

Executive Summary

“For our financial plan to be sustainable we must remain steadfast in our determination to balance revenue and expenditures; we must address infrastructure needs; we must provide for the functions of government; we must fully fund our liabilities; and we must maintain an appropriate level of reserves. We cannot forget where we have been and how far we have come and we must remain vigilant in our oversight of every tax dollar that the people of this City have entrusted to us.”

**Mayor Setti Warren,
Monday, March 16, 2015**

Achieving the Vision

Throughout the past five 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.

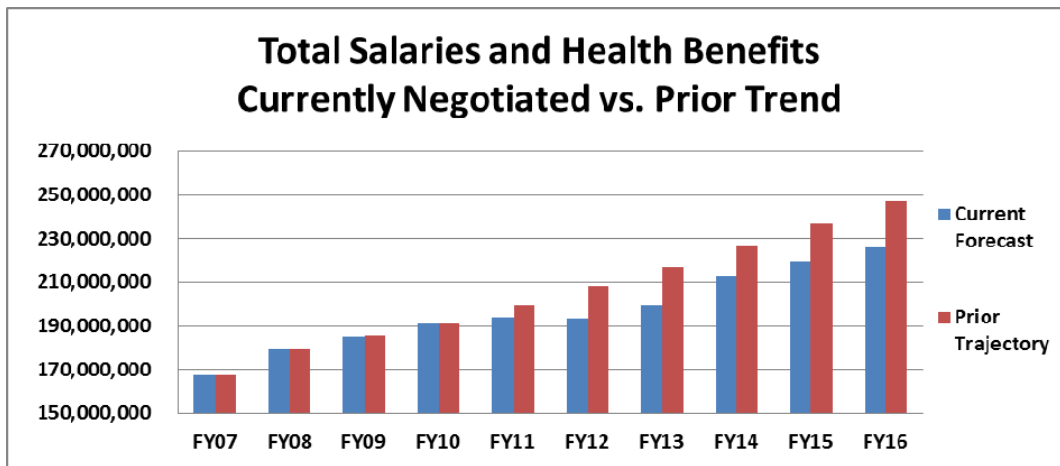
This budget has been developed with the specific intent of improving the delivery of municipal services, creating efficiencies, and reducing costs while dedicating resources toward several strategies designed to enable the City to achieve eight primary desired outcomes:

- 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

In the summer of 2014 collective bargaining agreements with all 17 of the City of Newton’s bargaining units expired. As of this spring, the Administration has reached agreement with multiple municipal unions and continues to meet with the remaining municipal and school groups. It is the expectation of the Administration that collaboration with union leadership will allow these new contracts to be structured to maintain parity between the growth rate of both revenue and expenditures. The three year collective bargaining agreements that were negotiated for the FY2011 – FY2014 period 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 as the basis for developing its operating 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 made Performance Management a high priority. 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. This year, the City has taken the next step in data-driven decision making, with the launch of the new “DataStat Newton” program. This program will track on a monthly basis everything from recycling rates and number of potholes filled, to auto-pedestrian accidents and changes in the commercial tax base. On a monthly basis, Mayor Warren and the executive team will meet collectively 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 will be 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 will play 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 FY16-FY20 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 Board of Aldermen 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 FY16 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



