



FY2013 – FY2017
Five-Year Financial Forecast

CITY OF NEWTON, MASSACHUSETTS

Setti D. Warren, Mayor

07 November 2011



SETTI D. WARREN
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November 7, 2011

Honorable Board of Aldermen
Newton City Hall
1000 Commonwealth Avenue
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Ladies and Gentlemen:

I am pleased to submit for your review **The City of Newton FY2013 – FY2017 5-Year Financial Forecast**. One of the most important functions of the municipal leadership of the City of Newton is to position the community for long-term fiscal stability by defining policy guidelines, establishing clear and measurable objectives, providing for consistency of financial management, maintaining the City's Aaa bond rating, instilling public confidence and avoiding setting policy in crisis. As such, this five-year, comprehensive, financial forecast is meant to enable the leadership of the City of Newton to proactively manage projected revenues and expenditures, personnel costs, operating expenditures, capital improvement plans, equipment replacement schedules, and debt service schedules for the next five years.

During the past year we have implemented Zero-Based Budgeting, utilized Performance Management strategies, encouraged Economic Development, completed a Citywide Capital Infrastructure Assessment and perhaps most importantly, have negotiated ALL Municipal and MOST School Department Collective Bargaining Agreements as we worked toward creating a viable, sustainable financial structure for the City.

This five-year financial forecast discusses the very real fiscal challenges faced by the City of Newton, projected trends for the future based on past experience and known conditions, and principles to guide the strategy, policy options, implementation issues, and future budget scenarios. This document will also discuss in detail the key cost drivers and actions taken by the Administration to position the City to be able to create parity between the growth of revenue and the growth of expenditures.

I look forward to discussing this strategic plan with the Honorable Board and the residents of our great City in the weeks and months to come.

Sincerely,

A handwritten signature in black ink, appearing to read "Setti D. Warren".

Setti D. Warren
Mayor

Introduction

One of the most important functions of the municipal leadership of the City of Newton is to position the community for long-term fiscal stability by defining policy guidelines, establishing clear and measurable objectives, providing for consistency of financial management, maintaining the City's Aaa bond rating, instilling public confidence and avoiding setting policy in crisis. As such, this five-year, comprehensive, financial forecast is meant to enable the leadership of the City of Newton to proactively manage projected revenues and expenditures, personnel costs, operating expenditures, capital improvement plans, equipment replacement schedules, and debt service schedules for the next five years.

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

Significant Changes – October 2010 through October 2011

Collective Bargaining Agreements

Throughout the past few months the City of Newton has entered into 3 year collective bargaining agreements with ALL municipal unions and MOST school department unions. Throughout these 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 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 will have the single most significant impact on the ability of the City to develop a viable, balanced, sustainable five-year financial forecast.

Capital Infrastructure Assessment

Yet another primary responsibility of the leadership of the City of Newton is the preservation and maintenance of the community's school buildings, municipal buildings, roadways, parks, recreation space, and water and sewer facilities. Planning for the funding of the maintenance and improvements of the capital infrastructure is crucial in the development of strong financial management. 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, a Comprehensive Citywide Infrastructure Assessment has been undertaken which has enabled the administration to ascertain the current condition of the City's facilities, maintenance history, operating cost information, and has been pivotal in the development of a long-range maintenance and replacement plan for the City's Capital Assets. As a result of the development of these tools, the City now has a clear, prioritized Capital Improvement Plan for the next five year period covering FY2013 – FY2017.

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 will continue to utilize this process of budget preparation in order to continue to maximize efficiencies.

Performance Management

During the course of the past year, the City 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 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.

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 will have the opportunity to approve entering 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.

Rainy Day Stabilization Fund

On October 4, 2010 the Honorable Board of Aldermen voted to establish and transfer the sum of \$2,643,271 from FY10 Free Cash to an Undesignated or “Rainy Day” Stabilization Fund. This Rainy Day Stabilization Fund has been 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 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. The Mayor has docketed a request with the Honorable Board to appropriate an additional \$500,000 from FY2011 Certified Free Cash in an effort to continue to build this reserve account.

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

On October 4, 2010 the Honorable Board also voted to accept Massachusetts General Law Chapter 32B, Section 20 Other Post-Employment Benefits Liability Trust Fund; local option; funding schedule, which authorizes the establishment of a separate fund, to be known as the Other Post-Employment Benefits Liability Trust Fund, for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for retirement health care benefits. In a separate motion, the Board then further voted to transfer the sum of \$137,000 as the initial appropriation into the O.P.E.B. Trust Fund. The Mayor has also submitted a docket item to the Honorable Board requesting the appropriation of \$175,000 from FY2011 Certified Free Cash. Perhaps more importantly, this five-year forecast includes a plan to establish a viable funding mechanism for this liability.

The City of Newton's Aaa Bond Rating

Following stalled talks on the "National Debt Ceiling" debate this past summer, Moody's Investors Service assigned a "negative outlook watch" to the credit ratings of five states and 161 Aaa rated local governments, including the City of Newton. Moody's identified several risk factors, most importantly dependency on federal spending.

On October 25, 2011, Mayor Setti Warren, Alderman Scott Lennon, Board President, Alderman Leonard Gentile, Chairman of the Finance Committee, Chief Financial Officer Maureen Lemieux, Chief Operating Officer Robert Rooney, City Comptroller David Wilkinson, City Treasurer James Reardon, and Chairman of the Board of Assessors Elizabeth Dromey had the opportunity to present recent updates of the City's financial position to the Moody's analyst assigned to the City. The discussion centered around the economic strength of major employers in the community, federal employment in the community, the degree to which the City is dependent on federal spending, and most importantly the measures taken by the Administration in recent months to strengthen the City's financial position including the establishment of the City's Rainy Day Stabilization Fund, successful negotiation of all municipal and most school collective bargaining agreements, the establishment of the City's Other Post-Employment Benefits Liability Trust Fund, as well as the other financial strategies presented in this report.

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 this five year financial forecast. These guidelines include the following:

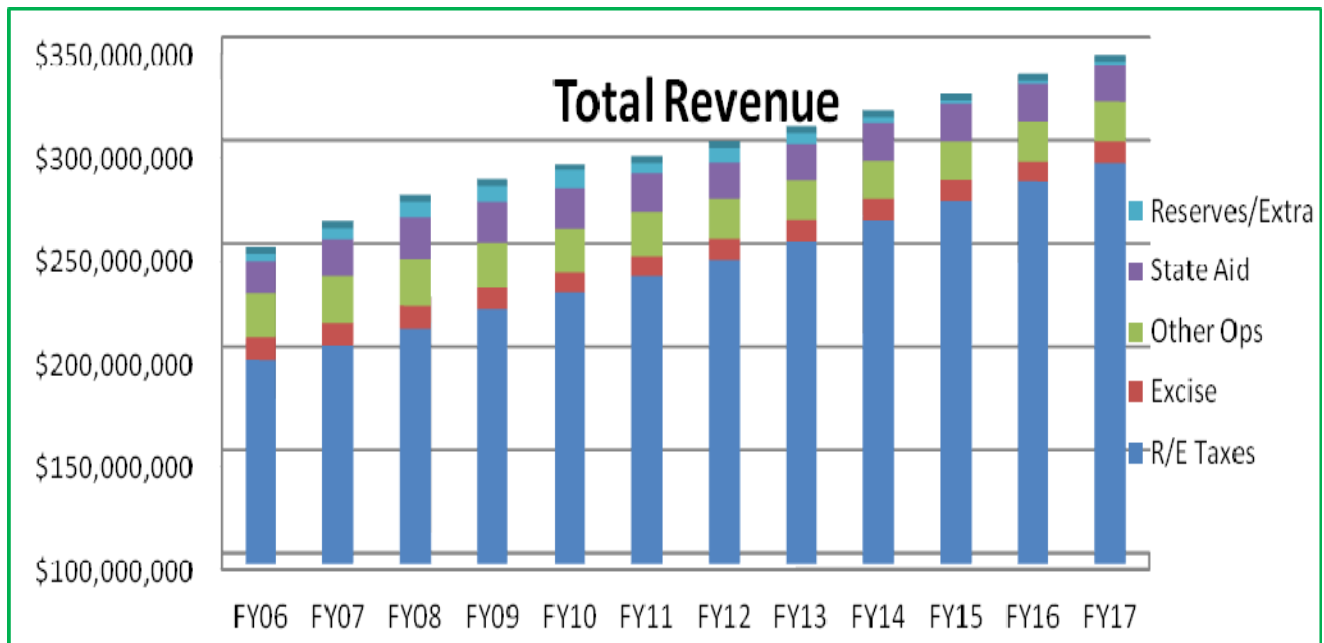
- **Long range financial planning:** The City will follow financial planning processes that assess the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, and programs.
- **Revenue budgeting:** General Fund 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.

