

Executive Summary

“We know we have made tremendous progress over the last four years by dramatically changing how we do business. We have been rebuilding Newton’s finances, infrastructure and operations not just by making decisions based on what’s best for tomorrow, but by what will be best 5, 10, 20 and 30 years from now. We know that in order to build a sustainable, livable city for the 21st century we can’t be afraid to make the difficult decisions today that are in the best interest of all of Newton in the future. That is how we think about our jobs when we come to work every day and serve you the citizens of our city. We know Newton is successful because of our great school system, neighborhoods, solid city services, strong tax base and 13 unique villages that offer a variety of culture, arts, and businesses.

In order to meet your expectations now and in the future we must ensure financial sustainability by continuing the work we have started, so as to create a livable, sustainable, model city for the 21st century.”

**Mayor Setti Warren,
Tuesday, January 21, 2014**

City of Newton - Introduction

The City of Newton, rated 2012 “4th Best Place to Live in America” by CNN and Money Magazine, is a suburban city with a population of just over 86,000, located approximately seven miles west of Boston, Massachusetts. Newton was settled in 1630 as part of “the newe towne”, which was renamed Cambridge in 1638. It was incorporated as a separate town, known as Cambridge Village, in 1688, then renamed Newtown in 1691, and finally Newton in 1766. It became a city in 1873.

Newton is known as the Garden City. Unlike many communities that are established around a single Main Street or Downtown, Newton is comprised of thirteen different and distinct villages. Although many communities throughout the Commonwealth are experiencing declining student enrollments, the number of school age children attending the Newton Public School system has increased by approximately 1,200 students in the past several years and is expected to continue to rise by at least 650 additional students in the next five years.

Home to Newton-Wellesley Hospital and three colleges; Boston College, Lasell College and Mount Ida College, the City’s population increases by approximately 9,500 college age residents from September to May of each year.

The City boasts a fully accredited Police Department and has been ranked one of the safest cities in America several times during the last decade. Newton’s Fire Department has fully trained EMT’s on all apparatus and is currently in the process of a comprehensive upgrade of all station houses.

The Department of Public Works maintains over 300 miles of public streets, sidewalks, water mains, sewer lines and storm water drains, collects and disposes of more than 20,000 tons of municipal solid

waste and 11,000 tons of recyclable materials, and plows or treats the City's roadways during an average of 12 snow and ice events during each winter season.

Home to the Newton Free Library, the busiest single library building in the Commonwealth, the City also provides a number of recreational opportunities for residents of all ages, through camps, sports clinics, after school programs, swim facilities, senior trips and activities, and one of the largest special needs therapeutic recreation programs in the state. The City maintains 41 playgrounds, 21 school facilities and school grounds, 3 historic burial grounds, approximately 1,060 acres of parkland, as well as 2.5 million square feet of municipal, educational, and recreational buildings.

Throughout the past four years Mayor Setti Warren has worked diligently to deliver on the promises of the 2009 mayoral campaign: improving the delivery of municipal services, creating efficiencies, and reducing costs while dedicating resources toward several strategies designed to enable the City to achieve desired outcomes. This budget has been developed with the specific intent of dedicating resources to those desired outcomes:

- ❖ Excellence in Education,
- ❖ Unparalleled Public Safety,
- ❖ Vibrant, Diverse Community Life,
- ❖ Improved Infrastructure,
- ❖ Robust Economic Development,
- ❖ Environmental Sustainability,
- ❖ Long Range Financial Sustainability, and
- ❖ 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.

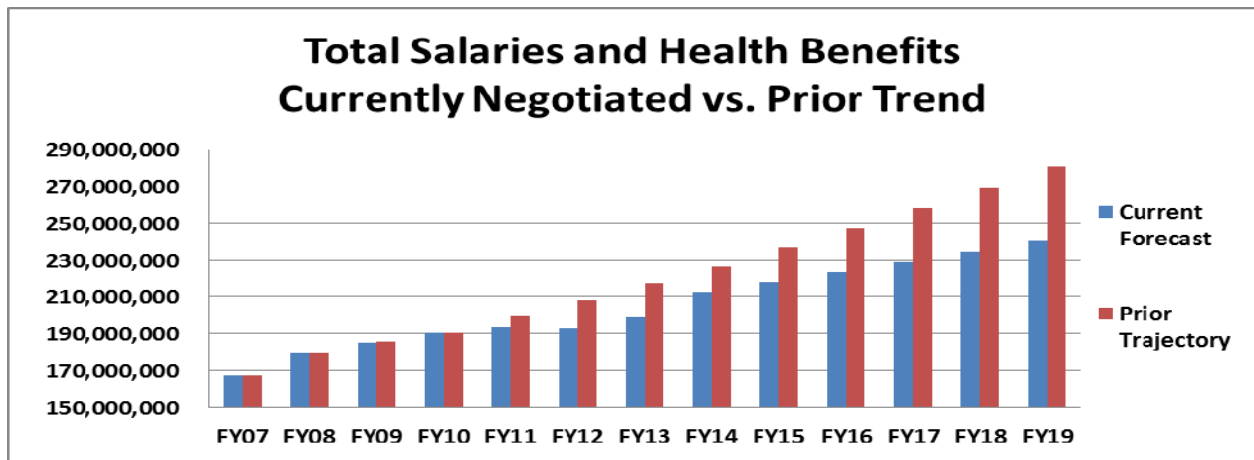
The successful passage of the override package on March 12, 2013 provided the necessary funding to enable the City to address the conditions, inadequate teaching areas, and capacity issues at the Angier, Cabot, and Zervas Elementary Schools; provide the financial resources to support increasing student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

This budget provides a "balance" of revenue and expenditures, while simultaneously addressing infrastructure needs and developing and maintaining an appropriate level of reserves. A sustainable budget strategy must have parity in the rate of growth of revenue and expenditures. General Fund revenue estimates are expected to capture 99% of total expected revenue for the year. The expenditure recommendations put forth in this budget will enable the Administration to continue to make significant progress toward the goal of budgeting 100% of projected operating requirements for the next fiscal year, while enabling the City to eliminate the "structural" deficit.

