



City of Newton, Massachusetts Five Year Financial Forecast FY2017 – FY2021

CITY OF NEWTON, MASSACHUSETTS

Setti D. Warren, Mayor

5 October 2015



MAYOR

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October 5, 2015

Honorable Board of Aldermen
Newton, Massachusetts

Ladies and Gentlemen:

I am pleased to submit for your review **The FY2017 – FY2021 Five-Year Financial Forecast**. As you will see, this continues to be a very exciting time in the history of the City of Newton.

From day one we have been laser-focused on developing a strategy for the long-term financial sustainability for the City of Newton by instituting zero-based and outcomes-based budgeting, using data to drive decision-making, setting aside 5% of the City's budget in our Rainy Day Fund, and shaving nine years off the funding schedule of our pension liability. And now, the final step toward successful financial stewardship will allow us to fully fund the OPEB liability by 2042 using conservative financial assumptions and setting aside a specific amount of money each year.

Last week we announced that a third party actuary has confirmed the Administration's funding strategy which will enable the City of Newton to eliminate the City's Unfunded Pension Liability by the year 2029 and the OPEB (Other Post-Employment Benefits) Liability by the year 2042.

The Actuarial Valuation of the City's OPEB Liabilities for the fiscal year ending June 30, 2015 has been completed and 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).

Key to this strategy will be our commitment to funding the City's Pension Liability by the year 2029. Last year with the full support of my administration the Retirement Board voted to implement a funding schedule which will fully fund the Newton Retirement Fund by the year 2029. This funding schedule will require an annual increase of 8.75%.

Additionally, the FY16 Budget includes an OPEB appropriation of approximately \$1.4 million representing 3.25% of the salaries of more than 760 employees, hired after July 1, 2012. We will continue to increase this percentage, and as we bring on more new employees this funding method will cause this appropriation to grow exponentially.

For the next 15 years we 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, we will then be able to focus on repurposing pension liability appropriations to the OPEB Trust Fund, creating a viable, sustainable financial model by which to fully fund the City’s Retiree Costs.

We are in the process of creating a livable, sustainable city for the 21st century. We have developed a vision and set a course of action that will enable us to meet the needs of the present without compromising the ability of future generations to meet their needs.

We could not have made the incredible strides we have in the last 5 years without the Honorable Board of Aldermen, School Committee, businesses and residents of our great city.

Let’s continue to work together to move Newton forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Setti D. Warren". The signature is fluid and cursive, with a prominent initial "S" and a long, sweeping underline.

Setti D. Warren,
Mayor

Executive Summary

Since “Day One”, I have worked with residents, the business community, the Board of Aldermen, and other elected and community leaders to implement initiatives to improve the quality of life and to ensure financial sustainability for the city we all love. Data has driven all of our decision-making. But now we have to think big, not just about making the right decisions for today’s citizens, but for those that come after us, 20 to 30 years from now. To do this we must be responsible stewards of our finances, infrastructure, environment, education, and public safety. It also means meeting our goals of creating at least 800 affordable housing units by the year 2021, being creative about expanding transportation options for our entire City and region, and expanding the innovation economy with access for all people. We will build off of the success of the N squared corridor with Needham and the Newton Needham Chamber of Commerce and continue to expand regional coordination in economic development and transportation. We will build a 21st Century partnership with the nonprofit and public sector to ensure Newton meets its full potential now and in the next 30 years.

Mayor Setti Warren, October 2015

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

As Mayor Setti Warren completes his sixth year in office, the Administration is proud to confirm 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. This is evidenced by the City’s Aaa Bond rating, the elimination of the “structural deficit”, conservative financial forecasting, improved financial reserves, the implementation of comprehensive financial policies, the reduction of non-recurring funding sources to balance the annual budget, and appropriate investment in capital infrastructure. Perhaps most importantly is the Administration’s announcement that not only has it developed a funding schedule to eliminate the City’s Unfunded Pension Liability by the year 2029, but also a strategy to eliminate the City’s OPEB (Other Post-Employment Benefits) Liability by the year 2042. The Actuarial Valuation of the City’s OPEB Liabilities for fiscal year ending June 30, 2015 has been completed and indicates that 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).

