

A photograph of the Newton City Hall, a large red brick building with a prominent white steeple and a portico with columns. The building is situated behind a green lawn and a body of water, with trees and bushes in the foreground. The sky is clear blue.

FY2012 – FY2016
Five-Year Financial Forecast

CITY OF NEWTON, MASSACHUSETTS

Setti D. Warren, Mayor

18 October 2010



SETTI D. WARREN
MAYOR

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October 18, 2010

Honorable Board of Aldermen
NewtonCity Hall
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Newton, MA02459

Ladies and Gentlemen:

I am pleased to submit for your consideration the FY2012 – FY2016 Five Year Financial Forecast.

Newton is a remarkable community. I feel fortunate to have grown up here and benefited from a great family, strong schools, and supportive neighbors. The education I received here, the experiences I had, the people I got to know -- these created a foundation for everything in my life that has come since. My wife and I live in the house where I grew up, and, as proud parents of a young daughter, we look forward to seeing her benefit as well from all that this community has to offer.

Like the rest of the nation, however, we are facing tough financial challenges. If we are to turn things around, preserve what we have built, and indeed make Newton the model of excellence we know it can be, we must bring everyone together with a level of openness, honesty and accountability.

I believe we can have the best school system in the state -- nothing short of a model of excellence for 21st century learning. I believe we can have a city that runs effectively and efficiently, that plans for the long term and embraces innovation wherever it can make us better.

Today, we face significant challenges in Newton. For years we have not included typical operating expenditures such as the costs for snow removal or public safety overtime in our operating budget. Our annual operating expenditures are growing at a rate that is faster than the rate of growth of our revenue. Our roads and buildings have been neglected for years and require investment. Our health care and pension liabilities are skyrocketing and these costs will need to be contained. At the same time, state funding is likely to be cut again as tax revenues lag an improving economy.

This five year financial forecast begins to address most of these issues. We have identified and have included all of the normal operating costs of providing services to the residents of the City of Newton. We have taken a long hard look at the City's recent revenue trends, and have utilized this trend data to project our revenue for the next five years. We have realistically projected the costs associated with fully funding the retirement trust fund on an actuarial basis by the year 2038, the establishment and funding of a "Rainy

Day Stabilization Fund”, and the establishment and initial funding of an “Other PostEmployment Benefits Trust Fund”.

However, after calculating all of these costs, it became apparent that if we were to fund each of these components at their forecasted trend rates, our expenditures would continue to exceed our revenues, and our annual deficit would have grown to \$25 million per year by FY2016, prior to addressing our significant infrastructure needs.

That forecast would be unsustainable and cannot be considered. We must create a viable, sustainable, balanced forecast – one which creates parity between our projected revenue and our projected expenditures. We must find ways to create efficiencies, reduce costs, and develop an expenditure forecast that is in line with our revenue forecast.

To do this we will utilize several different tactics. We will develop zero-based budgets, institute performance based management, work with our union representatives through collective bargaining, conduct a comprehensive citywide infrastructure assessment, and encourage economic development where we should.

Together, we will have to make difficult choices in the months and years ahead to preserve what is best about our city while living within our means and not over-burdening our current taxpayers or future residents. I am prepared to make the tough decisions that will be necessary and I recognize that doing nothing is not an option.

Therefore, it is with both pride in our great City and optimism for our future that I present to your Honorable Board the FY2012 through FY2016 Five Year Financial Forecast.

Very truly yours,

A handwritten signature in black ink, appearing to read "Setti D. Warren". The signature is fluid and cursive, with the first name "Setti" being more prominent and the last name "Warren" following in a similar style.

Setti D. Warren,
Mayor

Introduction

As has been widely reported the City of Newton Operating Budget has been developed with a “structural deficit” over the past several years, with no prospect of change if the current revenue and expense trend rates continues. A “structural deficit” occurs when a municipality’s appropriations and expenditures consistently exceed its revenue. Unfortunately, the City of Newton currently finds itself in just such a predicament. Although recent budgets have appeared to have been “balanced”, that has not actually been the case. In addition to funding operating expenditures by utilizing “free cash” throughout the years, recent budgets have been crafted utilizing the City’s Capital Stabilization Fund, as an interfund revenue transfer, as well as surplus from the annual set-aside for property tax abatements.

The City of Newton has recently opened its state-of-the-art new NewtonNorthHigh School, and although the debt service on this project is substantial, it is not entirely responsible for the financial challenges that the City faces. Over the past three decades, the City has underfunded infrastructure improvements and other post employment benefits (O.P.E.B.) for its employees, and has allowed expenditures to increase at an annual rate that exceeds the annual rate of increase of revenue.

It has been widely believed, and was probably true in better economic times, that the total annual increase in revenue for the City is approximately 3.5%; actual recent revenue growth rates have averaged only 2.6%. Although Real Estate Tax Revenue increases annually by 2.5%, and new revenues as a result of redevelopment of real estate has increased by approximately 1%, revenues derived from Licenses and Permit Fees, Interest Income and State Aid have been falling year after year throughout the past few years as a result of the current economic downturn. And although the Federal Reserve Board has declared the current recession officially over, it is quite possible that the City will never again realize the State, Federal and Local Aid revenue streams of the past.

Therefore, it is incumbent upon the City of Newton to deal with this operational deficit head on and begin to generate realistic financial forecasts. As such the City has utilized viable, sustainable, balanced principles as the Five Year Financial Plan has been established.

This five-year financial forecast discusses the very real fiscal challenges faced by the City of Newton, possible trends for the future based on past experience and known conditions, principles to guide the strategy, policy options, implementation issues, and future budget scenarios. The purpose of this Plan is to set forth the basic elements of the City’s financial situation, explain revenue constraints, cost control options, inform the community of the risks and opportunities available to us as we move forward, and establish strategies and policies for the City to work toward a sustainable budget.

It is anticipated that this document will serve to guide budget choices and policy as the Board of Aldermen reviews the annual draft budgets for the coming years.

Financial Principles

Throughout the past few months the City has been in the process of updating the City's Financial Management Guidelines. There are several guiding principles that will be incorporated into those guidelines and have also been included as an integral part of this five year financial forecast. 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 financial forecast estimates are expected to capture 99% of total expected revenue for the year.
- **Expenditure budgeting:** Expenditure budget estimates will be sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year.
- **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 (i.e., the sum of estimated revenues, interfund transfers, free cash and other financing sources balances) 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:** Free Cash will be used in the following manner. 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.
- **Inclement Weather Stabilization Reserve:** The City will establish an Inclement Weather Stabilization 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.

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 take steps to create parity in the rate of growth of revenue and expenditures. General Fund revenue financial forecast 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 plan will be sufficient to address not less than 100% of projected operating requirements for the next fiscal year, while enabling the City to eliminate the operating deficit by FY2015. This will require strict adherence to a forecast and budget that maintains an expenditure growth rate that does not exceed the revenue growth rate of approximately 2.5%. In order to contain the rate of growth of expenditures the administration will work with the citizens to define and prioritize the City’s core services, develop zero-based budgets, employ performance management techniques, work with the City’s union leadership through collective bargaining, conduct a comprehensive citywide infrastructure assessment, and work to encourage economic development where appropriate.

Recent Financial Trends

Throughout the past five years, the rate of growth in expenditures has exceeded the rate of growth in revenues. This inequity in growth rates actually began in FY09 and has now created a "structural deficit" which approximates \$11 million in FY11 alone.