The City of Newton's Strategy for Financial Stability

Collective Bargaining Agreements

Throughout 2011, the City successfully entered into three year collective bargaining agreements with ALL unions. During those negotiations, the administration and union leadership worked cooperatively to identify opportunities to structure change, create efficiencies and develop parity in the growth rate of revenues and expenditures. As a result, all union contracts included plan design changes for health benefits, additional contribution rates for all new employees, a delay in contractually negotiated automatic step increases, and most importantly a combined projected annual growth rate in expenditures for all salaries, compensation and health benefits of 2.5%. The changes negotiated in those contracts were monumental and were accomplished only through a true collaborative effort on the part of the administration and union leadership, and has had the single most significant impact on the ability of the City to develop a viable, balanced, sustainable financial model. All municipal contracts will expire on June 30, 2014, while all school contracts will expire on August 31, 2014. The City and Union Leadership are in the early stages of the bargaining process for the next 3 year contract period. The Administration is confident that once again these talks will be conducted in a mutually respectful environment and will result in agreements that are fair to the City's valued employees and citizens alike.



Zero-Based Budgeting

The City implemented a zero-based budgeting strategy beginning with the development of the FY2012 Budget to ensure that every department function was reviewed comprehensively, that all expenditures were analyzed, and that planning and decision making was enhanced in order to maximize administrative and operational efficiencies. The zero-based budgeting process required all departments to justify and prioritize all activities before the City allocated any resources. Zero-based budgeting resulted in a more efficient allocation of resources, drove managers to find cost effective ways to improve operations, detected inflated forecasts, increased communication and coordination, identified and eliminated waste or duplication, and identified opportunities for efficiencies. The City has continued to utilize this process of budget preparation in order to continue to maximize efficiencies.

Performance Management

During the course of the past 4 years, the City embarked on a performance-based management initiative utilizing a systematic approach of “mapping”, analyzing and improving the City’s processes, throughout operational as well as administrative departments, in order to make the delivery of services more effective, more efficient, and more capable of adapting to an ever-changing environment. The procurement process, payroll process, building maintenance, softscape, and hardscape maintenance activities were “mapped” in order to identify and prioritize improvements. Additionally, the City has established and published “scorecards” for many departments measuring performance in several different areas. This process of performance measurement will continue to expand and will be an invaluable tool as the Administration strives for continuous improvement in the delivery of services to the residents of the City.

Newton Free Library		City of Newton Performance Management Scorecard February 2014							
Traffic Light Key		Trend Key							
Green = actual value meeting or exceeding previous year		Green = cumulative Year-to-Date better than Last Year-to-Date							
Yellow = actual value within 2.5% of previous year		Yellow = cumulative Year-to-Date the same as Last Year-to-Date							
Red = actual value more than 2.5% away from meeting target		Red = cumulative Year-to-Date worse than Last Year-to-Date							
Metrics measured monthly unless otherwise noted									
Metric	Yearly Goal	Monthly				Result	Yearly		Trend
		Feb-14	Feb-13	Δ	12 mo. Avg.		YTD 2014	YTD 2013	
Outcome #1. Library Users have a rich array of collections and resources									
Main Library circulation	Improve Borrowing of Physical Collection	128,840	137,591	-6.4%	139,041	🔴	270,844	287,681	🔴
Adult Print	"	39,753	42,816	-7.2%	43,415	🔴	84,175	92,088	🔴
Adult Audio Visual	"	34,825	39,004	-10.7%	37,609	🔴	73,914	81,058	🔴
Teen Print	"	3,009	3,439	-12.5%	3,598	🔴	6,410	6,919	🔴
Teen Audio Visual & Games	"	682	586	16.4%	764	🟢	1,390	1,253	🟢
Children's Print	"	39,174	40,887	-4.2%	41,582	🔴	81,747	84,895	🔴
Children's Audio Visual & Games	"	7,731	8,303	-6.9%	7,954	🔴	15,440	16,325	🔴
Audio Books Downloaded	Improve by 33% over last year	899	498	80.5%	746	🟢	1,921	976	🟢
Electronic Books Downloaded	Improve by 50% over last year	2,767	2,058	34%	2,512	🟢	5,847	4,167	🟢
Outcome #2. Library users receive an excellent array of services from well-trained staff									
Percentage of circulation using Express Lane checkout Increase the use of Express Lane checkout workstations									
Library Database Uses	New Metric: Measure is one month behind. Increase awareness and use of databases Feb-14	8,986	8,622	4.2%	7,604	🟢	18,432	16,150	🟢
Outcome #3. Library programs and outreach are a key element of Newton's cultural life									
Total visitors to the library Increase Library visits									
Total programs	Increase our offering of programs	115	103	11.7%	137	🔴	257	279	🔴
Total patrons attending programs	Increase participation in Library Programs	2,206	2,723	-19.0%	3,357	🔴	5,658	7,377	🔴
Outcome #4. Library users get convenient access to an attractive, well-maintained, and efficient facility									
Refreshing and re-imagining the library Design steps achieved this month vs planned target									
Days with parking lot full observations	Less than 1/3rd of days	5	<		10	🟢			🟢
Outcome #5. Library users have the technology resources to take full advantage of the information age									
Public Computer signups	Increase public computer usage	3,097	3,679	-15.8%	3,794	🔴	6,230	8,055	🔴

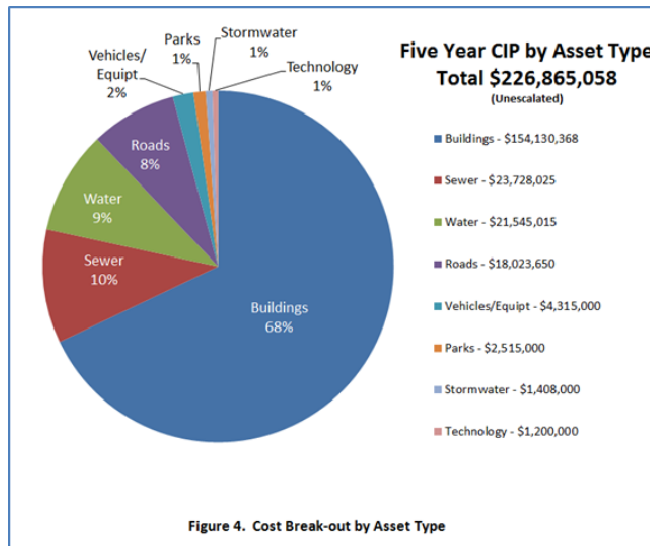
Notes

January saw the lowest number of visitors in the past five years, due to our extreme weather conditions. We did 34 fewer school and pre-school outreach visits than last year due to closings and weather issues. (49 vs 83 last Jan.). Despite this, reference doubled the number of class attendees by increasing from 6 to 11 classes offered.