Revenue Projections

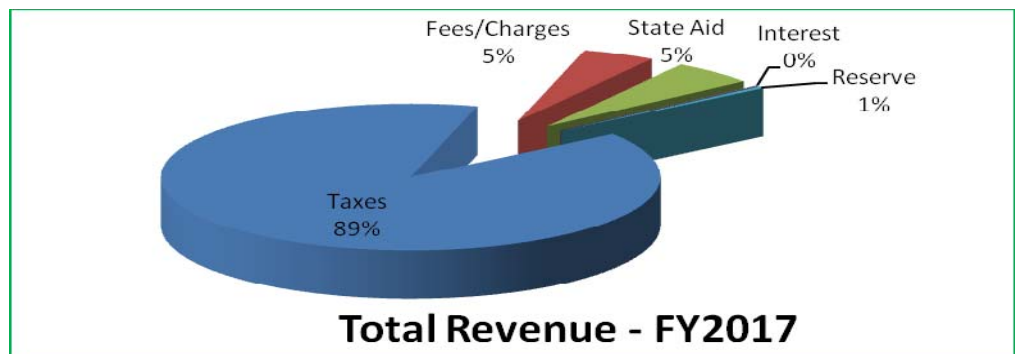
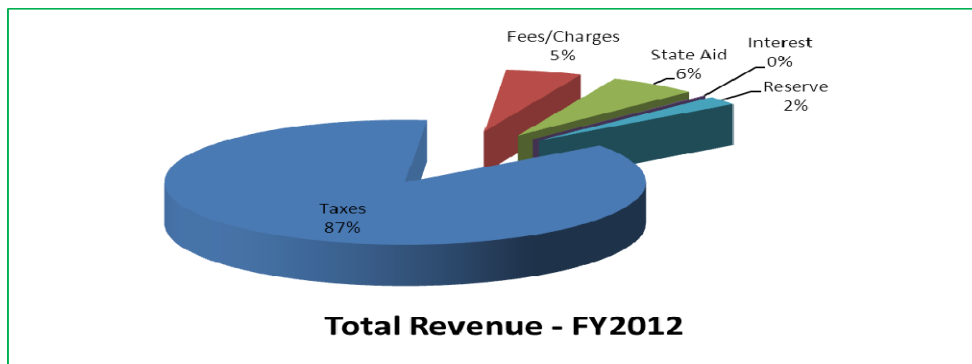
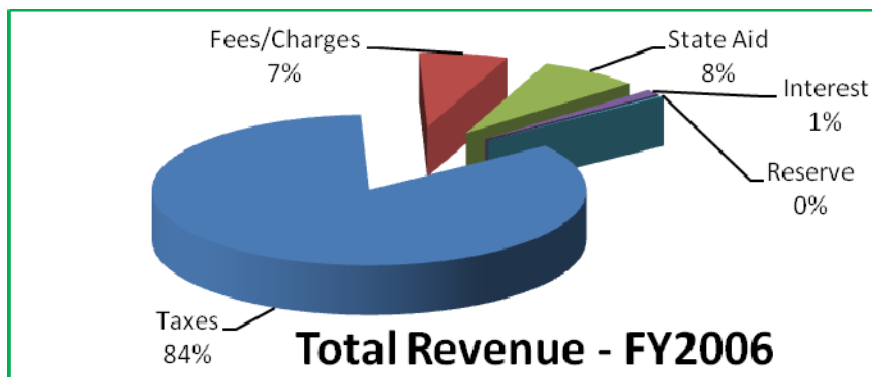
It has been widely believed, and was probably true in better economic times, that the total annual increase in revenue for the City is approximately 3.5%. However, actual recent revenue growth rates from operations have averaged only 2.5% over the last three years. Although Real Estate Tax Revenues increase annually by 2.5%, and new revenues as a result of new growth and redevelopment of real estate have increased by approximately 1%, revenues derived from Building 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. A crucial component in the development of the revenue projections in this five-year forecast was the desire to avoid under budgeting revenues, thereby causing reductions in public safety or education where they were not truly necessary. Therefore, the FY13-FY17 Revenue Projections include 2.5% annual increases to the property tax levy, \$2.5 million of annual additional revenue from “new growth”, level funded state aid, continued use of \$1.5 million of Free Cash toward the operating budget, and an increase in budgeted Licensing/Permitting Fees as a result of an improving economy.



City of Newton, Massachusetts
Annual General Fund Revenue
FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast

OPERATING REVENUE	<ACTUAL>	<BUDGET>	-----FORECAST----->				
	FY11	adj FY12	FY13	FY14	FY15	FY16	FY17
Real Estate Tax Revenue	\$ 239,709,050	\$ 248,167,871	\$ 256,934,568	\$ 267,061,227	\$ 276,198,808	\$ 285,578,153	\$ 295,191,982
Excise Tax Revenue	\$ 10,008,481	\$ 10,100,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000
Hotel Room Tax	\$ 1,588,882	\$ 1,800,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000
Meals Tax - 0.75%	\$ 1,308,191	\$ 1,300,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000
Payments In Lieu of Taxes	\$ 300,261	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000
Interest/Divident Income	\$ 417,144	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
License/Permit-ISD, Fire,H&HS	\$ 4,723,631	\$ 4,536,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700
Parking Meter Receipts	\$ 1,740,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000
Parking Violations	\$ 1,580,087	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000
Medicare D/SPED Medicaid	\$ 1,791,041	\$ 1,105,437	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000
Water/Sewer Gen'l Fund Adm	\$ 1,396,335	\$ 1,600,000	\$ 1,640,000	\$ 1,681,000	\$ 1,723,025	\$ 1,766,101	\$ 1,810,253
Premium from Sale of Bonds	\$ 168,147	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 6,318,788	\$ 4,877,251	\$ 4,325,295	\$ 4,265,295	\$ 4,255,295	\$ 4,245,295	\$ 4,240,295
REVENUE FROM OPERATIONS	\$ 271,050,037	\$ 277,272,259	\$ 286,086,563	\$ 296,194,222	\$ 305,363,828	\$ 314,776,249	\$ 324,429,230
REVENUE FROM STATE AID							
Unrestricted Gen'l State Aid	\$ 4,970,628	\$ 4,611,231	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000
Chapter 70 State Education Aid	\$ 13,343,502	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221
REVENUE FROM STATE AID	\$ 18,314,130	\$ 18,115,452	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221
OPERATING REVENUE	\$ 289,364,167	\$ 295,387,711	\$ 304,190,784	\$ 314,298,443	\$ 323,468,049	\$ 332,880,470	\$ 342,533,451
RESERVES TO SUPPORT OPERATING BUDGET							
Capital Stabilization Fund	\$ 5,776,562	\$ 4,800,000	\$ 3,700,000	\$ 1,100,000	\$ -	\$ -	\$ -
Free Cash	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUE FROM RESERVES	\$ 5,815,056	\$ 6,840,000	\$ 5,240,000	\$ 2,640,000	\$ 1,540,000	\$ 1,540,000	\$ 1,540,000
TOTAL REVENUE	\$ 295,179,224	\$ 302,227,711	\$ 309,430,784	\$ 316,938,443	\$ 325,008,049	\$ 334,420,470	\$ 344,073,451
% Increase		2.39%	2.38%	2.43%	2.55%	2.90%	2.89%

As is evident from the comparative charts shown below, in recent years the City has become more and more dependent on Property Tax Revenues to fund operations, increasing from 84% to a projected 89% by FY2017. State Aid as a percent of revenues has declined from 8% of revenue in FY2006, to 6% in FY2012 and is projected to approximate only 5% of all revenues by FY2017. Concurrently, Investment Income, Licensing & Permitting Fees and Excise Tax have also declined in the past few years from more than 7% 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. The Administration will continue to monitor all revenue streams and make every effort to maximize revenue wherever possible.



Projected Expenditures by Major Cost Driver

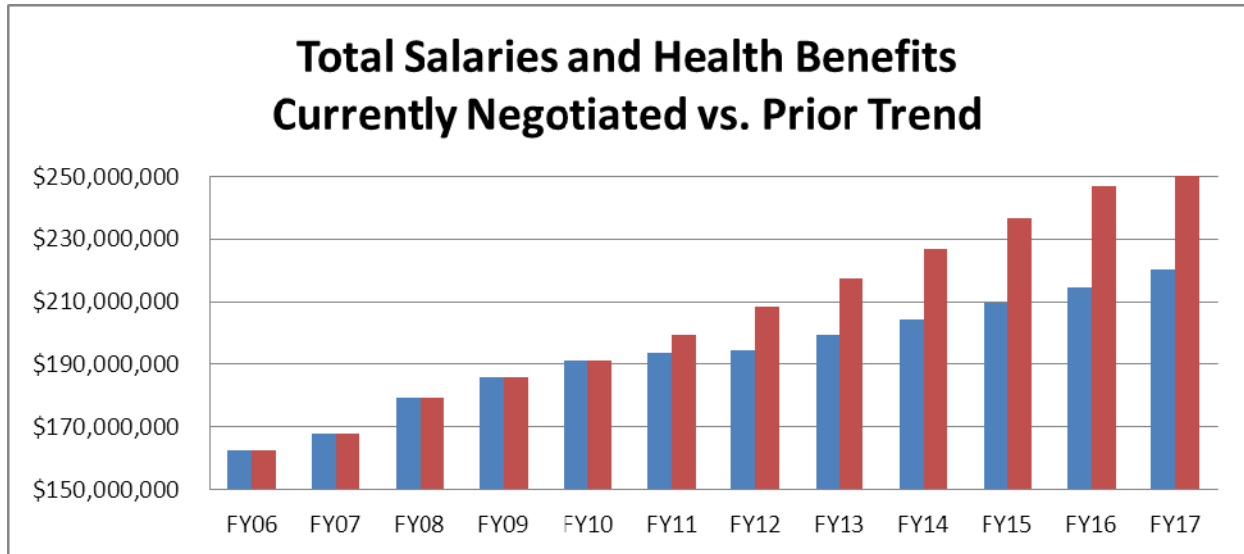
Perhaps the most important aspect of this five year forecast is the projection of major cost drivers, financial trends, changing conditions, and threats to the City's financial stability and perhaps even more importantly the identification of any opportunities that could effect a favorable impact on the trajectory of those cost drivers. Over the years the City has identified several areas that are considered to be "major cost drivers" which must constantly be evaluated so as not to allow any of these cost drivers to jeopardize the City's financial stability.