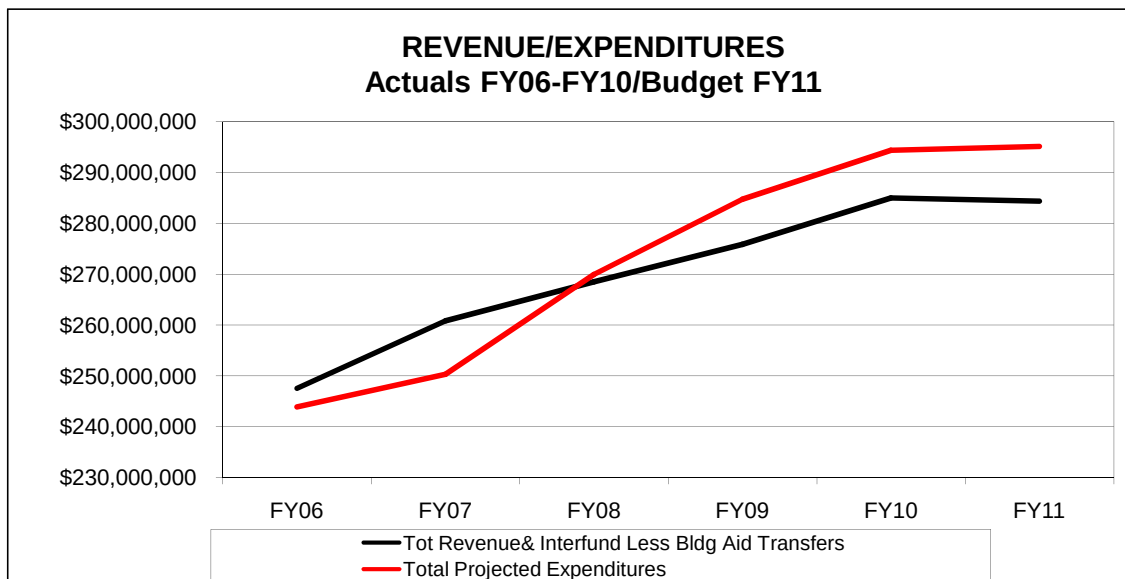
REVENUE AND EXPENDITURES

FY2006 - FY2011

	<-----ACTUAL----->					<BUDGET>
	FY06	FY07	FY08	FY09	FY10	FY11
REVENUE						
Total PropertyTax Revenue	\$ 200,233,921	\$ 207,156,434	\$ 215,239,592	\$ 224,772,488	\$ 233,296,490	\$ 238,307,002
Total Excise Tax Revenue	\$ 10,750,647	\$ 10,745,229	\$ 11,008,570	\$ 10,239,711	\$ 10,110,729	\$ 10,000,000
Total Other Tax Revenue	\$ 2,303,204	\$ 2,592,958	\$ 2,517,849	\$ 2,801,947	\$ 5,681,864	\$ 4,163,523
Total Licenses and Permits	\$ 6,515,917	\$ 5,371,145	\$ 4,897,247	\$ 4,190,689	\$ 4,133,581	\$ 3,150,000
Total Fines and Forfeitures	\$ 1,972,840	\$ 1,825,696	\$ 1,878,183	\$ 1,974,462	\$ 2,084,950	\$ 2,030,000
Investment Income	\$ 3,055,801	\$ 4,440,056	\$ 3,976,344	\$ 2,427,017	\$ 887,569	\$ 1,100,000
Local, State & Federal Aid	\$ 17,331,977	\$ 20,697,268	\$ 22,593,546	\$ 21,762,484	\$ 21,185,765	\$ 20,442,028
Miscellaneous Revenue	\$ 2,722,160	\$ 5,035,740	\$ 3,028,668	\$ 3,955,274	\$ 2,791,337	\$ 1,801,000
Total Revenue - General Revenue	\$ 244,886,467	\$ 257,864,526	\$ 265,139,999	\$ 272,124,072	\$ 280,172,285	\$ 280,993,553
Interfund Transfers	\$ 2,700,927	\$ 2,981,050	\$ 3,397,425	\$ 3,789,719	\$ 4,866,610	\$ 3,383,917
Tot Revenue& Interfund Less Bldg Aid Tr	\$ 247,587,394	\$ 260,845,576	\$ 268,537,424	\$ 275,913,791	\$ 285,038,895	\$ 284,377,470
State School Building Assistance	\$ 2,793,121	\$ 2,377,843	\$ 7,040,446	\$ 4,914,768	\$ 4,941,992	\$ -
Total Revenue & Interfund Transfers	\$ 250,380,515	\$ 263,223,419	\$ 275,577,870	\$ 280,828,559	\$ 289,980,887	\$ 284,377,470
Capital Stabilization Fund	\$ 649,997	\$ 82,449	\$ 216,700	\$ 2,592,020	\$ 1,179,046	\$ 5,794,128
Free Cash	\$ -	\$ -	\$ -	\$ 4,134,459	\$ -	\$ 1,900,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 775,133
Total Revenue & Budget Balancers	\$ 251,030,512	\$ 263,305,868	\$ 275,794,570	\$ 287,555,038	\$ 291,159,933	\$ 292,846,731
General Revenue Growth Rate		5.30%	2.82%	2.63%	2.96%	0.29%

EXPENDITURES

Municipal Expenditures	\$ 78,065,443	\$ 76,675,145	\$ 84,022,357	\$ 89,726,000	\$ 88,826,690	\$ 80,287,408
State Assessments	\$ 5,209,013	\$ 5,375,365	\$ 5,512,027	\$ 5,453,169	\$ 5,619,317	\$ 5,552,182
Retirement	\$ 18,525,152	\$ 19,043,013	\$ 19,666,613	\$ 20,827,227	\$ 21,932,507	\$ 23,382,339
Debt Service	\$ 4,698,221	\$ 5,909,113	\$ 5,683,430	\$ 8,681,610	\$ 14,344,069	\$ 16,005,731
Newton Public Schools	\$ 137,405,240	\$ 143,319,686	\$ 155,077,580	\$ 160,085,168	\$ 163,672,440	\$ 167,203,992
Total Expenditures (FY11 w/o Snow)	\$ 243,903,069	\$ 250,322,322	\$ 269,962,007	\$ 284,773,174	\$ 294,395,023	\$ 292,431,652
Snow/Ice Removal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
Public Safety Overtime	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750,000
Total Projected Expenditures	\$ 243,903,069	\$ 250,322,322	\$ 269,962,007	\$ 284,773,174	\$ 294,395,023	\$ 295,181,652
TRUE OPERATING SURPLUS/(DEFICIT)	\$ 6,477,446	\$ 12,901,097	\$ 5,615,863	\$ (3,944,615)	\$ (4,414,136)	\$ (10,804,182)



Note: FY10 Other Tax Revenue includes "New Falls" Payment.

Miscellaneous Revenue has primarily been composed of proceeds from bond sales.

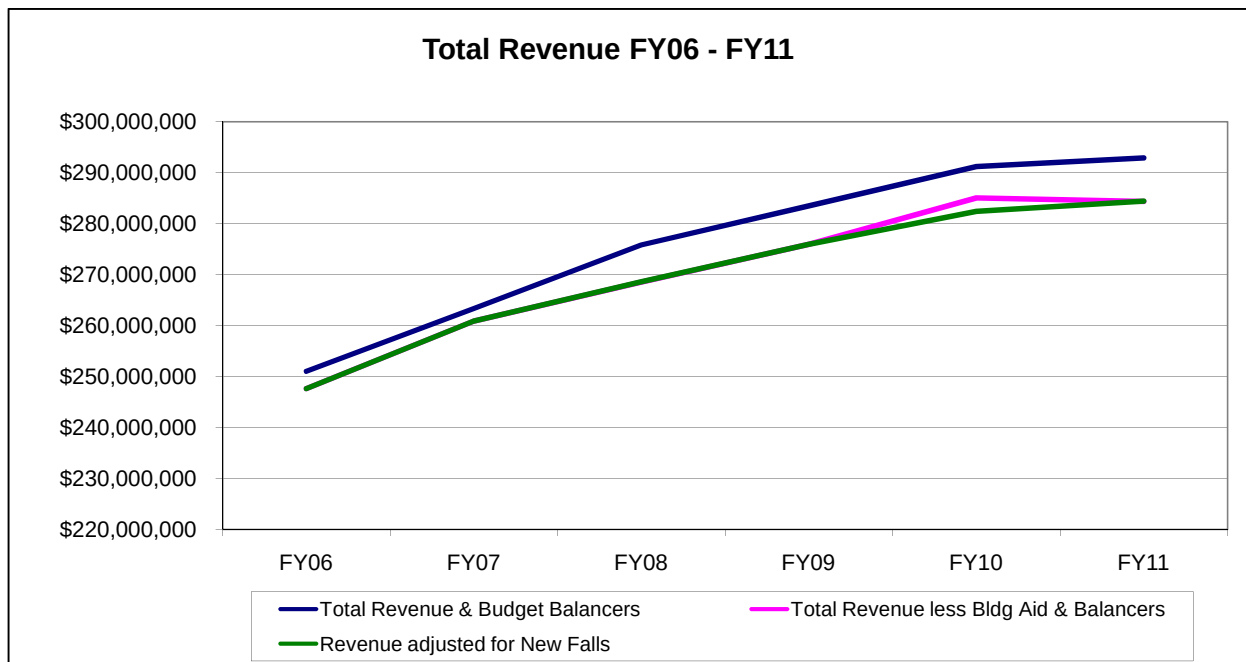
Building Aid - refers to State School Building Assistance

Recent Revenue Trends

It has been widely believed that revenue increases have and will continue to approximate 3.0% or 3.5% per year: 2.5% increased real estate tax revenue and approximately 1% due to new growth. However, there are many other components that combine to yield the City's annual revenue, (such as Excise Tax, Licenses/Permits, State and Federal Aid, Interest Income, etc) many of which have been declining over recent years. The charts below show that although total revenue has been increasing, these miscellaneous revenues have declined significantly. In fact total revenue has only increased by an average of 2.7% per year over the past five years.