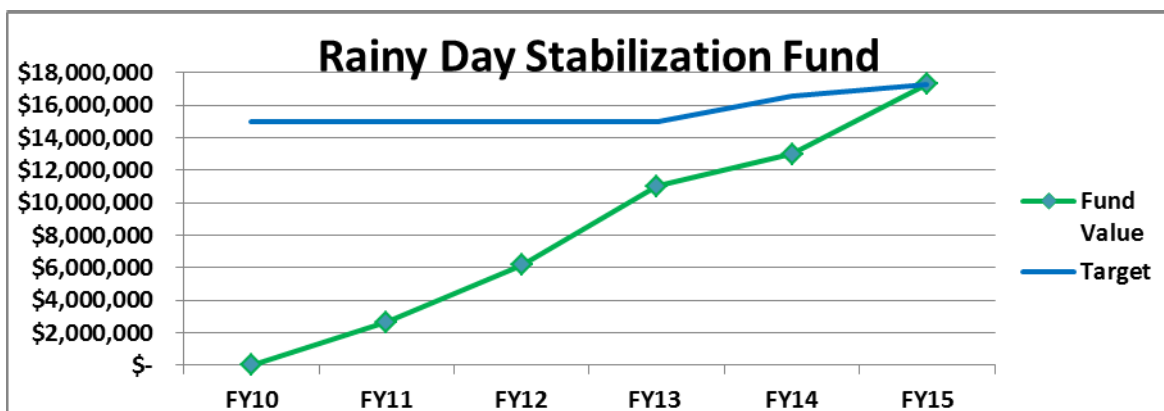
Needham Street



The Street

Rainy Day Stabilization Fund

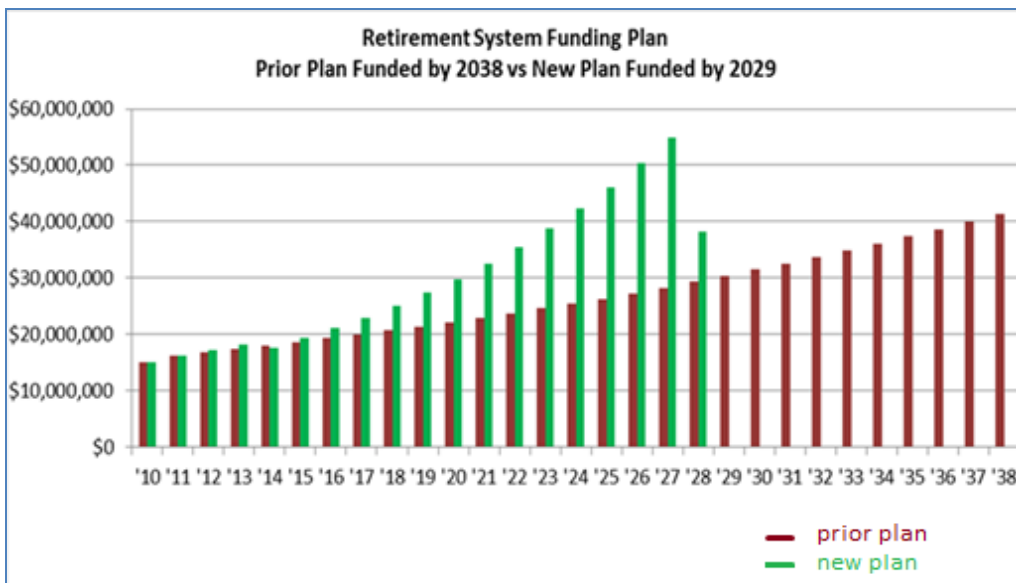
In 2010 the City of Newton established a Rainy Day Stabilization Fund with an initial funding level of \$2,643,271. The Fund was established as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic, expenditure. These funds may be utilized to assist in addressing 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. These funds remain segregated to prevent these 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 Aldermanic Finance Committee, the Comptroller, members of the Board of Aldermen, and the Administration the fund has reached its goal of 5% of the total operating budget for FY 2015. The current fund balance is \$17,294,543. 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 49% 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 2016 Budget includes an annual increase of 8.5% in support of this decision.

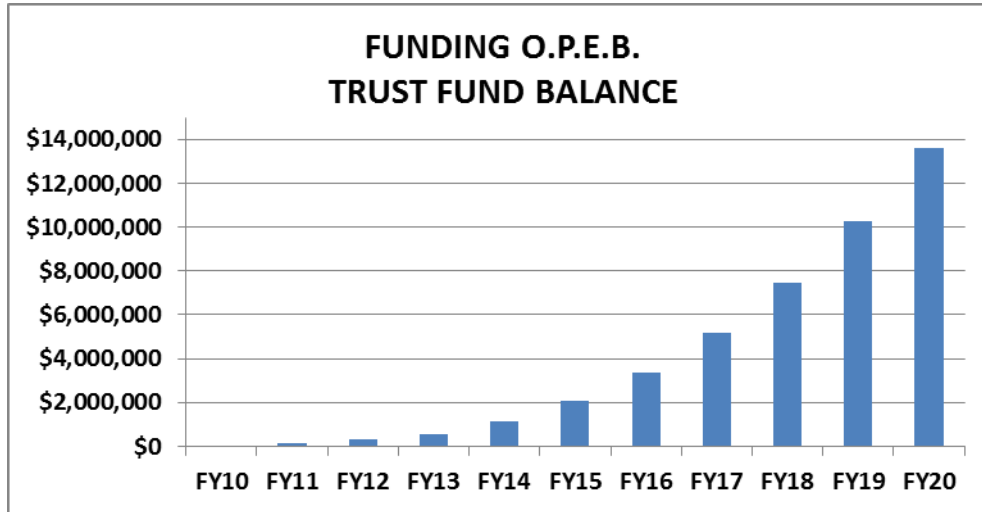


Other Post Employment Benefits (O.P.E.B.)