Capital Infrastructure Assessment

One of the primary responsibilities of the leadership of the City of Newton is the preservation and maintenance of the community’s infrastructure: school buildings, municipal buildings, roadways, parks, recreation spaces, and water and sewer facilities. Planning for the funding of the continued maintenance and long term improvements of this capital infrastructure is crucial in retaining a strong financial management posture. On November 7, 2011 the City of Newton unveiled a first-of-its-kind Capital Improvement Plan where prioritization of capital projects was driven by eight different criteria specific to the values of the City of Newton. The risk of failure for each asset was evaluated as to the consequence of its failure, resulting in a rating to ascertain which projects may warrant funding ahead of others.

The FY2015-2019 Capital Improvement Plan (CIP) continued to build on that risk-based prioritization process. Developing a longer term vision for the City required a holistic review of the City’s capital needs and the life expectancy of all assets and their component parts. The resulting 20 year plan now provides the appropriate context within which the 5 year CIP can be considered. The appropriations within the FY2015 Municipal Operating Budget support the implementation of the City’s capital needs as prioritized in the CIP.



Economic Development

The Administration has continued to work closely with the Honorable Board of Aldermen, local developers, and State and Local Officials to foster economic development where it makes sense for the City. Consequently, several projects continue to move forward:

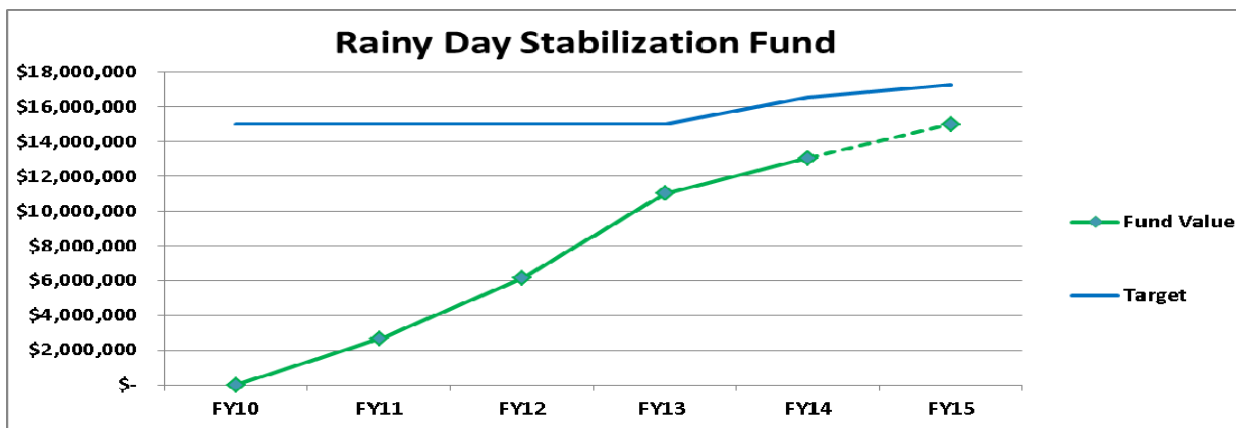
- Chestnut Hill Square – located on Route 9 – near completion – expected to generate more than \$1.3 million additional tax revenue per year;
- Riverside Station – located at Rte 128 Exit 22 – Special Permit approved through the Board of Aldermen – expected to generate more than \$2.0 million additional tax revenue per year, once completed;
- Austin Street Parking Lot – Proposals in final stages of evaluation – City will then negotiate terms and scope of the final project – annual tax revenue yet to be determined; and
- Needham Street Corridor – Work is on-going to complete a Master Plan. City staff are working with the Town of Needham and the Newton-Needham Chamber of Commerce on the N2 Corridor initiative to identify funding to support the major reconstruction of Needham St.



(The Station at Riverside)

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. This 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 control of the City, or an unusually large expenditure resulting from such things as a 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. Since its establishment, the City has added approximately \$10.5 million to this fund which now totals more than \$13.0 million. The City's goal is to reach \$15 million in Fiscal Year 2015.



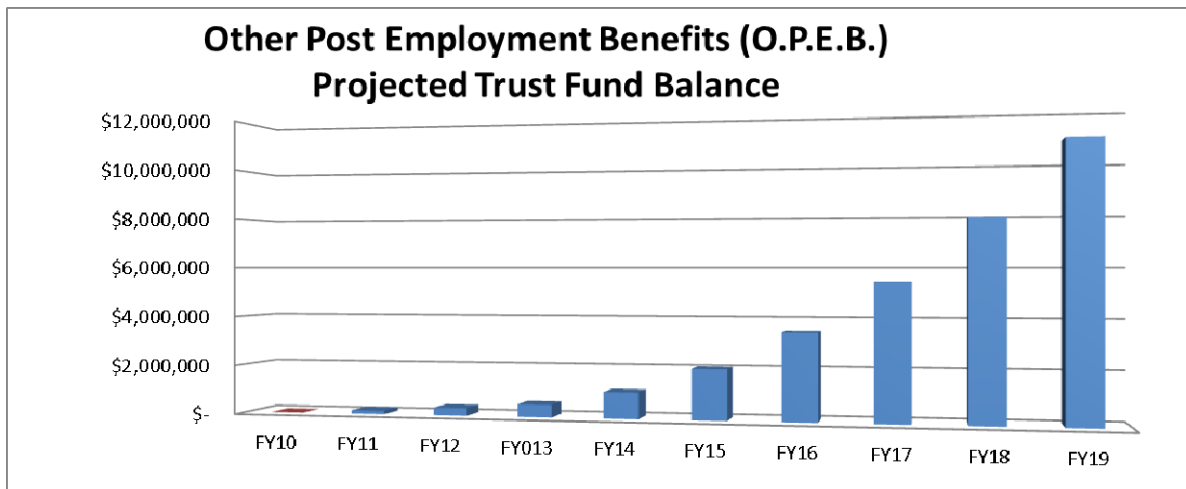
Contributory Retirement Plan

The City of Newton Contributory Retirement Plan covers approximately 3,500 active and retired employees. Prior to the recent downturn in the economy (as of January 1, 2008) the total actuarial accrued liability was approximately \$419 million of which \$139 or 33% was unfunded. However, as a result of the less than favorable economic pressures experienced by the fund in 2008-2009 the total actuarial accrued liability as of January 1, 2013 now totals \$512 million, while the unfunded portion has increased to \$244 million or 48% now unfunded. 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. The City of Newton Contributory Retirement Board voted to implement a funding schedule which will fully fund the Newton Retirement Fund by the year 2037. The Fiscal Year 2015 Budget maintains that funding schedule.