TOTAL REVENUE FY2006 - FY2011

	<-----ACTUAL----->					<BUDGET>
	FY06	FY07	FY08	FY09	FY10	FY11
REVENUE						
Total Property Tax Revenue	\$ 200,233,921	\$ 207,156,434	\$ 215,239,592	\$ 224,772,488	\$ 233,296,490	\$ 238,307,002
Total Excise Tax Revenue	\$ 10,750,647	\$ 10,745,229	\$ 11,008,570	\$ 10,239,711	\$ 10,110,729	\$ 10,000,000
Total Other Tax Revenue	\$ 2,303,204	\$ 2,592,958	\$ 2,517,849	\$ 2,801,947	\$ 5,681,864	\$ 4,163,523
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Total Fines and Forfeitures	\$ 1,972,840	\$ 1,825,696	\$ 1,878,183	\$ 1,974,462	\$ 2,084,950	\$ 2,030,000
Investment Income	\$ 3,055,801	\$ 4,440,056	\$ 3,976,344	\$ 2,427,017	\$ 887,569	\$ 1,100,000
Local, State & Federal Aid	\$ 17,331,977	\$ 20,697,268	\$ 22,593,546	\$ 21,762,484	\$ 21,185,765	\$ 20,442,028
Miscellaneous Revenue	\$ 2,722,160	\$ 5,035,740	\$ 3,028,668	\$ 3,955,274	\$ 2,791,337	\$ 1,801,000
Total Revenue - General Revenue	\$ 244,886,467	\$ 257,864,526	\$ 265,139,999	\$ 272,124,072	\$ 280,172,285	\$ 280,993,553
Interfund Transfers	\$ 2,700,927	\$ 2,981,050	\$ 3,397,425	\$ 3,789,719	\$ 4,866,610	\$ 3,383,917
Tot Revenue& Interfund Less Bldg Aid Tr	\$ 247,587,394	\$ 260,845,576	\$ 268,537,424	\$ 275,913,791	\$ 285,038,895	\$ 284,377,470
State School Building Assistance	\$ 2,793,121	\$ 2,377,843	\$ 7,040,446	\$ 4,914,768	\$ 4,941,992	\$ -
Total Revenue & Interfund Transfers	\$ 250,380,515	\$ 263,223,419	\$ 275,577,870	\$ 280,828,559	\$ 289,980,887	\$ 284,377,470
Capital Stabilization Fund	\$ 649,997	\$ 82,449	\$ 216,700	\$ 2,592,020	\$ 1,179,046	\$ 5,794,128
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,900,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 775,133
Total Revenue & Budget Balancers	\$ 251,030,512	\$ 263,305,868	\$ 275,794,570	\$ 283,420,579	\$ 291,159,933	\$ 292,846,731
Total Revenue less Bldg Aid & Balancers	\$ 247,587,394	\$ 260,845,576	\$ 268,537,424	\$ 275,913,791	\$ 285,038,895	\$ 284,377,470
% Increase		5.4%	2.9%	2.7%	3.3%	-0.2%
Revenue adjusted for New Falls	\$ 247,587,394	\$ 260,845,576	\$ 268,537,424	\$ 275,913,791	\$ 282,395,895	\$ 284,377,470
% Increase		5.4%	2.9%	2.7%	2.3%	0.7%



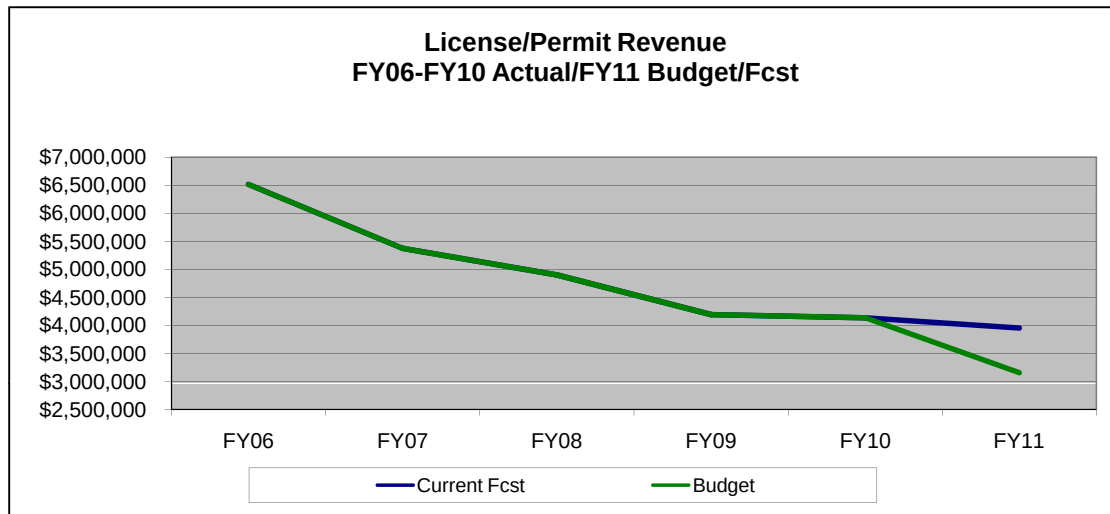
Note: \$2.6 Million of Other Tax Revenue realized in FY2010 was the one time payment of New Falls Settlement. The green line has been adjusted for this in FY10.

Recent Significant Revenue Trends

Licenses & Permits

Revenue from Licenses and Permits has been experiencing a steady decline throughout the past five years. FY06 and FY07 Revenue benefitted from large developments. However, the recent economic downturn has certainly impacted this revenue stream. The FY11 Budget estimated Licensing Revenue at \$3.1 million, however, if recent trends continue, this revenue may approximate \$4 million.

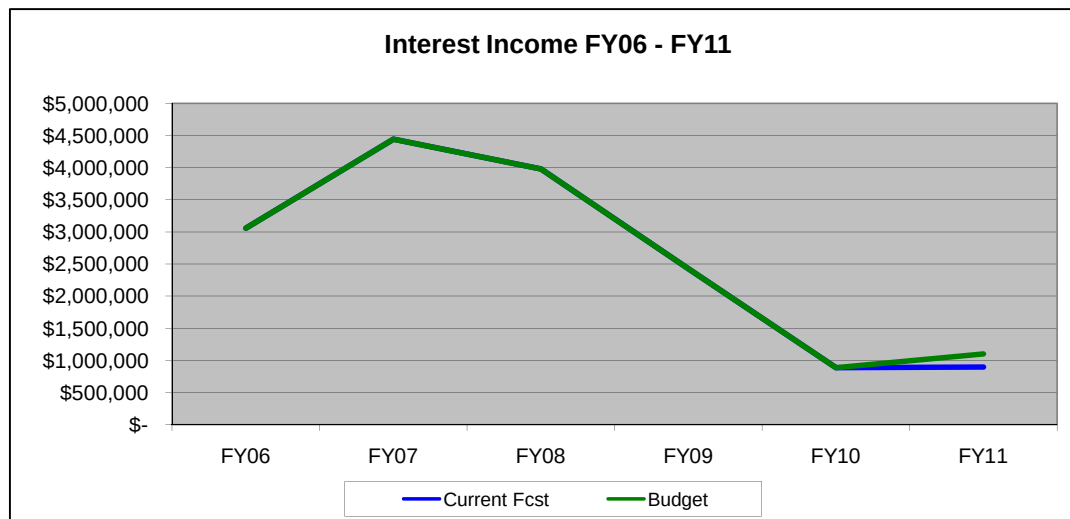
	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Total Licenses and Permits	\$ 6,515,917	\$ 5,371,145	\$ 4,897,247	\$ 4,190,689	\$ 4,133,581	\$ 3,150,000
	<-----ACTUAL----->					<OCT FCST>
<u>Total Licenses and Permits</u>	\$ 6,515,917	\$ 5,371,145	\$ 4,897,247	\$ 4,190,689	\$ 4,133,581	\$ 3,950,000



Interest Income

Interest Income Revenue has also experienced a steady decline over the past five years. This decline is not only the result of the fact that interest rates are at an all time low, but also because the City no longer is receiving the "benefit" of the float associated with the sale of bonds for the high school project.

