

## **City of Newton - Introduction**

The City of Newton, a suburban city with a population of just under 84,000, is 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 650 students in the past several years and is expected to continue to rise by as many as 775 more students in the next five years.

Home to a major 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 10,000 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, as well as 2.5 million square feet of municipal and recreational buildings and approximately 1,060 acres of parkland.

## **Executive Summary**

*“Our team at City Hall has adopted an approach that influences the decisions we make every day — that governance in our city must be innovative, effective and efficient and inspire partnership and confidence; we must be transparent and spend every taxpayer dollar wisely; we must prioritize our most important needs; education and public safety. And we must provide leadership in government that gives people opportunity and brings about a better quality of life for all.”*

*Mayor Setti Warren, State of the City Address  
Tuesday, January 17, 2012*

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Throughout the past two years the Warren Administration has worked diligently to deliver on the promises of two years ago: to improve City services, to streamline government, to provide an excellent education and 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. To do this the Administration developed a five-pronged approach comprised of the following strategies:

- **Settlement of 17 Collective Bargaining Agreements**
- **Zero-Based Budgeting**
- **Performance-Based Management**
- **Citywide Capital Infrastructure Assessment**
- **Economic Development**

## **Collective Bargaining Agreements**

Throughout the past year the City of Newton has entered into 3 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 of 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 not 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.

## **Zero-Based Budgeting**

The City implemented a zero-based budgeting strategy in 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 once again utilized this process of budget preparation in order to continue to maximize efficiencies.

## **Performance Management**

During the course of the past two years, the City has embarked on a new 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 Fiscal Year 2013 Budget has taken this process to the next level by incorporating an "Outcomes-Based" approach in preparing the budget, setting targets and developing criteria upon which the Administration will measure progress toward desired outcomes.

## **Capital Infrastructure Assessment**

For too many years the City allowed budgetary pressures to impede capital program expenditures and the preservation and maintenance of the community's school buildings, municipal buildings, roadways, parks, recreation space, and water and sewer facilities. Therefore, on November 7, 2011, the City of Newton unveiled a first of its kind, fully integrated, prioritized Citywide Capital Improvement Plan based on a complete Capital Infrastructure Condition Assessment which had been undertaken to enable the administration to ascertain the current condition of the City's facilities, maintenance history, operating cost information, and most importantly to enable the development of a long-range maintenance and replacement plan for the City's Capital Assets. The Fiscal Year 2013 Budget incorporates the first steps in the implementation of this unique Citywide Prioritized Capital Improvement Plan.

## **Economic Development**

Throughout the past year the Administration has 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. In November, 2011 the Honorable Board of Aldermen authorized the City to enter into a joint application with the developer to seek \$10 million of State Funding through the "I-Cubed" program for infrastructure improvements to the Route 9 corridor. Upon completion, it is anticipated that this project will generate approximately \$1.3 million annually in additional property tax revenues to the City. The Fiscal Year 2013 Budget incorporates initiatives designed to further facilitate economic development.

## **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 Newton residents and is considered to be a ‘bedrock’ of the community. Therefore, inherent in the City’s 5-Year Financial Forecast presented in November 2011, was the Mayor’s commitment to allocate at least a 2.5% increase in the annual school budget appropriation for each of the next five years, beginning with the FY2013 School Department Budget. Additionally, the Governor’s proposed budget focused on education, earmarking an additional \$2.665 million in Chapter 70 Education Aid to the City of Newton.

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 FY13 Superintendent’s Proposed Budget is \$178,781,245 and is expected to serve 12,114 students in grades K-12.

The following four areas were the focus in the development of the FY13 Budget:

- 1) Maintaining excellent programs and instruction in all schools,
- 2) Accounting for continued increases in enrollment K-12,
- 3) Providing additional supports for students through mental health and instructional intervention strategies in elementary and middle schools, and
- 4) Striving for efficiency in operations while continuing current fee policies.

Therefore, 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, and cost savings realized through zero-based budgeting and performance management initiatives, 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-Range Financial Stability, and
- Community Engagement.