City of Newton, Massachusetts Expenditure Forecast by Major Cost Drivers - Based on Run Rates FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast

<u>EXP BY COST DRIVER</u>	<u><ACTUAL></u>	<u><BUDGET></u>	<u>-----FORECAST-----></u>				
	<u>FY11</u>	<u>adj FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
Salaries & Health Benefits	\$ 193,760,550	\$ 194,524,047	\$ 199,387,148	\$ 204,371,827	\$ 209,481,123	\$ 214,718,151	\$ 220,086,104
% Increase		0.39%	2.50%	2.50%	2.50%	2.50%	2.50%
Energy/Utilities	\$ 7,305,514	\$ 7,533,097	\$ 7,305,514	\$ 7,305,514	\$ 7,305,514	\$ 7,415,097	\$ 7,415,097
% Increase		3.12%	-3.02%	0.00%	0.00%	1.50%	0.00%
Services	\$ 10,925,433	\$ 10,718,391	\$ 10,986,351	\$ 11,261,010	\$ 11,542,535	\$ 11,831,098	\$ 12,126,876
% Increase		-1.90%	2.50%	2.50%	2.50%	2.50%	2.50%
Refuse Collection/Disposal	\$ 5,732,682	\$ 6,103,651	\$ 6,200,469	\$ 6,448,488	\$ 6,706,427	\$ 6,974,684	\$ 7,253,672
% Increase		6.47%	1.59%	4.00%	4.00%	4.00%	4.00%
Out of District Tuition	\$ 8,180,060	\$ 9,409,818	\$ 10,350,800	\$ 11,385,880	\$ 12,524,468	\$ 13,776,915	\$ 15,154,606
% Increase		15.03%	10.00%	10.00%	10.00%	10.00%	10.00%
Pupil Transportation	\$ 4,233,771	\$ 4,305,311	\$ 4,563,630	\$ 4,837,447	\$ 5,127,694	\$ 5,435,356	\$ 5,761,477
% Increase		1.69%	6.00%	6.00%	6.00%	6.00%	6.00%
Supplies & Materials	\$ 5,369,207	\$ 5,382,820	\$ 5,517,391	\$ 5,655,325	\$ 5,796,708	\$ 5,941,626	\$ 6,090,167
% Increase		0.25%	2.50%	2.50%	2.50%	2.50%	2.50%
State Assessments	\$ 5,472,487	\$ 5,550,761	\$ 5,689,530	\$ 5,831,768	\$ 5,977,562	\$ 6,127,002	\$ 6,280,177
% Increase		1.43%	2.50%	2.50%	2.50%	2.50%	2.50%
Unemp, Medicaid, etc.	\$ 6,328,724	\$ 6,848,974	\$ 7,020,198	\$ 7,195,703	\$ 7,375,596	\$ 7,559,986	\$ 7,748,985
% Increase		8.22%	2.50%	2.50%	2.50%	2.50%	2.50%
Pension Contribution	\$ 14,755,309	\$ 15,819,295	\$ 16,531,163	\$ 17,275,066	\$ 18,052,444	\$ 18,864,804	\$ 19,713,720
% Increase		7.21%	4.50%	4.50%	4.50%	4.50%	4.50%
Retiree Health Benefits	\$ 13,047,076	\$ 15,380,036	\$ 16,610,439	\$ 17,939,274	\$ 19,374,416	\$ 20,924,369	\$ 22,598,319
% Increase		17.88%	8.00%	8.00%	8.00%	8.00%	8.00%
Debt Service - Principle & Interes	\$ 16,009,264	\$ 16,056,700	\$ 16,255,439	\$ 16,868,009	\$ 17,383,040	\$ 17,334,052	\$ 17,332,190
% Increase		0.30%	1.24%	3.77%	3.05%	-0.28%	-0.01%
Capital Outlay/Improvements	\$ 2,129,369	\$ 1,689,298	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000
% Increase		-20.67%	18.39%	0.00%	0.00%	0.00%	0.00%
Other Post Employment Benefits	\$ 137,000	\$ -	\$ 198,000	\$ 405,000	\$ 607,500	\$ 1,080,000	\$ 1,575,000
% Increase		-100.00%	#DIV/0!	104.55%	50.00%	77.78%	45.83%
Miscellaneous	\$ 1,268,506	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309
% Increase		6.37%	0.00%	0.00%	0.00%	0.00%	0.00%
Transfers to Other Funds	\$ 4,413,817	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240
TOTAL FORECAST BASED ON							
RUN RATES OF MAJOR AREA:	\$ 298,931,771	\$ 301,841,748	\$ 310,937,620	\$ 320,894,860	\$ 331,167,076	\$ 341,422,687	\$ 352,080,938
% Increase		0.97%	3.01%	3.20%	3.20%	3.10%	3.12%

Salaries, Compensation and Health Benefits

Sixty-five percent of the general fund operating budget is comprised of salaries, compensation and health benefits for the City's active employees. Therefore, this is perhaps the single most important cost driver.

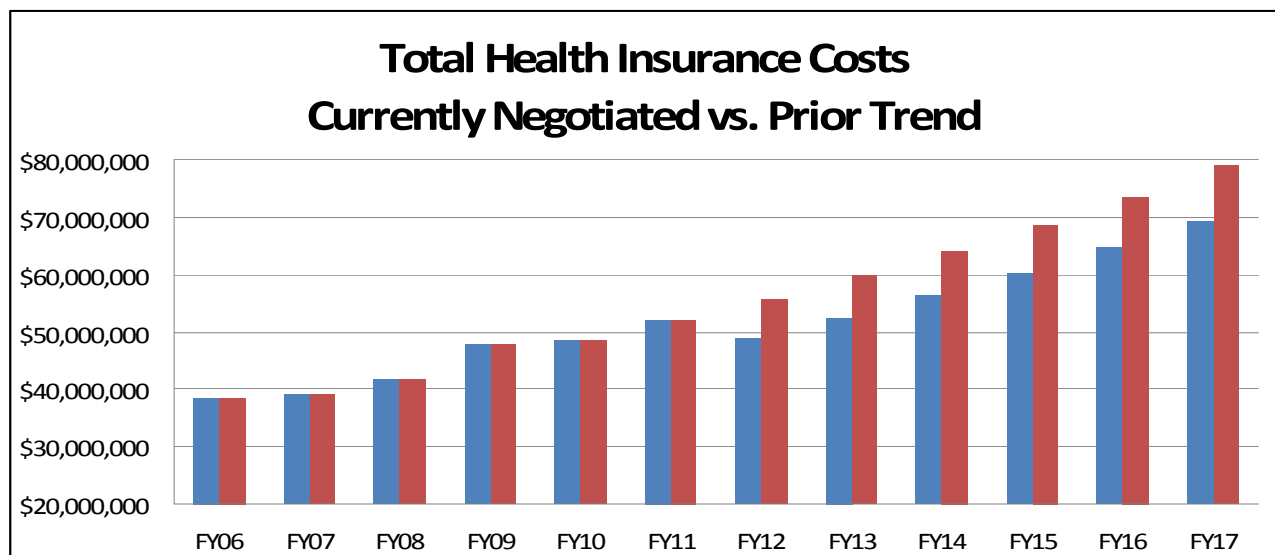


The average increase in salaries, compensation and health care benefits for active employees for the period FY2006 through FY2010 was 4.37%. As has been mentioned many times – that rate of growth was unsustainable and contributed in large part to the City's "structural deficit". The FY2011 actual increase in salaries, compensation and health care benefits was 1.4%, while the FY2012 budgeted increase approximates 0.4%. However, during that two year period 99% of the municipal union employees were "without a contract", while the school department employees were "without a contract" for the 2010/2011 school year. Therefore, the City was faced with negotiating as much as 2 years of retroactivity, as well as up to 3 years of future agreements.

As a result of a collaborative effort on the part of the Administration as well as Union Leadership, the City has negotiated all retroactive contracts and has secured contracts for the 3-year period FY2012 through FY2014 that will contain projected increases in salaries, compensation and health benefits for all active employees to "not more than 2.5%" per year. This accomplishment will have a major impact on this most important cost driver – saving the City between \$20 and \$30 million per year over the next five year period and generating a total savings of \$150 million through FY2017 as compared to the prior trend rate. This is truly a "game changer" and the single most important factor that will ensure the future financial stability of the City of Newton.

Health Insurance Benefits

An integral part of the negotiation process was a detailed analysis of the projected plan design cost trends for the “status quo” plan designs, an analysis of the projected cost trends for the State run Group Insurance Commission, or G.I.C., and projected cost trends associated with plan design changes that could be pursued during the negotiation process. In the end, the City and Union Leadership have agreed to maintain the current self-insured structure, but with significant plan design changes. These plan design changes are intended not only to accomplish savings for the City in the form of “cost transference” by having employees absorb additional costs of their health benefits, but also in the form of “overall cost reduction” by encouraging behavioral changes that will result from some of the changes in plan design. The City has conservatively estimated that these plan design changes which include the implementation of deductibles, higher co-payments for office visits, specialists and emergency room visits, increased contribution rates for all new employees, and significantly higher contribution rates for all employees who select higher cost plan designs and will generate approximately \$50 million of the projected \$150 million in savings over the next five years – 20% of which will be employee savings, while 80% will be City savings.



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

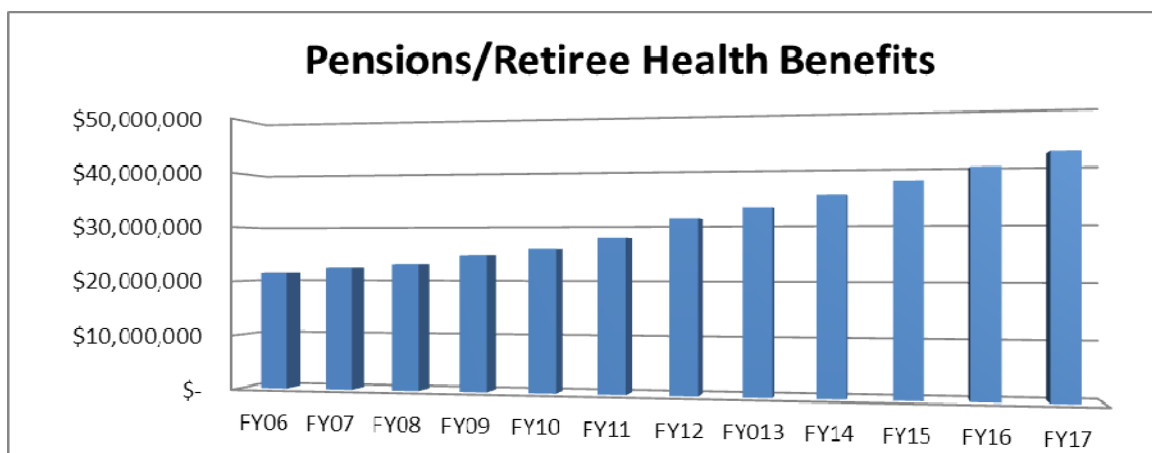
Impact of Self-Insurance

The comparisons shown above are comparisons of the City’s Actual Total Cost of the Health Insurance Program. Providing health insurance in the City of Newton is far more complicated than an analysis of the City’s Health Insurance Budgets and annual department expenditures would lead one to conclude. Budgeted working rates are only a tool which enables the City to administer its health insurance plan – the “actual” cost of the program is the important factor to the City.