	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Investment Income	\$ 3,055,801	\$ 4,440,056	\$ 3,976,344	\$ 2,427,017	\$ 887,569	\$ 1,100,000

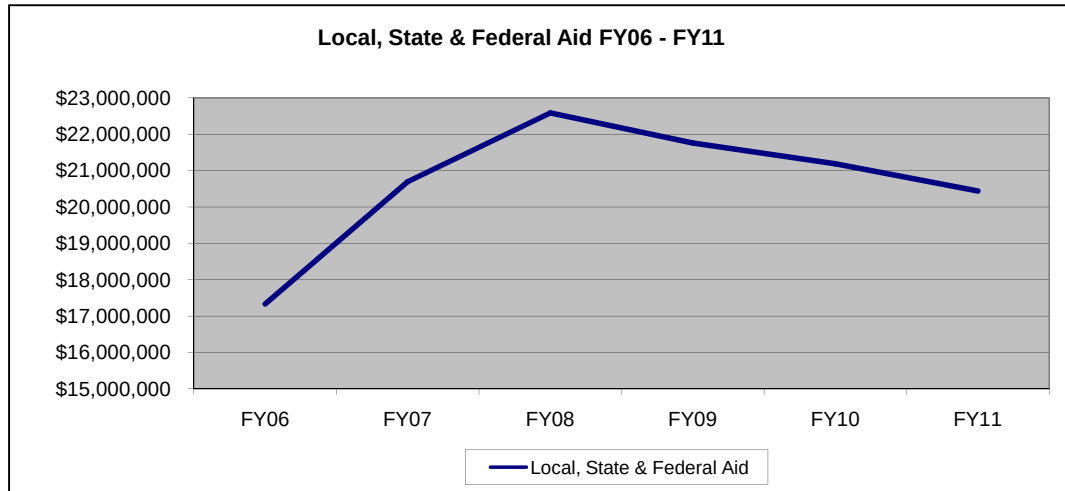


Recent Significant Revenue Trends (Cont'd)

Local, State & Federal Aid

Unfortunately, in addition to declining revenue in the areas of License/Permit Fees and Interest Income, the City has also experienced declining trends in Local/State and Federal Aid.

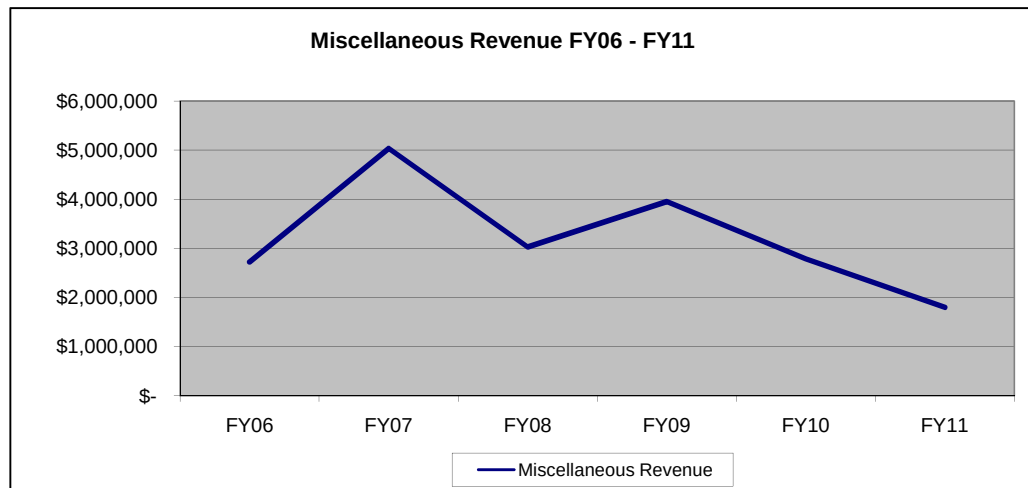
	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Local, State & Federal Aid	\$ 17,331,977	\$ 20,697,268	\$ 22,593,546	\$ 21,762,484	\$ 21,185,765	\$ 20,442,028



Miscellaneous Revenues

Additionally, Miscellaneous Revenues primarily comprised of the proceeds from bond sales have been a significant contributing revenue stream. However, now that the High School Project is on the verge of completion, this revenue stream is expected to drop off considerably.

	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Miscellaneous Revenue	\$ 2,722,160	\$ 5,035,740	\$ 3,028,668	\$ 3,955,274	\$ 2,791,337	\$ 1,801,000

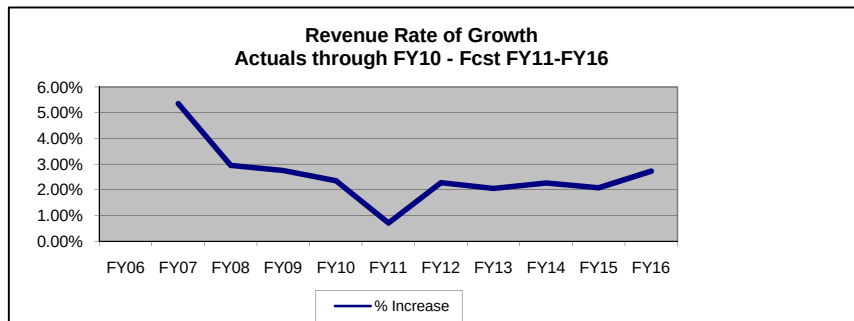
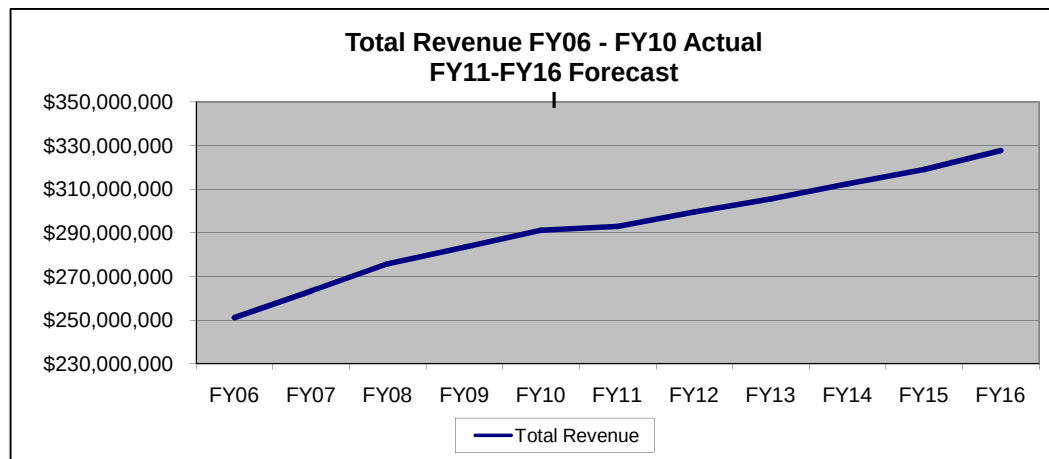


