

Executive Summary

“On March 12, 2013 the citizens of the City of Newton chose to make a significant investment in their Community. They chose to vote overwhelmingly for an override package that addresses Newton’s most pressing needs: growth in student enrollment, outdated, inadequate school buildings, deteriorating streets and sidewalks, antiquated fire stations and increasing traffic and safety concerns. When I decided to run for Mayor I had a vision of a city that would continue to attract old and young, families, seniors and people of all backgrounds and offer a quality of life and ladder of opportunity that is unique in America today. I knew that we had to eliminate our structural deficit, re-establish financial sustainability and develop a plan to sufficiently maintain our buildings, roads and infrastructure. We have worked diligently to do just that – and now are poised to build Newton’s future. The people of this great City have put their trust in my administration, and we will not let them down.”

**Mayor Setti Warren,
Wednesday, March 13, 2013**

Throughout the past three years, Mayor Warren has consistently engaged the community in conversation through “Town Hall” style meetings to continue to assess the true needs of the City. Throughout those conversations it was clear that the people of Newton value education as the first and foremost bedrock of their community, that outdated dysfunctional educational facilities are unacceptable, and that class size and breadth of program are of the utmost importance to the community. It was also clear that public safety in the form of fire response time and fire communications are a priority, that the City’s streets and sidewalks have deteriorated and need to be repaired, and that Newtonians want to be able to walk and bicycle throughout their city without fear of injury.

Therefore, in order to maintain the quality of life that the citizens of Newton expect and deserve, to preserve a community that reflects the reasons people chose to live in Newton, to enable the Administration to address infrastructure and school enrollment needs without having a negative effect on the education, public safety, public works, recreational and cultural needs of the residents of the City of Newton, and to position the City to have the opportunity for state reimbursement from the Massachusetts School Building Authority, Mayor Warren requested that the Honorable Board of Aldermen authorize a special election to be held on March 12, 2013 asking the citizens of Newton to support an operating override in the amount of \$8,400,000 and debt exclusion overrides for the Angier and Cabot Elementary Schools.

The successful passage of these override questions has now provided the necessary funding to enable the City to address the deficient conditions, inadequate teaching areas, and capacity issues at the Angier, Cabot, and Zervas Elementary Schools, operational needs to support increasing student enrollment throughout the City, relocation of the Fire Department’s Wires Division, replacement of the antiquated Fire Headquarters and Fire Station in Newton Centre improving response times and

protecting the City's vital communications system, accelerate pavement schedules of streets and sidewalks, and the addition of public safety personnel dedicated to ensuring the safety and security of the citizens of the City of Newton.

This override package was designed to strike a balance between the needs of the community and the financial impact on the City's residents, and is estimated to have an annual cost of \$0.50 per thousand dollars of residential assessed valuation. It is an integral component in the City's Fiscal Year 2014 Municipal Operating Budget presented here and is designed to enable the Administration to address very specific needs of the City. This additional revenue has been utilized as follows:

- ❖ Four-and-one-half million (\$4,500,000) has been allocated to the Newton Public Schools to fund teachers, short term space needs, and other costs associated with the growth in enrollment,
- ❖ One million dollars (\$1,000,000) has been and will continue to be dedicated on an annual basis to accelerate the City's street and sidewalk paving program,
- ❖ Five hundred thousand (\$500,000) has been dedicated to the addition of 4 Police Officers and other costs associated with targeted control of the increasing traffic and safety concerns throughout the City,
- ❖ Two-million-four-hundred-thousand dollars (\$2,400,000) has been set aside to support the debt service associated with the expanded Zervas Elementary School, relocation of the Fire Department Wires Division, and replacement of Fire Headquarters and Fire Station #3 in Newton Centre.

Additionally, approximately three million dollars (\$3,000,000) will be set aside on an annual basis following a determination of the final project costs, the amount of state reimbursement for the Angier and Cabot Elementary Schools, and authorization by the Board of Aldermen to fund the projects.

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 under 84,000, 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 more than 900 students in the past several years and is expected to continue to rise by as many as 800 more 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.

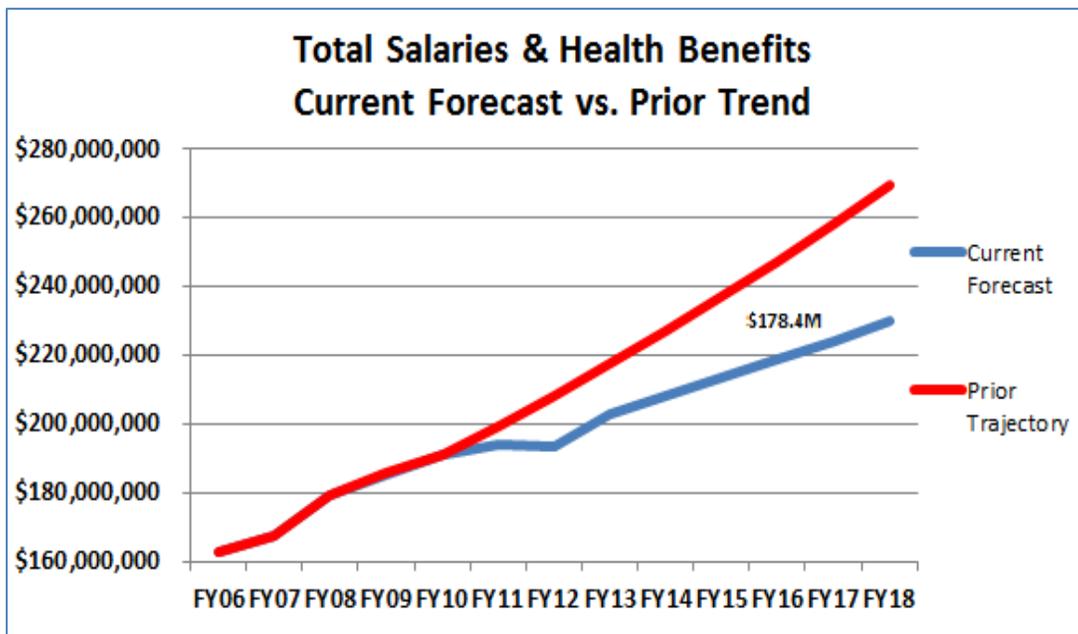
The Department of Public Works maintains over 300 miles of public streets, sidewalks, water mains, sewer lines and storm water drains, collects and disposes of more than 20,000 tons of municipal solid waste and 11,000 tons of recyclable materials, and plows or treats the City’s roadways during an average 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.