The City of Newton provides health insurance benefits for approximately 2,500 employees and their dependents, as well as more than 2,500 retirees, for a total insured population of more than 8,500 people. 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 carriers, and the cost of an excess policy to protect the City from exposure due 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. Currently, the City of Newton Health Insurance Trust Fund approximates \$10,000,000. Year-to-date claims experience has been favorable and will be a contributing factor in the determination of Fiscal Year 2013 working rates.

Pensions and Retiree Health Benefits

One area of concern in the five year forecast is the projected escalating cost of pensions and retiree health benefits. The City of Newton Contributory Retirement Plan covers approximately 3,500 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 had increased to 45% as of January 1, 2010. This increase in the unfunded liability is not unique to Newton, and consequently the Massachusetts State Legislature passed legislation last fall 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. Therefore, the five year forecast includes an annual increase of 4.5% for this cost.



Simultaneously, Health Benefits are expected to continue to rise at a rate that certainly exceeds 2.5%. In 2009, the City of Newton adopted M.G.L. c32B section 18 which requires all eligible Municipal retirees to enroll in Medicare. This statute allows the City to enroll retirees in health insurance plans that supplement Medicare coverage, reducing coverage costs for both the City and the retiree. This law requires all retirees who are eligible for Medicare Part A to also enroll in Medicare Part B. Since December 2009, the City has notified retirees that they are required to enroll in Medicare or provide proof in the form of a letter from the local Social Security Office indicating that they have not paid into Medicare for the required 10 years and are not eligible. Additionally, employees hired on or after April 1, 1986 are required to pay 1.45% Medicare tax. Employees who have paid this tax for at least 10 years are entitled to Medicare coverage at age 65. Therefore, through attrition, the number of Medicare-eligible retirees is increasing each year

Out of District Tuition

Out-of-District Tuition has also been identified as a major cost driver in the school department budget increase each year. Although the Newton Public Schools have taken many proactive steps to control this area by offering a number of programs which reduce the need to send students outside the district to meet their educational needs, tuition costs continue to rise for several reasons. Although out-of-district tuition rates are controlled by the Massachusetts Department of Elementary and Secondary Education, many private schools seek and are granted “extraordinary relief” which allows for a higher rate of tuition increase. Additionally, reductions in state and federal stimulus/ARRA funding, and a steady increase in the number of out-of-district placements have all contributed to increases in this area. The School Committee has commissioned a full study of Newton’s Special Education program and is looking carefully at staffing patterns and determining through data analysis and program evaluations a series of initiatives and programs to improve outcomes for students while controlling costs.

Pupil Transportation

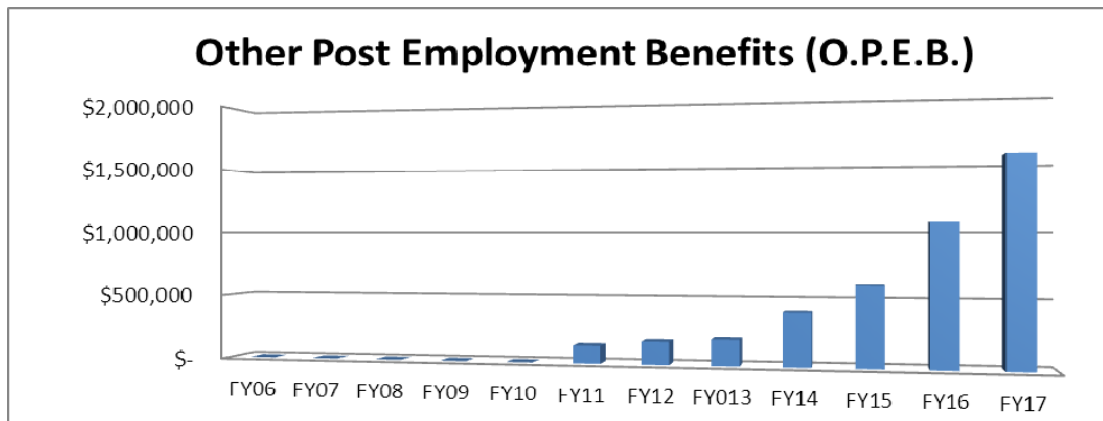
Pupil Transportation is yet another area where year over year annual cost increases have outpaced revenue increases. Last year the Newton Public Schools successfully undertook a public bid process for Special Education Transportation which resulted in an annual savings in excess of \$250,000. However, NPS continues to monitor cost increases in this account particularly in light of the volatile cost of fuel.

Utilities

The City of Newton has aggressively pursued Energy Saving Solutions for many years. As such, the City has been certified as a 'green community', has received more than \$170,000 in Grant Funding in FY11, and has been able to control or minimize utility costs by entering into purchasing cooperatives with surrounding communities for gasoline, diesel, and heating oil, and by "locking" in very favorable natural gas rates for the next four years.

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 \$639 million, requiring a \$50 million Annually Required Contribution or (ARC). As was mentioned earlier in this report, the City established an O.P.E.B. Trust Fund and appropriated \$137,000 during Fiscal Year 2011 as "seed" money for the initial funding of the trust. The Mayor has recently docketed a request with the Board of Aldermen to appropriate \$175,000 as the FY12 contribution to the fund. The City has determined that as much as 12% of the salaries of all new employees should be set aside for their future O.P.E.B. liability. The City hires approximately 150 new employees each year – and is unable to set aside a full 12% of their salaries immediately to fund this liability. However, beginning in FY2013 the City will set aside 2% of the salaries of all new employees with the intent of increasing the percentage of the set aside annually until such time as the actuarial value of O.P.E.B. liabilities for new employees is being met. The City intends to continue the policy of "pay as you go" for all O.P.E.B. liabilities for current and former employees.



Capital Improvements

Another significant departure from prior plans is the inclusion of a strategic five-year capital improvement plan. As mentioned previously in this report, the City has completed a Comprehensive Infrastructure Assessment and has developed an interactive database which has combined the municipal building assessment with the assessment of school buildings, and other cultural and recreational needs in order to develop a true five year plan for capital improvements and capital equipment purchases. This financial forecast includes the debt requirements for the following capital projects.