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 recently 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 \$600 million, requiring a \$46 million Annually Required Contribution or (ARC).

The FY2014 Budget included the set aside of approximately \$500,000 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 brings on more and more new employees, this funding methodology will cause this appropriation to grow exponentially. Consequently, the FY15 Budget includes an appropriation in excess of \$900,000 representing 3% of the salaries of approximately 600 employees. The Administration intends to continue the policy of “pay as you go” for all O.P.E.B. liabilities for current and former employees hired prior to July 1, 2012.



Commitment to Education

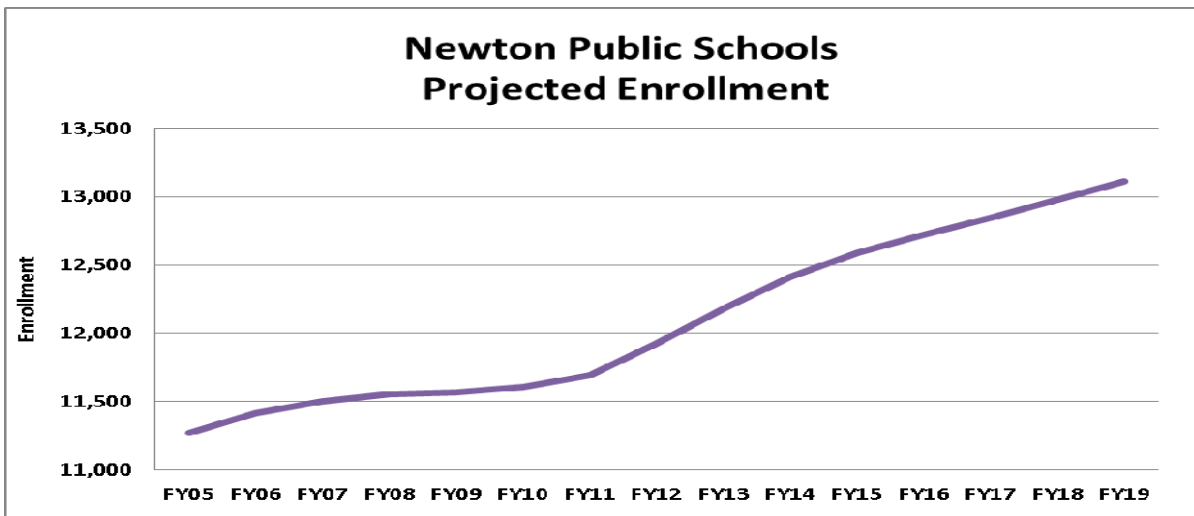
The delivery of an excellent education by the Newton Public Schools is perhaps the single most important municipal service in the minds of many of Newton’s residents and is considered to be a ‘bedrock’ of the community. Therefore, inherent in the City’s Fiscal Year 2015 Operating Budget is the Mayor’s 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 FY15 Superintendent’s Proposed Budget is \$195,129,819 and is expected to serve 12,589 students in grades K-12. The following areas were the focus in the development of the FY15 Budget:

- Improve academic outcomes and social and emotional learning and support;
- Provide reasonable class and team sizes;
- Support for small instruction groups and breadth of programming;
- Make targeted investments in interventions to help close achievement gaps throughout the system;
- Provide the financial and technological resources and training necessary for state-mandated changes;
- Ensure the school system has the technology, training, and infrastructure necessary for teaching and learning;
- Review and ensure NPS addresses the mental and emotional health of students; and
- Explore ways to deliver special education services more effectively and efficiently.

Growth in Enrollment

Newton Public School enrollment has grown over each of the past nine years (2005-06 to 2013-14) and is projected to continue to increase for the next five years with growth affecting all grade levels. Accumulated net growth of 1,173 students through 2013-14, an increase of 10%, initially affected the elementary schools and subsequently the population started to arrive at the middle schools in 2008-09. The high school growth trend that began in 2012-13 has resulted in an additional 225 students at the high schools in the past two years. Over the next five years, growth of 431 students (11%) is expected at the high school level. Next year in 2014-2015, Newton Public Schools is expected to again experience a significant enrollment percentage growth increase of 1.2%, an increase of 148 students. The district is currently planning for robust growth in the next 5 years, forecasting an additional 668 students, a 5% increase in the student population.



The City of Newton's Aaa Bond Rating

On February 24, 2014, the City of Newton once again earned a "Aaa – Stable" rating (the highest possible) from Moody's Investor Services for its General Obligation Municipal Purpose Loan of 2014 Bonds. Concurrently, Moody's reaffirmed the Aaa rating assigned to \$204 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 financial position. The stable outlook recognizes the city's improving financial position, conservative forecasting in five-year operating and capital plans and implementation of comprehensive financial policies.

Strengths continued to be cited as follows:

- *Sizeable, wealthy and diverse tax base with favorable location and institutional presence, and*

- *Strengthened financial policies and conservative budgeting approach.*

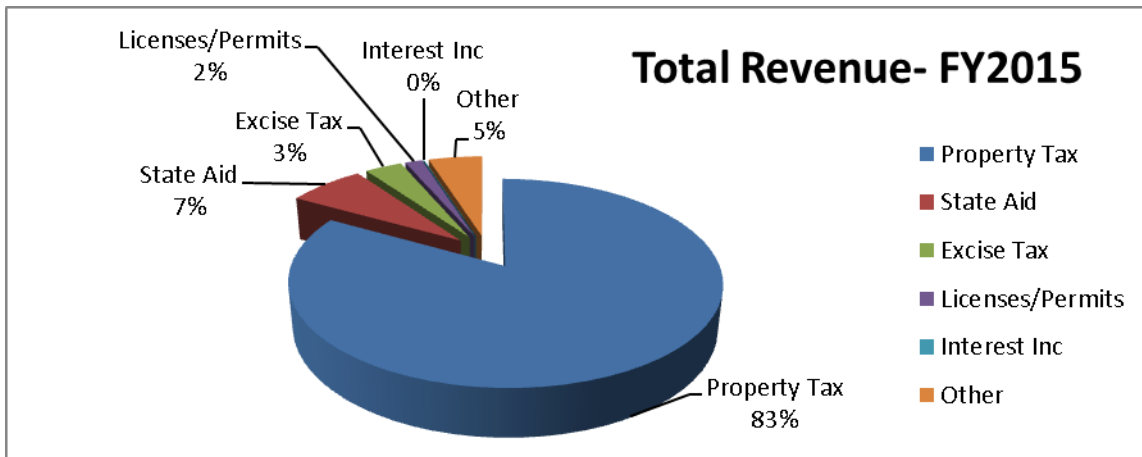
Conversely, challenges were cited as follows:

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

The City is very pleased to have maintained the Moody's Aaa Bond Rating issued in February of 2014 and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

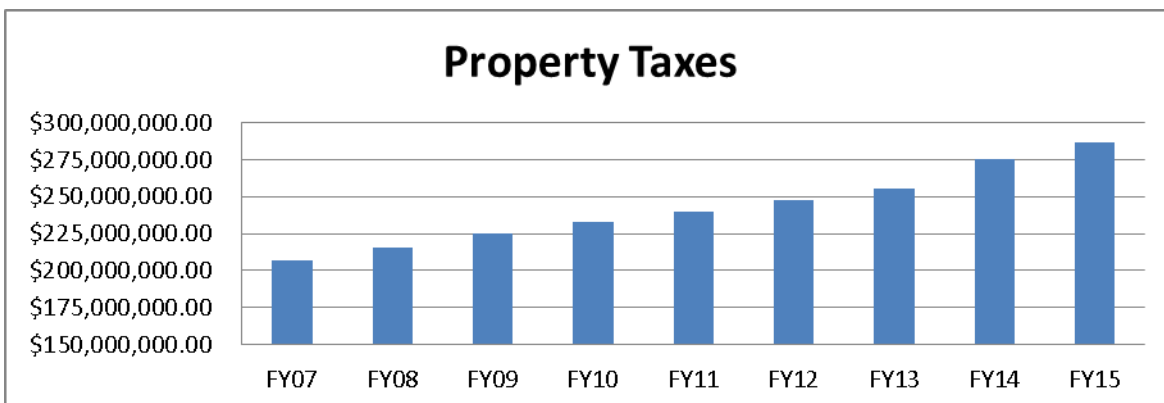
Revenue – Fiscal Year 2015

A core component and driver of the overall budget process involves forecasting the total operating revenue the City will take in over the next fiscal year. Fiscal Year 2015 Revenue is projected to total approximately \$345 Million. The City’s total revenue amount is roughly \$14 Million more than the previous year’s budget, a product of large development projects in the City, increased state aid for education, and overall economic growth. These funds will allow the City to continue to take proactive steps to mitigate problems related to capital assets, support a “Modern, Sustainable, 21st Century City”, and fund other necessary expenditures that provide core services to citizens. The breakout of projected revenue sources for Fiscal Year 2015 are as follows:



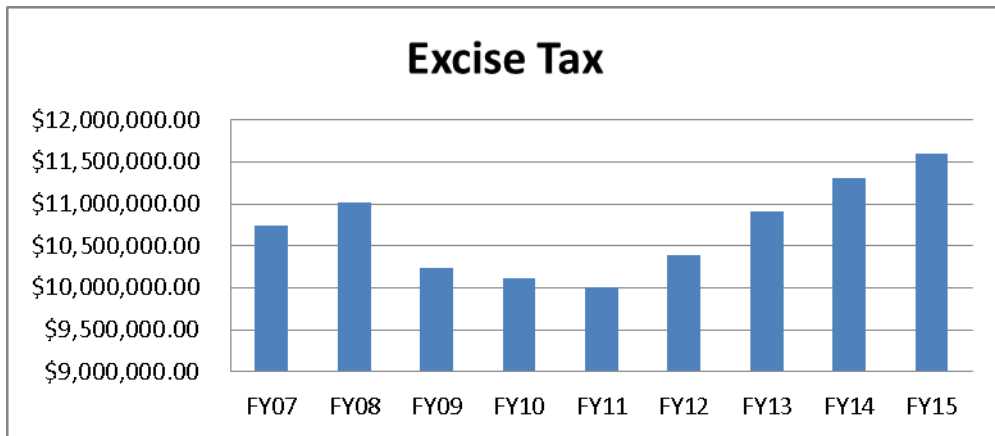
Property Tax Revenue

Proposition 2 ½, passed by the residents of 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 \$3.8 million from new growth or redevelopment.



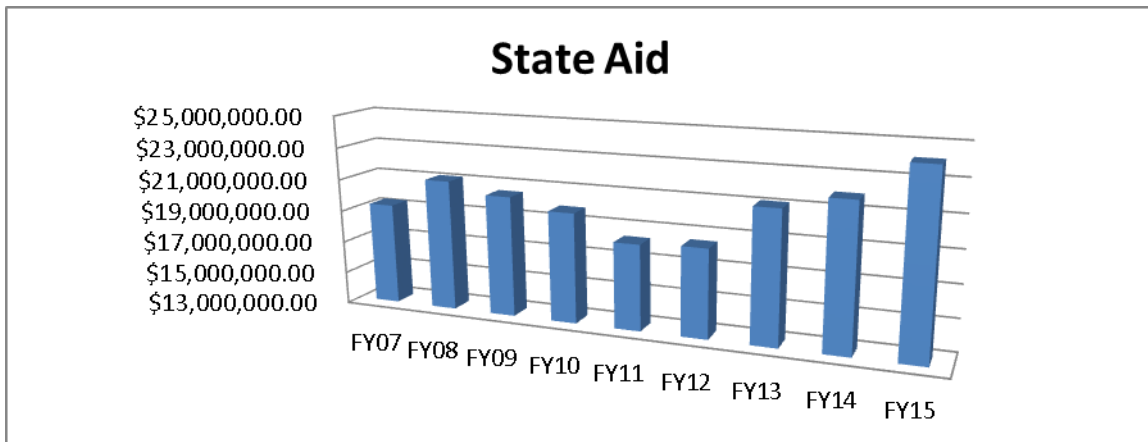
Excise Tax Revenue

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 to a peak of approximately \$11,000,000 in 2008. With the economy exhibiting moderate growth in the first quarter of 2014, and the average age of vehicles reaching a record high of 11.4 years of age, excise tax revenue has been budgeted at \$11.7 Million. Total excise tax accounts for approximately 3% of the overall operating revenue.