The City of Newton's Strategy for Financial Stability

Collective Bargaining Agreements

Throughout the past few years, 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 these 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. During the course of Fiscal Year 2014 the City and Union Leadership will once again begin the bargaining process for the ensuing 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.



Projected Cumulative Savings through FY'18: \$178.4 Million

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

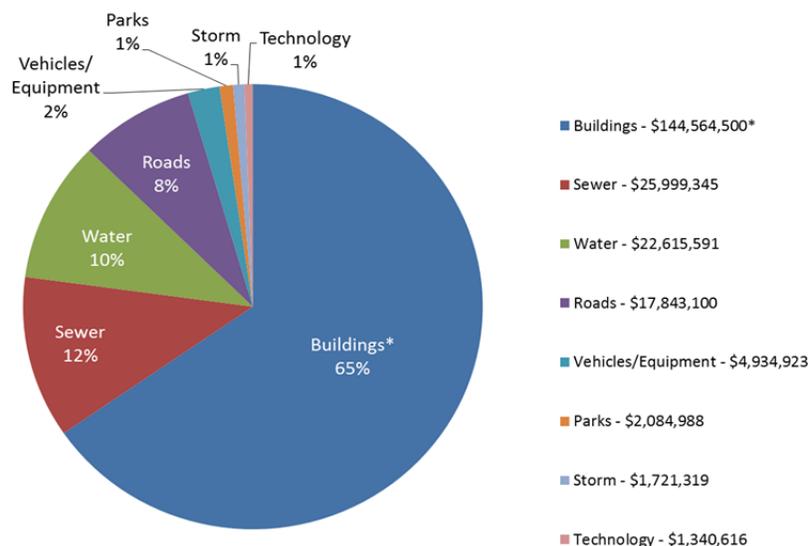
During the course of the past 3 years, the City embarked on a performance-based management initiative utilizing a systematic approach of “mapping”, analyzing and improving the City’s processes, throughout operational as well as administrative departments, in order to make the delivery of services more 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.

Public Works		City of Newton Performance Management Scorecard						
		February 2013						
Traffic Light Key		Trend Key						
Green = actual value meeting or exceeding the target Yellow = actual value within 10% of meeting target Red = actual value worse more than 10% away from meeting target		Green = cumulative Year-to-Date better than Last Year-to-Date Yellow = cumulative Year-to-Date the same as Last Year-to-Date Red = cumulative Year-to-Date worse than Last Year-to-Date						
Metrics measured monthly unless otherwise noted								
Metric	Metric Goal	Monthly				Yearly		
		Avg.	Target	Actual	Result	LYTD	YTD	Trend
1. Provide engineering services, both in-house and outside contractor, including evaluation, design, construction inspection, and contract management.								
% of projects under budget	Keep 100% of project under budget	100	100	95		85	91	
% of projects on schedule	Keep a minimum of 90% of projects on schedule	77	90	90		82	91	
2. Provide clean, safe drinking water to all Newton residents, businesses and institutions.								
% of water/sewer requests resolved within SLA	Keep % at or above the monthly average	83	83	83		80	79	
Total water meter transmitters replaced	Monthly progress targets	N/A	0	0		N/A	N/A	N/A
Water meters/City-managed exceptions yet to be installed	Monthly progress targets	N/A	0	0		N/A	N/A	N/A
3. Maintain public streets and sidewalks in a safe and passable condition.								
Streetlamp repair backlog	Reduce backlog to less than 100 streetlamps	130	100	128		132	128	
% of streetlamps repaired within 14 days of receipt	Repair at least 90% of streetlamps within 14 days	99	90	87		85	90	
Backlog of sidewalk repair requests	Reduce sidewalk backlog in FY12	510	510	34		499	34	
% of sidewalks made safe within 5 days	Make at least 95% of sidewalks safe within 5 days	93	95	100		90	96	
% of potholes repaired within 2 business days	Repair at least 95% of potholes within 2 days	70	95	92		75	85	
4. Remove and dispose of solid waste, including trash, recyclables, and hazardous materials.								
Fresh tonnage (total)	Monthly progress targets	N/A	1322	1306	1306	13806	13317	
Recycling tonnage (curbside only)	Monthly progress targets	N/A	712	739	739	7447	7382	
Curbside recycling % of total tonnage	Maintain a recycling rate of 35% or more	37%	35%	36%		35%	35%	
% of trash pickups made on time without issue	Maintain an accuracy rate of 99.5% for on-time collection	99.89	99.50	99.90		61.46	61.47	
% of recycling pickups made on time without issue	Maintain an accuracy rate of 99.5% for on-time collection	99.91	99.50	99.97		61.49	61.51	

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 space, 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 FY2014-2018 Capital Improvement Plan (CIP) built on the risk-based prioritization process that was begun last year and has continued to improve now with an expanded 20 year outlook for capital needs across the City. 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 FY2014 Debt Service appropriation supports the implementation of the City's capital needs as prioritized in the CIP.



