

Mayor's Update



This evening Chief Operating Officer Jonathan Yeo, Chief Financial Officer Maureen Lemieux and I presented to the City Council and School Committee our Long-Range Financial Forecast & Five-Year Financial Plan and the Five-Year Capital Improvement Plan for the City of Newton.

The following are excerpts of my comments:

Each year, we deliver to the Honorable City Council three inter-related financial documents: the Proposed Budget in April and the Long-Range Financial Plan & Five-Year Forecast and the Five-Year Capital Improvement Plan in October.

In many respects, the Long-Range Financial Plan and Forecast is the foundational piece. By looking into the future - not just at the next five years but at the next ten to twenty - we more thoughtfully and proactively align the City's financial capacity with our mission to build a greater, better and more beautiful Newton to transmit to our children and grandchildren.

This year's financial forecast again is sobering. It reminds us that we must be judicious in our spending and investment decisions because we need to accomplish three goals simultaneously:

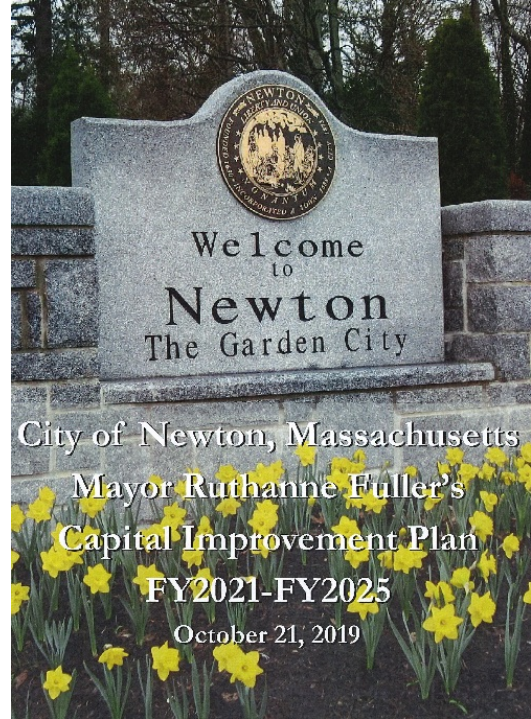
- First, move forward to achieve our shared goals which include excellent schools, first-rate public safety, outstanding services, better streets and sidewalks, new and renovated school buildings, up-to-date police, fire and municipal facilities, and a vibrant community;
- Second, fulfill obligations made by prior Mayors and City Councils that we have not yet funded sufficiently, including those to our current employees for their future retiree benefits and to our employees who have already retired; and,
- Third, protect the City's financial strength and budgetary flexibility to face evolving and sometimes unpredictable conditions and risks.

This Long-Range Financial Plan allows us to achieve these financial goals and continue in excellent financial health. As Moody's Investors Service writes, the City of Newton has a strong, sizeable, and diverse tax base, a great location, and conservative financial policies. This plan will continue to earn Newton its Aaa bond rating.

Yet, our City faces challenges. Unlike some of our peer communities, we are behind on funding our quite large pensions and retiree health care obligations. We need significant investments in many buildings, including schools, parks and recreation facilities, a new center that can serve

our seniors, firehouses and police facilities, the Library and City Hall. We need to invest more in maintenance, including in our roads and playgrounds and our fields and trees. We have not yet fully incorporated the entire likely costs of snow removal and road repair into our annual operating budget.

Our employees every day make Newton a better place for our residents to educate their children, build a life, and enjoy their senior years. We need to offer fair and competitive packages of salaries, benefits and work conditions that will continue to attract and retain our excellent teachers, police officers and firefighters, DPW and Parks and Rec personnel, to name just a few of the 3,000 people who choose to work for us. And, we need to settle our contracts with all deliberate speed.



We have promised our employees that when they retire, they will have pensions and health insurance; I will honor the promises our City has made. This Long-Range Financial Plan addresses the challenge posed to us by our unfunded liabilities for retiree benefits, which are now close to \$1 billion dollars. We will pay the pensions that we have promised and continue to offer excellent health care to both our employees and retirees, even as we provide fair wages and safe work conditions.