## **Utilization of Reserves & Non-Recurring Revenues**

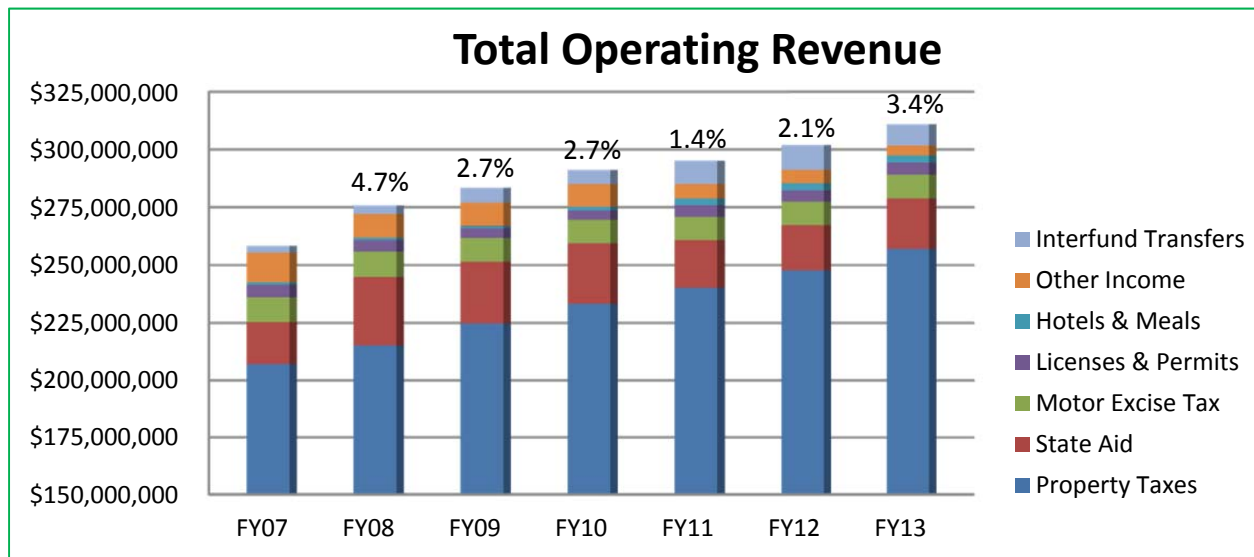
The City of Newton constructed and opened the state-of-the-art Newton North High School without seeking either a Debt Exclusion or Operating Override from the citizens of the City. To do this, a financial strategy was implemented where the City planned to utilize Capital Stabilization Reserve Funds and other Non-Recurring Revenues for the first several years following the school construction in order to supplement the City's Operating and Recurring Revenues to enable the City to "grow" into the Debt Service Payments associated with that facility. Therefore, the Fiscal Year 2011 Municipal Budget was developed with the recognition that approximately \$11 million of Reserves or Non-Recurring Funds would be necessary to support the projected level of expenditures; the Fiscal Year 2012 Municipal Budget was developed with the expectation that approximately \$7.5 million of Reserves or Non-Recurring Funds would be necessary to support the projected level of expenditures; and the Fiscal Year 2013 Budget has been developed with the expectation that approximately \$5.2 million of Reserves or Non-Recurring Funds will be necessary to support the projected level of expenditures. It is anticipated that the Capital Stabilization Fund with a remaining balance of \$2.1 million will be depleted in Fiscal Year 2014. Therefore, the City must continue to strive toward developing Operating Budgets that are no longer dependent upon the utilization of Reserves or Non-Recurring Funds to "create" balance.

## **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 FY2015.

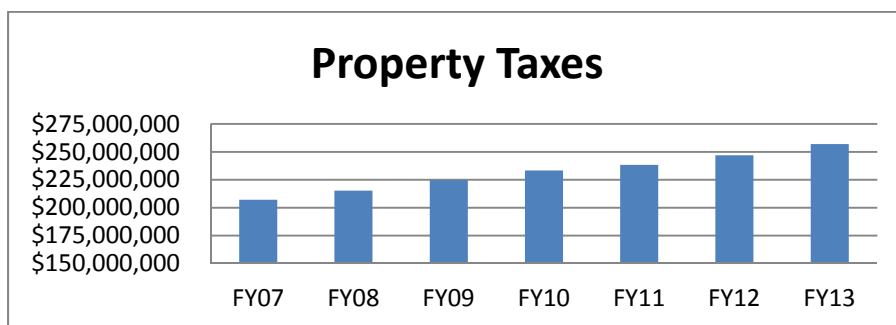
## Revenue

Perhaps the single most important budget projection is that of determining the Total Anticipated Operating Revenue for any given fiscal year. In 1980 an initiative petition known as Proposition 2½ was passed by the voters of the Commonwealth of Massachusetts and went into effect in 1982. Under Proposition 2½, the annual increase of the property tax levy for the City of Newton cannot exceed 2.5% of the prior year’s tax levy, plus the amount attributable to taxes that are from new real property. Property Tax Revenue is a very dependable revenue source in the City of Newton, accounting for \$257 million, or 82% of the City’s \$312 million FY2013 Revenue Projection. Other revenues from sources such as Building Permit Fees, Interest Income and State Aid constitute an additional \$50 million of revenue to the City.



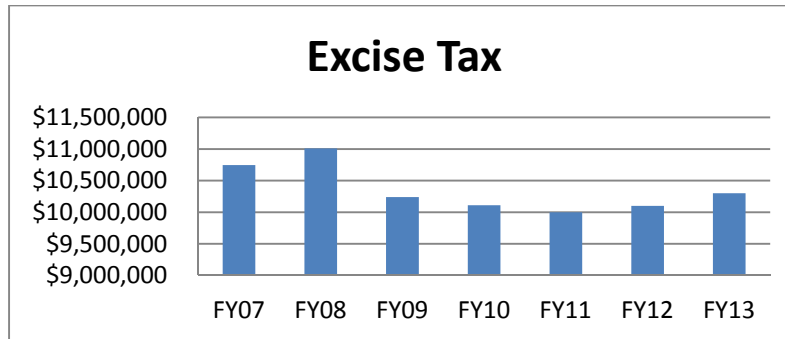
## Property Tax Revenue

It has been the policy of the City to increase the City’s revenue projections by the full 2.5% for the past 20 years. The FY2013 Revenue Budget was developed utilizing this same policy. Additionally, the FY2013 Revenue Budget includes \$2.5 million due to projected new growth/redevelopment.



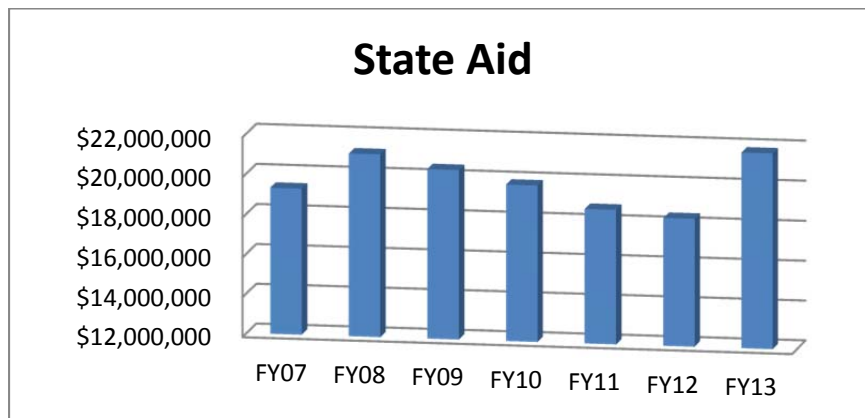
## Excise Tax Revenue

Under Massachusetts General Laws Chapter 60A, all Massachusetts residents who own and register a motor vehicle must annually pay a motor vehicle excise for the privilege of road use and the revenues become part of the local community treasury. An excise at the rate of \$25 per one thousand dollars of valuation is levied on each motor vehicle. During the past five year period, Total Excise Tax Revenue has fluctuated between a low of just under \$10,000,000 and a high of approximately \$11,000,000, subject to the strength of the economy. Based on the recent upturn in the economy and projected FY2012 actuals, the FY2013 Excise Tax Budget has been increased slightly to \$10,300,000.