Economic Development

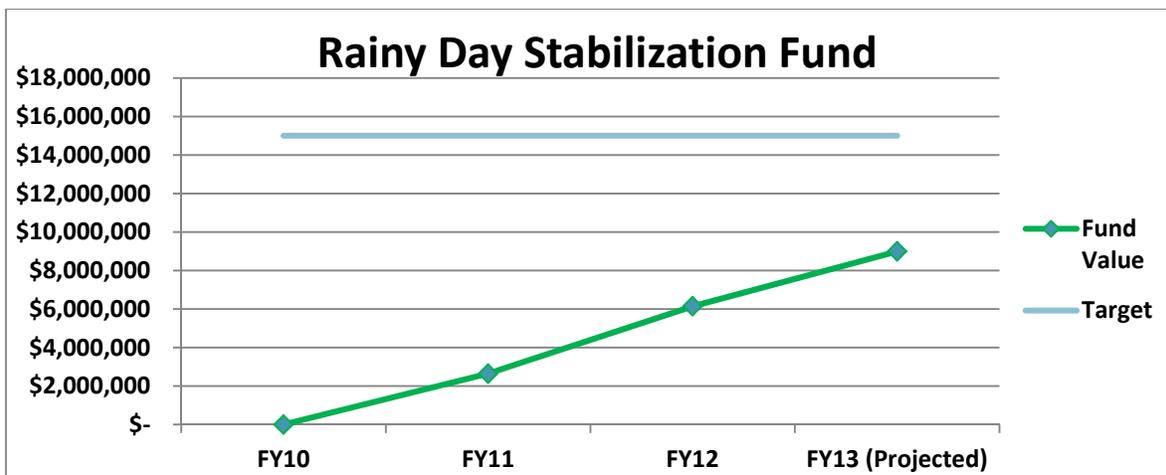
The Administration worked closely with the Honorable Board of Aldermen and the New England Development Corporation to facilitate the successful development of the "Chestnut Hill Square Project" on Route 9. Upon completion, it is anticipated that this project will generate more than \$1 million annually in additional property tax revenues to the City. Additionally, the Administration has continued to work with the Honorable Board to develop innovative strategies for the development of areas such as Riverside, the Austin Street Parking Lot and Needham Street Corridor and will continue to proactively pursue economic development where appropriate.



Chesnut Hill Square Project

Rainy Day Stabilization Fund

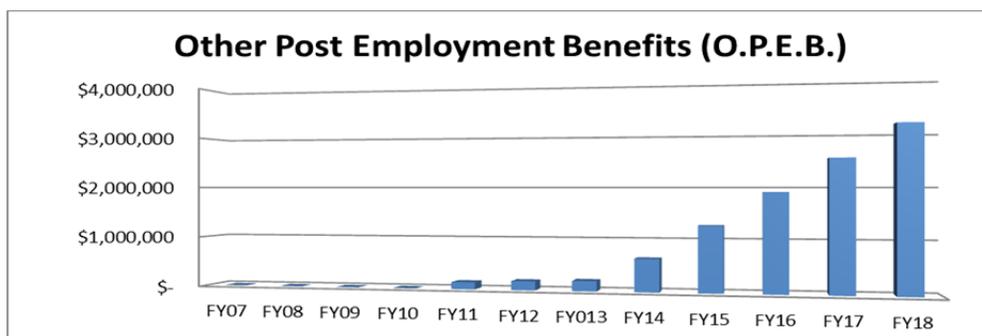
In 2010 the City of Newton established a Rainy Day Stabilization Fund with an initial funding level of \$2,643,271. This Fund was established as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic expenditure. These funds may be utilized to assist in addressing 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 \$6.5 million to this fund which now totals more than \$9.0 million.



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 FY2013 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 FY14 Budget includes an appropriation in excess of \$500,000 for this liability. The Administration intends to continue the policy of “pay as you go” for all O.P.E.B. liabilities for current and former employees.



The City of Newton’s Aaa Bond Rating

On April 2, 2013, 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 2013 Bonds. Concurrently, Moody’s reaffirmed the Aaa rating assigned to \$196.9 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, manageable debt profile with moderate future borrowing plans, and the city’s historically well-managed, but narrow, financial position with growing rainy day stabilization reserves, which will offset a planned depletion of capital reserves. 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,*
- *Low direct debt burden and manageable future capital needs, and*
- *Strengthened financial policies and conservative budgeting approach.*

Conversely, challenges were cited as follows:

- *Slim financial position,*
- *Limited ability to raise property taxes under Proposition 2 ½,*
- *High liabilities for OPEB and pension, and*
- *Reliance on annual free cash appropriations for operations.*

The City is very pleased to have maintained the Moody’s Aaa Bond Rating issued in April of 2013 and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