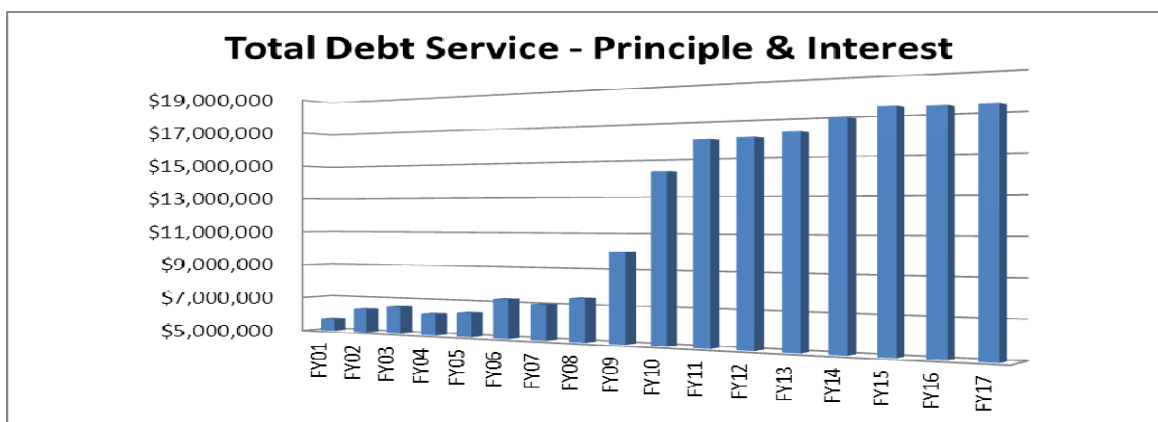
Debt Service/Bonded Debt Schedule

Fiscal Years 2013 - 2017

<u>SHORT TERM CAPITAL PROJECTS</u>	<u>FY2012</u>	<u>FY2013</u>	<u>FY2014</u>	<u>FY2015</u>	<u>FY2016</u>	<u>FY2017</u>
<u>Building Improvements</u>						
City Hall Improvements	\$ 300,000			\$ 200,000	\$ 250,000	\$ 125,000
Fire Station #4 - Windows		\$ 225,000				
Fire Station #1 - Gen/Windows,Doors/Masonry				\$ 122,980	\$ 510,226	
Fire Station #2 - Windows,Doors/Generator					\$ 86,936	\$ 163,000
Newton Public Library		\$ 250,000		\$ 609,300	\$ 310,000	\$ 300,000
Crafts Street - Garage Building		\$ 320,000	\$ 610,410			\$ 400,000
Police Headquarters - Roof, Mechanical				\$ 382,791	\$ 100,016	
Pellegrini Park - Mechanical					\$ 150,000	
Lower Falls Accessibility						\$ 93,991
School Building Masonry Repairs	\$ 450,000	\$ 310,000	\$ 250,000	\$ 100,000		
School Building Mechanical Upgrades	\$ 450,000	\$ 250,000	\$ 775,000	\$ 240,000	\$ 525,000	\$ 250,000
School Building Life/Safety Upgrades	\$ 315,000			\$ 100,000		
School Building Electrical Upgrades	\$ 200,000			\$ 650,000		
School Building Accessibility Upgrades	\$ 300,000					\$ 200,000
School Building Water Infiltration Upgrades		\$ 200,000				
Concrete Stairs - Bigelow School	\$ 35,000	\$ 350,000				
School Building Roofs				\$ 375,000		
School Building - Plumbing				\$ 200,000	\$ 450,000	
F.A.Day - Boiler					\$ 100,000	\$ 350,000
<u>Fleet Replacement</u>						
Fleet Replacement - Fire Apparatus	\$ 600,000		\$ 1,000,000		\$ 600,000	
DPW - Large Construction Vehicles	\$ 300,000	\$ 160,000	\$ 300,000	\$ 310,000	\$ 300,000	\$ 300,000
<u>Culture and Recreation</u>						
Upper Falls - Bobby Braceland Playground	\$ 150,000					
Gath Pool - Urgent Electrical & Mechanical Repair	\$ 100,000	\$ 150,000	\$ 108,534			
Crystal Lake Bath House			\$ 75,000			
Senior Center Mechanical Upgrades			\$ 87,977			
<u>Information Technology</u>						
Citywide Technology Infrastructure		\$ 500,000	\$ 250,000	\$ 250,000		
TOTAL SHORT TERM PROJECTS	\$ 3,200,000	\$ 2,715,000	\$ 3,456,921	\$ 3,540,071	\$ 3,382,178	\$ 2,181,991
<u>LONG TERM CAPITAL IMPROVEMENT PROJECTS</u>						
<u>Building Improvements</u>						
Elementary Modularity & Sprinklers	\$ 2,384,000					
F.A.Day - Addition and Sprinklers	\$ 643,500	\$ 6,009,000				
Carr School - Design		\$ 750,000	\$ 4,450,000			\$ 275,000
Station #10 - Design		\$ 600,000	\$ 2,400,000			
Brown Middle School				\$ 600,000	\$ 700,000	\$ 700,000
Cabot Elementary School						\$ 500,000
TOTAL LONG TERM PROJECTS	\$ 3,027,500	\$ 7,359,000	\$ 6,850,000	\$ 600,000	\$ 700,000	\$ 1,475,000
TOTAL PROJECTED BONDING FROM AVAILABLE RESOURCES	\$ 6,227,500	\$ 10,074,000	\$ 10,306,921	\$ 4,140,071	\$ 4,082,178	\$ 3,656,991
<u>ALTERNATIVE FUNDING SOURCE NEEDED</u>						
Angier Elementary School			\$ 3,000,000	\$ 10,000,000	\$ 7,000,000	
Fire Station #3				\$ 700,000	\$ 5,000,000	
TOTAL ALTERNATIVE FUNDING NEEDED	\$ -	\$ -	\$ 3,000,000	\$ 10,700,000	\$ 12,000,000	\$ -
TOTAL 5-YEAR PROJECTED CAPITAL IMPROVEMENT PLAN	\$ 6,227,500	\$ 10,074,000	\$ 13,306,921	\$ 14,840,071	\$ 16,082,178	\$ 3,656,991
Projected Annual Debt Service	\$ 16,056,700	\$ 16,255,439	\$ 16,868,009	\$ 17,383,040	\$ 17,334,052	\$ 17,332,190

Debt Service

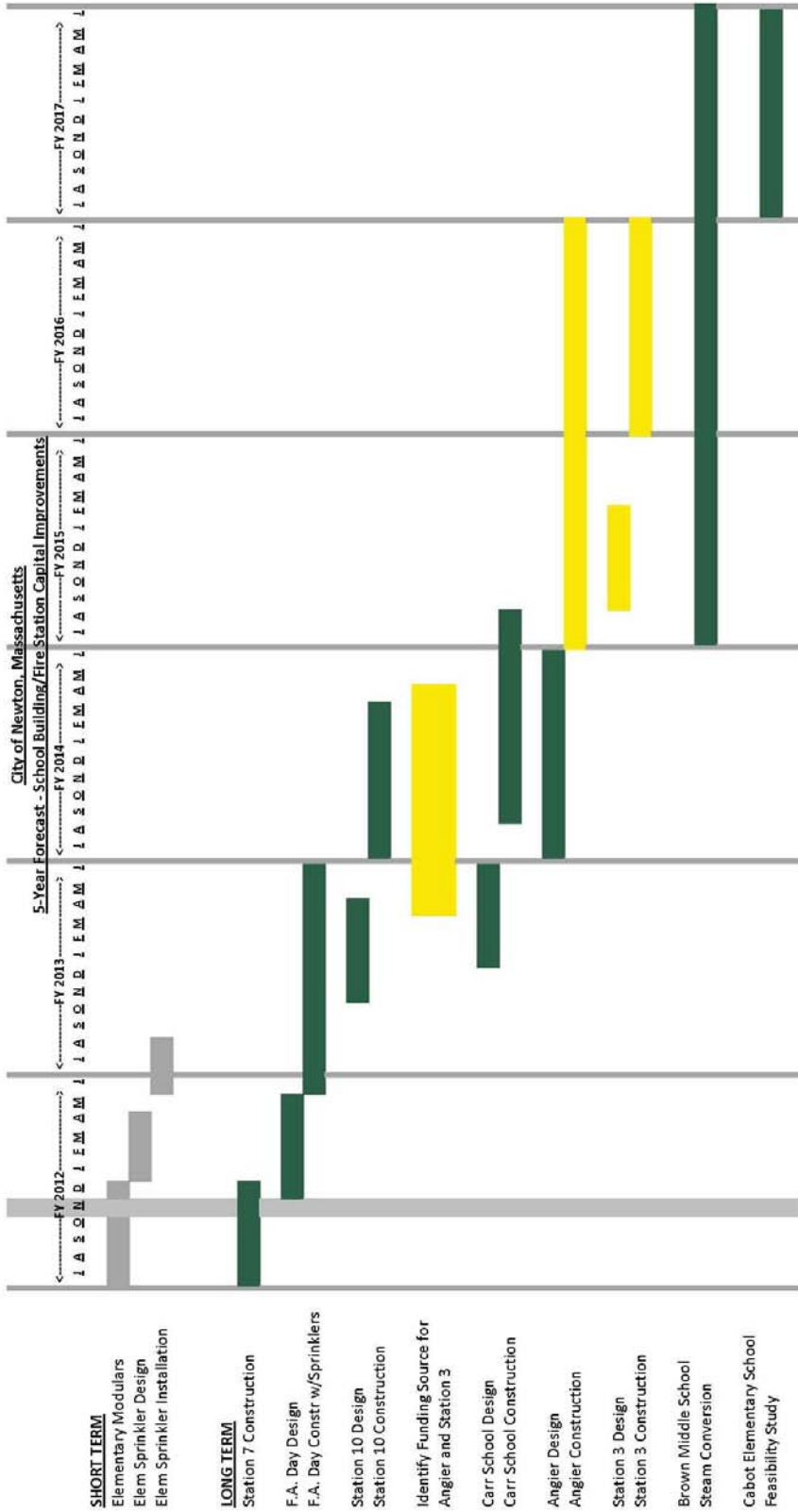
The doors of the new Newton North High School (NNHS) opened in September, 2010. The FY2012 debt service associated with the high school is approximately \$9.3 million. The project is scheduled to be substantially complete by December 1, 2011 with minor site work to be completed after winter. Although final cost estimates for the project will not be known until the spring of 2012, it is estimated that the final project will approximate \$192 million. Therefore, it is anticipated that the City will not need to borrow the final \$4 million of M.S.B.A. funding that was anticipated. The projected debt service schedule incorporates that assumption as well as all projected debt service payments associated with the projects listed on the previous page with the exception of the costs associated with the renovation/replacement of the Angier Elementary School and the costs associated with the renovations of Fire Station #3.



Note: FY2007 Adjusted for Fire Department Loan Settlement

Identifying an Alternative Funding Source

Although the City has accomplished much; significantly reducing the operating structural deficit, absorbing the debt service costs associated with the \$192 million North High School project, funding short term and long term space needs at the elementary and middle school levels, renovating Fire Stations #4, #7 and planning for the costs associated with the renovations of Fire Station #10 and the preparation of the Carr School to be utilized as swing space for the elementary school level, not all infrastructure and school needs can be addressed under the current funding model without significantly impacting operating expenditures and having a negative effect on the educational, public safety, public works and recreational and cultural needs of the residents of the City of Newton. Therefore, throughout the next 12 month period, the Administration will work with the Honorable Board of Aldermen, Citizens of Newton, and City Management to determine the costs of the renovation/replacement of the Angier Elementary School and Fire Station #3, work with the Massachusetts School Building Authority to identify potential state funding to mitigate the costs associated with Angier and analyze and identify the most appropriate funding source for the completion of these two critical capital improvement projects. The following chart depicts the timeline associated with each of the major capital projects to be undertaken throughout the next five years.



Summary of Major Cost Drivers

It is important to note that the projection of major cost drivers is based on prior run rates as well as known conditions. Based on these projections it is clear that controlling cost increases in the areas of Special Education/Out of District Placements, Pupil Transportation, Retiree Pension and Health Care Benefits and funding the City's O.P.E.B. Liability Trust Fund will continue to challenge the City financially in the years to come. Additionally, now that the City has completed the Municipal Capital Infrastructure Assessment, revisited the Long Range Student Enrollment Projections and School Building Assessment, analyzed roadway infrastructure needs through the development of the Pavement Condition Index, and expended considerable effort to understand the long range water and sewer infrastructure needs, it is incumbent upon the leadership of the community to set the City on a course that dedicates appropriate financial resources to each of these areas of need.

It is most important to note that the projections by major cost driver DO NOT include cost controlling measures, management decisions, and cost reducing strategies that will be identified over the next few months in preparation for the FY2013 Budget and beyond.

