

Executive Summary –

“Newton Leads 2040 is a call to action for all in our community to partner with us and with one another to continue to make our education system, public safety, infrastructure, environment and city services the best they can be. Newton Leads 2040 will promote partnership and engagement of residents and civic leaders to ensure we have affordable and diverse housing, multimodal transportation, robust entrepreneurship and growth in the innovation economy that will meet the needs of our citizens over the next 25 years. During the past several months we have sought input from residents to complete Newton’s first data-driven housing and transportation strategies.

If we want Newton to continue to be one of the best places to live in the next 25 years, each of us must lead by example - reaching out to those with whom we agree and, just as importantly, to those with whom we differ. We must do the hard work of finding common ground and have the courage to make difficult decisions for our community as a whole. We must also have the courage to question old assumptions. Newton Leads 2040 promotes the idea that if each of us plays a leadership role, we can set Newton on the right course for the next 25 years together.”

- Mayor Setti Warren, October 2016

The City of Newton – a livable, sustainable city for the 21st Century

After seven years in office, Mayor Setti Warren is proud to declare that the City of Newton is well positioned for long-term financial sustainability, perhaps the most critical of the eight desired outcomes that make up the Mayor’s vision for the City. Throughout the past seven years the Administration has focused tirelessly on eliminating the “structural deficit”, developing conservative financial forecasts, improving financial reserves, implementing comprehensive financial policies, reducing the utilization of non-recurring funding sources to balance the annual budget, and making appropriate investment in the City’s capital infrastructure. The effort of the Warren administration has been validated by both Moody’s Investors Service as well as Standard and Poor’s Rating Agency, two of the most highly regarded financial institutions.

Twice during the past year, January and again in July 2016, Moody’s Investors Service, one of the most preeminent municipal bond credit rating agencies, affirmed the City’s rating of “Aaa”, its highest rating attainable. The rating agency cited the City’s sizeable, wealthy and diverse tax base within a strong regional economy, manageable debt profile with moderate future capital needs, strong fiscal management, sound financial policies and a conservative budgeting approach as positive credit factors.

Additionally, in preparation for a significant bond restructuring, as well as bond sales associated with the override capital projects, the Administration made the decision for the first time ever to seek a second municipal bond rating from Standard and Poor’s Global Rating, a highly regarded financial institution. In January 2016 Standard & Poor’s awarded the City a rating of “AAA”, its

highest rating attainable. The rating agency cited the City's very strong economy, with access to a broad and diverse metropolitan area, strong management with good financial policies and practices, strong budgetary performance, with balanced operating results in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2015, very strong budgetary flexibility and liquidity, and strong institutional framework as positive credit factors. This rating was reaffirmed in July 2016.

The City of Newton is now one of a very small number of communities to have received a Triple A Stable bond rating from both Moody's Investors Service and Standard and Poor's. As a result, not only did the City execute a very favorable bond sale in January 2016, but also sought competitive bids at that time for a \$20 million refunding bond issue. Further, in July 2016, the City issued an additional \$65 million 20-year refunding bond issue. The refunding of these bonds that were originally sold in 2008 and 2009 will generate total savings of approximately \$15 million over their remaining life.

Commitment to fully funding the City's long term liabilities is critical to maintaining financial sustainability. The Administration continues to follow a funding schedule designed to eliminate the City's Unfunded Pension Liability by the year 2029, and fully fund the the City's OPEB (Other Post-Employment Benefits) Liability by the year 2042. Funding the annual increase to the pension appropriation is the key component of this strategy and will require discipline and commitment.

While the Administration is proud of the prudent financial policies the City has established over the past seven years, preparing the annual budget will always remain a challenging task. Meeting long-term financial sustainability, along with providing excellence in education, unparalleled public safety, a vibrant, diverse community life, improved capital infrastructure, environmental sustainability, robust economic development and opportunities for community engagement will require a thoughtful, controlled balance which is crucial to the viability of the City.

This five-year, comprehensive, financial forecast is meant to enable the leadership of the City of Newton to proactively manage personnel costs, operating expenditures, capital improvement plans, technology improvement plans, equipment replacement schedules, and debt service schedules, while maintaining the City's Triple A bond ratings, providing funding for long term liabilities, setting a path for future generations and ultimately assuring the sustainability of the City of Newton for decades to come.

City of Newton Financial Update and Overview

Collective Bargaining Agreements

All but two of the City of Newton's collective bargaining agreements are settled through Fiscal Year 2017 or Fiscal Year 2018. The Administration will continue to work collaboratively with the remaining groups in order to structure arrangements that maintain parity between the growth rate of both revenue and expenditures. The cost of Salaries and Benefits is the largest cost driver for the City, and in order to maintain financial stability these contracts must not increase by more than the increase in Revenue.

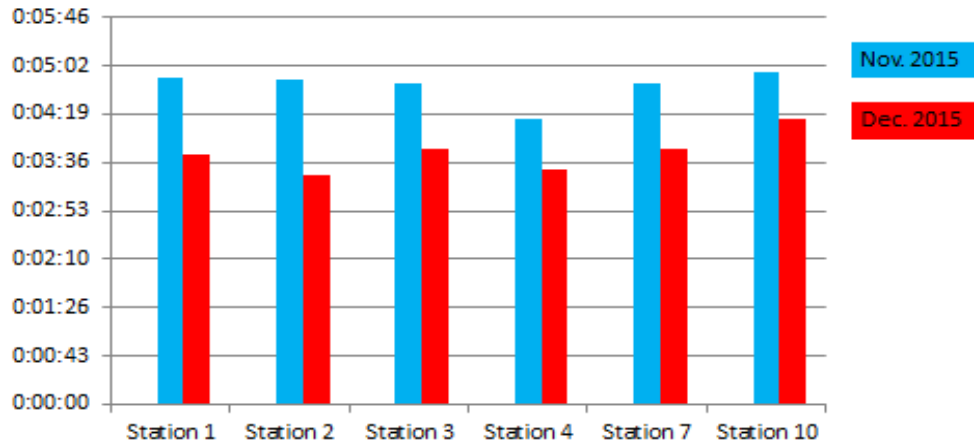
Outcomes-Based Budgeting

The City uses what is known as Outcomes-Based Budgeting. As opposed to more traditional line-item incremental budgeting, where expenditures are increased or decreased by a percentage from prior year levels, outcomes-based budgeting is unique in that it ties strategic planning, performance management, and a zero-based approach to the annual allocation of resources. Outcomes-based budgeting has directly enhanced efficient allocation of resources, requiring departments to find cost effective ways to improve operations, increase communication and cross department coordination, uncover and eliminate duplicative efforts, and identify opportunities for cost savings. It has also allowed the City to make unprecedented strides toward the achievement of its eight desired outcomes, most notably in the areas of unparalleled public safety, improved infrastructure, and excellence in education.

DataStat Newton/Performance Management

Since 2010, the City has made Performance Management a high priority. Using data to help inform key decisions allows the Administration to make the delivery of services more effective, more efficient, and more capable of adapting to an ever-changing environment. Last year, Mayor Warren launched "DataStat Newton" - a program which allows the City to track progress on meeting each of the 8 desired outcomes by identifying trends and addressing issues of concern; providing opportunities for interdepartmental collaboration; and serving as a platform for professional development for staff at all levels. The City is also using DataStat to track the progress of major projects such as the construction of school buildings, upgrades to traffic signals, and improvements in technological infrastructure. In addition to helping the City make critical decisions in each outcome area, DataStat Newton also plays an important role in the City's commitment to transparency. Data collected from every department is posted on the city website for residents to view, with data from previous months also available so that residents can see trends in each area. This program will continue to grow and play a critical role in ensuring that the City reaches each of its eight desired outcomes.

Fire Department Response Times (Medical Calls)



Capital Plan

One of the primary responsibilities of the City of Newton’s leadership is the preservation and maintenance of the community’s school buildings, municipal buildings, roadways, parks, recreation space, and water and sewer facilities. Capital assets make up the vast majority of the City’s property and resources, and they include 78 buildings and the technology infrastructure that connects them, approximately 330 miles each of roadways, sewer lines, water lines, and storm drains, 51 parks and playgrounds, and over 325 vehicles and pieces of construction equipment. In order for the City of Newton to meet its eight desired outcomes outlined in the Fiscal Year 2017 City Budget, these capital assets must be maintained to extend their useful lives, and new capital investments must be made so that the City can continue to provide its citizens with necessary services for years to come. As in previous years, the FY2018-2022 Capital Improvement Plan (C.I.P.) is based upon the City’s risk-based prioritization process that addresses infrastructure needs, reflects community values, supports city operations, programs and services, and exemplifies sustainable financial and environmental best practices.



Zervas Elementary



Newton South Tennis Courts



Station 3 & Headquarters

Economic Development

Having a strong commercial tax base and a thriving local economy remain important goals for the Administration. In recent years, large retail /mixed-use centers including Chestnut Hill Square and The Street as well as upgrades to the Shops at Chestnut Hill have provided consumers with many shopping and dining experiences while generating additional revenue in commercial property taxes. The Administration continues to work closely with the Honorable City Council to facilitate the successful approval of several other development opportunities including the mixed use-retail and housing development at 28 Austin Street and Newton Nexus, a retail and office redevelopment on Needham Street, as well as securing Life Time Fitness at the Atrium Center which is being renamed the Life Time Center. Additional economic development initiatives that will continue to be active in FY17 are two major regional efforts – the N2 Innovation District with the Town of Needham, which includes both Needham St. and Wells Avenue, and the Charles River Mill District with Watertown and Waltham, which includes the Chapel Street business district in Nonantum. The opening of the Newton Innovation Center at the former Newton Corner Library by MassChallenge in partnership with Cambridge Innovation Center (CIC) continues to be successful with over 60 participants representing over 30 different companies.