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. Currently, the City has identified an updated O.P.E.B. unfunded liability of roughly \$554 million, requiring a \$47 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 FY2016 Budget includes an appropriation of approximately \$1.4 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 2016 Operating Budget is the Mayor’s commitment to the Newton Public Schools.

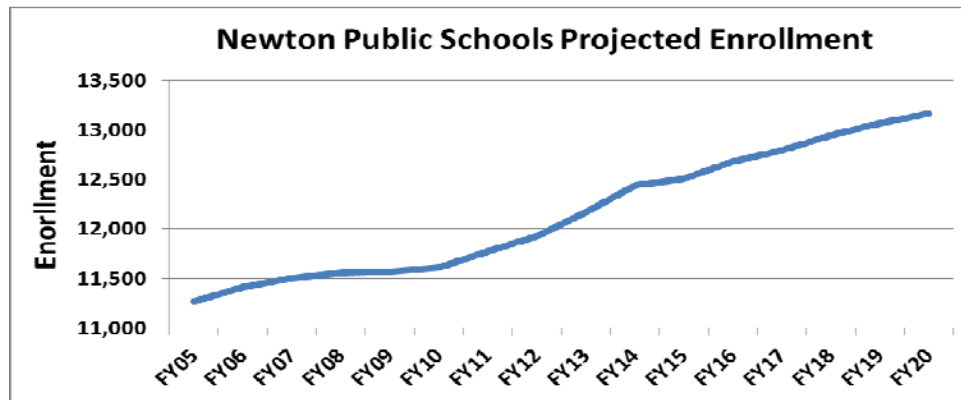
As noted in the School Department Budget, the Newton Public School district serves students in fifteen elementary, four middle, two high schools, an alternative high school and an integrated preschool. The FY16 Superintendent’s Proposed Budget is \$203,710,912 and is expected to serve 12,683 students in grades K-12. The following five areas are the factors considered in the development of the NPS FY16 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 1,235 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 2015-2016, Newton Public Schools will again experience significant enrollment growth with a projected net increase of 180 students. Over the next five years, enrollment growth is projected to be strongest at the high schools, with a projected net increase of 339 students through 2019-20. Over the same time period, the projected net increase is 168 students at the elementary level and 152 students at the middle school level.



Consolidated Pre-K and North Newton Elementary Schools Solution

As many people know, the property known as the former Aquinas College has been on the market for the past few years with an asking price of \$18 million. The property had been under agreement for the past several months, however, that deal “fell through” within the past few weeks. Consequently, the administration was notified that the sale was not fully executed and that the property was once again going to be available. After consultation with the Superintendent of Newton Public Schools, the President of the Board of Aldermen, the Ward 1 Aldermen, and the Chair of the School Committee, the Administration is pleased to announce that it has reached an agreement to purchase the property for \$15,750,000, contingent upon affirmative vote of the School Committee and two thirds of the members of the Honorable Board of Aldermen. This is a very exciting opportunity that has presented itself to the Administration within the past few weeks, one that finally makes operational, financial, and educational sense. This now becomes an integral part of a comprehensive plan that will address the needs of several school communities, particularly those communities located in Wards 1 and 2.

The Comprehensive Plan

The purchase of this property will enable the City to accomplish many initiatives. Newton Public Schools will finally be able to combine the entire Pre-K program within one facility. Additionally, the former Aquinas property is large enough, that once renovated, will be able to become the new home for the current Lincoln Eliot community. Once the Cabot renovation/addition is complete, the Horace Mann community will be able to move to the Carr School, and Lincoln Eliot will become the new swing

space. As the final piece of this comprehensive solution, the Parks & Recreation Department will move to the Horace Mann facility which will become a multi-generational community center.

The City of Newton's Aaa Bond Rating

In January of 2015, the City of Newton once again earned an "Aaa – Stable" rating (the highest possible) from Moody's Investor Services for its General Obligation Municipal Purpose Loan of 2015 Bonds. Concurrently, Moody's reaffirmed the Aaa rating assigned to \$213 million of previously-rated long-term general obligation debt.

Per the official statement issued by Moody's - The Aaa rating incorporates the city's wealthy and diverse tax base within a strong regional economy and a manageable debt profile with moderate future borrowing plans. The rating also reflects the city's strong fiscal management with a narrow, but improved financial position.