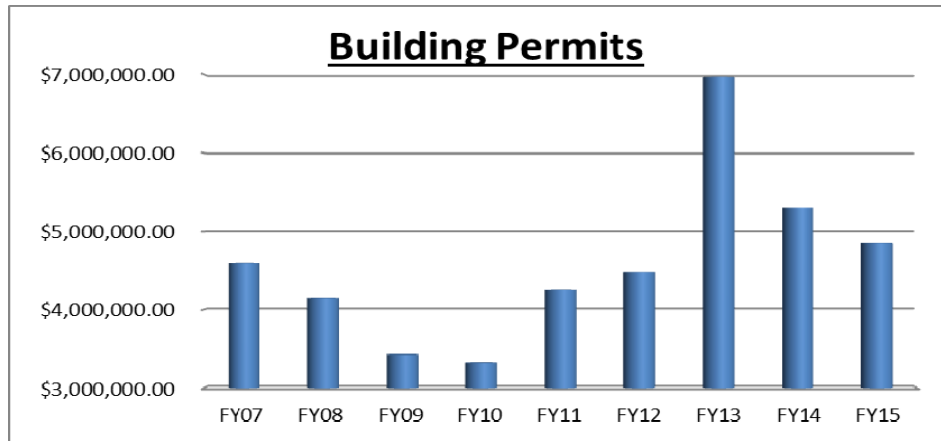
Revenue from State Aid

Historically, State Aid trended downward from Fiscal Year 2008 through Fiscal Year 2011 but has been on the rise for the past three years. The Fiscal Year 2015 budget includes a moderate increase in Unrestricted General Government Aid and Chapter 70 funding. Chapter 70 funding has conservatively been increased by \$1,500,000 compared to last year's budget. Reflected below, total revenue from State Aid is projected to be roughly \$24 million.



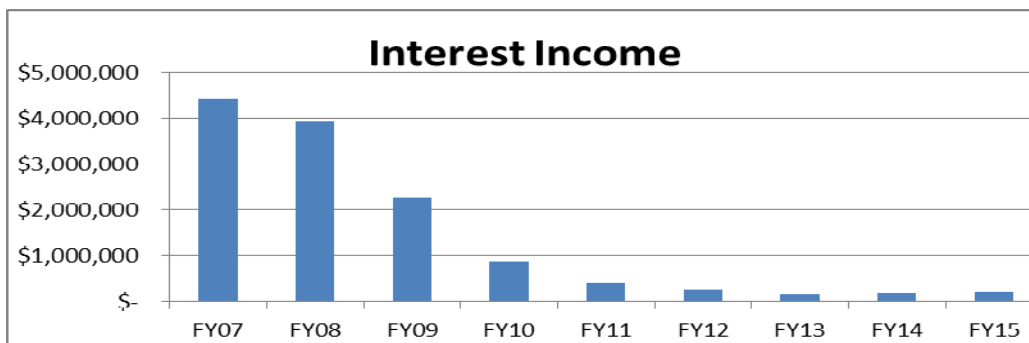
Revenue from Building Permits

Revenue from permitting and licensing fees, reliant on a healthy economy, saw a decline from Fiscal 2006 through Fiscal 2010 as a result of the economic downturn. With the City's promotion and facilitation of large economic development projects, including the nearly complete "Chestnut Hill Square" and "The Street" on Route 9, the City has seen a sizable increase in the total revenue collected during the past few fiscal years. With the improving economy, and other large projects in the queue, the Administration is budgeting this revenue conservatively at \$4.8 Million for Fiscal Year 2015.



Interest Income

Interest income earned on the City's financial investments has declined dramatically since Fiscal Year 2007, a direct outcome of the overall economic climate during the past several fiscal years. With interest rates continuing to trend low, revenue from these investments is projected total approximately \$200,000.



Reserve for Abatements

As a matter of practice, the City of Newton sets aside a reserve for property owners who successfully appeal the assessed value of their property. The City's Assessing Department has a strong record of defending the valuation of assessed property in the City, enabling the Administration to budget the reserve at 1.2% of the total tax levy for abatements. The amount budgeted for the reserve this fiscal year is \$3.5 million.

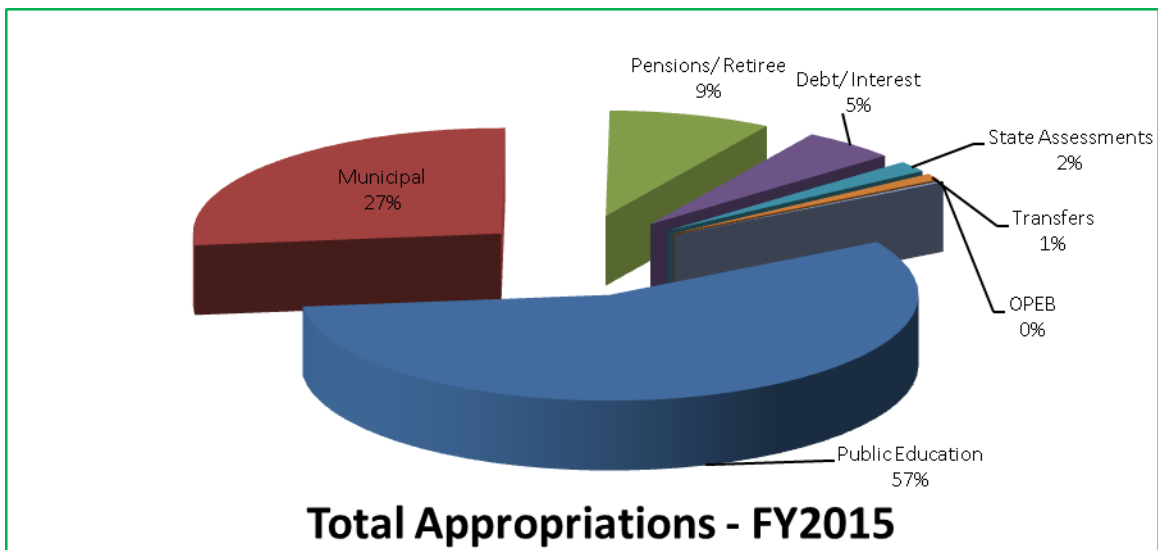
Projected Expenditures – Fiscal Year 2015

The Fiscal Year 2015 budget directly reflects the Administration’s continued effort to utilize outcome-, zero-, and performance-based budget strategies to maximize use of revenue and to continue to maintain the efficient allocation of resources. Funding from the override package will continue to provide the necessary capital funds to enable the City to address the 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 will also provide for the relocation of the Fire Department’s Wires Division, and replacement of the antiquated Fire Headquarters, and Fire Station 3 in Newton Centre. These projects will yield improved response times and protect the City’s vital communications system. In addition, the override has allowed for accelerated paving schedules for streets and sidewalks, and additional public safety personnel dedicated to ensuring the safety of residents.