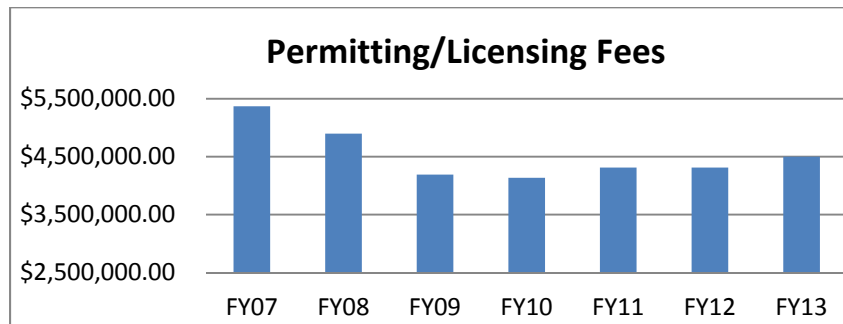
## Revenue from State Aid

Although Revenue from State Aid had been declining in each of the past several years, the Governor's Proposed Fiscal Year 2013 Budget includes level funding of Unrestricted General Government Aid, but a \$2.665 million or almost 20% increase in Chapter 70 Education Funding. As stated previously, all \$2.665 million has been allocated to the Newton Public Schools. This projected increase in State Aid for Education is responsible for almost 1% of the increase in Total Revenue.



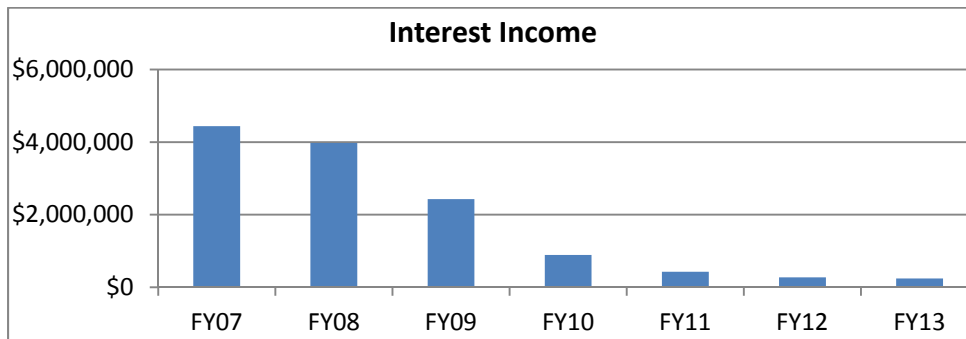
## Revenue from Permitting/Licensing Fees

Revenue from Permitting and Licensing Fees peaked at approximately \$6.5 million in FY06 – resulting from significant commercial development. However, as the economy declined over the past few years, so too had the revenue realized from the issuance of building permits. Although, the City has seen an increased interest in property development since the low in FY2010, this account has only been adjusted up slightly as this is a volatile, non-recurring source of funds.



## Interest Income

The FY2013 Budgeted Interest Income earned on the City of Newton’s Financial Investments reflects the historically low interest rates. Consequently, projected FY13 Revenue from Investments is projected to be even lower than the FY2012 forecast.

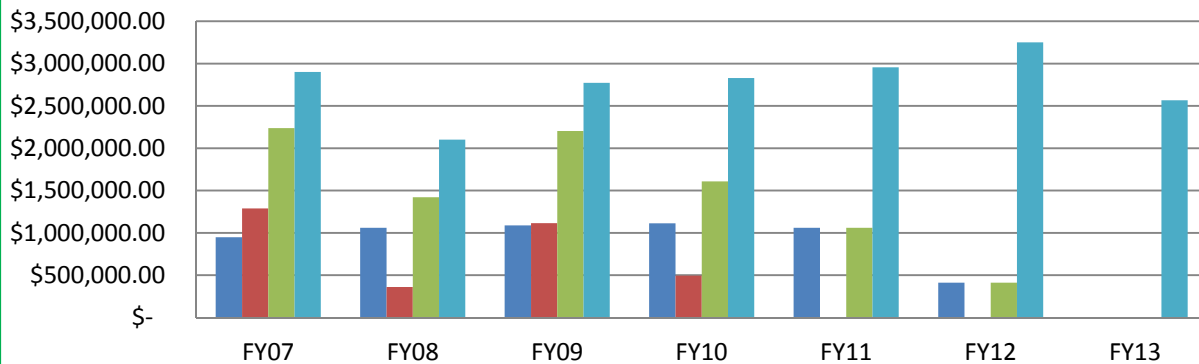


## Reserve for Abatements

Each year the City must set aside a reserve for those property owners who successfully challenge the assessed valuation of their property. The City of Newton has been extremely successful in defending its assessed values. In the recent past it has been the policy of the City to “set aside” 1.25% of the total Property Tax Levy for Abatements. However, as is evident from the chart below, the City has not abated more than 0.5% of the property tax levy in any given year since the early 1990’s. Therefore, the Reserve for Abatements included in the Fiscal Year 2013 Budget has been reduced to approximately 1.0% of total assessed valuation.