The financial forecast forces us to look at all the initiatives and recommendations that would promote the continued vitality and attractiveness of Newton and then pause. It would be nice to implement each recommendation, and to do so quickly, but doing them all – at least on the scale and pace initially proposed – would assuredly compromise the health and sustainability of our City.

The Long-Range Financial Plan and Five-Year Capital Improvement Plan I have proposed balance our immediate needs with our long-term goals. They give us a viable and successful path forward to accomplishing the City's wide range of objectives today and in the tomorrows that follow.

The Capital Improvement Plan invests in buildings for our pre-school and for our Lincoln-Eliot students and teachers. We make real progress on fixing our roads, playgrounds, recreational facilities, water, sewer and stormwater infrastructure, and upgrading our software and technology. We move forward on a new center focused on our older residents. We permanently preserve Webster Woods with funding from the CPA.

While it is clear what is included in the Capital Improvement Plan, it is a little less obvious what is not funded. Let me highlight three schools that need a tremendous amount of work. The Countryside and Franklin Elementary Schools need complete renovations or new buildings and the cost of each are currently estimated at \$50 million for a total of \$100 million. The Ward Elementary School also needs significant upgrades and while the cost still needs to be determined, it, too, is expected to be substantial. The current financial capacity of the City does not allow these important projects to move forward. I will be seeking input in the coming months on the feasibility, timing, cost and funding mechanisms for these critical projects as they are necessary and important.

I look forward to working together with our City Council and School Committee, our residents, and our employees as we make Newton even better, greater and more beautiful.

The following is the Executive Summary from the Long-Range Financial Plan & Five-Year Financial Forecast:

To ensure the continued health and sustainability of the City of Newton for decades to come, we need a *strategic* financial, management, and investment perspective. As Mayor Fuller has said:

We need a long-term financial plan that quantifies the implications of our qualitative aspirations. If compensation, retiree benefits and/or infrastructure investments increase faster than revenues, then choices will need to be made, hard ones. But with careful analysis and thoughtful deliberations, we can make prudent decisions. We can take actions that will better position the City of Newton to sustain its success and fulfill its mission of being a great place to raise a family, to work and to play, and to retire.

This Long-Range Financial Plan through FY2030 allows us to meet both our current and long-term goals. It satisfies our pension funding schedule by aggressively increasing our annual appropriation by 9.6% until we achieve full funding in FY2030. The plan also establishes financially responsible debt service levels, funding several critical capital projects including complete streets projects in West Newton Square and Newtonville, as well as the future homes for the Newton Early Childhood Program, the Lincoln-Eliot school community, and some or all of the Newton Center for Active Living (NewCAL), depending on the site.

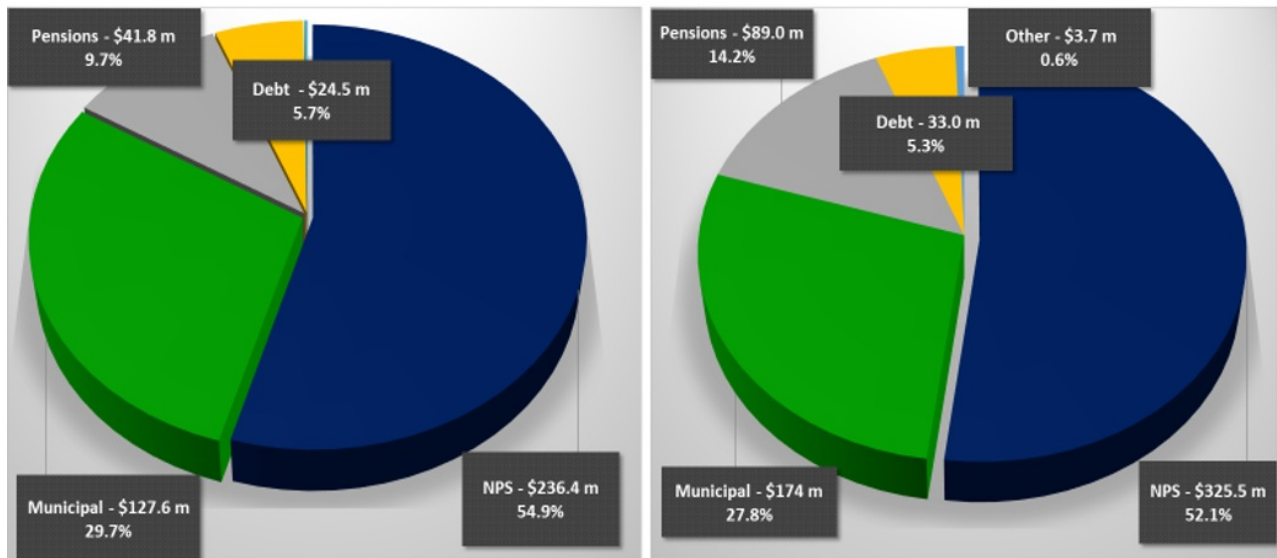
With the help of an additional \$1 million that Mayor Fuller added to the Newton Public Schools FY2020 budget, NPS implemented full day kindergarten in September 2019.