Projected FY2013 - FY2017 Expenditures by Functional Element

As has been mentioned several times within this report, this five year financial forecast is meant to be a guide in the development of the Municipal Operating Budget for next year and beyond. Consequently, the FY2013-FY2017 Projected Expenditures by Functional Element shown below summarizes the projected available funding by functional area for the FY2013 Budget. As is evident, at this time, the Newton Public Schools can anticipate a 2.5% increase in appropriation, while the current projected appropriation increase for Municipal Department expenditures approximates only 1%. This forecast shows clearly, that although great strides have been made toward the reduction and ultimate elimination of the "structural deficit", until such time as the City is no longer supplementing supplementing operating revenues with reserves, there will still be tremendous pressure on operating budgets.

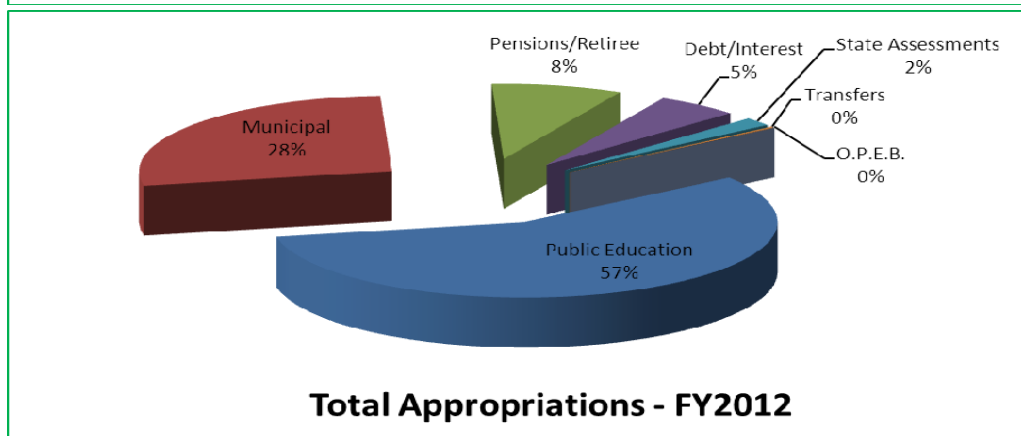
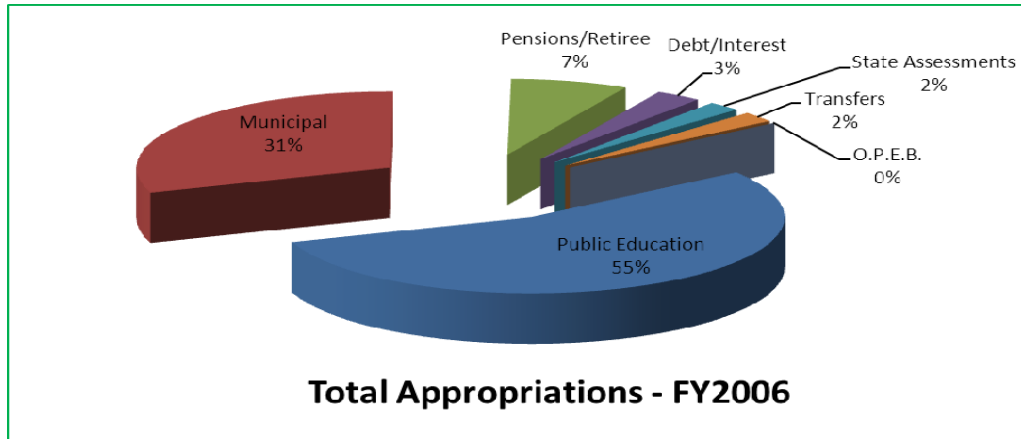
<u>City of Newton, Massachusetts</u>							
<u>Five Year Expenditure Forecast - by Functional Element</u>							
<u>FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast</u>							
<u>EXPENDITURES</u>	<u><ACTUAL></u>	<u><BUDGET></u>	<u>-----FORECAST-----></u>				
	<u>FY11</u>	<u>adj FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>
Education	\$ 166,260,251	\$ 171,820,000	\$ 176,115,500	\$ 180,518,388	\$ 185,031,347	\$ 189,657,131	\$ 194,398,559
% Increase	1.82%	3.34%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 5,559,749	\$ 4,295,500	\$ 4,402,887	\$ 4,512,960	\$ 4,625,784	\$ 4,741,428
Debt Service	\$ 16,009,264	\$ 16,056,700	\$ 16,255,439	\$ 16,868,009	\$ 17,383,040	\$ 17,334,052	\$ 17,332,190
% Increase	11.70%	0.30%	1.24%	3.77%	3.05%	-0.28%	-0.01%
\$ Increase		\$ 47,436	\$ 198,739	\$ 612,570	\$ 515,031	\$ (48,988)	\$ (1,862)
Pensions & Retiree Benefits	\$ 23,774,440	\$ 25,279,150	\$ 26,748,199	\$ 28,286,220	\$ 29,912,678	\$ 31,632,657	\$ 33,451,535
% Increase	8.40%	6.33%	5.81%	5.75%	5.75%	5.75%	5.75%
\$ Increase		\$ 1,504,710	\$ 1,469,049	\$ 1,538,021	\$ 1,626,458	\$ 1,719,979	\$ 1,818,878
State Charges	\$ 5,472,487	\$ 5,550,761	\$ 5,689,530	\$ 5,831,768	\$ 5,977,562	\$ 6,127,002	\$ 6,280,177
% Increase	-2.61%	1.43%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 78,274	\$ 138,769	\$ 142,238	\$ 145,794	\$ 149,439	\$ 153,175
Transfers to Other Funds	\$ 5,461,830	\$ 700,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000
% Increase	73.56%	-87.18%	7.14%	0.00%	0.00%	0.00%	0.00%
\$ Increase		\$ (4,761,830)	\$ 50,000	\$ -	\$ -	\$ -	\$ -
O.P.E.B.	\$ -	\$ -	\$ 198,000	\$ 405,000	\$ 607,500	\$ 1,080,000	\$ 1,575,000
% Increase	0.00%	0.00%	100.00%	104.55%	50.00%	77.78%	45.83%
\$ Increase		\$ -	\$ 198,000	\$ 207,000	\$ 202,500	\$ 472,500	\$ 495,000
Municipal Expenditures	\$ 83,156,349	\$ 82,771,100	\$ 83,681,582	\$ 84,284,089	\$ 85,337,641	\$ 87,471,082	\$ 89,657,859
% Increase	0.97%	-0.46%	1.10%	0.72%	1.25%	2.50%	2.50%
\$ Increase		\$ (385,249)	\$ 910,482	\$ 602,507	\$ 1,053,551	\$ 2,133,441	\$ 2,186,777
TOTAL EXPENDITURE FCST							
FY13 - FY17 BUDGET	\$ 300,134,621	\$ 302,177,711	\$ 309,438,250	\$ 316,943,475	\$ 324,999,768	\$ 334,051,923	\$ 343,445,319
		0.68%	2.40%	2.43%	2.54%	2.79%	2.81%

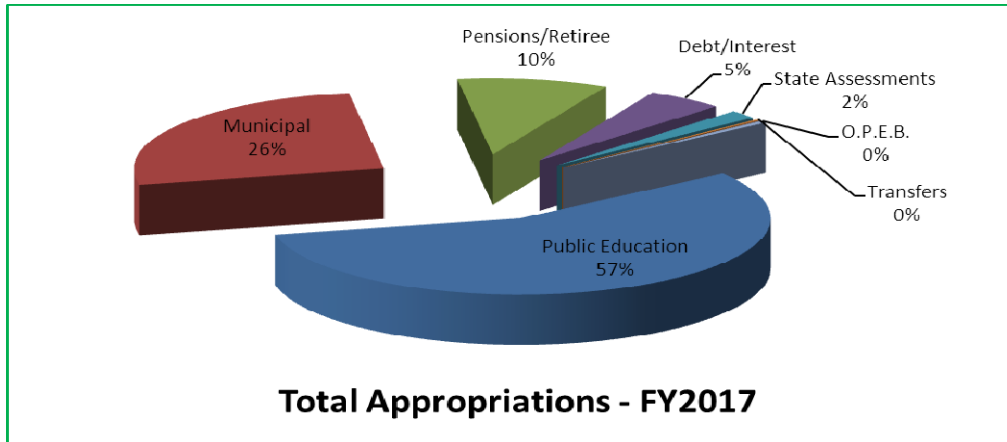
Note: FY12 School Department Budget has been adjusted to reflect additional \$200K Education Aid

FY2013 – FY2017 Expenditures by Functional Element (cont'd)

Additionally, as is evident from the comparative charts below, 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 FY2012 City Budget as opposed to 55% of the FY2006 City Budget. Additionally, Debt Service (largely comprised of debt service on school buildings) has increased over the years to 5% of the City Budget.

As mentioned earlier in this report, and of particular note, Pensions/Retiree Benefits will continue to consume more and more of the City's resources as they have increased from 7% in FY2006, to 8% in the FY2012 Budget and to a projected 10% by FY2017. Further, it should be noted that "Municipal Expenditures" are on a continuing declining path - having declined as a percentage of total spending from 31% in FY2006 to only 28% in the FY2012 Budget and a projected 26% by FY2017. This is a very important fact. If the City is to maintain its Moody's Aaa bond rating, deliver core City services and invest in much needed infrastructure improvements, it is imperative that the City of Newton continue to strive to strike a balance between the many needs and desires of the community – excellence in education, commitment to public safety, exceptional public infrastructure, and quality of life with available revenue.





Sustainable Budget Strategy

For any municipal budget or municipal financial plan to be sustainable, it must provide for a “balance” between the anticipated revenues and expenditures of the municipality, while simultaneously providing appropriate levels of city services, addressing infrastructure needs and developing and maintaining an appropriate level of reserves. This five year financial forecast has been designed 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 a projected revenue growth rate of approximately 2.5%. In addition to reaching agreement with the City’s union membership on the collective bargaining agreements, the administration will continue to work with the citizens to define and prioritize the City’s core services, refine the newly developed zero-based budgets, continue to employ performance management techniques to streamline operations, begin to implement the conclusions of the recent comprehensive citywide infrastructure assessment, and work to encourage economic development where most appropriate.