The recent release of Newton’s Housing Strategy (June, 2016) and soon to be released Newton Transportation Strategy will further bolster the Administration’s ongoing efforts to revitalize Newton’s thirteen unique village centers. The Housing Strategy calls for the development of transit oriented mixed-use housing to bring density and diverse housing as well as additional commercial development to Newton’s village centers. The Transportation Strategy will identify ways to improve Newton’s existing transportation network by making strategic investments to make it easier to travel (by vehicle, by public and private transit, by foot and by bicycle) from place to place in Newton. Both strategic plans are part of Mayor Warren’s overall “Newton Leads 2040” plan for the City.



“MassChallenge Building”



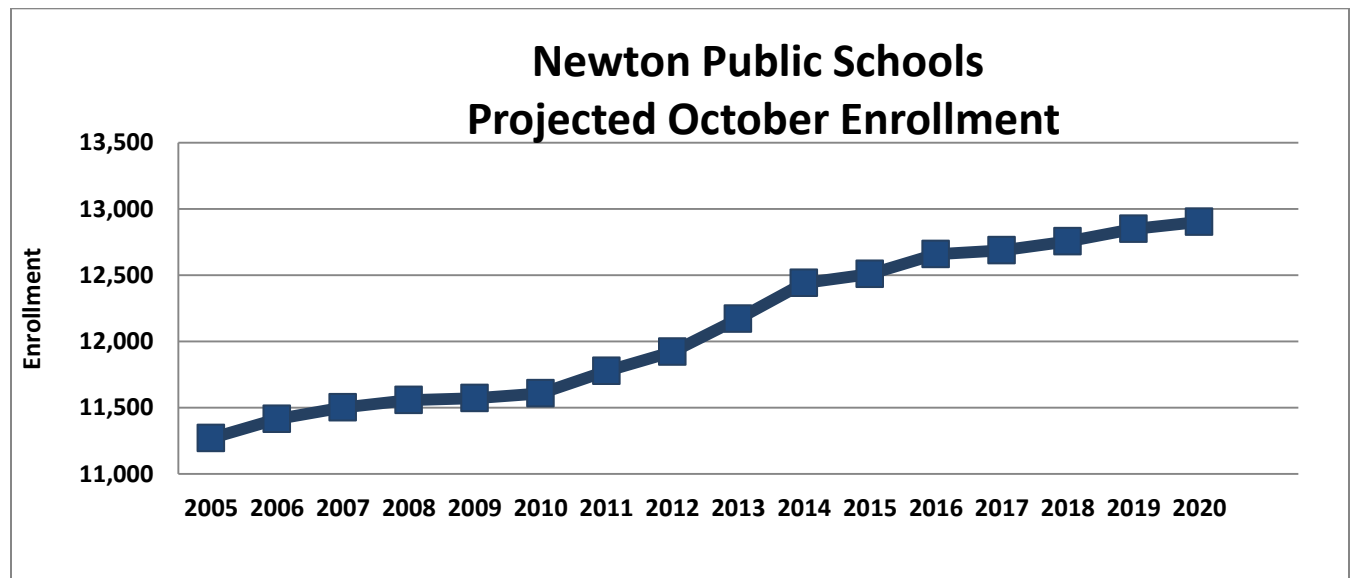
“The Atrium Center”



“Eliot Street Bridge”

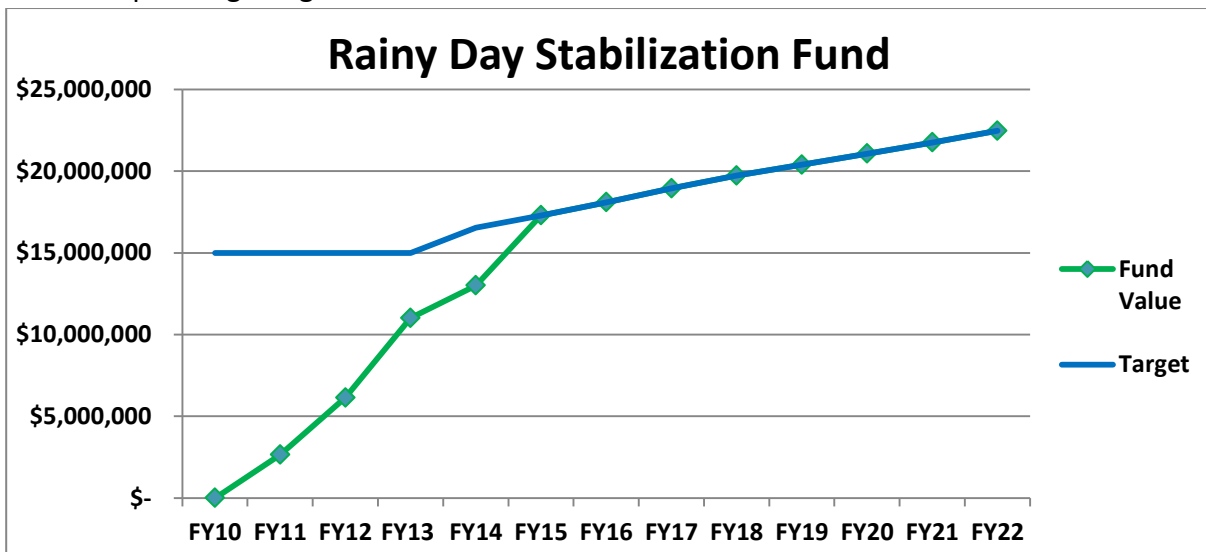
Growth in Student Enrollment

The Newton Public Schools continue to see consistent enrollment growth affecting all grade levels citywide. Net growth of approximately 1,240 students from 2004-05 through 2015-16, an increase of 11%, initially affected the elementary schools and subsequently started to arrive at the middle schools in 2008-09 and the high schools in 2010-11. The growth trend leveled slightly in 2015-16, with an overall increase of only 5 students, but is expected to pick up again in 2016-17 with an overall projected increase of 150 students. Over the next five years, an increase of approximately 400 students, or 3%, is projected; the largest growth is expected at the high school level, as larger grade cohorts continue to move up from the middle schools.



Rainy Day Stabilization Fund

In 2010 the City of Newton established a Rainy Day Stabilization Fund with an initial funding level of \$2,643,271. The Fund was established as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic expenditure. These funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the City’s control, or an unusually large expenditure resulting from such things as a catastrophic weather event. These funds remain segregated to prevent these reserves from being depleted for unrelated city needs. Through collaboration with the Chairman of the Council’s Finance Committee, the Comptroller, members of the City Council, and the Administration the fund has reached the City’s goal of 5% of the City Operating Budget or \$19 million. The City intends to continue to contribute to the fund each fiscal year to maintain the target goal of 5% of the annual operating budget.



The City of Newton’s Aaa Bond Rating

As mentioned earlier in this report, in January of 2016, the City of Newton once again earned an “Aaa – Stable” rating (the highest possible) from Moody’s Investor Services for its General Obligation Municipal Purpose Loan of 2016 Bonds. Concurrently, Moody’s reaffirmed the Aaa rating assigned to \$227.5 million of previously-rated long-term general obligation debt.

Additionally, the City sought a municipal bond rating from Standard and Poor’s Global Rating. Following a first ever review of the City’s finances, S&P also awarded a AAA rating, the highest possible.

These ratings were reaffirmed in July 2016, and as a result, the City sought competitive bids from bond underwriters on Wednesday, July 20, 2016 for a \$65,775,000 20-year refunding bond issue.

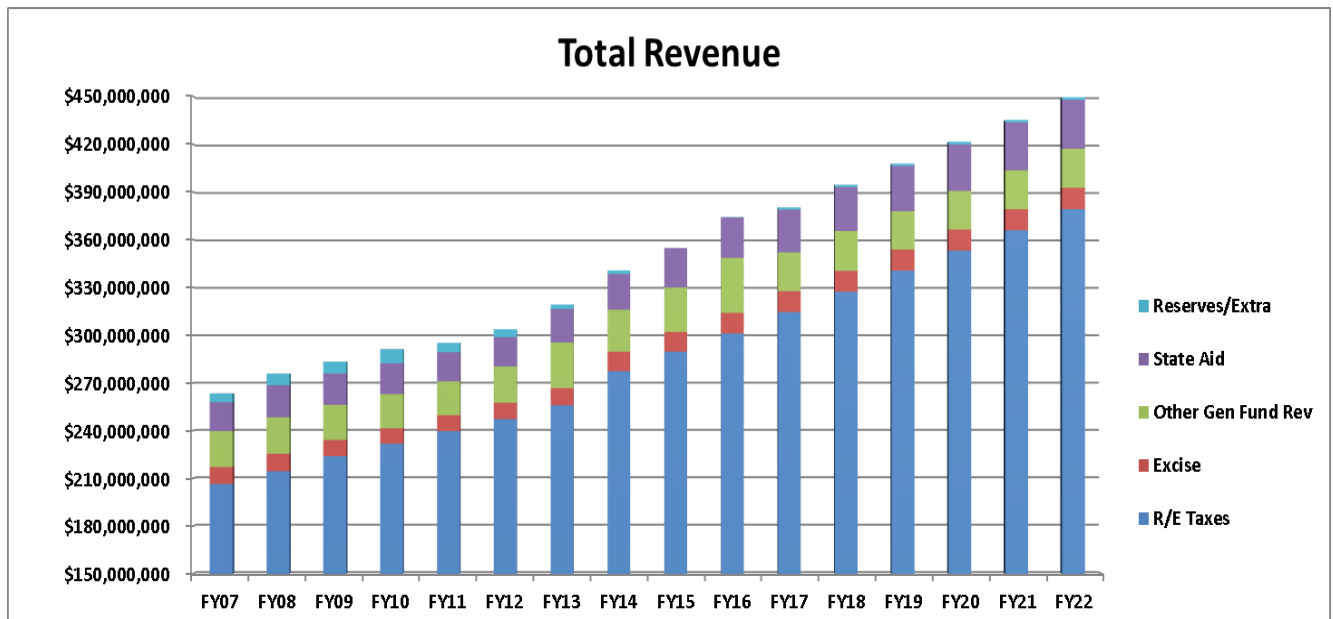
Citigroup Global Markets Inc. was the winning bidder on the Bonds with an average interest rate of 2.463%. The City received a total of 8 bids for the Bonds. Bonds will be used to refund portions of the City's April 1, 2009 Series A & Series B bond issues. **This single refunding will generate total savings of \$12,925,377 over the remaining life of the bonds.**