Future Revenue Trends

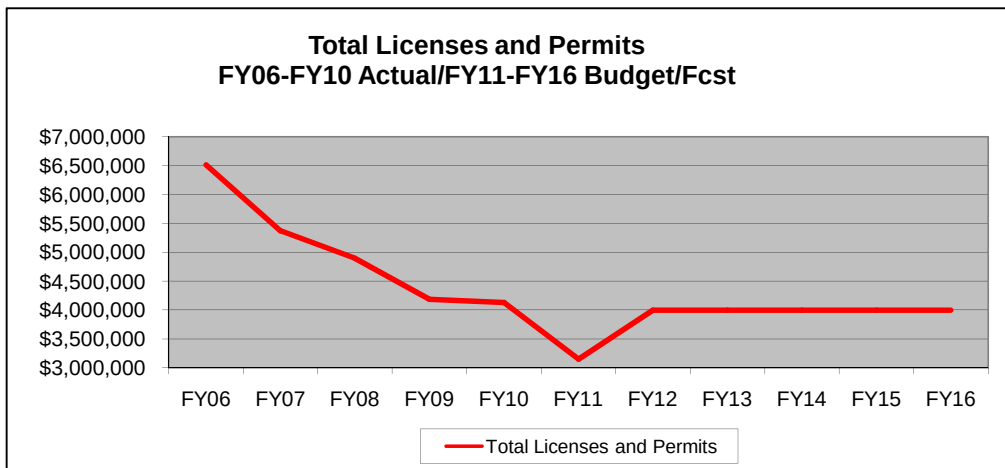
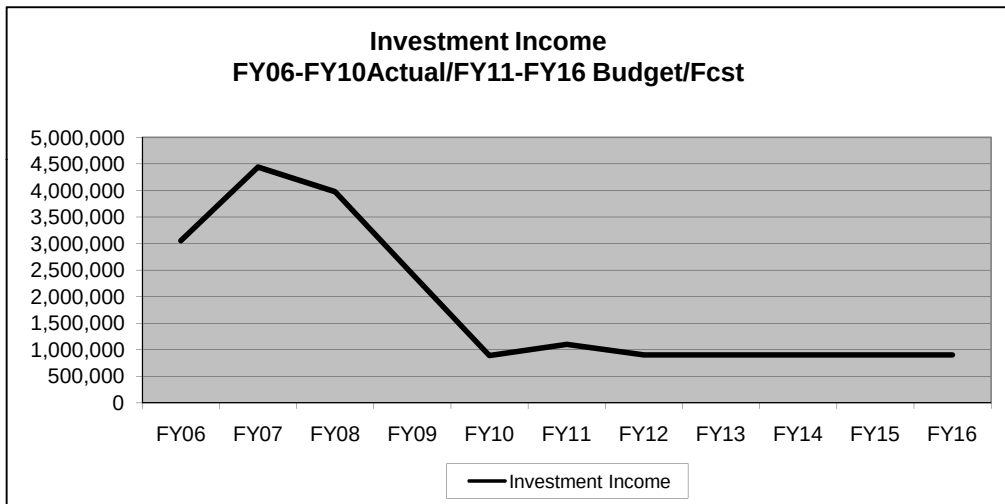
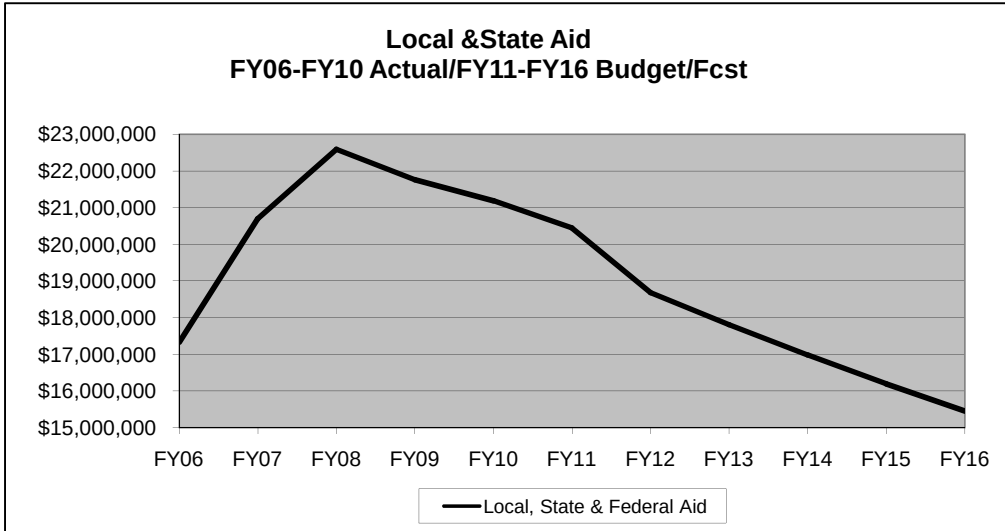
Although revenue from Property Taxes will continue to increase by 2.5% per year, there is no reason to believe that the many other revenue streams such as Licenses/Permits, Interest Income, or State and Federal aid will increase or even remain stable in the future. In fact this forecast includes a 5% annual decrease in State and Federal aid as a result of the economic pressures brought on government due to the recent recession. The City's FY2011 Chery Sheet Aid was reduced by 5%. The administration will remain in contact with Beacon Hill and will watch this area very carefully. This forecast will continue to be adjusted, up or down, based on decisions at the state level.

TOTAL REVENUE FY2011 - FY2016

	<BUDGET> <-----FORECAST----->					
	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>
<u>REVENUE</u>						
Total Property Tax Revenue	\$ 238,307,002	\$ 247,766,634	\$ 256,523,300	\$ 265,498,883	\$ 274,698,855	\$ 284,128,826
Total Excise Tax Revenue	\$ 10,000,000	\$ 10,305,000	\$ 10,405,000	\$ 10,505,000	\$ 10,505,000	\$ 10,505,000
Total Other Tax Revenue	\$ 4,163,523	\$ 3,855,000	\$ 3,805,000	\$ 3,805,000	\$ 3,805,000	\$ 3,805,000
Total Licenses and Permits	\$ 3,150,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Total Fines and Forfeitures	\$ 2,030,000	\$ 2,010,000	\$ 2,010,000	\$ 2,010,000	\$ 2,010,000	\$ 2,010,000
Investment Income	\$ 1,100,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000	\$ 900,000
Local, State & Federal Aid	\$ 20,442,028	\$ 18,678,424	\$ 17,808,503	\$ 16,982,078	\$ 16,196,974	\$ 15,451,125
Miscellaneous Revenue	\$ 1,801,000	\$ 1,880,000	\$ 1,880,000	\$ 1,880,000	\$ 1,880,000	\$ 1,880,000
Total Revenue - General Revenue	\$ 280,993,553	\$ 289,395,059	\$ 297,331,803	\$ 305,580,961	\$ 313,995,829	\$ 322,679,952
Interfund Transfers	\$ 3,383,917	\$ 3,732,582	\$ 3,732,582	\$ 3,574,000	\$ 3,455,000	\$ 3,455,000
Tot Revenue& Interfund Less Bldg Aid Tr	\$ 284,377,470	\$ 293,127,641	\$ 301,064,385	\$ 309,154,961	\$ 317,450,829	\$ 326,134,952
State School Building Assistance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue & Interfund Transfers	\$ 284,377,470	\$ 293,127,641	\$ 301,064,385	\$ 309,154,961	\$ 317,450,829	\$ 326,134,952
Capital Stabilization Fund	\$ 5,794,128	\$ 4,800,000	\$ 3,000,000	\$ 1,826,410	\$ -	\$ -
Free Cash	\$ 1,900,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ 705,000	\$ -	\$ -	\$ -	\$ -	\$ -
Total Revenue & Budget Balancers	\$ 292,776,598	\$ 299,427,641	\$ 305,564,385	\$ 312,481,371	\$ 318,950,829	\$ 327,634,952
% Increase		2.27%	2.05%	2.26%	2.07%	2.72%



Specific Revenue Trends

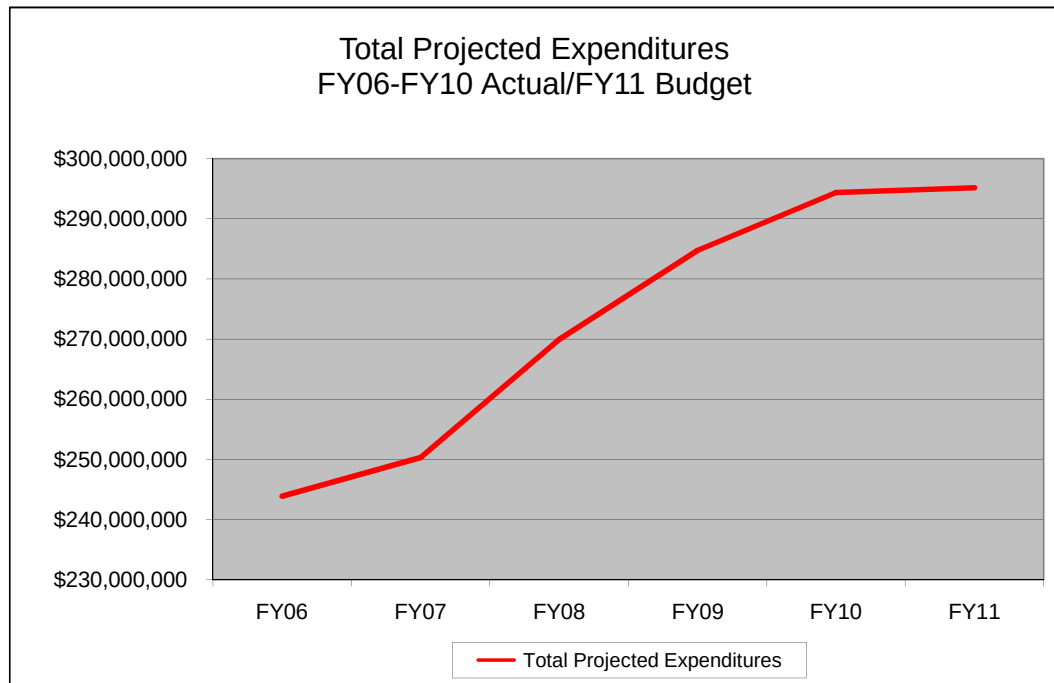


Recent Expenditure Trends

As discussed previously, recent expenditures trends have outpaced recent revenue trends. Although it is true that debt service (primarily as a result of the Newton North High School Project) has increased by 48% in the past 5 years, average annual increases in Retirements (5%) as well as the School Department (4%) have also outpaced revenue increases. Municipal Expenditures have been historically underbudgeted. Free Cash has been utilized to supplement the operating budget as well as to fund capital expenditures. Therefore, it is difficult to determine the average annual growth rate of municipal expenditures, however, this area has certainly increased by the smallest margin.