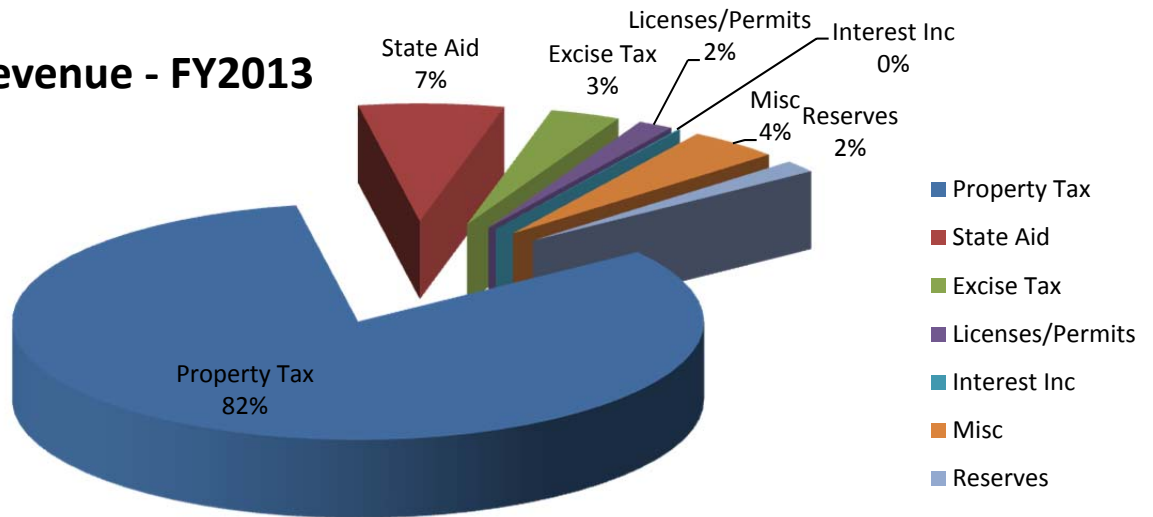
**Overlay Reserved for Abatements  
Amt Settled/Declared Surplus/Amt Resolved/Beg Total**



**Summary of Revenue**

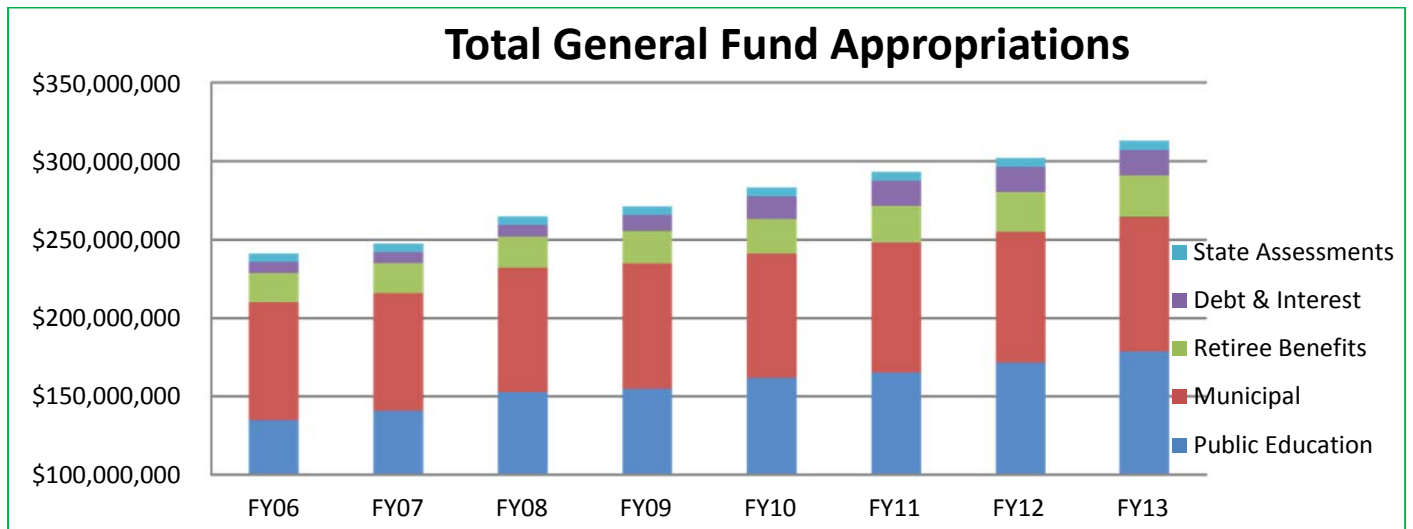
As a result of the above mentioned factors, Fiscal Year 2013 Revenue is projected to total approximately \$312.9 million (including \$5.2 million of non-recurring budget balancing revenues) – an increase of more than \$10.5 million over the Fiscal Year 2012 Budget. During the past decade the City has become much more dependent on Property Tax Revenues to fund operations. State Aid as a percent of revenues has declined from 14% of revenue in FY2001, to 7% of revenue in FY2013. Concurrently, Investment Income, Licensing & Permitting Fees and Excise Tax have also declined in the past few years from more than 9% of total revenue to just over 5%. Inasmuch as the City is relying less and less on outside forces for revenues, this phenomenon has forced the City to become more and more dependent on its citizens and commercial base to support its operations.