Achieving the Vision

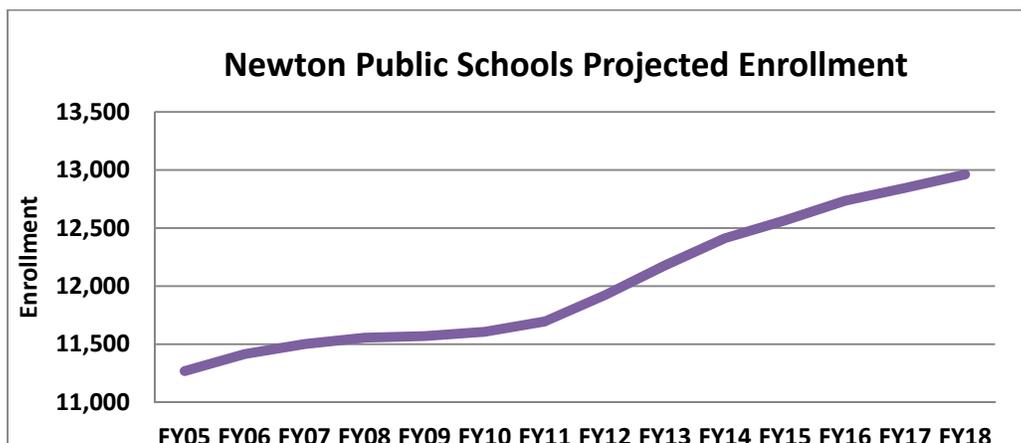
Throughout the past three years the Warren Administration has worked diligently to deliver on the promises of three years ago: improved City services, streamlined government, excellence in education, unparalleled public safety, a vibrant, diverse community life, improved infrastructure, robust economic development, environmental sustainability, and long range 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 12th has now 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, operational needs to support increasing student enrollment throughout the City, relocation of the Fire Department's Wires Division, replacement of the antiquated Fire Headquarters and Fire Station in Newton Centre improving response times and protecting the City's vital communications system, accelerate pavement schedules of streets and sidewalks, and the addition of public safety personnel dedicated to ensuring the safety and security of the citizens of the City of Newton.

Growth in Enrollment

Newton Public School enrollment has grown over each of the past eight years (2005-06 to 2012-13) and is projected to continue to increase for the next five years with growth affecting all grade levels. Accumulated net growth of 654 students through 2011-12, an increase of close to 6%, initially affected the elementary schools and subsequently the population started to arrive at the middle schools in 2008-09. The high schools also now have begun to receive the accumulation of student growth within the system this year, 2012-13, and the growth trend at the high school level is expected to be strong for the next five years. In 2013-2014, Newton Public Schools will again experience a significant percentage growth increase and will see the largest Kindergarten class since 1975. The district is currently planning for robust growth in the next 5 years, forecasting an additional 7% increase in the student population.



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 2014 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 FY14 Superintendent's Proposed Budget is \$187,671,536 and is expected to serve 12,440 students in grades K-12.

The following four areas were the focus in the development of the FY14 Budget:

- 1) Prioritize resources to improve student achievement,
- 2) Work toward achieving equity by allocating resources based on student population and program needs,
- 3) Improve quality of teaching and learning with emphasis on curriculum alignment to the Common Core State Standards, including assessments and Advance 21st century teaching and learning to foster innovation and critical thinking, and
- 4) Implement new Educator Evaluation System.

Every effort has been made to devote the resources necessary to maintain 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, such as the privatization of the school lunch program, and administrative, purchasing and bidding efficiencies.

Improving the Delivery of Municipal Services in Tight Economic Times

Additionally, this budget has been developed with the specific intent of improving the delivery of municipal services while creating efficiencies and reducing costs. As a result of the successful negotiation of the City's Collective Bargaining Agreements, cost savings realized through zero-based budgeting and performance management initiatives, and the trust and confidence affirmed by the voters of the City of Newton through successful passage of the override package, the Administration has been able to dedicate resources toward several strategies designed to enable the City to achieve eight primary desired outcomes:

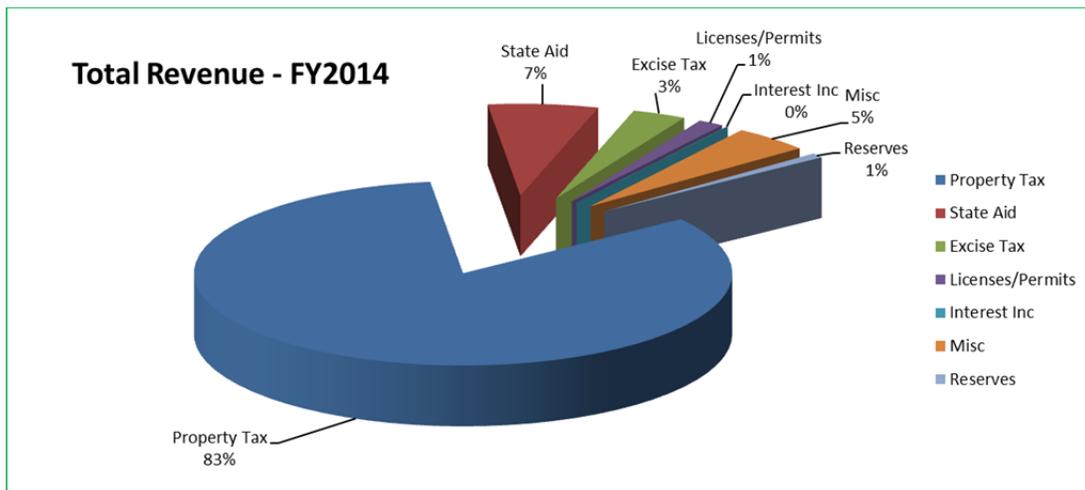
- Excellence in Education,
- Unparalleled Public Safety,
- Vibrant, Diverse Community Life,
- Improved Infrastructure,
- Robust Economic Development,
- Environmental Sustainability,
- Long-Term Financial Stability, and
- Community Engagement.

Sustainable Budget Strategy

For the budget to be sustainable, it must provide 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. Estimates will be modified when necessary to take into consideration unusual economic conditions, recent trends and anticipated state aid. 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 by Fiscal Year 2015.