TOTAL EXPENDITURES FY2006 - FY2011

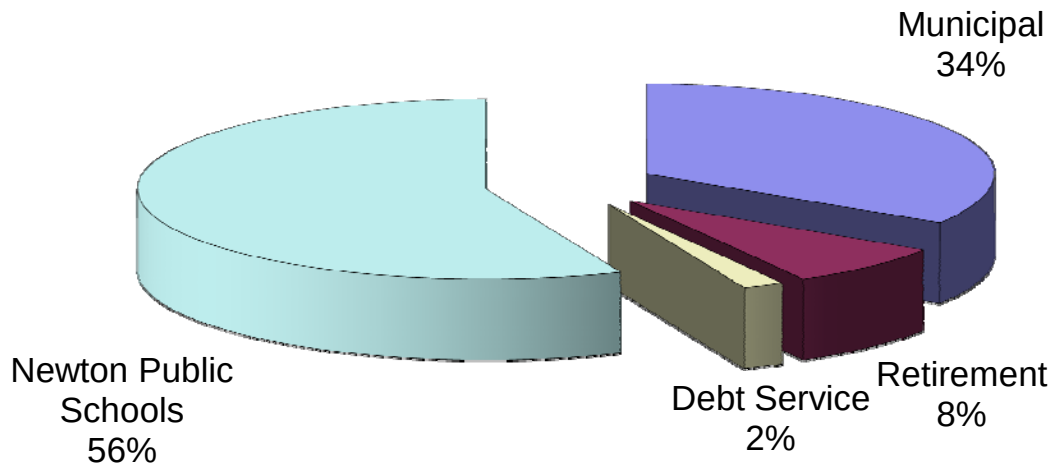
	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
<u>EXPENDITURES</u>						
Municipal	\$ 83,274,456	\$ 82,050,510	\$ 89,534,384	\$ 95,179,169	\$ 94,446,007	\$ 85,839,590
Retirement	\$ 18,525,152	\$ 19,043,013	\$ 19,666,613	\$ 20,827,227	\$ 21,932,507	\$ 23,382,339
Debt Service	\$ 4,698,221	\$ 5,909,113	\$ 5,683,430	\$ 8,681,610	\$ 14,344,069	\$ 16,005,731
Newton Public Schools	\$ 137,405,240	\$ 143,319,686	\$ 155,077,580	\$ 160,085,168	\$ 163,672,440	\$ 167,203,992
Total Expenditures	\$ 243,903,069	\$ 250,322,322	\$ 269,962,007	\$ 284,773,174	\$ 294,395,023	\$ 292,431,652
% Increase		2.6%	7.8%	5.5%	3.4%	-0.7%
Additional FY11 Unbudgeted Exp						
Snow/Ice Removal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,000,000
Public Safety Overtime	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 750,000
Total FY11 Unbudgeted Expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,750,000
Total Projected Expenditures	\$ 243,903,069	\$ 250,322,322	\$ 269,962,007	\$ 284,773,174	\$ 294,395,023	\$ 295,181,652
% Increase		2.6%	7.8%	5.5%	3.4%	0.3%



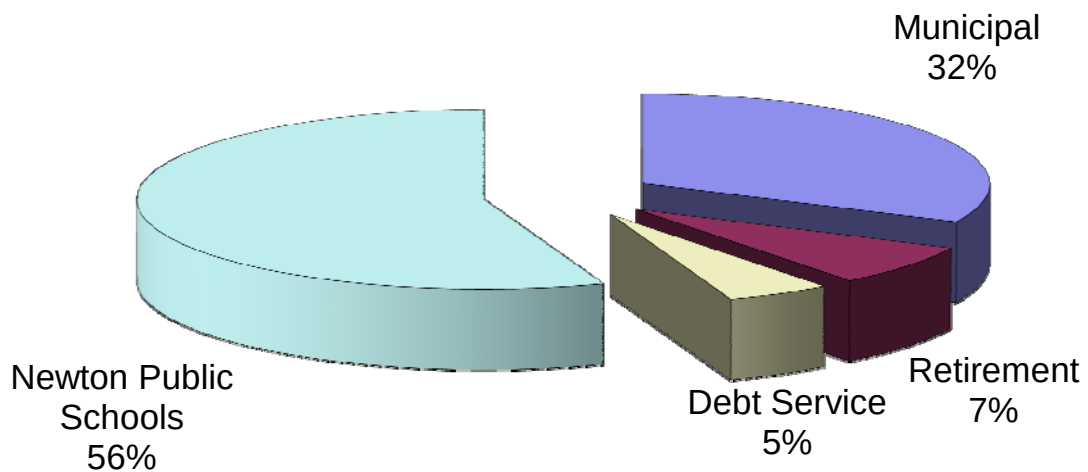
Recent Expenditure Distribution Trends

Recent expenditure distribution trends in the City of Newton reveal that Municipal expenditures as a percent of total expenditures have declined by 2% in recent years, while debt service as a percent of total expenditures have increased. Although it is not surprising that debt service has increased as a result of the high school project, the decrease in municipal expenditures as a percent of total expenses is a trend that the City should monitor closely.

FY06 Expense Distribution



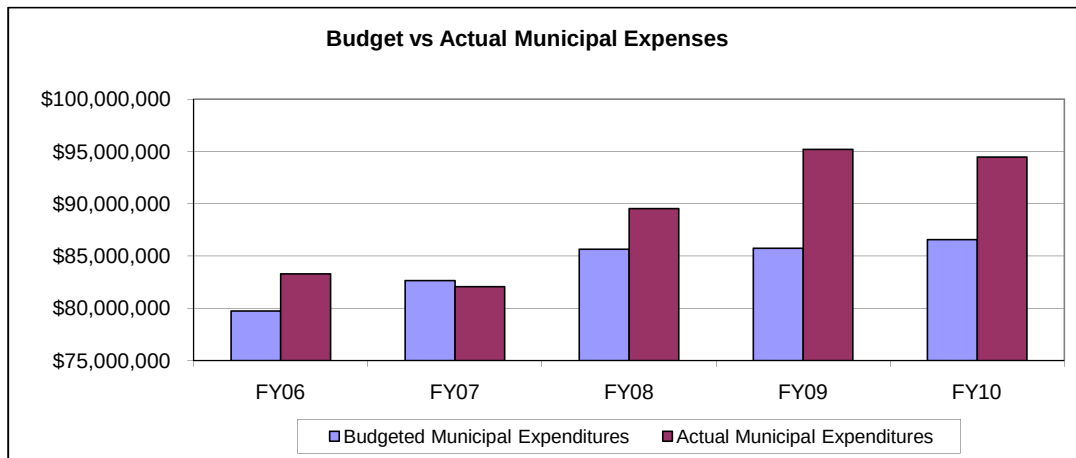
FY10 Expense Distribution



Municipal Expenditures - Actuals vs. Budget

Because the City historically has not included all of the anticipated operating expenditures in the annual operating budget, it has been very difficult to understand the true anticipated costs of operating the City. Throughout the years, the City has not budgeted for snow/ice removal, public safety overtime, and many short term capital projects that have been funded by free cash. As is clear from the chart below, the actual annual municipal expenditures are significantly higher than the budgeted amount.

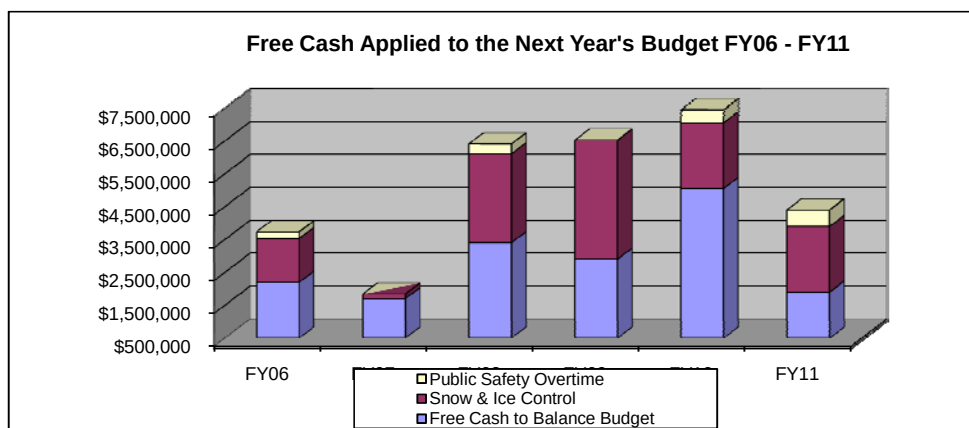
	<-----ACTUAL----->				
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
Budgeted Municipal Expenditures	\$ 79,729,755	\$ 82,640,232	\$ 85,645,008	\$ 85,740,163	\$ 86,572,231
Actual Municipal Expenditures	\$ 83,274,456	\$ 82,050,510	\$ 89,534,384	\$ 95,179,169	\$ 94,446,007