This plan provides the financial wherewithal for the City to begin fully funding its retiree health care or OPEB liabilities in FY2031.

For FY2021 and beyond, after satisfying annual pension and retiree health obligations and debt service investments, this plan provides a 3.15% annual increase in the operating budgets for the municipal departments. This plan also includes a \$7.7 million increase in the Newton Public Schools budget in FY2021 and provides a total increase of \$89 million in the NPS budget by the year 2030. Newton's schools continue to be the largest part of the City budget and increases more than the other municipal services. This translates into a 3.25% annual increase in the NPS budget for staffing, services and compensation for FY2021 through FY2030.

Importantly, the 3.25% annual increase to NPS is a floor, a budget increase Mayor Fuller has guaranteed. This allocation will be there through good times and bad, recessions or spikes in interest rates, decreases in enrollments or cost savings in transportation or energy use.

Projected Expenditures - FY2020 vs FY2030 NPS Grows by \$89 m – Municipal Grows by \$46 m



This forecast is built on thoughtful assumptions for future revenues and expenditures. Based on these assumptions, this forecast transparently and knowingly shows a gap in each year between revenues and expenses. This gap grows from approximately \$1.6 million in FY2021 to as much as \$26 million in FY2029. These gaps must be and will be reevaluated and addressed each year. The Fuller Administration will continue to identify cost saving measures throughout the departments and look for opportunities for additional revenue. Additional revenues may come from new growth or redevelopment, state aid, sales taxes on retail marijuana sales, permitting fees, and/or interest income, to name the most likely sources. Reductions in expense projections may be possible in areas such as medical costs and utilities.

This comprehensive Long-Range Financial Plan is designed to enable the leadership of the City of Newton to proactively manage City and School personnel costs, operating expenditures, capital investments, technology improvements, equipment and fleet replacement, and debt service, while maintaining the City's Triple A bond rating, providing funding for long term retiree liabilities, setting a strong financial foundation for future generations, and ultimately assuring the sustainability of the City of Newton for decades to come.

For the FY2021 Budget, FY2021-FY2025 Financial Forecast and the Long-Range Financial Plan through FY2030 to be sustainable, we as City leaders must remain steadfast in our determination to: balance revenue and expenditures while addressing the educational, social and emotional, and extracurricular needs of every student in our diverse community; fund infrastructure needs; provide for the functions of government; fully fund all liabilities; maintain an appropriate level of reserves and be mindful about the impact of taxes on our residents and businesses.

Achieving these financial and strategic benchmarks is attainable as long as the City remains committed to and disciplined in its resolve to follow the planned funding schedules for pension and retiree health insurance or OPEB liabilities, to settle collective bargaining agreements that maintain parity between revenue and expenditures, and to be vigilant in its oversight of every hard earned taxpayer dollar that has been entrusted to it in order to provide the level of municipal services that the people of Newton expect and need. By following this strategy, the City of Newton will be able to keep achieving its goal of building a greater, better and more beautiful Newton

to transmit to our children and grandchildren.

Click [here](#) to read the entire Long-Range Financial Plan and Five-Year Forecast.

Click [here](#) to read the Capital Improvement Plan.

Click [here](#) to read Jonathan Yeo's Five-Year Capital Plan PowerPoint presentation.

Click [here](#) to read Maureen Lemieux's Long-Range Financial Plan PowerPoint presentation.

Thank you reading. Please let me know what you think. Email me at rfuller@newtonma.gov.

Warmly,

Ruthanne