**The following pages contain Revenue Projections,
Projections by Functional Element and Projections by Major
Cost Driver for the following time periods:**

FY2006 – FY2011 Actuals

FY2012 Budget

FY2013 – FY2017 Forecast

City of Newton, Massachusetts
Annual General Fund Revenue

FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast

	ACTUAL							FORECAST						
	FY06	FY07	FY08	FY09	FY10	FY11	adj FY12	FY13	FY14	FY15	FY16	FY17		
GENERAL FUND REVENUE														
Real Estate Tax Revenue	\$ 199,676,158	\$ 206,442,804	\$ 214,497,388	\$ 223,982,213	\$ 231,880,264	\$ 239,709,050	\$ 248,167,871	\$ 256,934,568	\$ 267,061,227	\$ 276,198,808	\$ 285,578,153	\$ 296,191,982		
Excise Tax Revenue	\$ 10,750,647	\$ 10,745,229	\$ 11,008,570	\$ 10,238,711	\$ 9,576,320	\$ 10,008,481	\$ 10,100,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000	\$ 10,200,000		
Hotel Room Tax	\$ 1,060,052	\$ 1,138,921	\$ 1,103,549	\$ 1,108,199	\$ 1,168,095	\$ 1,588,882	\$ 1,800,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000		
Meals Tax - 0.75%	\$ -	\$ -	\$ -	\$ -	\$ 382,994	\$ 1,308,191	\$ 1,300,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000	\$ 1,325,000		
Payments in Lieu of Taxes	\$ 290,602	\$ 230,857	\$ 231,373	\$ 406,418	\$ 316,177	\$ 300,261	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000	\$ 285,000		
Interest/Divident Income	\$ 3,055,801	\$ 4,425,105	\$ 3,933,619	\$ 2,283,822	\$ 874,757	\$ 417,144	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000		
License/Permit-	\$ 6,217,812	\$ 5,041,980	\$ 4,556,132	\$ 3,885,054	\$ 3,805,987	\$ 4,723,631	\$ 4,536,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700	\$ 4,526,700		
Parking Meter Receipts	\$ 758,832	\$ 852,832	\$ 1,130,000	\$ 1,140,000	\$ 1,142,645	\$ 1,740,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000	\$ 1,450,000		
Parking Violations	\$ 1,544,191	\$ 1,439,010	\$ 1,534,407	\$ 1,704,087	\$ 1,764,064	\$ 1,590,087	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000		
Medicare D/SPED	\$ 143,986	\$ 1,249,579	\$ 1,334,846	\$ 1,143,439	\$ 1,123,135	\$ 1,791,041	\$ 1,105,437	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000	\$ 1,650,000		
Water/Sewer Gen'l Fund	\$ 1,190,916	\$ 1,228,831	\$ 1,264,968	\$ 1,457,225	\$ 1,376,187	\$ 1,396,335	\$ 1,600,000	\$ 1,640,000	\$ 1,681,000	\$ 1,723,025	\$ 1,766,101	\$ 1,810,253		
Premium from Sale of Bond:	\$ 293,090	\$ 90,087	\$ 235,056	\$ 1,557,255	\$ 815,357	\$ 168,147	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Other/Miscellaneous Revent	\$ 6,509,325	\$ 6,865,283	\$ 7,639,373	\$ 7,411,929	\$ 8,760,550	\$ 6,318,788	\$ 4,877,251	\$ 4,325,295	\$ 4,285,295	\$ 4,255,295	\$ 4,245,295	\$ 4,240,295		
REVENUE FROM CITY OPERATIONS	\$ 231,491,411	\$ 239,750,418	\$ 248,469,281	\$ 256,319,352	\$ 262,986,463	\$ 271,050,037	\$ 277,272,259	\$ 286,086,563	\$ 296,194,222	\$ 305,363,828	\$ 314,776,249	\$ 324,429,230		
REVENUE FROM STATE AID														
Unrestricted Gen'l State Aid	\$ 6,356,646	\$ 7,224,573	\$ 7,314,042	\$ 6,601,316	\$ 5,177,738	\$ 4,970,628	\$ 4,611,231	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000	\$ 4,600,000		
Chapter 70 State Education	\$ 9,687,800	\$ 10,966,835	\$ 12,754,101	\$ 12,939,869	\$ 14,171,395	\$ 13,343,502	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221	\$ 13,504,221		
TOTAL REVENUE FROM STATE AID	\$ 16,044,446	\$ 18,191,408	\$ 20,068,143	\$ 19,541,185	\$ 19,349,133	\$ 18,314,130	\$ 18,115,452	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221	\$ 18,104,221		
OPERATING REVENUE	\$ 247,535,857	\$ 257,941,826	\$ 268,537,424	\$ 275,860,537	\$ 282,335,596	\$ 289,364,167	\$ 295,387,711	\$ 304,190,784	\$ 314,298,443	\$ 323,468,049	\$ 332,880,470	\$ 342,533,451		
	4.20%		4.11%	2.73%	2.35%	2.49%	2.08%	2.98%	3.32%	2.92%	2.91%	2.90%		
EXTRAORDINARY INCOME/RESERVES														
Stark Street Settlement	\$ -	\$ 2,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
New Falls Settlement in Lieu of	\$ 51,536	\$ 53,751	\$ -	\$ 53,254	\$ 2,703,300	\$ 38,494	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000	\$ 40,000		
School Building Assistance	\$ 2,793,121	\$ 2,377,843	\$ 7,040,446	\$ 4,914,788	\$ 4,941,992	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Capital Stabilization Fund	\$ 649,997	\$ 82,449	\$ 216,700	\$ 2,592,020	\$ 1,179,046	\$ 5,776,562	\$ 4,800,000	\$ 3,700,000	\$ 1,100,000	\$ -	\$ -	\$ -		
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000		
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -		
TOTAL EXTRAORDINARY INCOME/RESERVES	\$ 3,494,654	\$ 5,364,043	\$ 7,257,146	\$ 7,560,042	\$ 8,824,337	\$ 5,815,056	\$ 6,840,000	\$ 5,240,000	\$ 2,640,000	\$ 1,540,000	\$ 1,540,000	\$ 1,540,000		
TOTAL REVENUE	\$ 251,030,512	\$ 263,305,869	\$ 275,794,570	\$ 283,420,579	\$ 291,159,933	\$ 295,179,224	\$ 302,227,711	\$ 309,430,784	\$ 316,938,443	\$ 325,008,049	\$ 334,420,470	\$ 344,073,451		
% Increase	4.89%	4.74%	4.11%	2.77%	2.73%	1.36%	2.39%	2.38%	2.43%	2.65%	2.90%	2.89%		

Note: FY12 Budget has been adjusted to reflect additional \$400K New Growth, \$200K Education Aid, and lower than anticipated Interest/Divident Income

City of Newton, Massachusetts
Five Year Expenditure Forecast - by Functional Element
FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast

	ACTUAL						FORECAST					
	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
EXPENDITURES												
Education	\$ 134,804,237	\$ 140,824,276	\$ 152,871,129	\$ 156,010,151	\$ 163,283,643	\$ 166,280,251	\$ 171,820,000	\$ 176,115,500	\$ 180,518,388	\$ 185,031,347	\$ 189,657,131	\$ 194,398,559
% Increase		4.47%	8.55%	2.05%	4.56%	1.82%	3.34%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 6,020,040	\$ 16,067,000	\$ 3,741,938	\$ 7,273,492	\$ 3,001,640	\$ 5,639,980	\$ 4,295,500	\$ 4,402,887	\$ 4,512,980	\$ 4,625,794	\$ 4,741,428
Debt Service	\$ 7,245,009	\$ 9,631,312	\$ 7,426,543	\$ 10,009,160	\$ 14,332,264	\$ 16,009,284	\$ 16,056,700	\$ 16,255,439	\$ 16,868,009	\$ 17,383,040	\$ 17,334,052	\$ 17,332,190
% Increase		32.94%	-22.89%	34.78%	43.19%	11.70%	0.30%	1.24%	3.77%	3.05%	-0.28%	-0.01%
\$ Increase		\$ 6,916,303	\$ 2,178,784	\$ 2,789,016	\$ 3,905,720	\$ 1,779,800	\$ 186,739	\$ 198,739	\$ 612,570	\$ 515,031	\$ (46,988)	\$ (1,862)
Pensions & Retiree Benefits	\$ 18,525,153	\$ 19,043,013	\$ 19,666,614	\$ 20,827,227	\$ 21,932,507	\$ 23,774,440	\$ 25,279,150	\$ 26,748,199	\$ 28,296,220	\$ 29,912,678	\$ 31,632,657	\$ 33,451,535
% Increase		2.80%	3.27%	5.90%	5.31%	8.40%	6.33%	5.81%	5.75%	5.75%	5.75%	5.75%
\$ Increase		\$ 518,860	\$ 639,999	\$ 1,166,613	\$ 1,004,280	\$ 1,848,237	\$ 1,468,940	\$ 1,469,049	\$ 1,538,021	\$ 1,626,458	\$ 1,719,979	\$ 1,818,878
State Charges	\$ 5,209,013	\$ 5,375,365	\$ 5,512,027	\$ 5,453,169	\$ 5,619,317	\$ 5,472,487	\$ 5,550,761	\$ 5,689,530	\$ 5,831,768	\$ 5,977,562	\$ 6,127,002	\$ 6,280,177
% Increase		3.19%	2.54%	-1.07%	3.05%	-2.61%	1.43%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 165,352	\$ 136,654	\$ 89,852	\$ 166,148	\$ 137,314	\$ 141,675	\$ 138,769	\$ 142,238	\$ 145,794	\$ 149,438	\$ 153,175
Transfers to Other Funds	\$ 5,439,296	\$ 7,167,220	\$ 9,464,685	\$ 8,723,736	\$ 3,146,879	\$ 5,461,890	\$ 700,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000
% Increase		31.77%	32.06%	-7.83%	-63.93%	73.56%	-87.19%	7.14%	0.00%	0.00%	0.00%	0.00%
\$ Increase		\$ 1,727,924	\$ 4,025,389	\$ 3,363,645	\$ 1,778,916	\$ 1,814,911	\$ 161,811	\$ 50,000	\$ -	\$ -	\$ -	\$ -
O.P.E.B. (Other Post Employment Benefits)												
% Increase												
\$ Increase												
Municipal Expenditures	\$ 75,457,411	\$ 75,217,900	\$ 79,454,144	\$ 86,531,595	\$ 82,359,424	\$ 83,156,349	\$ 82,771,100	\$ 83,661,582	\$ 84,284,089	\$ 85,337,641	\$ 87,471,082	\$ 89,657,859
% Increase		-0.32%	5.63%	8.91%	-4.82%	0.97%	-0.46%	1.10%	0.72%	1.25%	2.50%	2.50%
\$ Increase		\$ 241,489	\$ 4,236,733	\$ 6,321,684	\$ 1,077,524	\$ 1,000,000	\$ 810,482	\$ 910,482	\$ 602,507	\$ 1,053,551	\$ 2,139,441	\$ 2,186,777
TOTAL EXPENDITURES & TRANSFERS	\$ 246,680,119	\$ 257,259,086	\$ 274,395,142	\$ 287,555,038	\$ 290,674,034	\$ 300,134,621	\$ 302,177,711	\$ 309,438,250	\$ 316,943,475	\$ 324,999,768	\$ 334,051,923	\$ 343,445,319
VARIANCE	\$ 4,350,393	\$ 6,046,783	\$ 1,399,428	\$ (4,135,754)	\$ (1,055,193)	\$ (4,955,397)	\$ 50,000	\$ (7,467)	\$ (5,031)	\$ 8,281	\$ 368,547	\$ 628,132