**Total Revenue - FY2013**



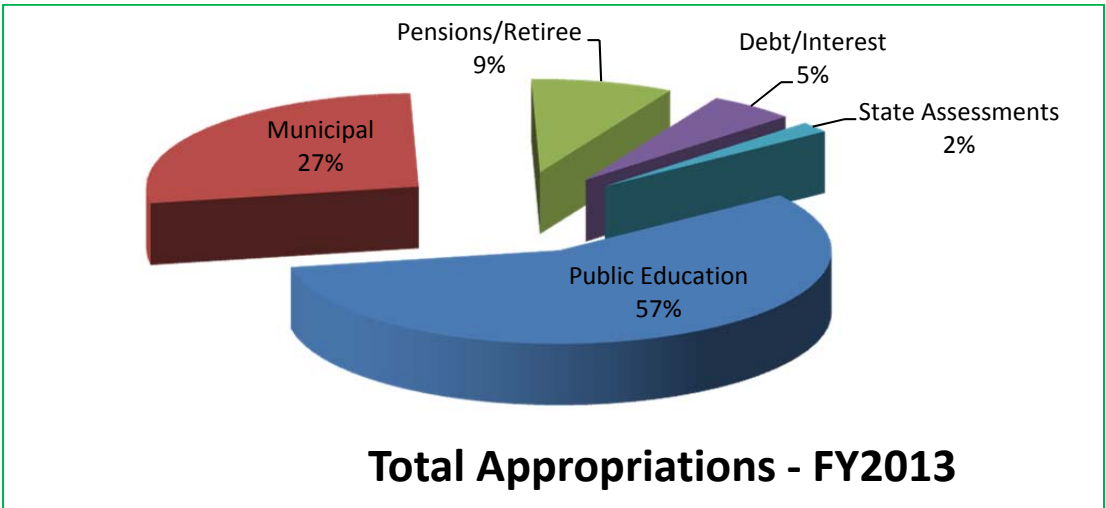
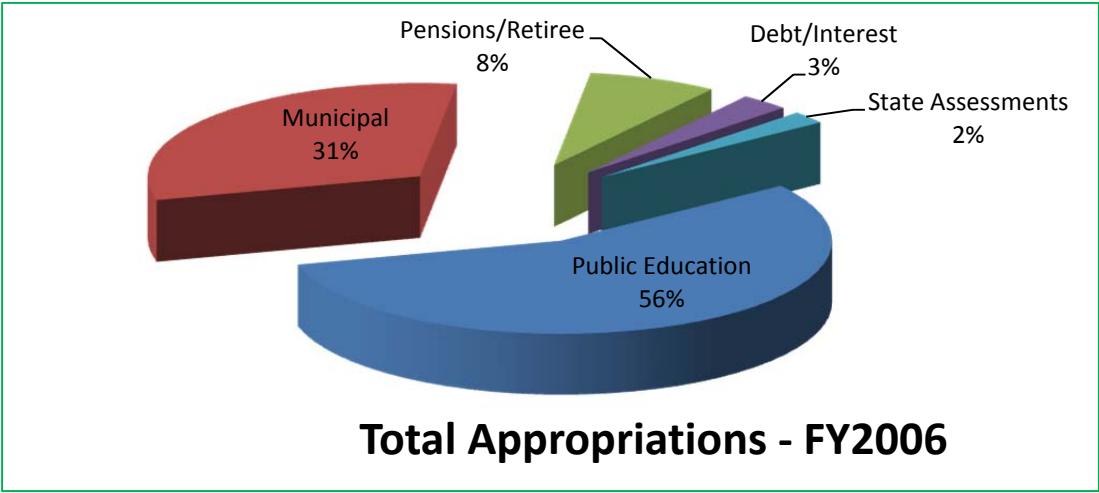
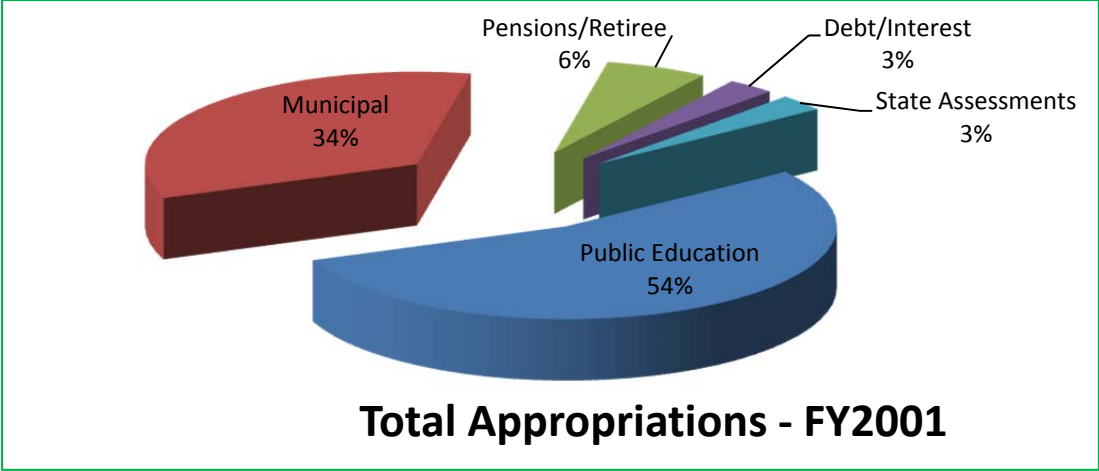
## Projected Expenditures – Fiscal Year 2013

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 those guidelines which have been included as an integral part of the Fiscal Year 2013 Budget. Perhaps one of the most important is the fact that the City will strive to develop 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. It is anticipated that this guideline will take 2 to 3 years to fully implement. The Administration made significant progress toward this goal in the development of the FY2012 Budget and has continued to increase previously under-budgeted items in the FY2013 Budget.