Strengths continued to be cited as follows:

- *Sizeable, wealthy and diverse tax base with favorable location and institutional presence*
- *Sound financial policies and conservative budgeting approach*

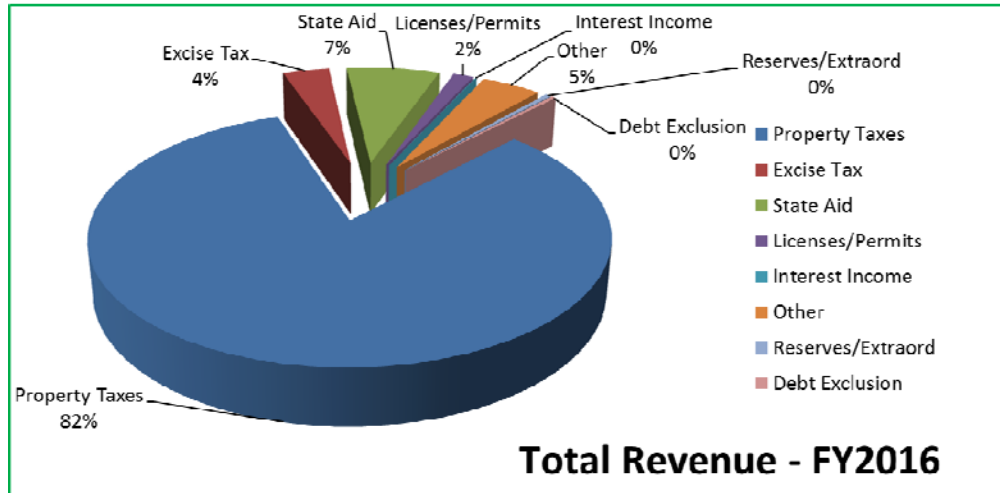
Conversely, challenges were cited as follows:

- *Relatively narrow fund balance levels*
- *Limited ability to raise property taxes under Proposition 2 ½*
- *High liabilities for pension and OPEB*

The City is very pleased to have maintained the Moody's Aaa Bond Rating and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

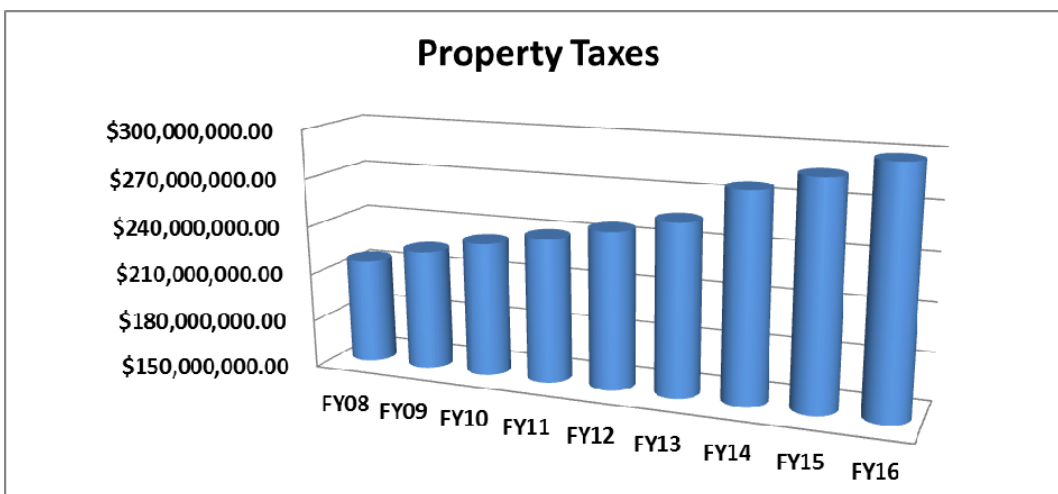
Projected Revenue- Fiscal Year 2016

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 2016 Revenue is projected to total approximately \$362 million, a \$17 million increase over the FY2015 original budget and includes \$1.5 million of non-recurring budget balancing revenues, \$1.3 million of debt excluded revenue, and \$.7 million of additional FY2015 Chapter 70 revenue. The breakout of projected revenue sources for Fiscal Year 2016 are as follows:



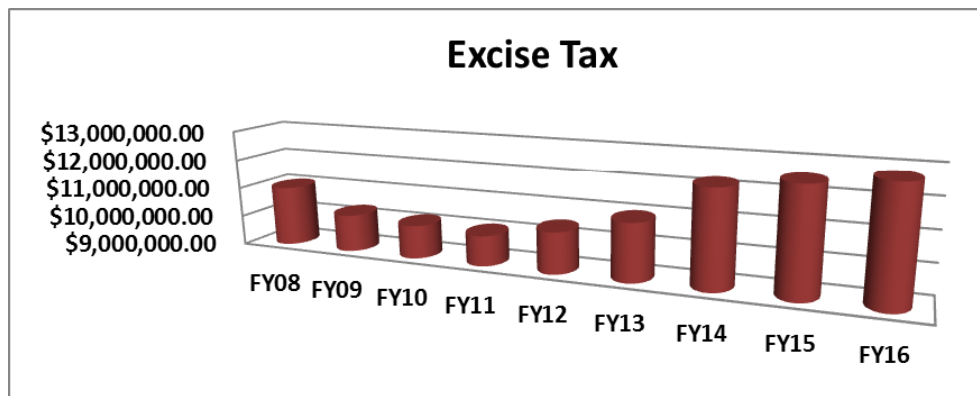
Property Tax Revenue

Proposition 2 ½, passed by the Commonwealth of Massachusetts in 1980, states that the annual increase of the tax levy for the City of Newton cannot exceed 2 ½ 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. This tax revenue also includes a projected increase of \$3M from "new growth or redevelopment".



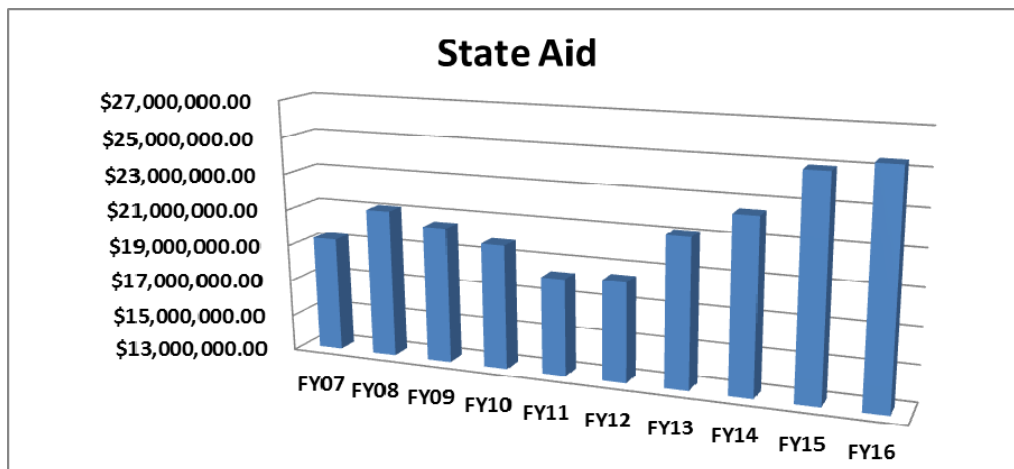
Excise Tax Revenue

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, \$12,500,000, in FY2015. Total excise tax accounts for approximately 3% of the overall operating revenue and has been budgeted at \$12.7 Million.



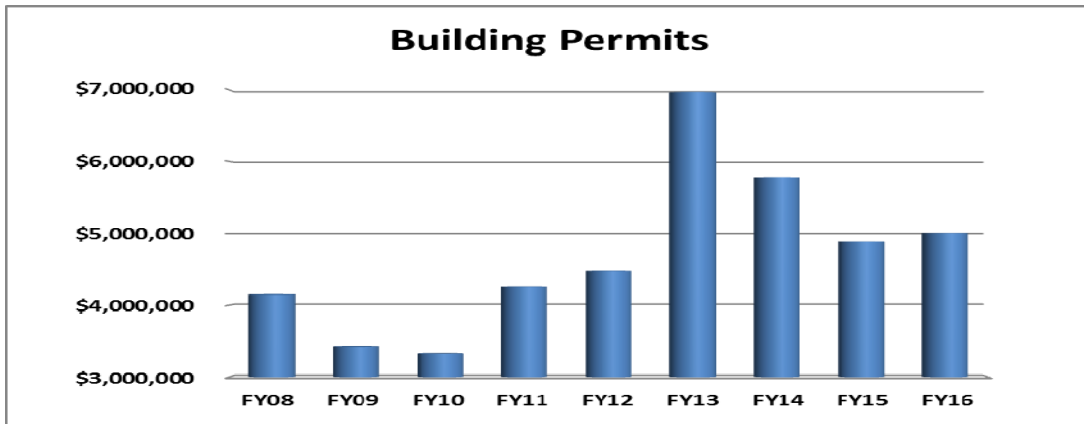
Revenue from State Aid

State Aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2011. 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 2016 Budget for both Unrestricted General Government Aid and Chapter 70 revenue have been increased from the previous year budget. Unrestricted Government Aid has been forecasted at \$5,417,478, while Chapter 70 revenue is projected to be \$20,038,127, reflecting the trend of increasing enrollment at the Newton Public Schools.