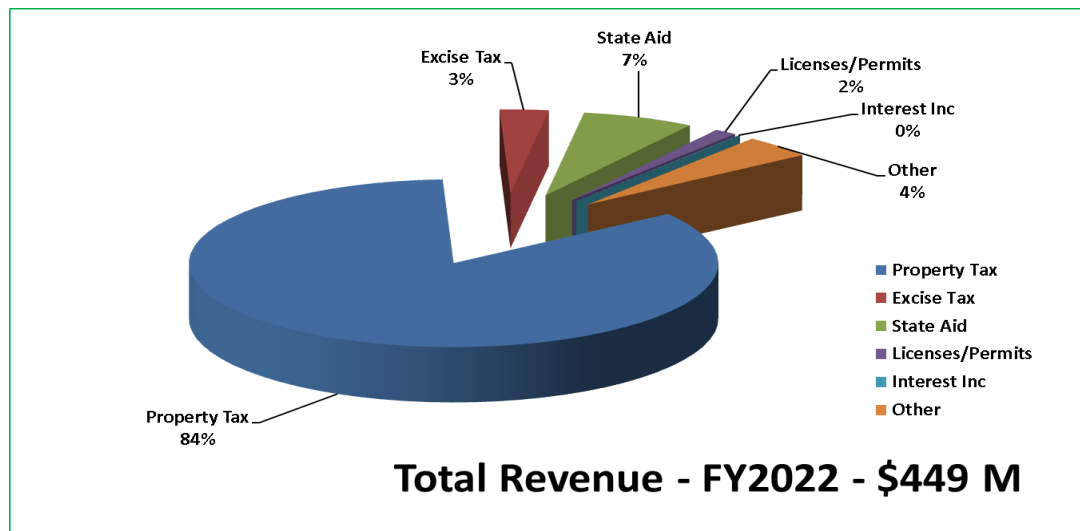
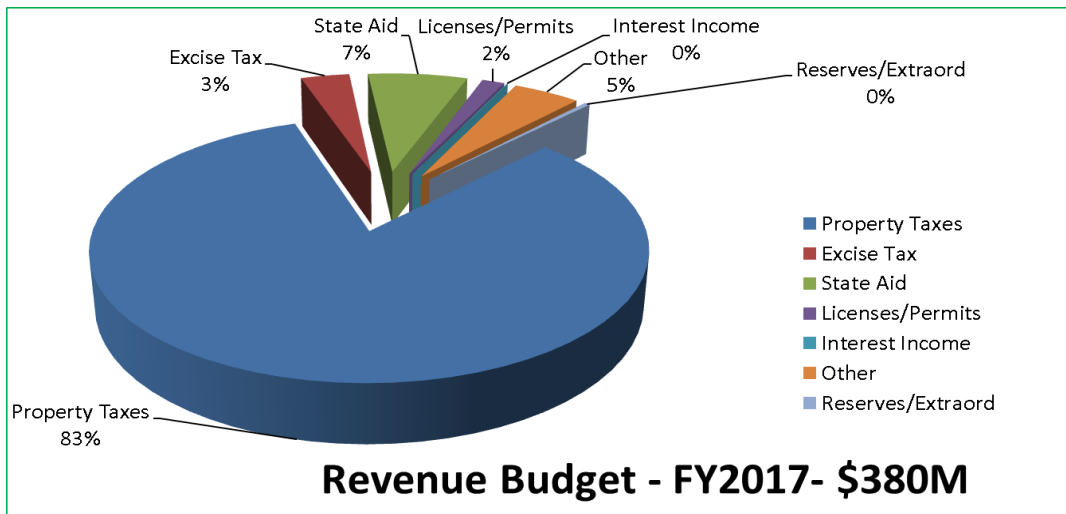
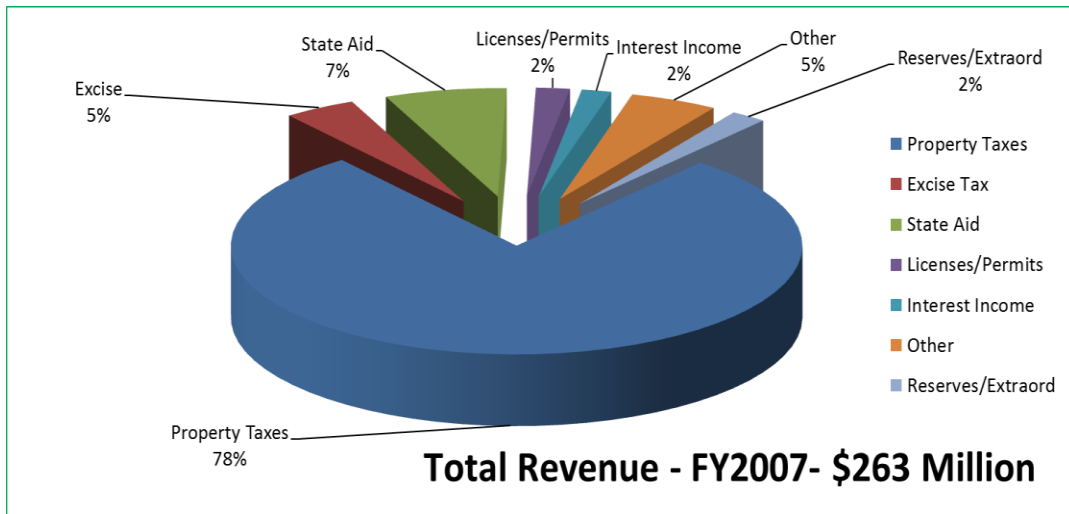
The City's position on funding long term liabilities, particularly pensions and OPEB, preserving sound financial policies and developing conservative budgets and forecasts will be key factors in the City's ability to maintain the "Double Triple A Rating" from these two prestigious institutions.

Revenue Projections

Total annual increase in revenue for the City had hovered around 2.5% from FY2009 through FY2012, but has improved since then as a result of the improving economy and is projected to approximate 3% for the next few years. Once again, 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 FY18-FY22 Revenue Projections include funding related to the successful passage of the Operating and Debt Exclusion Overrides, 2.5% annual increase to the property tax levy, at least 1% of annual additional revenue from “new growth” or “redevelopment”, increases in Chapter 70 Education Aid due to growing enrollments, and stabilized licensing/permitting fees as a result of an improving economy.

As is apparent from the following comparative charts, in recent years the City has continued to become more and more dependent on Property Tax Revenues to fund city operations, increasing from 78% in FY2007 to a projected 84% by FY2022. With the recent increase in Chapter 70 State Education Aid, State Aid as a percent of Revenues is expected to remain approximately 7%. Concurrently, Investment Income, Licensing & Permitting Fees and Excise Tax have declined in the past few years from more than 9% of total revenue in FY2007 to only 5% by FY2022. As a direct result, the City is relying less and less on outside forces for revenue; this phenomenon means that more and more of the City’s revenue is subject to an annual maximum increase of not more than 2.5%, thus significantly impacting overall revenue growth. The Administration will continue to monitor all revenue streams and make every effort to maximize revenue wherever possible.





City of Newton, Massachusetts
Annual General Fund Revenue
FY2016 Actual/FY2017 Adj Budget/FY2018 through FY2022 Forecast

OPERATING REVENUE	<-ACTUAL->	<ADJ BUD>	<-----FORECAST----->				
	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Real Estate Tax Revenue	\$ 301,098,407	\$ 314,457,758	\$ 327,355,900	\$ 340,537,955	\$ 353,040,648	\$ 365,667,770	\$ 378,816,541
Excise Tax Revenue	\$ 12,903,047	\$ 13,103,000	\$ 13,165,500	\$ 13,231,328	\$ 13,297,484	\$ 13,363,972	\$ 13,430,791
Hotel Room Tax	\$ 2,444,007	\$ 2,475,000	\$ 2,567,735	\$ 2,593,412	\$ 2,619,347	\$ 2,645,540	\$ 2,671,995
Meals Tax - 0.75%	\$ 1,880,428	\$ 1,800,000	\$ 1,975,624	\$ 2,015,137	\$ 2,055,440	\$ 2,096,548	\$ 2,148,962
Payments In Lieu of Taxes	\$ 251,922	\$ 302,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000
Interest/Divident Income	\$ 345,221	\$ 225,000	\$ 300,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
License/Permit-ISD,Fire,H&HS	\$ 8,821,902	\$ 6,054,000	\$ 7,034,700	\$ 6,209,700	\$ 6,209,700	\$ 6,205,700	\$ 6,202,700
Parking Meter Receipts	\$ 1,527,000	\$ 1,515,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Parking Violations	\$ 1,488,744	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
Medicare D/SPED Medicaid	\$ 1,738,458	\$ 1,250,000	\$ 1,565,000	\$ 1,515,000	\$ 1,515,000	\$ 1,515,000	\$ 1,515,000
Water/Sewer Gen'l Fund Adm	\$ 2,441,457	\$ 2,501,063	\$ 2,563,590	\$ 2,627,679	\$ 2,693,371	\$ 2,760,706	\$ 2,829,723
Premium from Sale of Bonds	\$ 3,693,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 9,871,727	\$ 6,965,159	\$ 6,014,802	\$ 5,903,849	\$ 5,930,465	\$ 5,926,785	\$ 5,943,123
REVENUE FROM OPERATIONS	\$ 348,506,216	\$ 351,947,980	\$ 365,517,851	\$ 377,859,061	\$ 390,586,455	\$ 403,407,020	\$ 416,783,836
REVENUE FROM STATE AID							
Unrestricted Gen'l State Aid	\$ 5,417,478	\$ 5,650,430	\$ 5,706,934	\$ 5,764,004	\$ 5,821,644	\$ 5,879,860	\$ 5,938,659
Chapter 70 State Education Aid	\$ 20,226,057	\$ 21,180,365	\$ 21,930,365	\$ 22,680,365	\$ 23,430,365	\$ 24,180,365	\$ 24,930,365
REVENUE FROM STATE AID	\$ 25,643,535	\$ 26,830,795	\$ 27,637,299	\$ 28,444,369	\$ 29,252,009	\$ 30,060,225	\$ 30,869,024
OPERATING REVENUE	\$ 374,149,751	\$ 378,778,775	\$ 393,155,151	\$ 406,303,430	\$ 419,838,464	\$ 433,467,245	\$ 447,652,860
% Increase	5.47%	1.24%	3.80%	3.34%	3.33%	3.25%	3.27%
REVENUE - FROM TRANSFERS							
New Falls Settlement In Lieu of	\$ 72,233	\$ 65,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
Capital Stabilization Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Free Cash	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUE FROM TRANSFERS	\$ 72,233	\$ 1,565,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000
TOTAL REVENUE	\$ 374,221,984	\$ 380,343,775	\$ 394,715,151	\$ 407,863,430	\$ 421,398,464	\$ 435,027,245	\$ 449,212,860
% Increase	5.47%	1.64%	3.78%	3.33%	3.32%	3.23%	3.26%