As is evident from the comparative charts on the next page, the financial commitment to Public Education in the City of Newton has grown over the years, with the Newton Public Schools now encompassing 57% of the FY2013 City Budget as opposed to 54% of the FY2001 City Budget. Additionally, Debt Service (largely comprised of debt service on school buildings) has increased over the years to 5% of the City Budget.

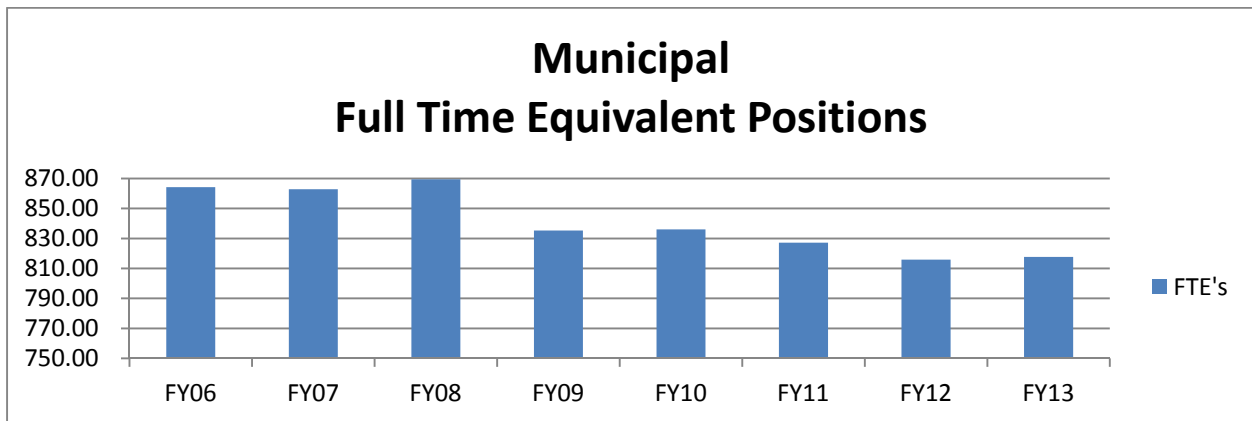
It should be noted that “Municipal Expenditures” have declined as a percentage of total spending from 34% in FY2001 to only 27% in the FY2013 Budget. This is a very important fact, if the City is to maintain its Moody’s Aaa bond rating, deliver core City services and maintain infrastructure. It is critical that the City of Newton strike a balance between the many needs and desires of the community – excellence in education, commitment to public safety, exceptional public infrastructure, quality of life, etc.



## Municipal Personnel

Protecting core services and maintaining emergency personnel, public works employees, customer service staff, nurses in the schools, etc. – are the principles upon which this budget was developed. As a result, vacant administrative positions have been eliminated, while several positions have been added which will enable the City to accomplish the goals and desired outcomes described in this document for a net increase of approximately 3 FTE’s. Those additional positions include the following:

Parks & Rec – Forestry	3 FTE’s	Tree Maintenance
Information Technology	1 FTE	Programmer
Planning	½ FTE	Zoning Reform
Public Buildings	1 FTE	Project Manager
Public Buildings	1 FTE	Capital Planner
Public Works	1 FTE	Ass’t Superintendent – Beautify Newton
Library	½ FTE	Archivist



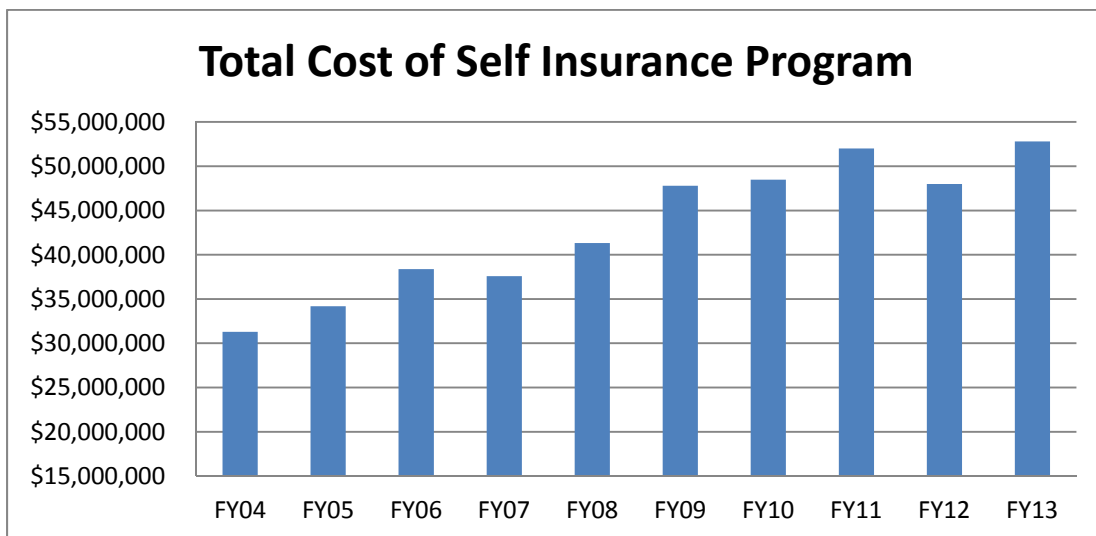
## Total Salaries – All General Fund Municipal Employees

As has been mentioned earlier in this report, during the past year the City of Newton has entered into 3 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 of 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 not 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.

## 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 2012 total cost of the health insurance program will approximate \$48,000,000, with the City responsible for 80% or \$38.4 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 control the annual rate of growth of salaries, compensation and health insurance to within 2.5%.