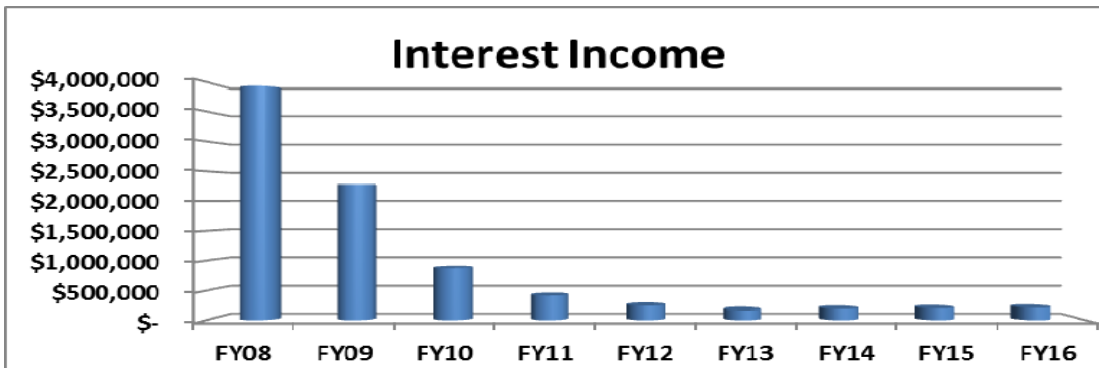
Revenue from Building Permits

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. With the uptick in the economy in FY2013 and FY2014, the Administration budgeted this revenue at \$5 Million.



Interest Income

Interest income earned on the City’s financial investments has been on the decline since Fiscal Year 2007, a direct result of the overall economic climate. With interest rates beginning to increase slightly during Fiscal Year 2015, revenue from investments is projected to be \$210,000 for FY2016.



Reserve for Abatements and Exemptions

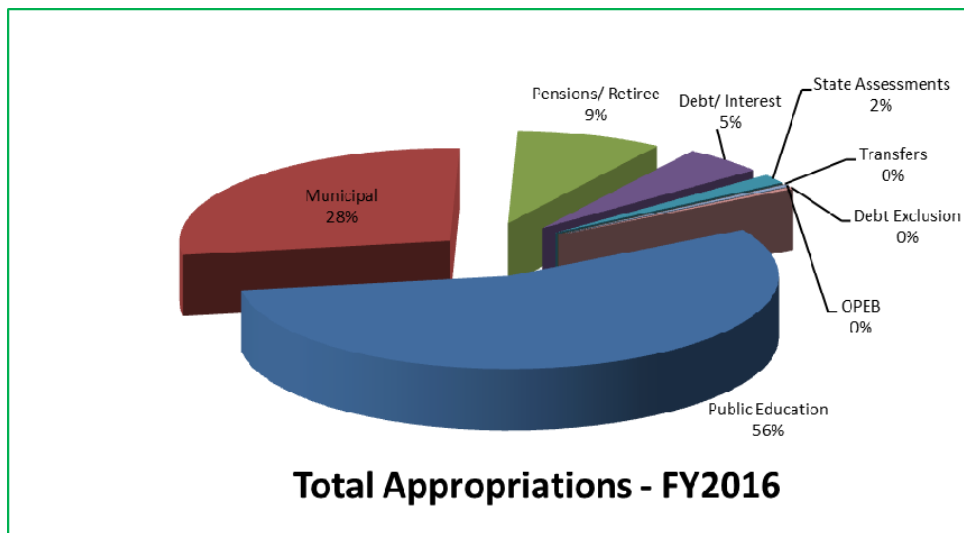
Each year the City of Newton sets aside a reserve for property owners who qualify for tax assistance or who successfully appeal the assessed value of their property. Pending appeals against the City include those by telecommunications companies and by the major electric and gas utilities. The City of 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 1.21% of the total tax levy for abatements and exemptions, amounting to \$3.7 Million for Fiscal Year 2016.

Projected Expenditures – Fiscal Year 2016

The successful passage of the override package has provided the necessary funding to enable the City to address the following factors: deplorable 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 2016 Expenditures total \$362 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”.