Expenditure Projections

Salaries, Compensation and Health Benefits

Salaries, compensation, and health benefits for the City's active employees total 65% of the general fund operating budget, and are consequently the single most important cost driver. During the prior decade the average increase in salaries, compensation, and health care benefits for active employees for the period FY2006 through FY2010 was 4.37%. This previous growth rate was unsustainable and contributed in large part to the City's "structural deficit".

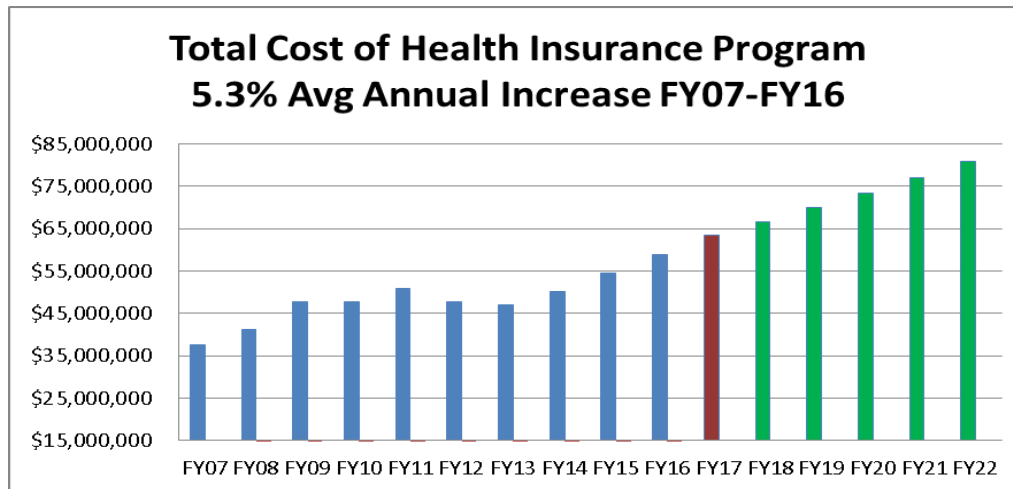
As mentioned earlier, the Administration has reached agreement with the majority of its 17 unions and is currently in negotiations with the remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy to the most recent collective bargaining agreements. It is clear that developing compensation packages that do not exceed the rate of growth of revenue is one of the most important factors ensuring the future financial stability of the City of Newton.

Health Insurance Benefits

The City of Newton provides health insurance benefits for more than 2,450 active employees and their dependents, as well as approximately 2,800 retirees, for a total insured population of more than 8,500 members. Because the City's insured population is as large as it is, the City is "Self Insured". The cost of a Self-Insured Health Insurance Program is comprised of costs in three main areas: the actual cost of claims, the administrative fees charged by the health insurance carriers and the cost of an excess policy to protect the City from exposure to unusually large claims (greater than \$275,000). 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.

In order to maintain financial sustainability, the administration must continuously evaluate health insurance options. One such option, the Group Insurance Commission (G.I.C.), has been monitored closely. FY13 was the first full year in which the City of Newton could have participated in the G.I.C. A Loss Ratio Analysis has been conducted for each of the past few years. It determined that the total cost of the City's Health Insurance Program for FY13 and FY14 was less than it would have been as a member of the G.I.C. The Loss Ratio Analysis for FY15 shows that the City would have benefited considerably by membership in the G.I.C., however, the G.I.C. experienced a 10% shortfall that year, and required a supplemental appropriation from the State

to cover its losses. FY 16 is still under review at this time. The Administration will continue to monitor these trends closely.



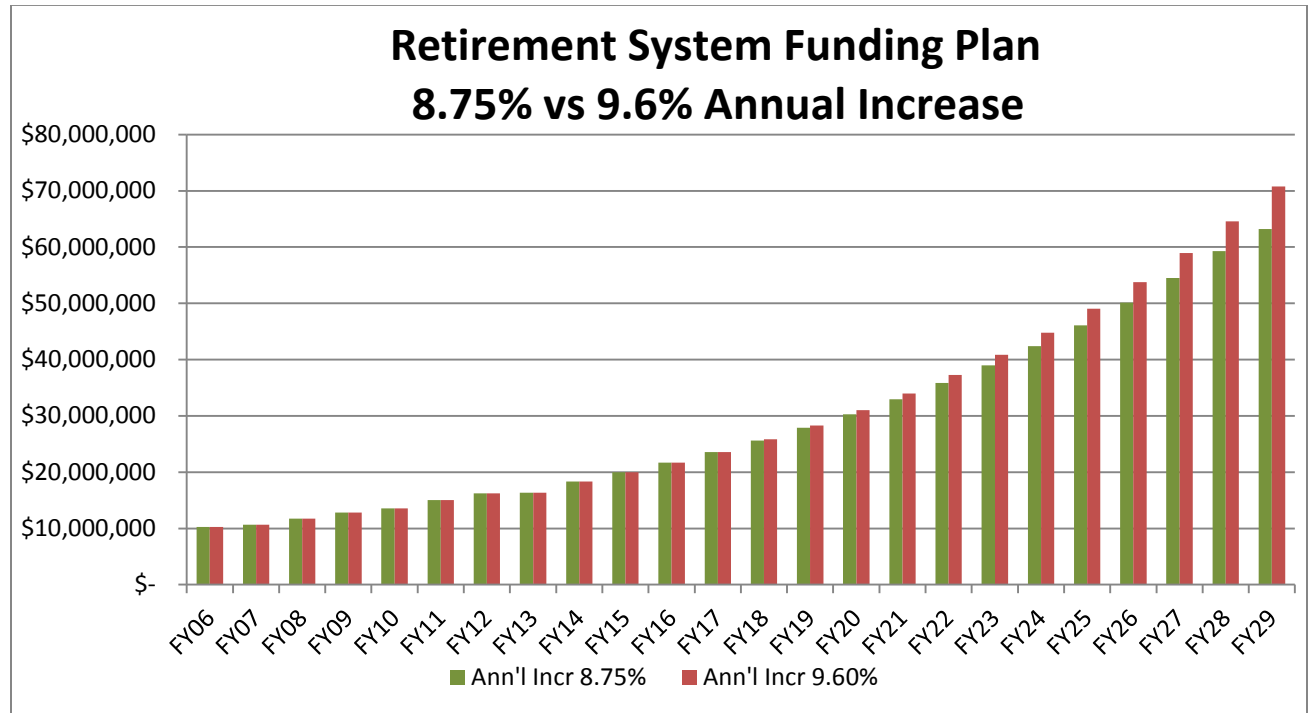
Retiree Pensions and Health Insurance

The City of Newton Contributory Retirement Plan covers approximately 3,000 active and retired participants and more than 600 inactive participants. 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 several years combined with the increased life expectancy of Americans, the total unfunded actuarial accrued liability peaked at 49.22% as of January 1, 2014, and has experienced a very slight decline during the past two years, totaling 48.52% as of January 1, 2016. This increase in the unfunded liability is not unique to Newton, and consequently the Massachusetts State Legislature passed legislation enabling cities and towns to have until the year 2040 to “fully fund” retirement plans.

Although the City had been willing to extend plans to fully fund its Retirement Fund to 2038 when leaders were dealing with the financial crisis of the structural deficit, financial sustainability requires more. Therefore, the City of Newton Contributory Retirement Board, with full support of the Mayor, voted to implement a funding schedule which will fully fund the Newton Retirement Fund by the year 2029.

However, because of the continued under-performance of the fund, the five year financial forecast now includes an annual increase of 9.60% in support of the decision to fully fund by FY2029 – up from 8.75%. Achieving full funding of the City’s Pension Plan was going to be a challenge at 8.75%, that has now become even more arduous in the years to come. It is important to note that proper funding of the retirement plan is a key driver of financial sustainability. Funding this long-term

liability has impacts on the City’s bond rating and ability to maintain a balanced budget. Commitment to this funding schedule is also an integral part in the City’s plan to address O.P.E.B. liabilities and is therefore, key to the City’s Long Term Financial Stability Strategy.