Furthering the City’s sustainability posture is another key objective, and requires a comprehensive approach that goes beyond counting kilowatts. The City has taken a holistic look and is in the process of developing plans to ensure our roads are designed as “complete streets”, safe for all modes of non-motorized transportation, our buildings are constructed to meet the most stringent energy codes, and the count of our declining tree population is reversed – all with the purpose of safeguarding the future long term success of our City and our neighborhood vitality.

Further, and perhaps most importantly, the City has been moving toward developing expenditure budget estimates sufficient to address no less than 100% of projected operating requirements of the various city departments. The Administration will continue to take proactive steps and work diligently to fully implement this budget principle.

Fiscal Year 2015 Expenditures total \$345 million broken out as follows:



Municipal Personnel

Providing appropriate staffing levels dedicated to protecting core City services, maintaining emergency response times, 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 four years the Administration has worked diligently to reduce unnecessary or duplicative positions while increasing or supplementing staffing where necessary. Examples of this focus in the FY15 Budget can be seen through increased staffing in the areas of Finance, Technology, and Contract Law, Economic Development/Planning, Customer Service, and Transportation Planning, as well as the addition of three sworn police officers to continue to further the City's goal to deliver unparalleled public safety.

Total Salaries – All General Fund Municipal Employees

During Fiscal Year 2012, the City of Newton entered into three year collective bargaining agreements with ALL municipal and ALL school department bargaining units. Throughout the negotiations, the administration and union leadership worked cooperatively to identify opportunities to structure change, create efficiencies and develop parity in the growth rate between both revenues and expenditures. As a result, all union contracts included plan design changes for health benefits, additional contribution rates for all new employees, a delay in contractually negotiated automatic step increases, and most importantly a combined projected annual growth rate in expenditures for all salaries, compensation and health benefits of no more than 2.5%. The changes negotiated in those contracts were monumental and were accomplished only through a true collaborative effort on the part of the administration and union leadership, and have had the single most significant impact on the ability of the City to develop this Budget. The City and Union Leadership have once again begun the bargaining process for the FY2015 – FY2017 contract period. The Administration is confident that once again these talks will be conducted in a mutually respectful environment and will result in agreements that are fair to the City's valued employees and citizens alike.

Health Insurance Benefits

The City of Newton provides health insurance benefits for approximately 2,400 active employees and their dependents, as well as more than 2,700 retirees, for a total insured population of more than 8,500 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.

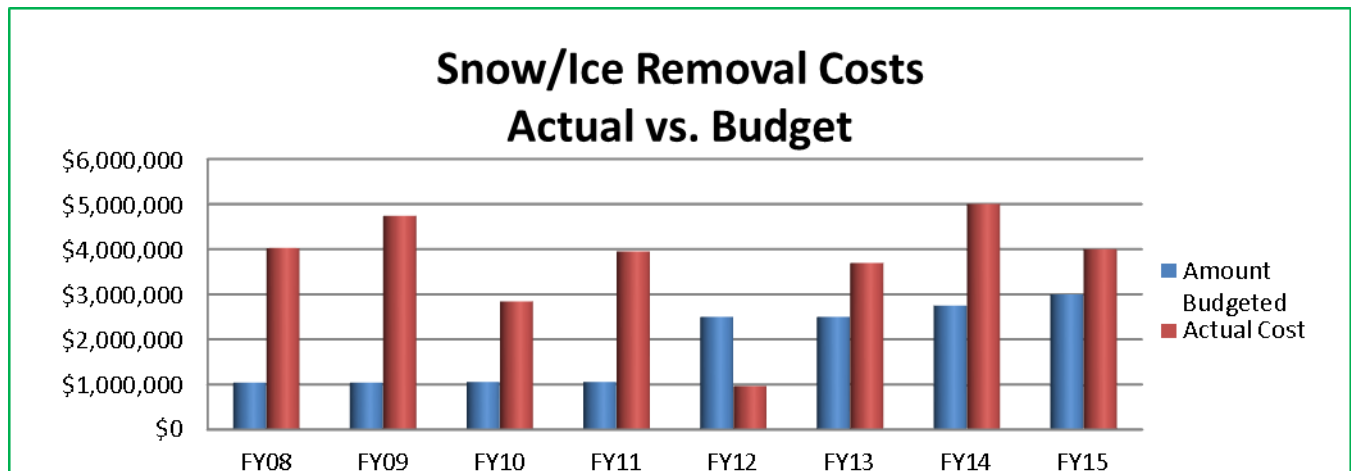
It is anticipated that the Fiscal Year 2015 total cost of the health insurance program will approximate \$52 million, with the City responsible for approximately 80% or \$41 million of that cost. The City

worked very closely with union leadership throughout the last negotiation 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 State Run Health Insurance Plan. Throughout the analysis, both sides concluded that, at least for the 3-year period covered under all of the recently negotiated agreements, remaining self-insured was in the City’s best interest.

Several different strategies were employed throughout the negotiation process to address the rising costs of health care. Some strategies were designed as cost-transference measures, such as higher co-payments for office visits, specialist visits and prescription drugs, and higher contribution rates for new employees, while other strategies were designed to change behavior, such as the implementation of deductibles. It has become clear over the past several months that these negotiation strategies have achieved the desired outcomes, and will be instrumental in the City’s ability to contain the annual rate of growth of salaries, compensation and health insurance to “not more than 2.5%”.