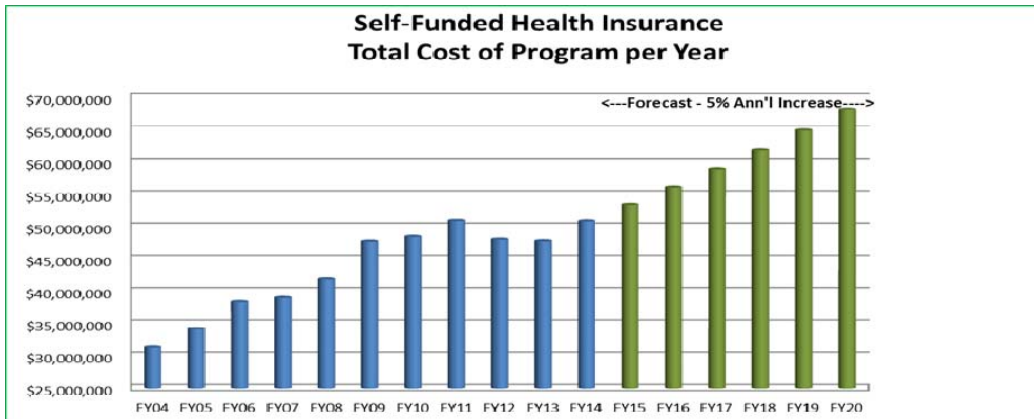
As mentioned earlier, the Administration has reached agreement with some of its 17 unions and is currently continuing negotiations with all remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy 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 \$250,000). 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.

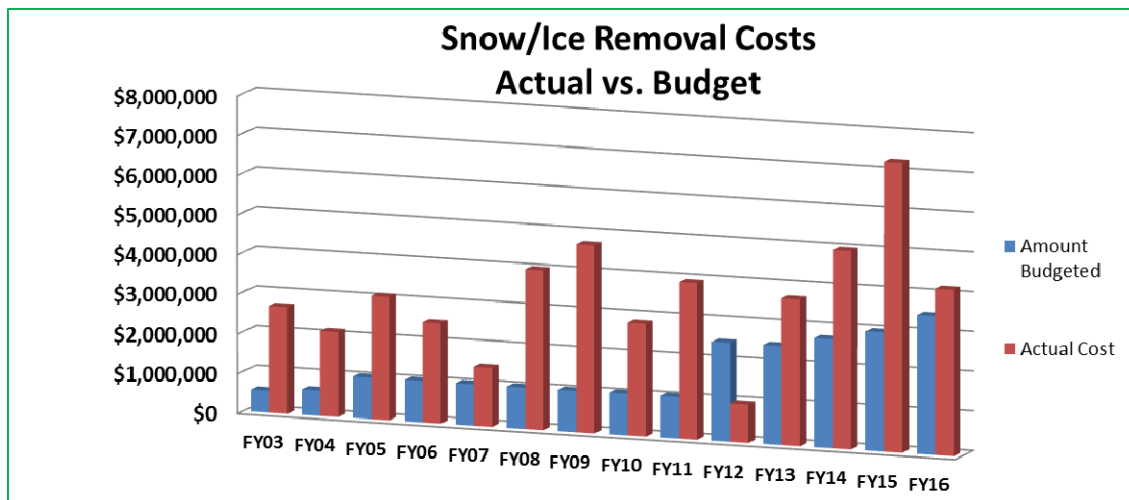
The City worked very closely with union leadership throughout the prior process to determine whether it was in the City's (taxpayers & employees combined) best interest to remain self-insured or whether it was in the City's best interest to join the Commonwealth of Massachusetts' Group Insurance Commission (G.I.C.) State Run Health Insurance Plan. Throughout the analysis, both sides concluded that, at least for the 3-year period covered under all of the formerly negotiated agreements, remaining self-insured was in the City's best interest.

In order to maintain financial sustainability, the administration must continuously evaluate health insurance options. One such option, the Group Insurance Commission (G.I.C.), has been monitored closely. FY13 was the first full year in which the City of Newton could have participated in the G.I.C. A Loss Ratio Analysis was conducted and it was determined that the total cost of the City's Health Insurance Program for FY13 was less than it would have experienced as a member of the G.I.C. Similarly, a Loss Ratio Analysis was conducted on the City's FY14 total costs, and although the total cost of the plan was slightly higher than the G.I.C. would have been, the City's share was slightly less, due to the cost sharing arrangements negotiated in the last round of contract negotiations. Although it is too early to tell what FY15 will yield, the City will continue to closely monitor these costs 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 progressively budget an amount equal to the five year average (roughly \$4.2 Million) snow removal expenditure as a part of the annual budget. As reflected in the supplemental CIP, funds have been allocated for several pieces of snow removal equipment, equipment that is critical as weather seems to be growing more severe over recent years. Although that goal is still too ambitious to accomplish this year, the Fiscal Year 2016 Municipal Budget includes \$3.5 million for expenditures associated with the removal of snow and ice.