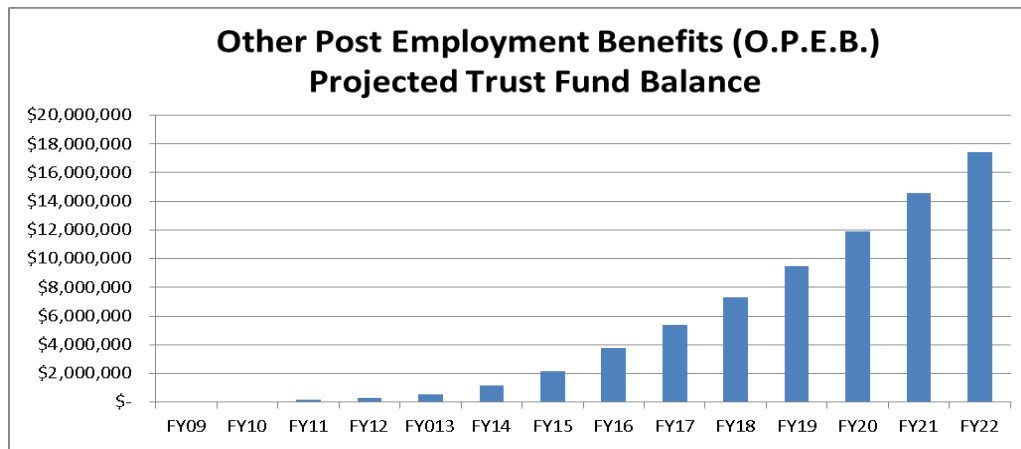
Retiree Health Benefits - Other Post-Employment Benefits (O.P.E.B.)

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.

Although the adoption of M.G.L. c32B section 18 has had a significant impact on controlling the costs of Retiree Health Insurance, the City of Newton was ill prepared for this liability. Like many municipalities throughout the Commonwealth and the Nation, the City of Newton promised

benefits and incurred liabilities over the years for which it did not prepare and is faced with an unfunded liability of several hundred million dollars.

Therefore, in 2010 the City established an Other Post-Employment Benefits (O.P.E.B.) Liability Trust Fund and later established an OPEB Trust Agreement for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for retiree health care benefits. As reflected below, the FY17 Budget includes an appropriation of approximately \$1,700,000 representing 3.25% of the salaries of employees hired after July 1, 2012. As the City brings on more and more new employees, this funding method will cause this appropriation to grow exponentially. For the next 12 years the City will employ this policy for all employees hired after July 1, 2012, and will continue the policy of “pay as you go” for employees and retirees hired prior to July 1, 2012.

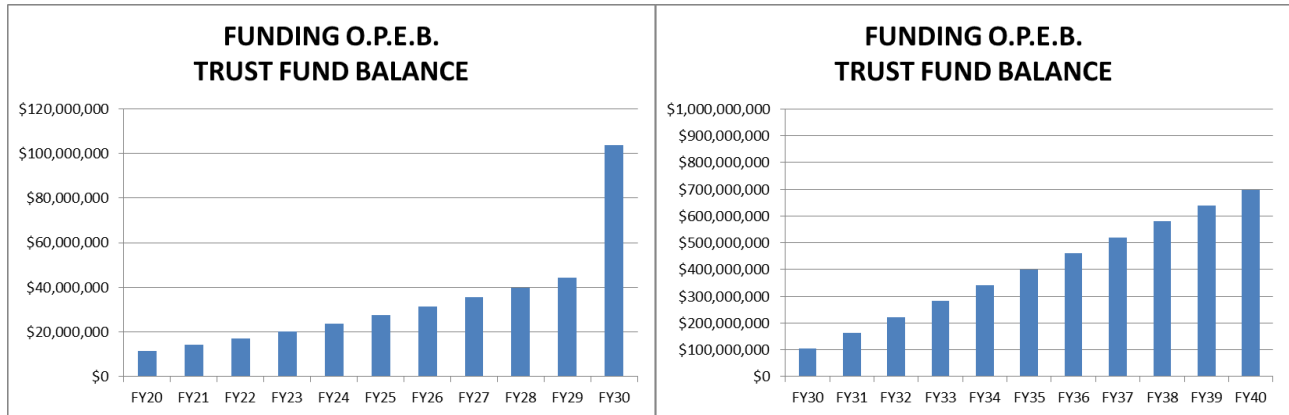


However, all of this will change in the year 2029. With the projected full-funding of the Newton Contributory Retirement Fund, the City will then be able to focus on repurposing pension liability appropriations to the O.P.E.B. Trust Fund, creating a viable, sustainable financial model by which to fully fund the City’s Retiree Costs.

Last year, the City announced that a third party actuary has confirmed the Administration’s funding strategy will enable the City of Newton to eliminate the City’s OPEB (Other Post-Employment Benefits) Liability by the year 2042, provided that full funding of the pension plan has been achieved and that pension appropriations are redirected to fund the City’s OPEB Liability.

The Actuarial Valuation of the City’s OPEB Liabilities for the fiscal year ending June 30, 2016 confirms the Administration’s plan is financially sound and sustainable. The valuation by Financial Risk Analysts, LLC, is in keeping with the national standards of practice of the actuarial profession and is in accordance with Governmental Accounting Standards Board Statement 45, (GASB-45).

As part of this valuation, the City requested that the Actuary reassess this liability. The new amount reflects a more conservative approach in forecasting the total liability. Adjustments to the forecast incorporate an increase in medical trend rate assumptions and a reduction to the forecasted interest rate return.



Out-of-District Tuition

Out-of-District Tuition has been identified as a major cost driver in the school department budget each year. The Newton Public Schools have taken many proactive steps to control this area, offering a number of programs which reduce the need to send students outside the district to meet their educational needs. This has resulted in a decrease in the number of placements and costs over the last three years. However, over the last ten years, the out-of-district tuition budget has increased by close to \$6 million, with average annual increases of 9%. Tuition costs are projected to increase in future years for two main reasons. First, private school out-of-district tuition rates are expected to increase, as allowed for by the Massachusetts Department of Elementary and Secondary Education. Second, a continued increase in the number of high cost special education placements is expected, with corresponding increases in both out-of-district and in-district costs. The Student Services Department continues to look carefully at staffing patterns and to determine through data analysis and program evaluations new initiatives and programs, as well as expansions of current programs, to improve outcomes for students while controlling costs.

Pupil Transportation

Pupil Transportation is another area where annual cost increases have outpaced revenue. In FY2012, the Newton Public Schools successfully undertook a public bid process for regular transportation, resulting in a new five-year contract. The new contract had a first-year increase of 12% in FY13, and annual increases of 2%, 0%, 1% and 1% in FY14 through FY17. A new contract for regular transportation will be bid for the 2017-18 school year, with an expected contractual

increase in the first year, and less significant increases in the following years. Student fees for regular transportation continue to serve as an offset to the full cost of daily busing.

Special education transportation is in the first year of a new three-year contract. The new contractual rates are significantly higher than the rates originally projected. It is assumed that there will be annual increases of 6% in all future years to account for both rate increases and increases in the number of students transported. All transportation contracts allow for cost increases due to fuel escalation. The Newton Public Schools administration continues to monitor all transportation costs and contracts for possible efficiencies and savings.

Energy Costs / Utilities

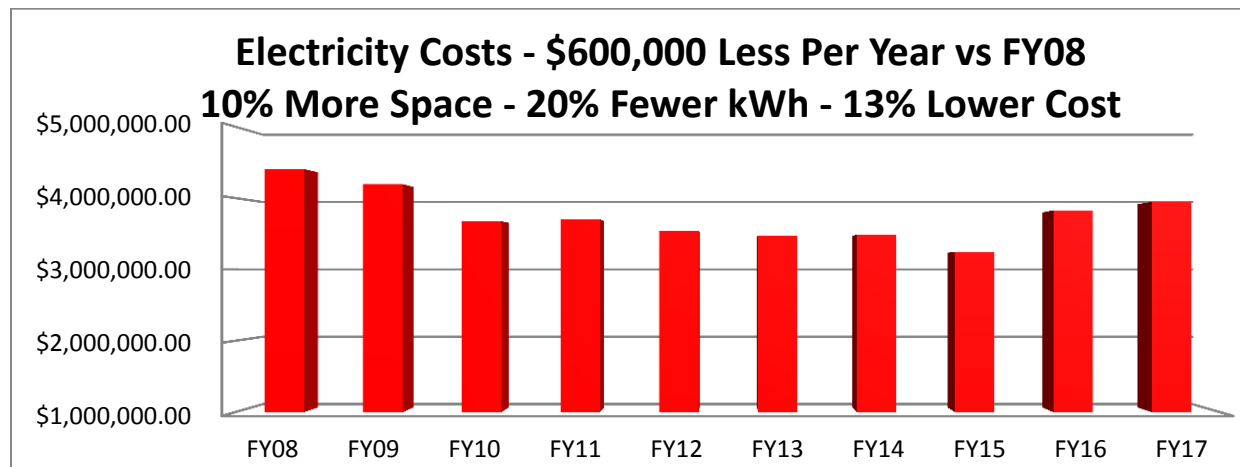
The City of Newton continues to aggressively pursue Energy Efficiency and Energy Cost Saving Solutions for the future. The City has been certified as a 'green community', and has minimized commodity costs for such items as gasoline, diesel and heating oil by entering into purchasing cooperatives with surrounding communities and has been able to significantly reduce utility costs such as electricity and natural gas by 'locking in' favorable rates. The City has extended both its electricity and natural gas contracts. These are both fixed price contracts designed to avoid price volatility which is impossible to predict but can be devastating. For example, in the winter of 2014-2015 electricity prices spiked to 23 cents per kWh. The City was protected from this spike due to the fixed price contract. The new electricity contract runs through November of 2017. The natural gas contract has been extended through October 2019 at a fixed price to avoid predicted increases in gas costs.

The City has continued to invest in a wide range of efficiency projects intended to save the City significant utility costs now and for the future. In FY 2015 the City completed a conversion of streetlights to LEDs, and undertook an aggressive energy efficiency program in city buildings. These projects are estimated to save 4 million kWh per year which is worth about \$700,000 per year at today's electricity costs. Since FY 2014 the City has also obtained \$1.4 million in utility rebates and \$736,000 in State energy grants to help pay for these energy efficiency projects. Energy efficiency projects continue to be implemented in city buildings using these utility rebate funds and the most recent State Green Communities energy grant of \$250,000.