Utilization of Free Cash for Operating Expenditures

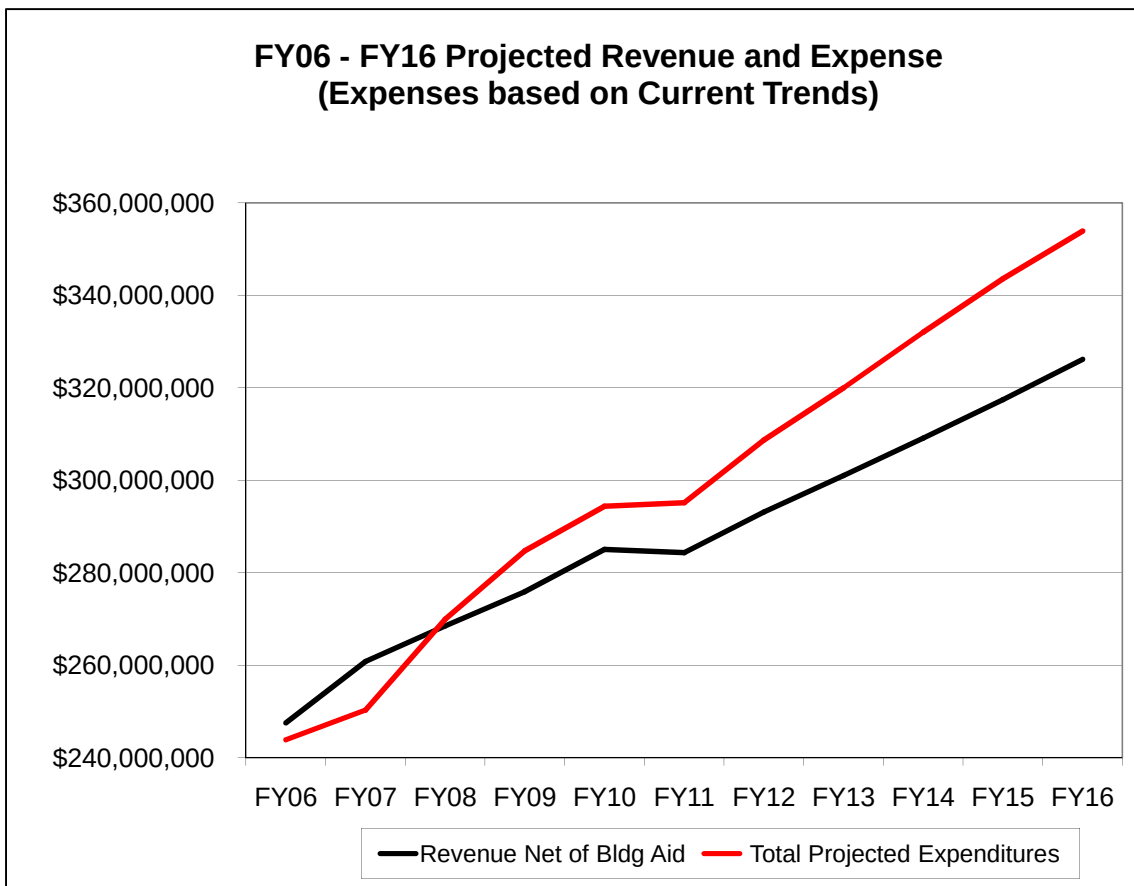
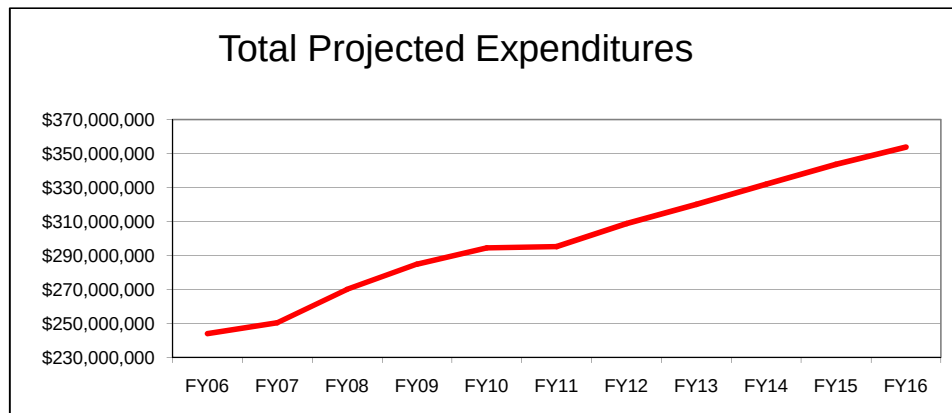
In fact, the City has historically utilized Free Cash to fund normal operating expenditures, significantly understating the actual operating costs to provide municipal services and masking the fact that the City has been living beyond its means for years. The following chart depicts the annual utilization of Free Cash over the past five years for operating expenses.

	<-----ACTUAL----->					<BUDGET>
	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11</u>
Snow & Ice Control	\$ 1,335,087	\$ 136,502	\$ 2,708,544	\$ 3,620,877	\$ 2,002,000	\$ 2,000,000
Capital Improvements	\$ 291,248	\$ 3,045,791	\$ 1,805,030	\$ 785,577		
Public Safety Overtime	\$ 194,876	\$ -	\$ 297,411	\$ -	\$ 400,000	\$ 500,000
Next Year's Budget	\$ 1,700,000	\$ 3,400,000	\$ 2,900,000	\$ 5,051,017	\$ 1,900,000	\$ 1,500,000
Self Insurance Fund Contribution		\$ 500,000				
Est "Rainy Day Stabilization Fund"						\$ 2,643,000
Est "Inclement Weather Reserve Fund"						\$ 1,000,000
Police Collective Bargaining Retro					\$ 712,126	
Other Expenditures	\$ 225,000	\$ 168,362	\$ 426,797	\$ 320,232	\$ 790,606	\$ 375,000
Annual Free Cash Utilization	\$ 3,746,211	\$ 7,250,655	\$ 8,137,782	\$ 9,777,703	\$ 5,804,732	\$ 8,018,000



Expenditure Forecast - Linear Regression Model

It is clear that these expenditure increases of the recent past have contributed to the Operating Deficit of the current budget.



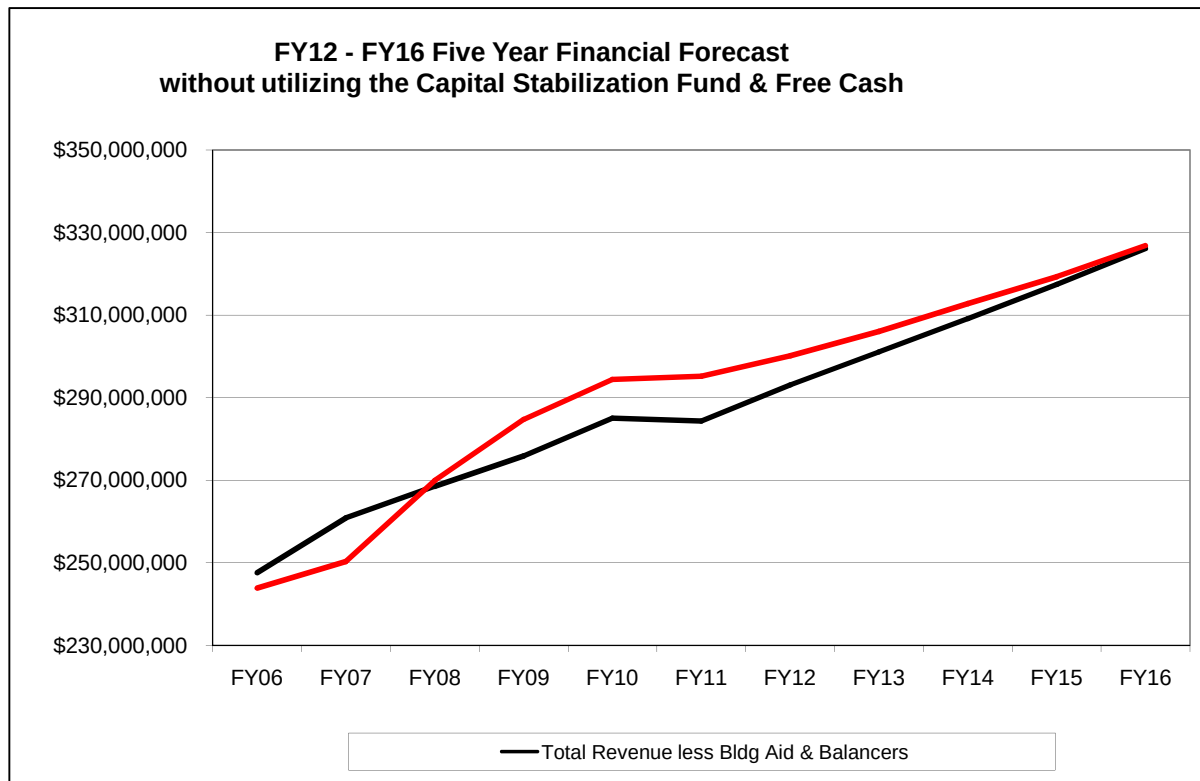
Sustainable Five Year Financial Forecast

It is clear that the expenditure increases of the recent past have contributed to the Operating Deficit of the current budget. It is also clear, that an expenditure growth rate that exceeds the revenue growth rate is unsustainable. The City of Newton must get expenditures in line with revenues. Regardless of how difficult it will be, Operating Expenditures cannot increase by more than forecasted revenue increases. In actuality, Retirement Expenditure Forecasts, as well as Debt Service Forecasts leave little room for adjustment. Therefore, expenditure adjustments can really only be accomplished through adjustments in the municipal and school operating budgets.