Key to this strategy will be the City’s commitment to fully funding its Pension Liability by the year 2029. Last year with the full support of the Warren Administration the Newton Retirement Board voted to implement a funding schedule which will fully fund the Retirement Fund by the year 2029. This funding schedule will require an annual increase of 8.75%.

While the Administration is proud of the prudent financial policies the City has established over the past six years, preparing the annual budget will remain a challenging task. Funding the annual increase to the pension appropriation is the key component of this strategy and will require discipline and commitment.

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 Aaa bond rating, 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

In the summer of 2014, all 17 of the City of Newton's collective bargaining agreements expired. The Administration has reached agreement with the majority of municipal and school unions and continues to meet with the other remaining groups. The Administration has worked collaboratively and transparently with union leadership to allow these new contracts to be structured to 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. It is a key goal of the Administration to continue to work respectfully and cooperatively with the remaining unions to develop fair contracts that continue to uphold a sustainable budget strategy.

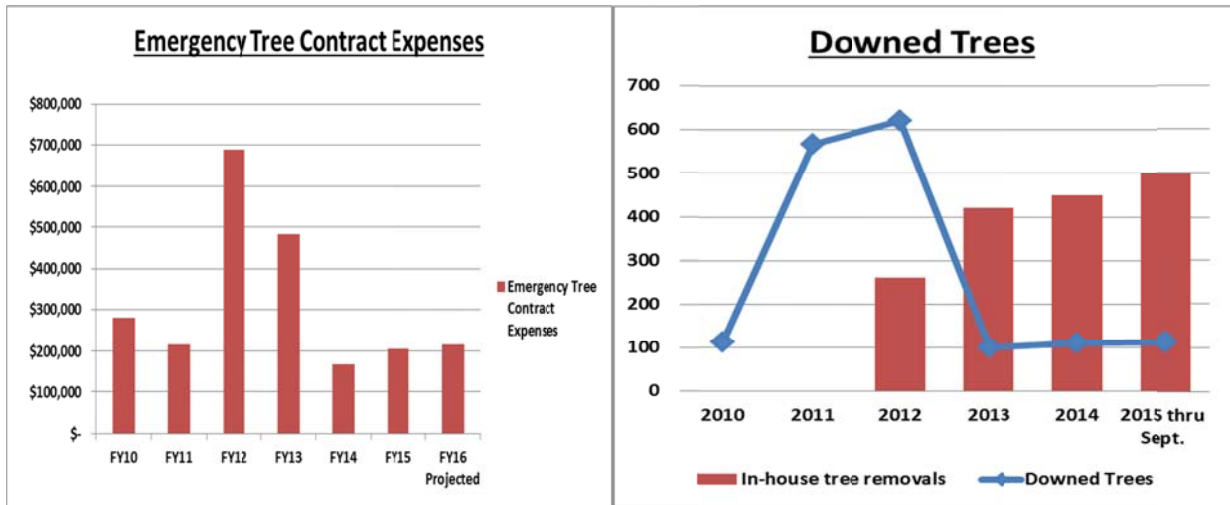
Zero-Based Budgeting

The City utilizes zero-based budgeting as the basis for developing its operating budget, thus ensuring that every department function has been reviewed comprehensively, that all expenditures are analyzed, and that planning and decision making is enhanced in order to maximize both administrative and operational efficiencies. The zero-based budgeting process requires all departments to validate and prioritize all activities and expense items before the city allocates any resources. Zero-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 is apparent that future cost savings through this budget strategy are attainable, and therefore the City will continue to utilize this process as the basis for budget preparation, continuing to maximize cost and operational efficiencies citywide.

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. Earlier this year, Mayor Warren launched "DataStat Newton" - a program which will allow 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.



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 79 buildings and the technology infrastructure that connects them, approximately 300 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 2016 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. Additionally, planning for the funding of the City’s capital infrastructure is crucial in the development of sound financial management. As in previous years, the FY2017-2021 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.