In FY2014 the City entered the energy generation field, contracting with a Massachusetts energy company to install 650kW of solar panels on four City of Newton buildings. These projects generated over 700,000 kWh and will save the City \$68,000 on its electric bill each year. These solar panels will provide electricity to the City at a below-rate, stable price for the next twenty years, saving approximately \$2 million.

During the summer of 2015 the City solicited proposals for solar projects at thirteen City owned sites including the Rumford Street Landfill, and several City owned roof tops and parking lot locations. Construction of these projects at nine sites, including the Rumford landfill, began in August of 2016. These projects will generate annual savings in excess of \$400,000 for the next 20 years. The solar landfill project will also be used as an innovative funding vehicle for the expensive task of cleaning up the landfill site.

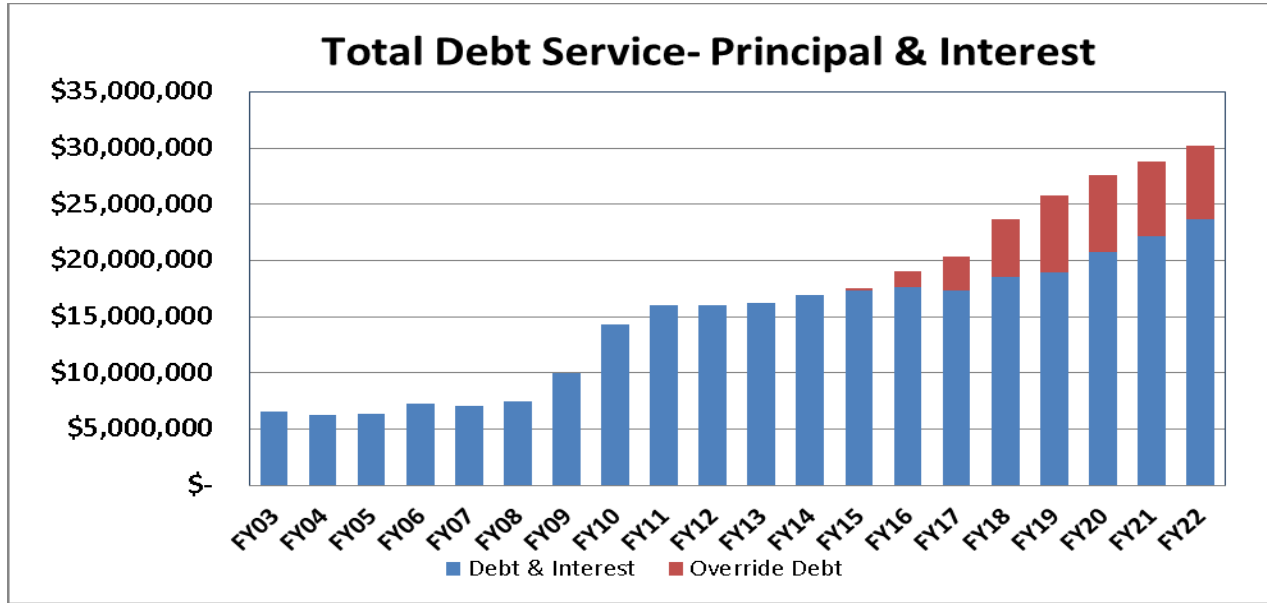
Future utility cost projections indicate that the City may see significant commodity price increases when its electricity and natural gas contracts expire. Therefore, the Administration will continue to seek out and execute projects that increase energy efficiency and reduce the environmental impact of the city’s energy footprint. This commitment to environmental sustainability is a top priority of the Administration, and will continue to yield savings and environmental improvements for the citizens of Newton. Projects already completed and in construction will reduce the City’s carbon footprint by over 30%.



Debt Service

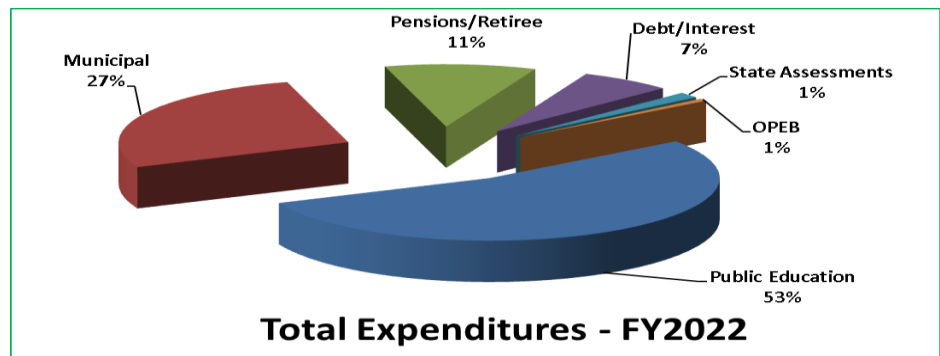
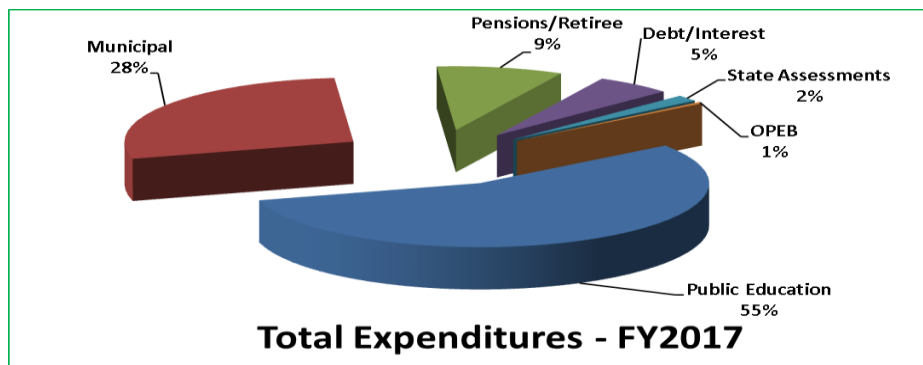
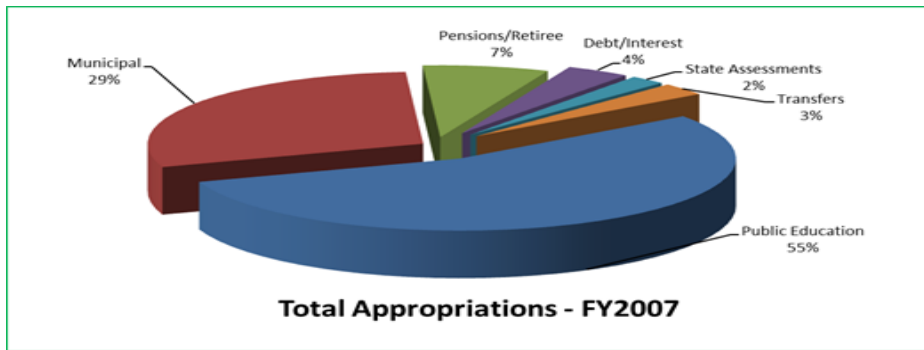
This Five Year Financial Forecast is the counterpart and is directly linked to the FY2018-2022 Capital Improvement Plan. With several long term capital projects completing construction in FY16 such as the Angier Elementary School, Fire Station #10, and an ADA compliant elevator accessing the City Hall War Memorial Auditorium, the City will begin to shift its focus toward new projects such as the transformation of the Aquinas building into a Pre-K School and Horace Mann Elementary School into a community center. Additionally, the City of Newton continues to make progress on many of its existing long term capital projects such as the Zervas, and Cabot Elementary Schools, the replacement of Fire Station #3, upgrades to the quality of city streets and sidewalks, and upgrades to the water and sewer systems. **This past year, largely in part due to**

the City’s double, Triple A bond rating, the administration was able to refund more than \$85 million of 2008 and 2009 General Obligation Bonds. This action will generate total savings of approximately \$15 million over the remaining life of the refunded bonds.



Projected FY2018 – FY2022 Expenditures by Functional Element

Additionally, as is evident from the comparative charts below, the financial commitment to Public Education in the City of Newton has remained strong over the years and will continue to grow as the City addresses capital needs. Pensions/Retiree Benefits will continue to consume more of the City’s resources as they have increased from 7% in FY2008, to approximately 9% in FY2017 and 11% by FY2022. It should be noted that every effort is being made to maintain the proportionality of “Municipal Expenditures”, by increasing known annual operating expenditures with each successive budget. This is a very important fact, if the City is to deliver core City services and invest in much needed infrastructure improvements. Finally, as is always true, it is critical that the City of Newton continue to strive to strike a balance between the many needs and desires of the community and its available resources.



Projected FY2018 - FY2022 Needs by Functional Element

As it 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 FY2018- FY2022 Projected Needs by Functional Element shown below summarizes the projected "needs" based on current enrollment projections, investment income trends, etc. Therefore, if enrollment continues to grow at the projected rates, the Newton Public Schools will need approximately 3.5% additional funding each year, while retiree benefits are expected to require an additional 8% each year. This forecast should be used as an indication of trends and is meant to depict the areas where the Administration will face challenges in the years ahead. The Administration will continue to strive to increase revenues wherever possible, zero base budgets and implement performance management techniques to control spending.