Note: FY12 School Department Budget has been adjusted to reflect additional \$200K Education Aid

City of Newton, Massachusetts

**Expenditure Forecast by Major Cost Drivers - Based on Run Rates
FY2006 - FY2011 Actuals/FY2012 Budget/FY13 through FY17 Forecast**

	← ACTUAL →							← BUDGET →							← FORECAST →				
	FY06	FY07	FY08	FY09	FY10	FY11	adiFY12	FY13	FY14	FY15	FY16	FY17							
EXPENDITURES BY MAJOR COST DRIVER																			
Salaries & Health Benefits	\$ 162,631,745	\$ 179,352,807	\$ 185,756,944	\$ 191,084,759	\$ 193,760,550	\$ 194,524,047	\$ 199,387,148	\$ 204,371,827	\$ 204,371,827	\$ 209,481,123	\$ 214,718,151	\$ 220,086,104							
% Increase		3.11%	6.96%	3.57%	2.87%	1.40%	0.39%	2.50%	2.50%	2.50%	2.50%	2.50%							
Energy/Utilities	\$ 8,790,673	\$ 9,438,791	\$ 8,023,401	\$ 9,202,424	\$ 6,872,853	\$ 7,305,514	\$ 7,533,097	\$ 7,305,514	\$ 7,305,514	\$ 7,305,514	\$ 7,415,097	\$ 7,415,097							
% Increase		7.37%	-15.00%	14.69%	-25.32%	6.30%	3.12%	-3.02%	0.00%	0.00%	1.50%	0.00%							
Services	\$ 8,693,939	\$ 8,738,802	\$ 10,522,708	\$ 11,074,081	\$ 11,104,429	\$ 10,925,433	\$ 10,718,391	\$ 10,986,351	\$ 11,261,010	\$ 11,542,535	\$ 11,831,098	\$ 12,126,876							
% Increase		0.52%	20.41%	5.24%	0.27%	-1.61%	-1.90%	2.50%	2.50%	2.50%	2.50%	2.50%							
Refuse Collection/Disposal	\$ 5,717,517	\$ 5,826,945	\$ 5,693,480	\$ 6,111,143	\$ 5,831,566	\$ 5,732,682	\$ 6,103,651	\$ 6,200,469	\$ 6,448,488	\$ 6,706,427	\$ 6,974,684	\$ 7,253,672							
% Increase		1.91%	-2.29%	7.34%	-4.57%	-1.70%	6.47%	1.59%	4.00%	4.00%	4.00%	4.00%							
Out of District Tuition	\$ 5,127,730	\$ 4,324,157	\$ 6,015,063	\$ 6,506,517	\$ 7,017,814	\$ 8,180,060	\$ 9,409,818	\$ 10,350,800	\$ 11,385,880	\$ 12,524,468	\$ 13,776,915	\$ 15,154,606							
% Increase		-15.67%	39.10%	8.17%	7.86%	16.56%	15.03%	10.00%	10.00%	10.00%	10.00%	10.00%							
Pupil Transportation	\$ 3,623,195	\$ 3,773,413	\$ 4,128,471	\$ 4,310,400	\$ 4,428,039	\$ 4,233,771	\$ 4,305,311	\$ 4,563,630	\$ 4,837,447	\$ 5,127,694	\$ 5,435,356	\$ 5,761,477							
% Increase		4.15%	9.41%	4.41%	2.73%	-4.39%	1.69%	6.00%	6.00%	6.00%	6.00%	6.00%							
Supplies & Materials	\$ 4,985,254	\$ 4,719,466	\$ 5,960,650	\$ 6,479,767	\$ 5,788,139	\$ 5,369,207	\$ 5,382,820	\$ 5,517,391	\$ 5,655,325	\$ 5,796,708	\$ 5,941,626	\$ 6,090,167							
% Increase		-5.33%	26.30%	8.71%	-10.67%	-7.24%	0.25%	2.50%	2.50%	2.50%	2.50%	2.50%							
State Assessments	\$ 5,209,013	\$ 5,375,365	\$ 5,512,027	\$ 5,453,169	\$ 5,619,317	\$ 5,472,487	\$ 5,550,761	\$ 5,689,530	\$ 5,831,768	\$ 5,977,562	\$ 6,127,002	\$ 6,280,177							
% Increase		3.19%	2.54%	-1.07%	3.05%	-2.61%	1.43%	2.50%	2.50%	2.50%	2.50%	2.50%							
Fringes (Unemp, W/Comp, Medicare B, Payroll Taxes, etc.)	\$ 5,416,602	\$ 5,397,695	\$ 5,970,624	\$ 6,310,804	\$ 6,360,528	\$ 6,328,724	\$ 6,848,974	\$ 7,020,198	\$ 7,195,703	\$ 7,375,596	\$ 7,559,986	\$ 7,748,985							
% Increase		-0.35%	10.61%	5.70%	0.79%	-0.50%	8.22%	2.50%	2.50%	2.50%	2.50%	2.50%							
Pension Contribution	\$ 10,588,841	\$ 10,883,161	\$ 11,630,463	\$ 12,523,365	\$ 13,053,138	\$ 14,755,309	\$ 15,819,295	\$ 16,531,163	\$ 17,275,066	\$ 18,052,444	\$ 18,864,804	\$ 19,713,720							
% Increase		2.78%	6.87%	7.68%	4.23%	13.04%	7.21%	4.50%	4.50%	4.50%	4.50%	4.50%							
Retiree Health Benefits	\$ 10,834,730	\$ 11,572,917	\$ 11,511,675	\$ 12,158,126	\$ 12,875,686	\$ 13,047,076	\$ 15,380,036	\$ 16,610,439	\$ 17,939,274	\$ 19,374,416	\$ 20,924,369	\$ 22,598,319							
% Increase		6.81%	-0.53%	5.62%	5.90%	1.33%	17.88%	8.00%	8.00%	8.00%	8.00%	8.00%							
Debt Service - Principle & In	\$ 7,245,010	\$ 9,631,313	\$ 7,426,543	\$ 10,009,160	\$ 14,332,264	\$ 16,009,264	\$ 16,056,700	\$ 16,255,439	\$ 16,868,009	\$ 17,383,040	\$ 17,334,052	\$ 17,332,190							
% Increase		32.94%	-22.89%	34.78%	43.19%	11.70%	0.30%	1.24%	3.77%	3.05%	-0.28%	-0.01%							
Capital Outlay/Improvement	\$ 1,516,506	\$ 1,759,201	\$ 1,755,118	\$ 2,577,412	\$ 2,020,027	\$ 2,129,369	\$ 1,889,298	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000							
% Increase		16.00%	-0.23%	46.85%	-21.63%	5.41%	-20.67%	18.39%	0.00%	0.00%	0.00%	0.00%							
Other Post Employment Ben	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 137,000	\$ -	\$ 198,000	\$ 405,000	\$ 607,500	\$ 1,080,000	\$ 1,575,000							
% Increase									104.55%	50.00%	77.78%	45.83%							
Miscellaneous	\$ 1,148,522	\$ 1,162,369	\$ 1,173,605	\$ 1,095,043	\$ 1,335,463	\$ 1,268,506	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309	\$ 1,349,309							
% Increase		1.21%	0.97%	-6.69%	21.96%	-5.01%	6.37%	0.00%	0.00%	0.00%	0.00%	0.00%							
Transfers to Other Funds	\$ 4,087,944	\$ 5,782,878	\$ 8,067,543	\$ 7,141,617	\$ 1,796,879	\$ 4,413,817	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240	\$ 1,170,240							
TOTAL EXPENDITURES	\$ 245,617,222	\$ 256,074,083	\$ 272,744,179	\$ 286,709,972	\$ 289,520,701	\$ 298,931,771	\$ 301,841,748	\$ 310,937,620	\$ 320,894,860	\$ 331,167,076	\$ 341,422,687	\$ 352,080,938							
% Increase		4.26%	6.51%	5.12%	0.98%	3.25%	0.97%	3.01%	3.20%	3.20%	3.10%	3.12%							