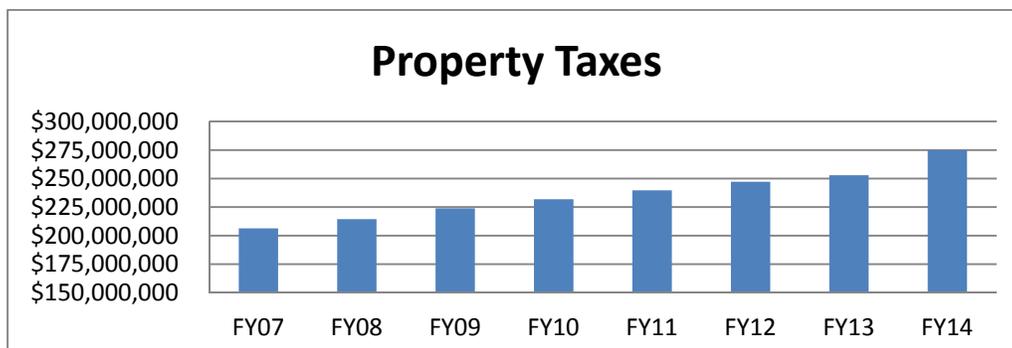
Revenue

A vital component and key driver of the overall budget process involves forecasting the total operating revenue the City will take in over the next fiscal year. Fiscal Year 2014 Revenue is projected to total approximately \$331 Million, which includes \$2.7 Million of non-recurring budget balancing revenues. With the promotion of large development projects, the citizens' vote to pass the override package on March 12, 2013 and moderate economic growth, the City's total revenue amount is \$18 Million more than the previous year's budget. This will allow the City to resolve and mitigate problems related to capital assets and address concerns related to public safety, while funding other necessary expenditures that provide core services to the citizens of the City of Newton. The breakout of projected revenue sources for Fiscal Year 2014 are as follows:



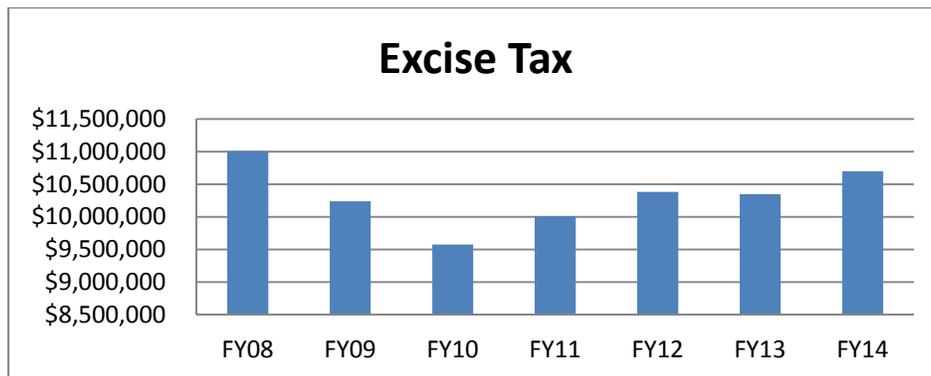
Property Tax Revenue

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 \$3.15M from new growth or redevelopment and \$8.4M as a result of the passage of the override package.



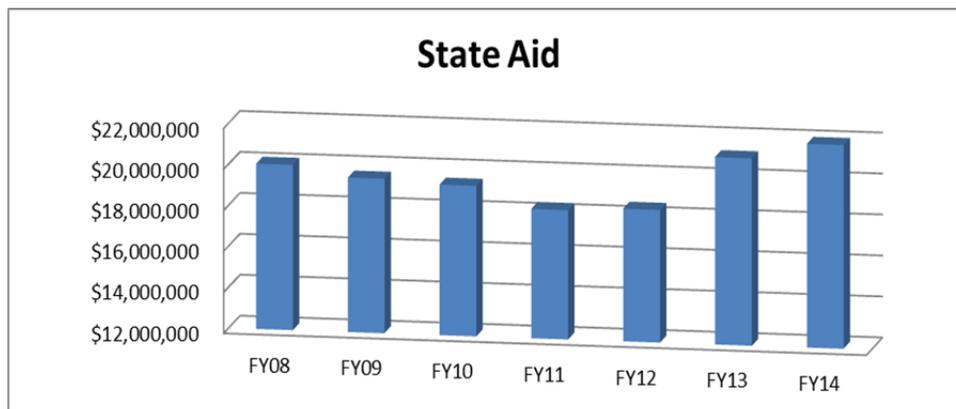
Excise Tax Revenue

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 exuding moderate growth in the first quarter of 2013, and the average age of vehicles calculated at 10.8 years during 2012, excise tax revenue has been budgeted at \$10.7 Million. Total excise tax accounts for approximately 3% of the overall operating revenue.