Please Note: The City is responsible for 80% of this amount

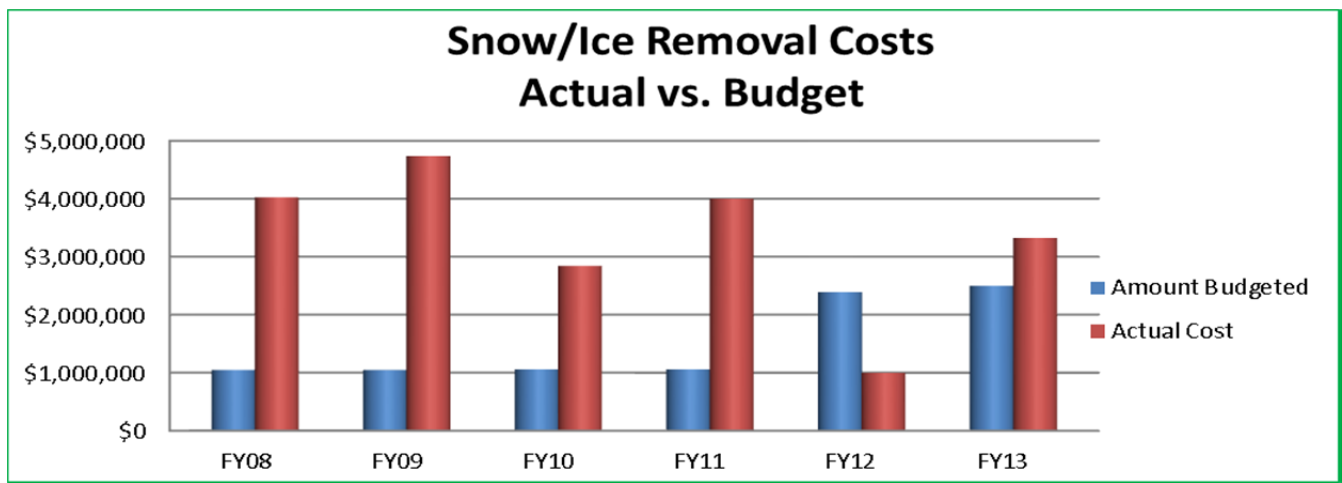
## Contributory Retirement Plan

The City of Newton Contributory Retirement Plan covers approximately 3,600 active and retired employees. Prior to the recent 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 past few years, the total unfunded actuarial accrued liability has remained at 45% as of January 1, 2011. 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. Last year 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 FY2013 Budget allows the City to remain on that funding schedule.

## Removal of Snow/Ice

The City of Newton has been the beneficiary of not only the mildest winter in history, but also one of the lowest snowfall totals since snowfall levels have been recorded. Due to the change in budgeting methods, the City has seen a savings of unexpended appropriations in the Fiscal Year 2012 Snow/Ice Removal Budget. Consequently, the Mayor and Board of Aldermen have agreed to appropriate \$2,000,000 of this savings to the Rainy Day Stabilization Fund, a reserve account established to protect the City from possible future multiple year economic recessions or rare, catastrophic expenditures.

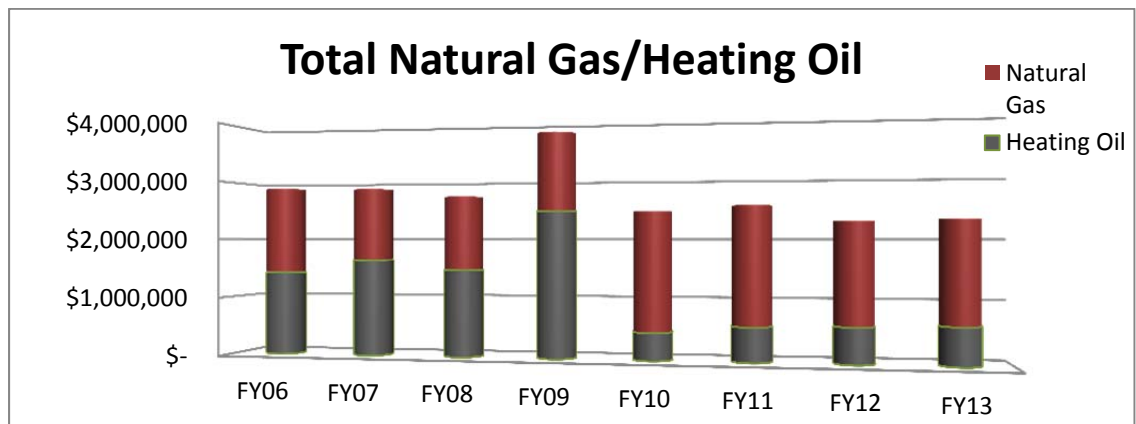
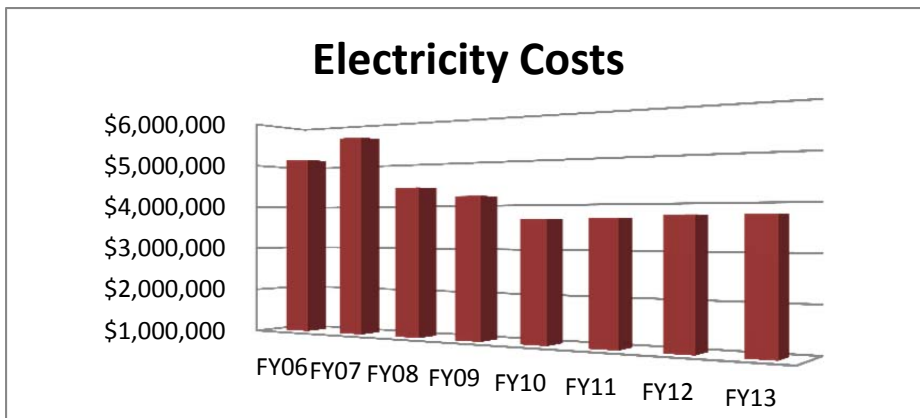
The City will continue to progress toward budgeting an amount equal to the five year average snow removal expenditure as a part of the annual budget. Although that goal is still too ambitious to accomplish this year, the FY2013 Municipal Budget includes \$2.5 million for expenditures associated with the removal of snow and ice – or approximately 75% of the five year average.