Removal of Snow/Ice

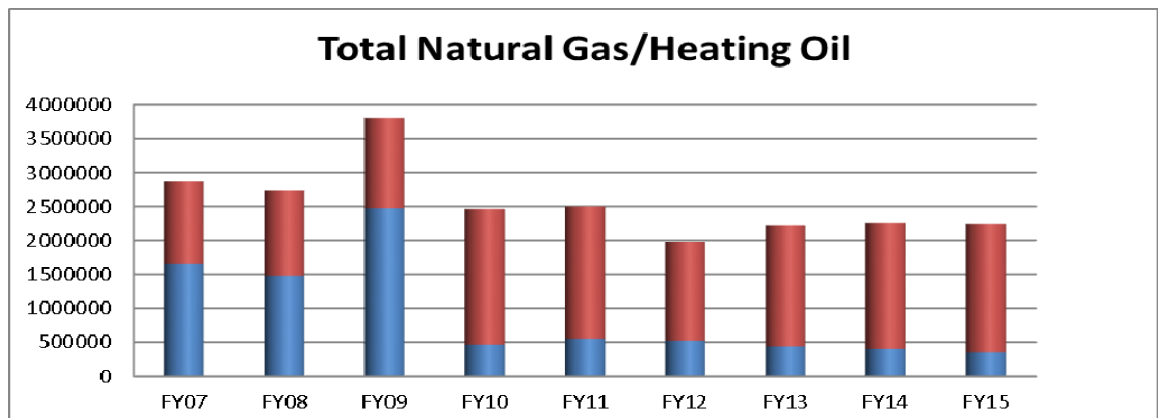
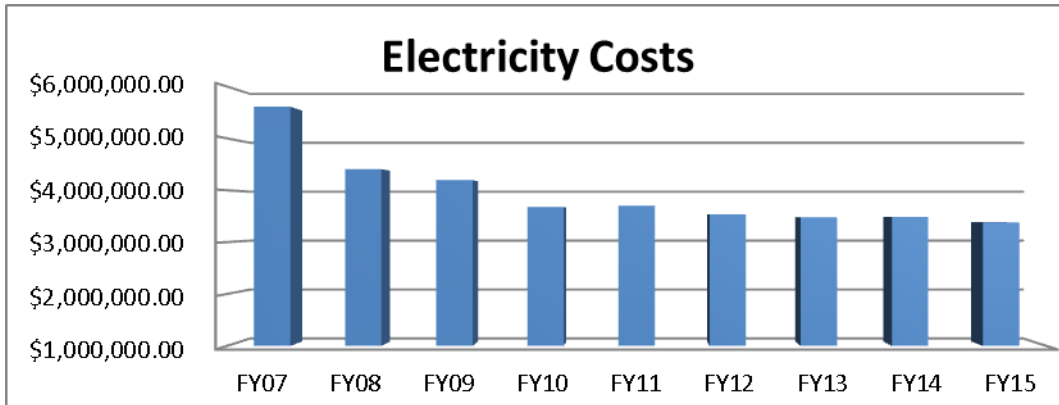
The City will continue to increase the annual snow/ice removal appropriation until it represents an amount equal to the five year average snow removal expenditure. Therefore, the Fiscal Year 2015 Municipal Budget includes \$3 million for expenditures associated with the removal of snow and ice – or approximately 82% of the seven year average and 90% of the five year average.



Utilities

Over the past four years, the City has actively pursued managing both energy costs and overall energy consumption. As a certified ‘Green Community’ the City has worked aggressively to reduce its carbon footprint, investing in sustainable and energy efficient projects including: the LED street light conversion, solar installations at school buildings, and other upgrades targeted to reduce overall energy consumption. As a direct result of our current Power Purchase Agreement for solar panels on four Newton Schools, the City will realize more than \$40,000 in energy savings next fiscal year and \$2M during the life of the project. Reflected below, the City has dramatically reduced and stabilized utility

expenditures since Fiscal Year 2009. The Administration will continue to make environmental sustainability a chief priority, continuing this vision into the future.



Additional Expenditures Funded in FY2015

During the past four budget cycles, the City has made considerable progress toward increasing appropriations for many costs, including the funding of many long-range sustainability programs. The Fiscal Year 2015 Budget will allocate funding for several new and existing initiatives which will, in turn, address core city needs. These new expenditures will accomplish the following:

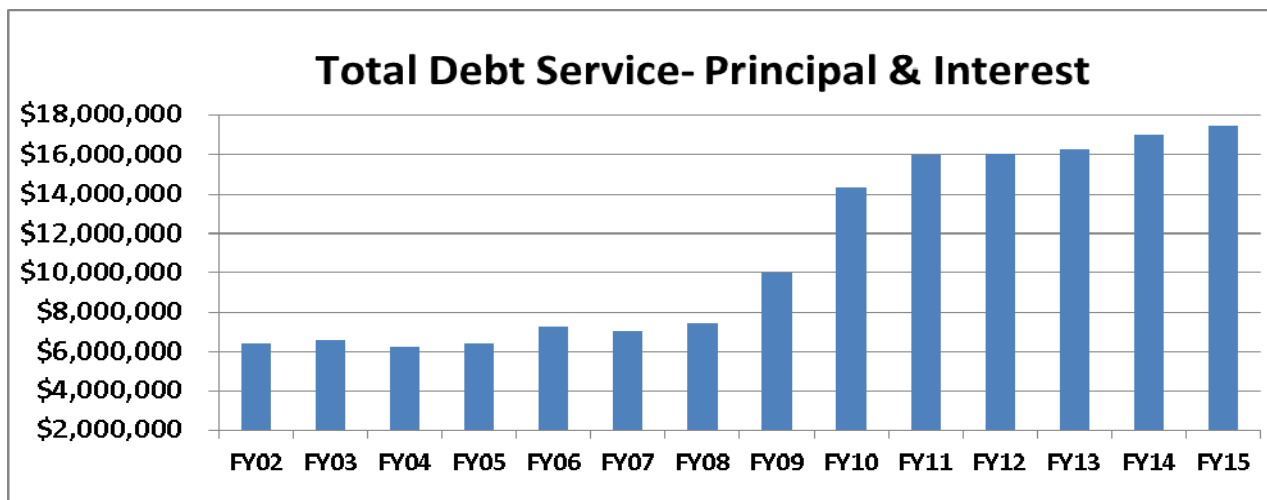
- Improved field conditions with the implementation of a turf management program throughout the City’s parks;
- Reversal of the decline in street tree population by implementing a tree planting plan;
- Implementation of an effective parking plan throughout the City through the hiring of a Parking Manager;
- Generation of more than \$200,000 of electricity savings annually by converting the City’s 8,400 streetlights to energy saving LED lights;
- Energy efficiency and improved climate through the implementation of multiple energy efficiency projects in more than 25 buildings;

- Improved public safety with the addition of 3 sworn police officers;
- A fully redundant fiber optic network, connecting all City and School buildings;
- Updated, vibrant village centers through the “Beautification Program”;
- As well as many others.

The City has made substantial progress in identifying and proactively mitigating municipal building problems. Once again, this year’s budget includes funding for a capital account in the Buildings Department totaling \$150,000, which will be directed toward addressing building maintenance and small municipal capital needs.

Debt Service

The City continues to address capital needs citywide; utilizing a risked based capital plan to prioritize and outline funding for projects. The plan looks to address current condition and capacity issues throughout school buildings, deplorable conditions in multiple fire stations and other pressing issues at municipal buildings. The City will continue to optimize debt service utilization to mitigate problems with infrastructure, and fund capital assets essential in delivering services to Newton residents. Reflected below, debt service will be budgeted at roughly \$17.5 million or just over 5% of next year’s operating budget.



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.