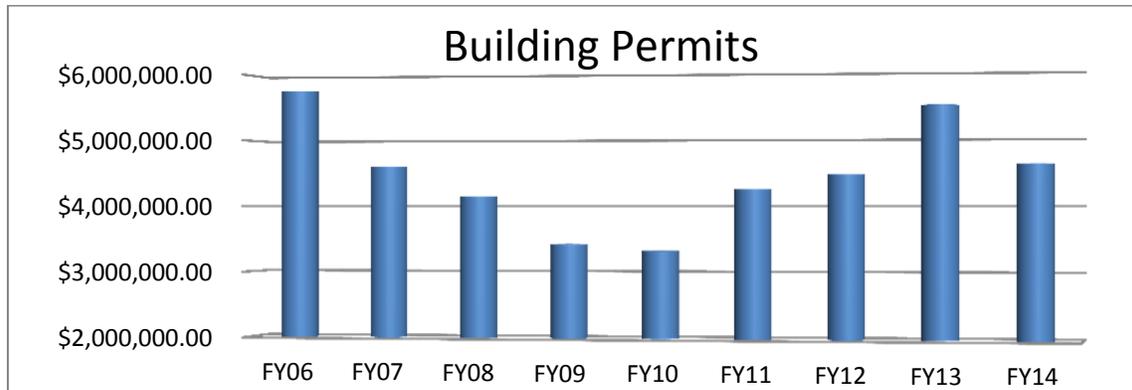
Revenue from State Aid

State Aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2011. As in Fiscal Year 2013, the Fiscal Year 2014 Governor's Proposed Budget includes level funding of Unrestricted General Government Aid, while proposed Chapter 70 funding has been increased. Since the Chapter 70 funding figure is dependent upon successful passage of the Governor's new tax plan, the City has only adjusted this figure based on the increase in student enrollment. The total Chapter 70 revenue is projected to be \$16,973,152.



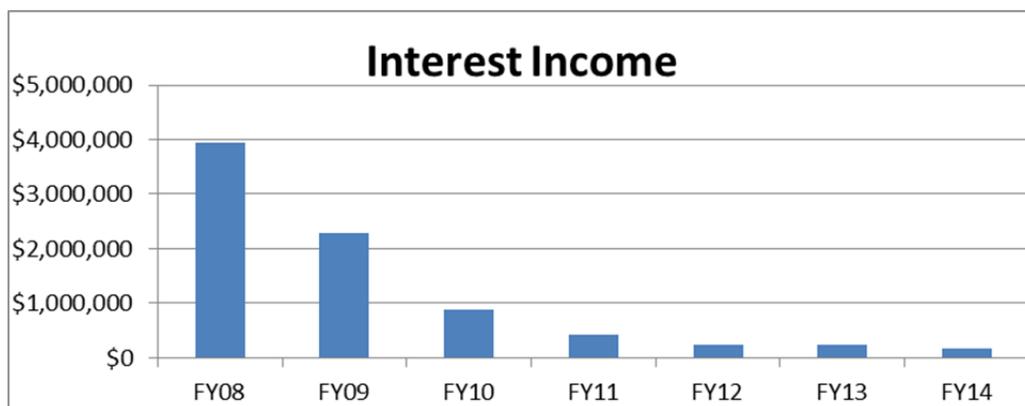
Revenue from Building Permits

Revenue from permitting and licensing fees, dependent upon the economy, saw a decline from Fiscal 2006 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 has seen a sizable increase in the total revenue collected during Fiscal Year 2013. With the uptick in the economy, and other large projects in the queue, the Administration has budgeted this revenue conservatively at \$4.6 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 reaching record lows during Fiscal Year 2013, revenue from investments is projected to be \$175,000.



Reserve for Abatements

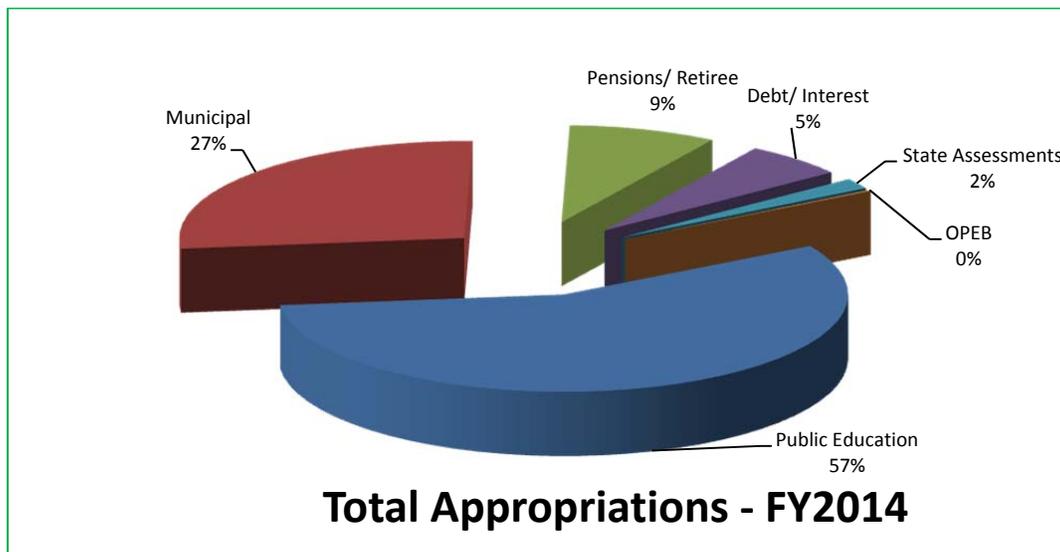
Each year the City of Newton sets aside a reserve for property owners who successfully appeal the assessed value of their property. The Department of Assessors has a strong record of defending the valuation of assessed property in the City, enabling the Administration to budget the reserve at 1.25% of the total tax levy for abatements. The amount budgeted for the reserve this fiscal year is \$3.5 Million.

Projected Expenditures – Fiscal Year 2014

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 will also provide for the relocation of the Fire Department’s Wires Division, replacement of the antiquated Fire Headquarters and Fire Station 3 in Newton Centre, which will result in improved response times and protect the City’s vital communications system. In addition, these monies will allow for 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. Although significant progress continues to be made in this area, it is anticipated that this goal will take 2 to 3 more years to fully implement.