(FY13 Cost of Snow/Ice Removal is projected @ 5 year average)

## Utilities

The City of Newton has aggressively pursued Energy Saving Solutions for many years, managing both costs and consumption. As such, the City has been certified as a “Green Community,” received more than \$500,000 in Grant Funding in FY11 for energy improvements at the Lower Falls Community Center, 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. Therefore, the FY2013 Electricity, Natural Gas, and Heating Oil projections have been adjusted accordingly.

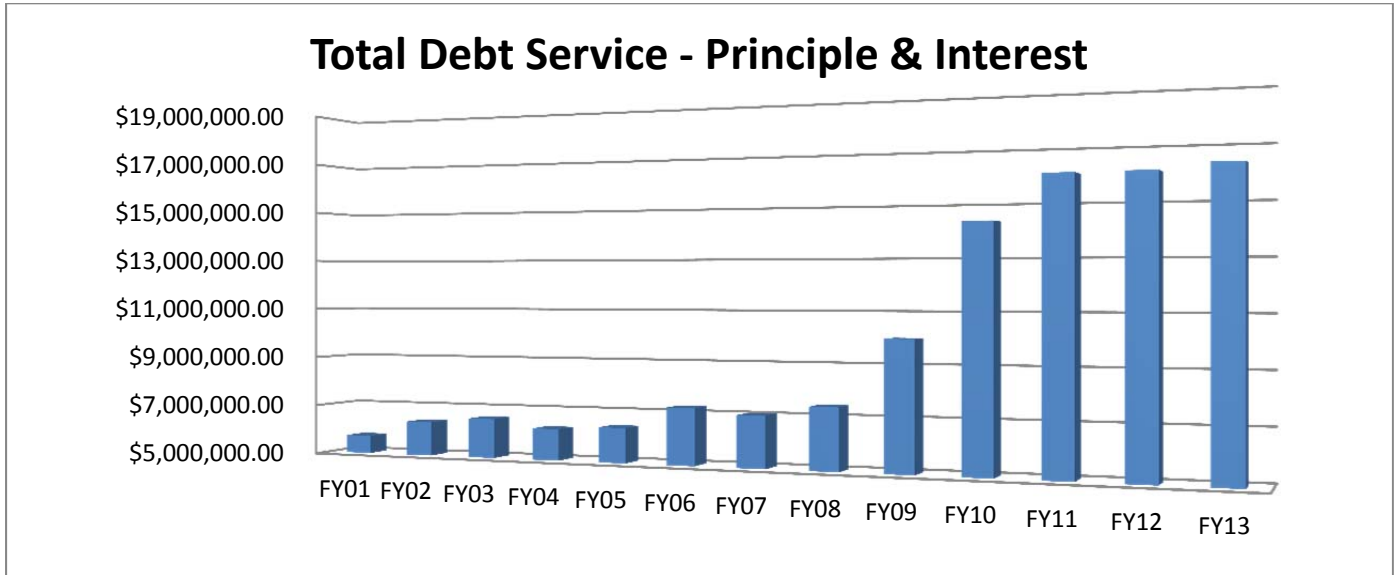


## Additional Expenditures Funded in FY2013

In addition to making significant progress over the past two years toward increasing appropriations for the costs associated with the removal of snow and ice, public safety overtime and utilities, the FY2013 Budget has now fully funded retiree health insurance, increased funding for flu and shingles vaccinations, and addressed several initiatives such as the implementation of the recommendations of the Zoning Reform Study, the establishment of a 3-person forestry crew to address the ever growing need for tree maintenance, the addition of a part-time archivist, significant increases in public safety equipment, additional project management support for the many building projects that are on the horizon, and a commitment to technology improvements throughout the City.

## **Debt Service**

As has been stated previously, with the unveiling of the City's first of its kind, prioritized Citywide Capital Infrastructure Assessment, the City has begun to embark on an aggressive prioritized Citywide Capital Improvement Plan designed to address condition and capacity needs in the school buildings, deplorable conditions in several fire stations, and building envelop needs in many municipal buildings. The City will utilize its interactive database to continuously update changing conditions which will allow the City to identify the most pressing needs at all times.



(FY2007 Adjusted for Fire Department Loan Settlement)

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

Additionally, the City has identified an updated O.P.E.B. (Other Post-Employment Benefits) unfunded liability of roughly \$630 million, requiring a \$50 million Annually Required Contribution or (ARC). The City established an O.P.E.B. Trust Fund and appropriated a lump sum of \$137,000 in the FY11 budget and appropriated \$175,000 of Free Cash this year. The FY2013 Budget includes the beginnings of a true 'funding plan' for this liability. The City will set aside 2.5% of the salary for all newly insured employees beginning July 1, 2012, and will gradually increase that percentage each year. It is the expectation that as the City brings on more and more new employees, this funding method will cause this appropriation to grow exponentially. The FY2013 appropriation allows the City to continue to "pay as you go" for all OPEB liabilities for current and former employees.



## **The City of Newton's Aaa Bond Rating**

On March 30, 2012, 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 2012 Bonds. Concurrently, Moody's reaffirmed the Aaa rating assigned to \$188 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.*

Moody's statement continued to opine on the financial condition of the City of Newton by stating: *The stable outlook reflects Newton's improving financial position with growing stabilization reserves, conservative long-range projections, implementation of the city's financial guidelines, and the stability of the regional economy.*

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 March of 2012 and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

# 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 those guidelines which have been included as an integral part of the Fiscal Year 2013 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.