Five Year Financial Expenditure Forecast **FY2011 Budget - FY2012 - FY2016 Forecast**

	<BUDGET> <-----FORECAST----->					
	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>
EXPENDITURES						
MUNICIPAL EXPENDITURES	\$ 85,839,590	\$87,883,907	\$89,465,817	\$91,255,133	\$93,080,236	\$ 94,941,841
RETIREMENT	\$ 23,382,339	\$ 25,569,911	\$ 27,359,805	\$ 29,274,991	\$ 31,324,240	\$ 33,516,937
DEBT SERVICE	\$ 16,005,731	\$ 17,218,069	\$ 17,115,413	\$ 17,116,055	\$ 16,517,390	\$ 16,560,882
NEWTON PUBLIC SCHOOLS	\$ 167,203,992	\$169,504,451	\$172,114,820	\$175,126,829	\$178,401,701	\$ 181,791,333
TOTAL PROJECTED EXPENDITURES	\$ 292,431,652	\$ 300,176,338	\$ 306,055,854	\$ 312,773,008	\$ 319,323,567	\$ 326,810,993
% Increase		2.65%	1.96%	2.19%	2.09%	2.34%

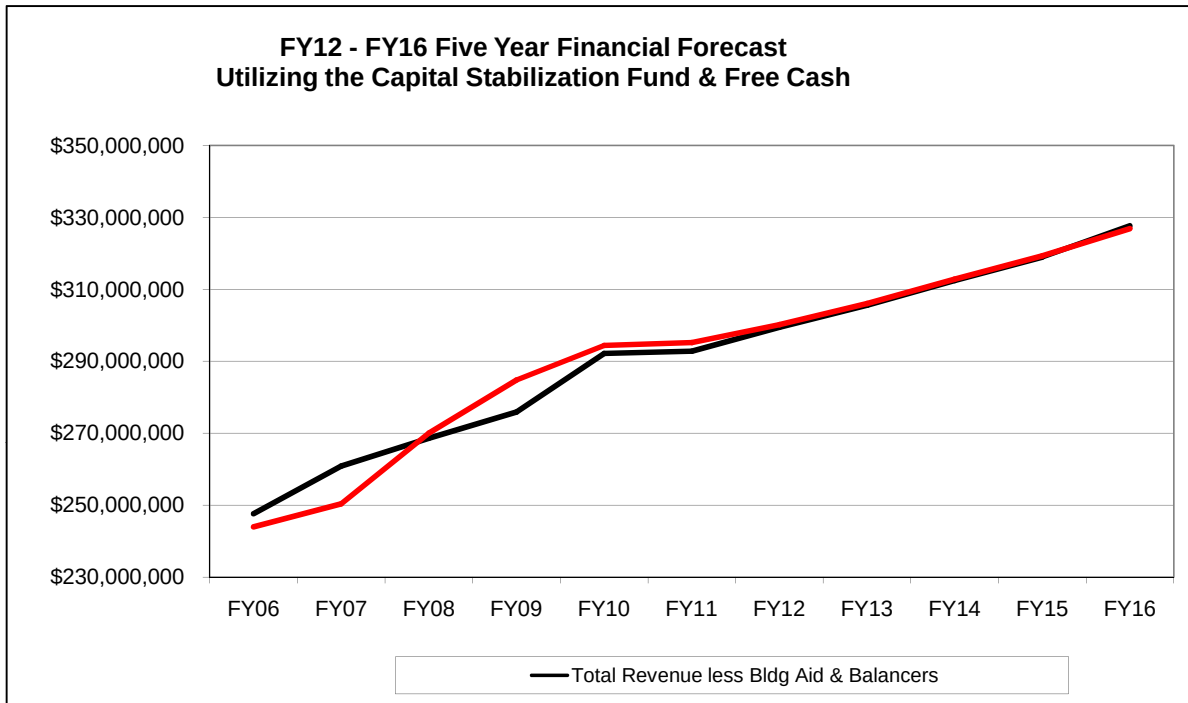
Please note: Even after adjusting the rate of growth in expenditures to a rate that leads to a true balanced budget, the City will not attain that goal until FY2015. The City will continue to rely on the Capital Stabilization Fund to "balance" the budget through FY2014. Currently, \$9.6 million remains in that fund. Current plans are to use \$4.8 million in FY2012, \$3.0 million in FY2013, and the remaining \$1.8 million in FY2014.



Achieving a Balanced Budget

For years the City of Newton has not included operating expenditures such as the costs for snow removal or public safety overtime in the operating budget. Annual operating expenditures have grown at a rate that has been faster than the rate of growth of revenue. The City's roads and buildings have been neglected for years and require investment. Health care and pension liabilities have skyrocketed and these costs need to be contained. At the same time, State funding is likely to be cut again as tax revenues lag an improving economy.

To balance the budget, the City of Newton must make difficult choices in the months and years ahead to preserve the community's quality of life and to refrain from over-burdening current taxpayers or future residents. The administration has begun to develop a financial and operational plan that creates parity in the growth rate of revenue and expenditures. And above all else, the City must develop the discipline that following a viable, sustainable financial model will require.



Achieving Financial Sustainability

It is clear that the City of Newton faces many financial challenges if it is to continue to provide a high quality of educational and municipal services. Changing the “slope of the curve” will require many difficult decisions. The City will utilize the following strategies in order to accomplish its goals.

Zero-Based Budgeting

The City will utilize a zero-based budgeting strategy to ensure that every department function is reviewed comprehensively, that all expenditures are analyzed, and that planning and decision making are enhanced in order to maximize administrative and operational efficiencies. Zero-based budgeting will require all departments to justify and prioritize all activities before the City allocates any resources. Zero-based budgeting will result in a more efficient allocation of resources, drive managers to find cost effective ways to improve operations, detect inflated forecasts, increase communication and coordination, identify and eliminate waste or duplication, and identify opportunities for efficiencies.

Performance Management

The City has embarked on a new performance-based management initiative whereby it will utilize a systematic approach to “mapping”, analyzing and improving the City’s current 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. Achieving the overall goal will require several ongoing activities, including identification and prioritization of desired results, establishing means to measure progress toward those results, setting standards for assessing how well results were achieved, tracking and measuring progress toward results, exchanging ongoing feedback among those participants working to achieve results, periodically reviewing progress, reinforcing activities that achieve results and intervening to improve progress where needed.

Collective Bargaining

The City has recently begun the collective bargaining process with most of the City’s unions. The administration welcomes the opportunity to meet with union leadership and the negotiating teams to work cooperatively to identify opportunities to structure change, create efficiencies and work together to create parity in the growth rate of revenues and expenditures. The City hopes to collaborate with union leadership to develop mutually beneficial agreements for both the City’s valued employees, as well as the citizens of Newton.

Comprehensive Citywide Infrastructure Assessment

For too many years the City has allowed budgetary pressures to impede capital program expenditures and investments in maintenance of the City’s Capital Assets. Therefore, the City is currently developing a Comprehensive Citywide Infrastructure Assessment in order to ascertain the current condition of its facilities,

maintenance history, operating cost information, and to develop long-range maintenance and replacement plans for the City's Capital Assets in order to enable the City to continue to provide the level of services that contribute to the public health, safety, and quality of life of the residents of the City of Newton.

Economic Development

It is in the City's best interest to pursue Economic Development where it makes sense to improve the quality of life in each of Newton's thirteen villages. The City will work diligently with all involved to encourage economic development decisions that benefit the City of Newton and most importantly the people who live here.

What is "not" reflected in this forecast

What is not reflected in this five year financial forecast are the enormous infrastructure needs of our City. When I became Mayor I committed to hiring a Buildings Commissioner whose top priority would be the development of a comprehensive citywide infrastructure assessment. I am pleased to inform you that the Buildings Commissioner is now on board and that process has begun. As part of that process I will be conducting Town Hall meetings in the month of November throughout the City to gather community input, as well as conducting working sessions with the Honorable Board of Aldermen. It is my expectation that the results of the comprehensive assessment will be available by June 2011.

The results of that assessment will allow us as a community to understand the condition of our infrastructure and enable us to evaluate and prioritize our true capital needs for the future.