Fiscal Year 2014 Expenditures total \$331 Million broken out as follows:



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 three 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. With the citizens’ vote to pass the override package, the City will continue to further its goal to deliver

unparalleled public safety by adding four sworn officers to the police department roster, providing two and one-half time road inspectors for maintenance and repair, and building a program management team consisting of additional project managers and management oversight in the Public Buildings Department. Furthering the City's sustainability posture is a key objective this year, and will require a comprehensive approach that goes beyond counting kilowatts, but rather will look at our City holistically 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.

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 include 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 these contracts are monumental and have been 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. During the course of Fiscal Year 2014 the City and Union Leadership will once again begin the bargaining process for the ensuing three 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.

Health Insurance Benefits

The City of Newton provides health insurance benefits for almost 2,400 active employees and their dependents, as well as almost 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.

As a result of the recently negotiated changes in Health Insurance Plan Design, it is anticipated that the Fiscal Year 2014 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 recent 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.

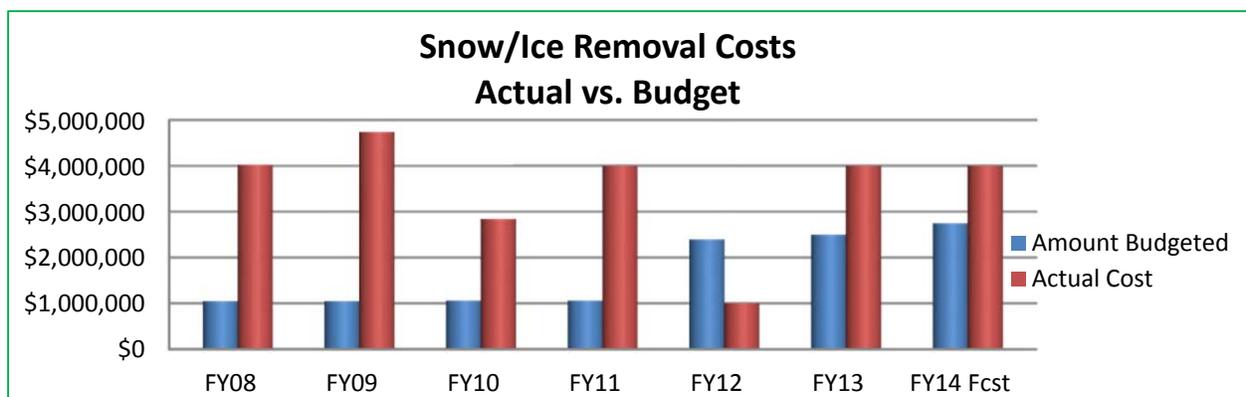
Several different strategies were employed throughout the negotiation process to address the rising costs of health care. Some strategies were designed as cost-transference measures, such as higher co-payments for office visits, specialist visits and prescription drugs, and higher contribution rates 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 within 2.5%.

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 the past few years, the total actuarial accrued liability as of January 1, 2012 now totals \$493 million, while the unfunded portion has increased to \$231 million or 47% 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 2038. The Fiscal Year 2014 Budget maintains that funding schedule.

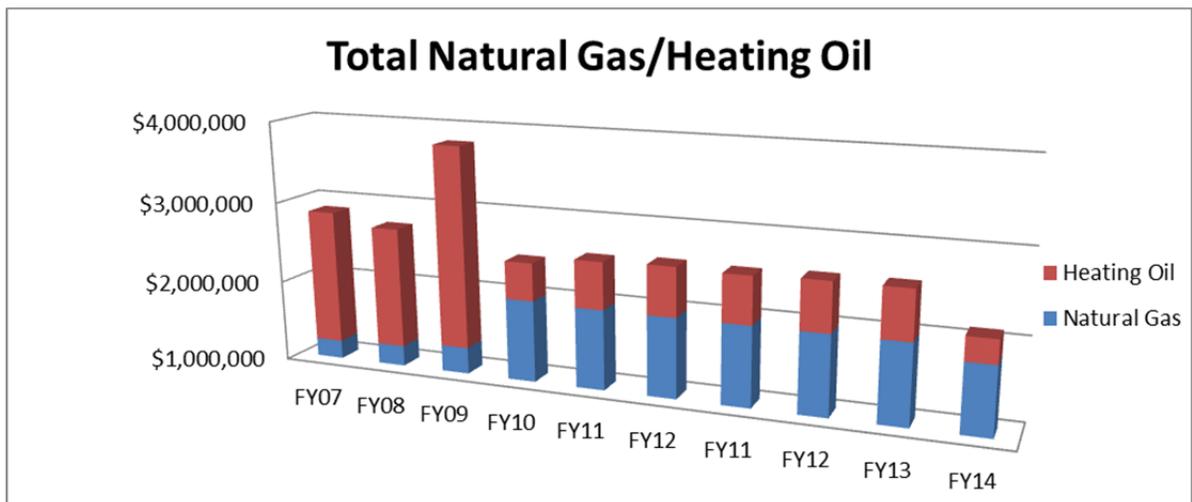
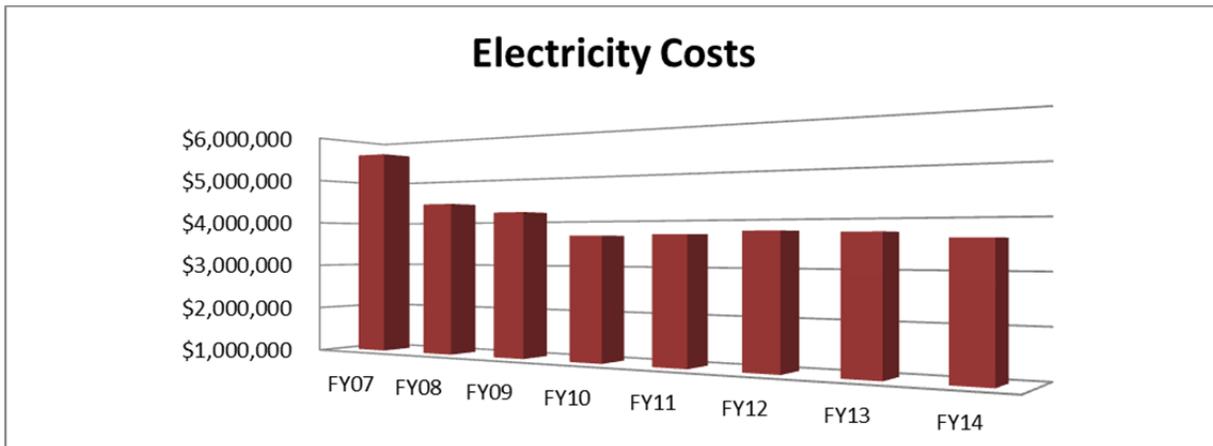
Removal of Snow/Ice