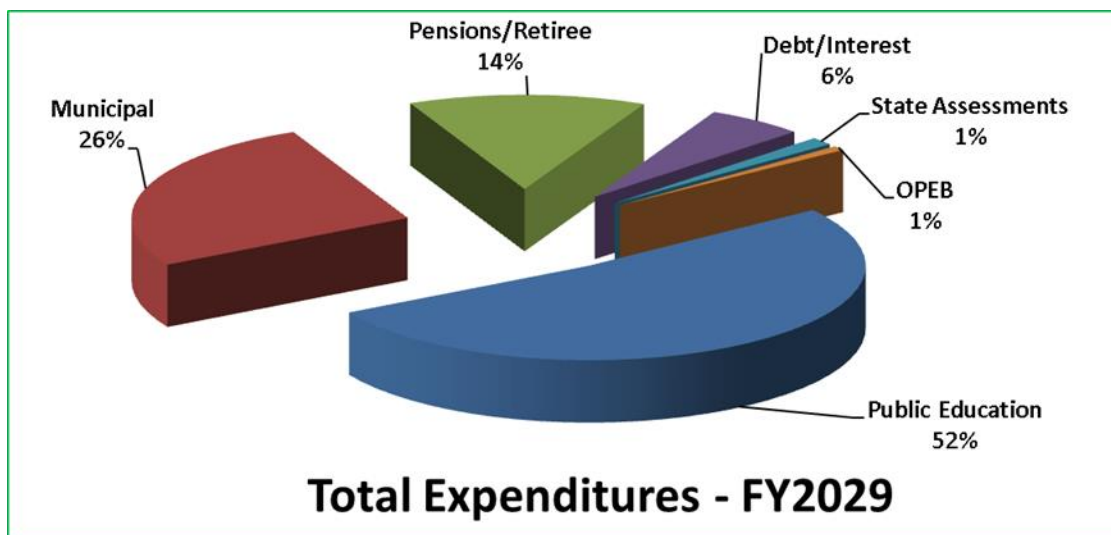
**City of Newton, Massachusetts
Five Year Projected Expenditure Needs by Functional Element
FY2016 Actual/FY2017 Adj Budget/FY2018 through FY2022 Forecast**

EXPENDITURES	<ACTUAL>	<ADJ BUD>	-----FORECAST-----				
	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Education	\$ 203,983,821	\$ 211,177,825	\$ 218,569,049	\$ 226,218,966	\$ 234,136,629	\$ 242,331,411	\$ 250,813,011
% Increase		3.53%	3.50%	3.50%	3.50%	3.50%	3.50%
\$ Increase		\$ 7,194,004	\$ 7,391,224	\$ 7,649,917	\$ 7,917,664	\$ 8,194,782	\$ 8,481,599
Debt Service	\$ 18,595,065	\$ 20,352,023	\$ 23,698,879	\$ 25,805,696	\$ 27,606,451	\$ 28,753,733	\$ 30,255,075
% Increase		9.45%	16.44%	8.89%	6.98%	4.16%	5.22%
\$ Increase		\$ 1,756,958	\$ 3,346,856	\$ 2,106,817	\$ 1,800,755	\$ 1,147,282	\$ 1,501,341
Pensions & Retiree Benefits	\$ 31,235,486	\$ 33,736,305	\$ 36,393,782	\$ 39,282,548	\$ 42,416,140	\$ 45,832,080	\$ 49,548,124
% Increase		8.01%	7.88%	7.94%	7.98%	8.05%	8.11%
\$ Increase		\$ 2,500,820	\$ 2,657,477	\$ 2,888,766	\$ 3,133,591	\$ 3,415,941	\$ 3,716,044
State Charges	\$ 6,113,282	\$ 6,168,127	\$ 6,329,717	\$ 6,487,960	\$ 6,650,159	\$ 6,816,413	\$ 6,986,824
% Increase		0.90%	2.62%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 54,845	\$ 161,590	\$ 158,243	\$ 162,199	\$ 166,254	\$ 170,410
Transfers to Other Funds	\$ 4,529,138	\$ 750,000	\$ -	\$ -	\$ -	\$ -	\$ -
% Increase		-83.44%	-100.00%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
\$ Increase		\$ (3,779,138)	\$ (750,000)	\$ -	\$ -	\$ -	\$ -
Municipal Expenditures	\$ 104,136,734	\$ 105,372,165	\$ 110,800,129	\$ 115,151,031	\$ 119,337,877	\$ 123,430,486	\$ 127,642,546
% Increase		1.19%	5.15%	3.93%	3.64%	3.43%	3.41%
\$ Increase		\$ 1,235,431	\$ 5,427,964	\$ 4,350,902	\$ 4,186,846	\$ 4,092,609	\$ 4,212,061
TOTAL EXPENDITURE FCST							
FY18 - FY22 BUDGET	<u>\$ 368,593,526</u>	<u>\$ 377,556,445</u>	<u>\$ 395,791,557</u>	<u>\$ 412,946,202</u>	<u>\$ 430,147,256</u>	<u>\$ 447,164,124</u>	<u>\$ 465,245,580</u>
	5.11%	2.43%	4.83%	4.33%	4.17%	3.96%	4.04%

Funding Pensions by FY2029 - Balancing the Budgets

Perhaps the greatest financial challenge that the City will face in the preparation of the annual budgets through the year FY2029 will be that of absorbing the appropriation increases associated with the goal of fully funding pensions in that timeframe. This plan will require an annual growth rate of 9.6%, or several million dollars each year. There are several strategies that will be employed in order to accomplish this.

This five year financial forecast has been prepared as a “Conservatively Aggressive Roadmap” for the next five years. Revenues have been projected “Conservatively”, while Expenditures have been projected “Aggressively”. Opportunities exist for additional Revenue from New Growth/Redevelopment, Chapter 70 Funding, Permitting Fees, and Interest Income. Similarly, opportunities exist for reductions in expenditure projections in areas such as Compensation, Health Insurance, Utilities, and Interest on Debt Service. The city will continue to refine and institute strong fiscal responsibility using the zero-based budgeting process while maintaining efficient allocation of resources in order to develop balanced, viable, sustainable budgets.



Sustainable Budget Strategy

In order for the City’s budget and financial plan to remain sustainable, the Administration must remain steadfast in its determination to balance revenue and expenditures while addressing infrastructure needs, providing for the functions of government, fully funding all liabilities, and developing and maintaining an appropriate level of reserves. Achieving these benchmarks are attainable as long as the City remains committed to and disciplined in its resolve to settle collective bargaining agreements that maintain parity between revenue and expenditures, follows

the planned funding schedules for pension and O.P.E.B. liabilities, and remains vigilant in its oversight of every hard earned tax dollar that has been entrusted to it in order to provide the level of municipal services that the people of Newton expect and deserve. By following these steps, the city will be able to attain its goal of becoming a livable, sustainable, model city for the 21st century.

The following pages contain Revenue Projections and Projections by Functional Element for the following time periods:

FY2012 – FY2016 Actuals

FY2017 Adjusted Budget

FY2018 – FY2022 Forecast

Five Year Financial Forecast

City of Newton, MA

**City of Newton, Massachusetts
Annual General Fund Revenue**

GENERAL FUND REVENUE	FY2012 - FY2016 Actual					FY2017 Budget	FY18 through FY22 Forecast				
	FY12	FY13	FY14	FY15	FY16		FY17	FY18	FY19	FY20	FY21
	-----ACTUAL-----						-----FORECAST-----				
Real Estate Tax Revenue	\$ 247,254,734	\$ 255,856,303	\$ 277,381,501	\$ 289,650,737	\$ 301,098,407	\$ 313,757,758	\$ 327,355,900	\$ 340,537,955	\$ 353,040,648	\$ 365,667,770	\$ 378,816,541
Excise Tax Revenue	\$ 10,382,197	\$ 10,914,807	\$ 12,196,691	\$ 12,353,468	\$ 12,903,047	\$ 13,103,000	\$ 13,165,500	\$ 13,231,328	\$ 13,297,484	\$ 13,363,972	\$ 13,430,791
Hotel Room Tax	\$ 1,814,792	\$ 2,051,414	\$ 2,218,759	\$ 2,330,724	\$ 2,444,007	\$ 2,475,000	\$ 2,567,735	\$ 2,593,412	\$ 2,619,347	\$ 2,645,540	\$ 2,671,995
Meals Tax - 0.75%	\$ 1,403,261	\$ 1,407,803	\$ 1,557,737	\$ 1,786,617	\$ 1,880,428	\$ 1,800,000	\$ 1,975,624	\$ 2,015,137	\$ 2,055,440	\$ 2,096,548	\$ 2,148,962
Payments In Lieu of Taxes	\$ 477,395	\$ 255,547	\$ 355,596	\$ 268,057	\$ 251,922	\$ 302,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000	\$ 175,000
Interest/Divident Income	\$ 244,319	\$ 167,201	\$ 190,647	\$ 205,203	\$ 345,221	\$ 225,000	\$ 300,000	\$ 250,000	\$ 250,000	\$ 250,000	\$ 250,000
License/Permit-ISD,Fire,H&	\$ 5,011,251	\$ 7,565,365	\$ 6,448,540	\$ 6,351,923	\$ 8,821,902	\$ 6,054,000	\$ 7,034,700	\$ 6,209,700	\$ 6,209,700	\$ 6,205,700	\$ 6,202,700
Parking Meter Receipts	\$ 1,325,000	\$ 1,681,650	\$ 1,709,300	\$ 1,773,597	\$ 1,527,000	\$ 1,515,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Parking Violations	\$ 1,675,117	\$ 1,572,867	\$ 1,459,059	\$ 1,429,088	\$ 1,488,744	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000	\$ 1,300,000
Medicare D/SPED Medical	\$ 1,814,072	\$ 1,662,557	\$ 1,201,165	\$ 1,290,511	\$ 1,738,458	\$ 1,250,000	\$ 1,565,000	\$ 1,515,000	\$ 1,515,000	\$ 1,515,000	\$ 1,515,000
Water/Sewer Gen'l Fund Ac	\$ 1,429,518	\$ 1,640,260	\$ 1,983,994	\$ 2,088,882	\$ 2,441,457	\$ 2,501,063	\$ 2,563,590	\$ 2,627,679	\$ 2,693,371	\$ 2,760,706	\$ 2,829,723
Premium from Sale of Bond	\$ 131,379	\$ 590,740	\$ 650,998	\$ 828,328	\$ 3,693,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Reven	\$ 7,412,572	\$ 9,990,705	\$ 8,572,909	\$ 9,536,226	\$ 9,871,727	\$ 6,990,336	\$ 6,014,802	\$ 5,903,849	\$ 5,930,465	\$ 5,926,785	\$ 5,943,123
REVENUE FROM CITY OPERATIONS	\$ 280,375,606	\$ 295,357,219	\$ 315,926,896	\$ 329,893,360	\$ 348,506,216	\$ 351,273,157	\$ 365,517,851	\$ 377,859,061	\$ 390,586,455	\$ 403,407,020	\$ 416,783,836
REVENUE FROM STATE AID											
Unrestricted Gen'l State Aid	\$ 4,970,628	\$ 4,970,628	\$ 5,088,123	\$ 5,229,226	\$ 5,417,478	\$ 5,650,430	\$ 5,706,934	\$ 5,764,004	\$ 5,821,644	\$ 5,879,860	\$ 5,938,659
Chapter 70 State Education	\$ 13,504,221	\$ 16,173,153	\$ 17,403,779	\$ 19,617,930	\$ 20,226,057	\$ 20,480,657	\$ 21,930,365	\$ 22,680,365	\$ 23,430,365	\$ 24,180,365	\$ 24,930,365
TOTAL REVENUE FROM STATE AID	\$ 18,474,848	\$ 21,143,781	\$ 22,491,902	\$ 24,847,156	\$ 25,643,535	\$ 26,131,087	\$ 27,637,299	\$ 28,444,369	\$ 29,252,009	\$ 30,060,225	\$ 30,869,024
OPERATING REVENUE	\$ 298,850,454	\$ 316,501,000	\$ 338,418,798	\$ 354,740,516	\$ 374,149,751	\$ 377,404,244	\$ 393,155,151	\$ 406,303,430	\$ 419,838,464	\$ 433,467,245	\$ 447,652,860
	3.28%	5.91%	6.93%	4.82%	5.47%		3.80%	3.34%	3.33%	3.25%	3.27%
EXTRAORDINARY INCOME/RESERVES											
Stark Street Settlement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Falls Settlement In Lie	\$ 73,059	\$ 62,256	\$ 66,555	\$ 65,450	\$ 72,233	\$ 65,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
School Building Assistance	\$ -	\$ -	\$ 5,685	\$ 3,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Stabilization Fund	\$ 4,800,000	\$ 2,700,000	\$ 2,140,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EXTRAORDINARY INCOME/RESERVES	\$ 4,873,059	\$ 2,762,256	\$ 2,212,351	\$ 68,910	\$ 72,233	\$ 1,565,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000
TOTAL REVENUE	\$ 303,723,513	\$ 319,263,256	\$ 340,631,149	\$ 354,809,426	\$ 374,221,984	\$ 378,969,244	\$ 394,715,151	\$ 407,863,430	\$ 421,398,464	\$ 435,027,245	\$ 449,212,860
% Increase	2.89%	5.12%	6.69%	4.16%	5.47%	1.27%	4.15%	3.33%	3.32%	3.23%	3.26%

Five Year Financial Forecast

City of Newton, MA

City of Newton, Massachusetts
Five Year Expenditure Forecast - by Functional Element

	<u>FY2012 - FY2016 Actual</u>					<u>FY2017 Budget</u>	<u>FY18 through FY22 Forecast</u>							
	ACTUAL						FY17	FORECAST						
	FY12	FY13	FY14	FY15	FY16			FY18	FY19	FY20	FY21	FY22		
EXPENDITURES														
Education	\$ 169,673,728	\$ 176,950,191	\$ 187,701,909	\$ 195,853,428	\$ 203,983,821	\$ 211,177,825	\$ 218,569,049	\$ 226,218,966	\$ 234,136,629	\$ 242,331,411	\$ 250,813,011			
% Increase	2.05%	4.29%	6.08%	4.34%	4.15%	3.53%	3.50%	3.50%	3.50%	3.50%	3.50%			
\$ Increase	\$ 3,413,477	\$ 7,276,463	\$ 10,751,718	\$ 8,151,519	\$ 8,130,393	\$ 7,194,004	\$ 7,391,224	\$ 7,649,917	\$ 7,917,664	\$ 8,194,782	\$ 8,481,599			
% of Total Budget	55.65%	55.76%	55.77%	55.85%	55.34%	55.72%	55.22%	54.78%	54.43%	54.19%	53.91%			
Debt Service	\$ 16,055,273	\$ 16,262,237	\$ 16,910,530	\$ 17,552,884	\$ 18,595,065	\$ 21,757,615	\$ 23,698,879	\$ 25,805,696	\$ 27,606,451	\$ 28,753,733	\$ 30,255,075			
% Increase	0.29%	1.29%	3.99%	3.80%	5.94%	17.01%	16.44%	8.89%	6.98%	4.16%	5.22%			
\$ Increase	\$ 46,009	\$ 206,964	\$ 648,293	\$ 642,354	\$ 1,042,181	\$ 3,162,550	\$ 3,346,856	\$ 2,106,817	\$ 1,800,755	\$ 1,147,282	\$ 1,501,341			
% of Total Budget	5.27%	5.12%	3.99%	5.01%	5.04%		5.99%	6.25%	6.42%	6.43%	6.50%			
Pensions & Retiree Benefits	\$ 25,352,632	\$ 25,835,950	\$ 27,501,760	\$ 29,199,509	\$ 31,235,486	\$ 33,736,305	\$ 36,393,782	\$ 39,282,548	\$ 42,416,140	\$ 45,832,080	\$ 49,548,124			
% Increase	6.64%	1.91%	6.45%	6.17%	6.97%	8.01%	7.88%	7.94%	7.98%	8.05%	8.11%			
\$ Increase	\$ 1,578,192	\$ 483,318	\$ 1,665,810	\$ 1,697,749	\$ 2,035,977	\$ 2,500,819	\$ 2,657,477	\$ 2,888,766	\$ 3,133,591	\$ 3,415,941	\$ 3,716,044			
% of Total Budget	8.32%	8.14%	8.17%	8.33%	8.47%		9.20%	9.51%	9.86%	10.25%	10.65%			
State Charges	\$ 5,503,956	\$ 5,722,550	\$ 5,783,939	\$ 5,875,034	\$ 6,113,282	\$ 6,175,334	\$ 6,329,717	\$ 6,487,960	\$ 6,650,159	\$ 6,816,413	\$ 6,986,824			
% Increase	0.58%	3.97%	1.07%	1.57%	4.06%	1.02%	2.62%	2.50%	2.50%	2.50%	2.50%			
\$ Increase	\$ 31,469	\$ 218,594	\$ 61,389	\$ 91,095	\$ 238,248	\$ 62,052	\$ 161,590	\$ 158,243	\$ 162,199	\$ 166,254	\$ 170,410			
% of Total Budget	1.81%	1.80%	1.72%	1.68%	1.66%	1.63%	1.60%	1.57%	1.55%	1.52%	1.50%			
Transfers to Other Funds	\$ 6,899,051	\$ 7,625,408	\$ 7,738,524	\$ 3,420,693	\$ 4,529,138	\$ 750,000	\$ -	\$ -	\$ -	\$ -	\$ -			
% Increase	26.31%	10.53%	1.48%	-55.80%	32.40%	-83.44%	0.00%	0.00%	0.00%	0.00%	0.00%			
\$ Increase	\$ 1,437,221	\$ 726,357	\$ 113,116	\$ (4,317,831)	\$ 1,108,445	\$ (3,779,138)	\$ (750,000)	\$ -	\$ -	\$ -	\$ -			
% of Total Budget	2.26%	2.40%	2.30%	0.98%	1.23%	0.20%	0.00%	0.00%	0.00%	0.00%	0.00%			
Municipal Expenditures	\$ 81,416,273	\$ 84,925,936	\$ 90,940,552	\$ 98,781,568	\$ 104,136,734	\$ 105,372,165	\$ 110,800,129	\$ 115,151,031	\$ 119,337,877	\$ 123,430,486	\$ 127,642,546			
% Increase	-2.09%	4.31%	7.08%	8.62%	5.42%	1.19%	5.15%	3.93%	3.64%	3.43%	3.41%			
\$ Increase	\$ (1,740,076)	\$ 3,509,663	\$ 6,014,616	\$ 7,841,016	\$ 5,355,166	\$ 1,235,431	\$ 5,427,964	\$ 4,350,902	\$ 4,186,846	\$ 4,092,609	\$ 4,212,061			
% of Total Budget	26.70%	26.76%	27.02%	28.17%	28.25%		27.99%	27.89%	27.74%	27.60%	27.44%			
TOTAL EXPENDITURES & TRANSFERS	\$ 304,900,913	\$ 317,322,272	\$ 336,577,214	\$ 350,683,116	\$ 368,593,526	\$ 378,969,244	\$ 395,791,557	\$ 412,946,202	\$ 430,147,256	\$ 447,164,124	\$ 465,245,580			
\$ Increase	\$ 4,766,292	\$ 12,421,359	\$ 19,254,942	\$ 14,105,902	\$ 17,910,410	\$ 10,375,718	\$ 18,235,111	\$ 17,154,645	\$ 17,201,055	\$ 17,016,867	\$ 18,081,456			
% Increase	1.59%	4.07%	6.07%	4.19%	5.11%	2.81%	4.83%	4.33%	4.17%	3.96%	4.04%			
POTENTIAL GAP	\$ (1,177,400)	\$ 1,940,984	\$ 4,053,935	\$ 4,126,310	\$ 5,628,458	\$ -	\$ (1,076,406)	\$ (5,082,772)	\$ (8,748,793)	\$ (12,136,878)	\$ (16,032,720)			

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, inter-fund 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.