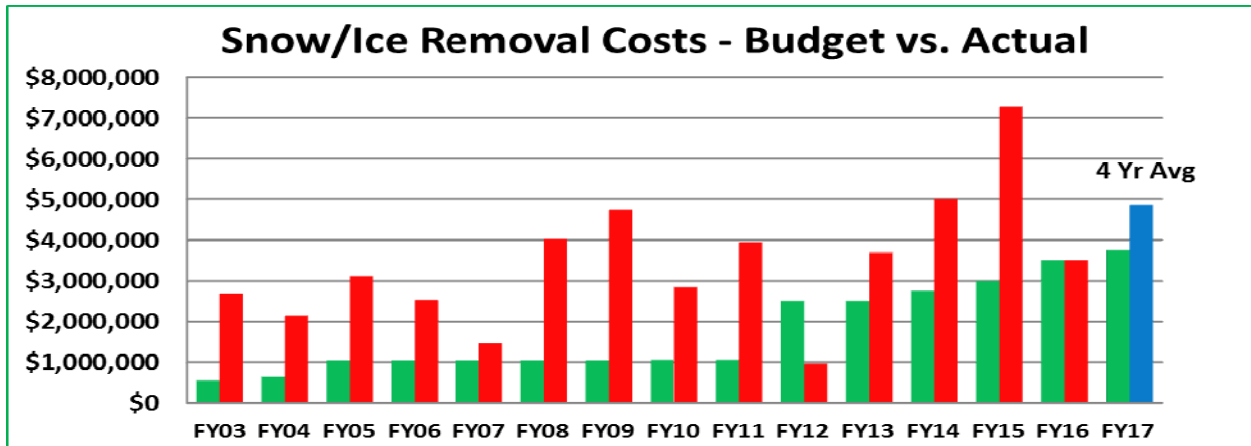
The City of Newton provides health insurance benefits for almost 2,500 active employees and their dependents, as well as almost 2,800 retirees, for a total insured population of more than 8,600 members. Because the City’s insured population is as large as it is, the City is “Self Insured”. The cost of a Self-Insured Health Insurance Program is comprised of costs in three main areas: the actual cost of claims, the 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 and health consultants to develop “working” rates. These working rates are projections of costs. If actual costs are less than projected, the City benefits and “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 systematically increase the Snow/Ice Removal Budget until such time as it is equal to a conservative four or five year average. After several years of increasing this appropriation, the Fiscal Year 2017 Municipal Budget is \$3.75 million, an increase of \$250,000.



## Municipal Personnel

Providing appropriate staffing levels 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 of Newton continues to be a top priority. Throughout the past five 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 Finance & Technology, Economic Development/Planning, and the Public Buildings Department. Some of the positions added this year include four new firefighters to begin to staff the City's Technical Rescue Team, three inspectors for the Inspectional Services Department, and a part-time position to coordinate the City's many social service initiatives.

## 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. The additional phase of projects in energy efficiency and solar energy, implemented in FY 2014 and 2015, will save the city over \$700,000 in FY 2016 and over \$14 million in the course of the next 20 years. Currently, the city is involved in plans for Phases 2 and 3 of these projects that will more than double these savings. The City of Newton has also received \$1,100,000 in energy rebates from Eversource and National Grid for energy efficiency projects implemented in 2014 and 2015. Phases 2 and 3 projects include both energy

efficiency and solar energy projects. The solar energy projects will involve installing solar panels at 10 approved sites in Phase 2 and additional sites throughout the City in Phase 3. Newton is also monitoring natural gas markets and looking into renegotiating and extending its natural gas contract to take advantage of lower gas prices. Also, the City has hired an electricity broker/advisor to get the best possible electricity prices in what has become a very volatile and expensive market. 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.

## **Additional Expenditures Funded in FY2017**

The Fiscal Year 2017 Budget will allocate funding for several new and existing initiatives which will, in turn, address core city needs. Some of the key initiatives funded are as follows:

- Four new firefighters to supplement establishment of the Technical Rescue Team,
- Deployment of 340 BigBelly smart, street-tough, solar-powered stations,
- Implementation of a citywide Mobile Parking App,
- An increase in the structural investments made in the City's streets and sidewalks,
- Increased allocations toward a comprehensive tree plan for the City,
- Funds allocated to replace equipment and gear in the fire department,
- Targeted enhancement of the City's technology,
- Continuation of the comprehensive traffic signal improvement plan,
- Increased resources for snow and ice removal,
- As well as many others.

The City has made substantial progress in identifying and proactively planning for the maintenance of baseball fields and the replacement of play structures in the City, and has budgeted funds to address both of these vital capital needs.

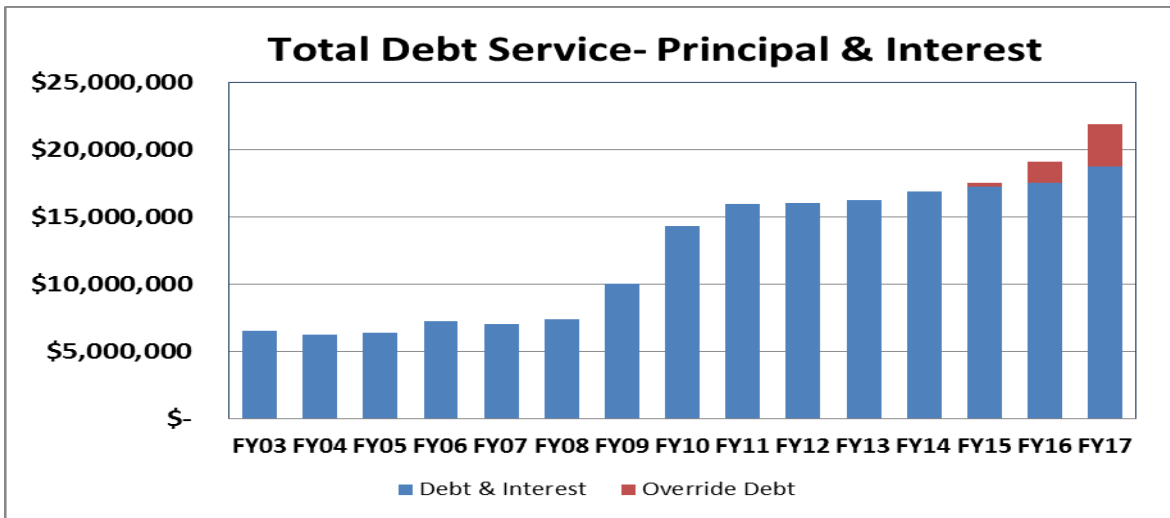
## **Debt Service**

And finally, not only has the City been able to maintain its triple A bond rating with Moody's Investor Services throughout the past 6 years, this year for the first time the administration also asked Standard and Poor's to rate the City. In January the City was pleased to announce that Standard and Poor's also assigned a triple A rating to the City, citing, "Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology and strong budgetary performance, with balanced operating results in the general fund".

With this double triple A rating, the City of Newton has joined a very small group of municipalities who have earned triple A ratings from these two highly regarded institutions.

This year the City not only sold \$56 million of new debt, but was also refinancing \$20 million of 2008 debt. As a result of the tremendous confidence that the rating agencies have placed in Newton, not only was the City able to receive very favorable interest on these bonds, save more than \$3 million in

interest payments on the refinanced bonds, but also receive a cash payment of more than \$6 million of premium offered for these bonds.





# 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.