The City will continue to progressively budget an amount equal to the five year average snow removal expenditure as a part of the annual budget. Although that goal is still too ambitious to accomplish this year, the Fiscal Year 2014 Municipal Budget includes \$2.75 million for expenditures associated with the removal of snow and ice – or approximately 72% of the five year average.



Utilities

Over the past three years, the City has actively pursued managing both energy costs and overall energy consumption. As a certified 'green community', the City received over \$781,000 in Grant Funding in Fiscal Year 13 for energy improvements at the Lower Falls Community Center, reducing energy consumption by over 50%. Newton has received more than \$1 million over the past few years in energy rebates, and has been able to significantly reduce utility costs such as electricity, natural gas, and heating oil as shown below. As a direct result of the City's continued move toward energy efficiency, the Fiscal Year 2014 electricity, natural gas, and heating oil projections have been adjusted downward accordingly.



Additional Expenditures Funded in FY2014

During the past two budget cycles, the City has made considerable progress toward increasing appropriations for the costs associated with the removal of snow and ice, public safety overtime and utilities; budgeting amounts that more closely reflect actual spending. The Fiscal Year 2014 Budget will allocate funding for several new and existing initiatives which will, in turn, address core city needs.

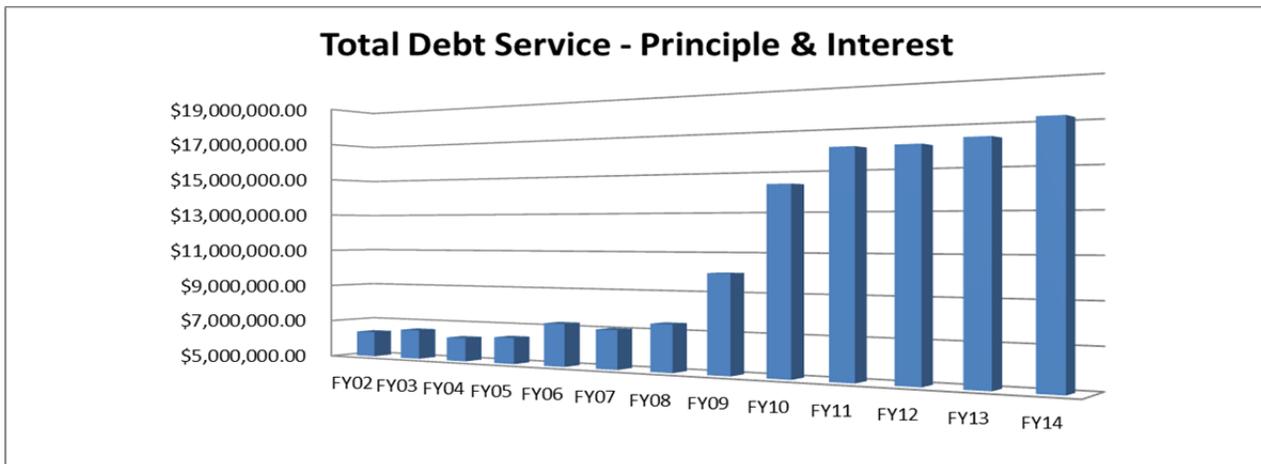
Funding from both the override and increased revenue will accomplish the following:

- Allow the City to hire four new sworn officers targeted to combat increasing traffic and safety concerns,
- Yield an increase in the structural investments made to the City’s streets and sidewalks,
- Have monies allocated toward enhanced “Beautification” in Newton,
- Allow the City to upgrade the emergency operation center at Fire Headquarters,
- Update and enhance the City’s technology,
- Fund a comprehensive street lighting replacement plan, and
- Increase resources for economic development and sustainability,
- As well as many others.

The City has made substantial progress in identifying and proactively mitigating municipal building problems. For the first time, this year’s budget will include 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

With the unveiling of the City’s 1st of-its-kind prioritized Citywide Capital Infrastructure Assessment in Fiscal Year 2013, the City has begun to embark on an aggressive prioritized Citywide Capital Improvement Plan designed to address condition and capacity needs throughout the school buildings, deplorable conditions in several fire stations and other growing issues in municipal buildings. With the passing of the override package on March 12, 2013, the City will continue to optimize debt service utilization to mitigate problems with infrastructure, and fund capital assets essential in delivering services to the citizens of Newton.



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.