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. This year the City has added two new police officers, three forestry crew members to aid in the implementation of the tree replacement plan, and a document and scanning coordinator in the Clerk's office.

Environmental Sustainability

Furthering the City's environmental sustainability posture continues to be a key objective and will require a comprehensive approach that goes beyond counting kilowatts. 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 the most 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 \$600,000 in FY 2016 and over \$12 million in the course of the next 20 years. Currently, the city is involved in plans for Phase 2 of these projects that will more than double these savings. The City of Newton has also received \$800,000 in energy rebates from Eversource (NSTAR) and National Grid for energy efficiency projects implemented in 2014. Recently, Newton has entered into a two year contract for natural gas at rates that are lower than what the city has been paying under the current contract which expires October 31, 2015. Also, the City has hired an energy broker/advisor to work towards getting 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.

Additional Expenditures Funded in FY2016

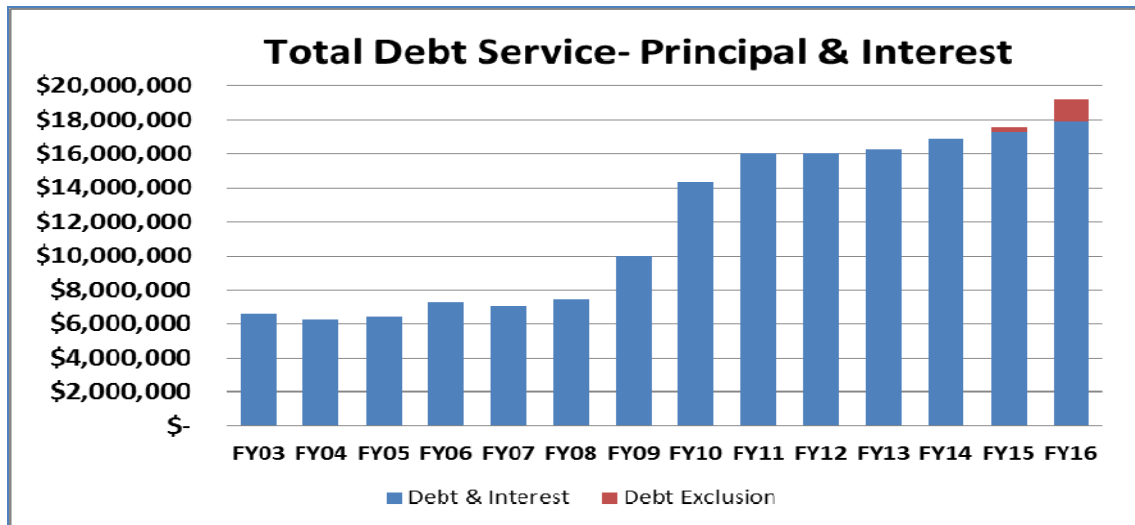
The Fiscal Year 2016 Budget will allocate funding for several new and existing initiatives which will, in turn, address core city needs. Some of the key initiatives funded are as follows:

- Two new sworn officers targeted to combat increasing safety concerns,
- An increase in the structural investments made in the City's streets and sidewalks,
- Increased allocations toward a comprehensive tree plan in the City,
- Funds allocated to replace equipment and gear in the fire department,
- Targeted enhancement of the City's technology,
- Funds for Phase 1 of a traffic signal replacement 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

This past year, largely in part due to the City's Aaa bond rating, the administration was able to refund \$19,635,000 of 2006 and 2007 General Obligation Bonds. This action will generate total savings of \$2,048,718 over the remaining life of the refunded bonds. The City plans to continue taking full advantage of its optimal bonding position by making capital investments outlined in the FY 2016 Capital Improvement Plan. Capital investments will target improving and maintaining the infrastructure of the city, among these projects will include upgrades to schools, fire stations, streets, energy efficiency, and accessibility to public buildings.



CITY OF NEWTON

FINANCIAL MANAGEMENT GUIDELINES

Financial Principles

On April 20, 2011 the Honorable Board of Aldermen 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.