Fire Station Ten



Angier Elementary School



Snow Equipment

Economic Development

Increasing the commercial tax base is a very important goal of the Administration. The Chestnut Hill Square project, now complete, generates more than \$1.5M annually in additional property tax revenues to the City. The Administration continues to work closely with the Honorable Board of Aldermen to facilitate the successful completion of several other development opportunities including Austin Street, the Atrium Center, and Riverside. Additional economic development initiatives that will be active in FY16 focus on two major regional efforts – the N2 Corridor 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. The opening of a Newton-based incubator at the former Newton Corner Library by MassChallenge in partnership with Cambridge Innovation Center (CIC) is also an exciting opportunity to foster the innovation economy as well as promote businesses and retail in Newton Corner.



“MassChallenge Building”



“The Atrium Center”

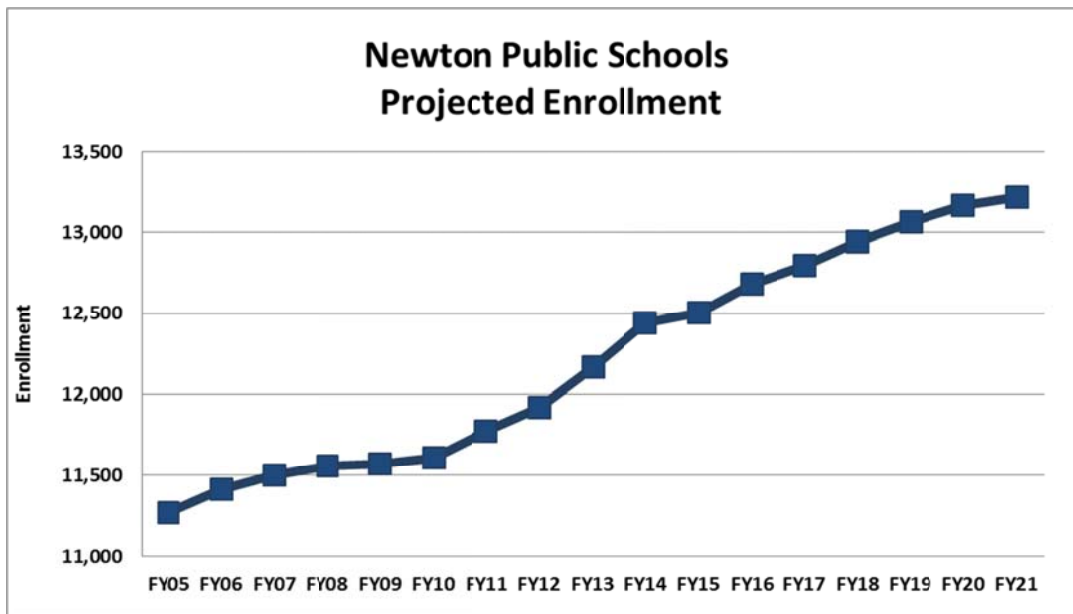


“Riverside Station”

Growth in Enrollment

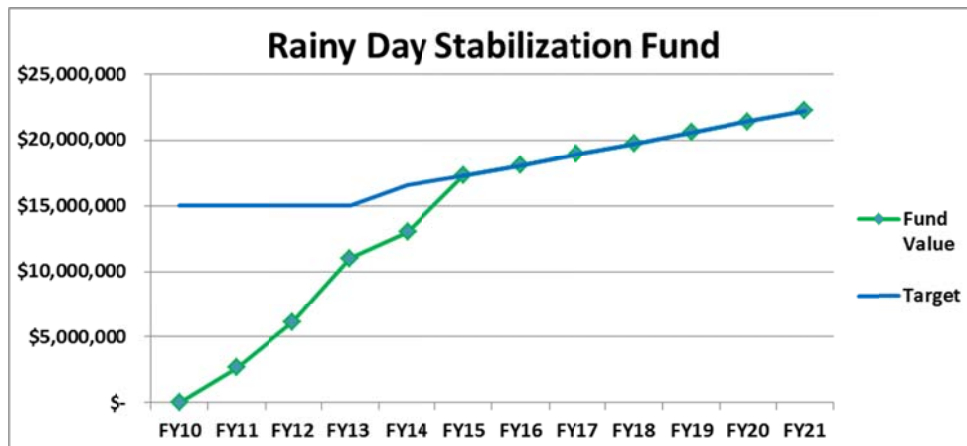
The Newton Public Schools continue to see consistent growth affecting all levels citywide. Accumulated net increase of approximately 1,240 students from 2004-05 through 2014-15, an increase of 11%, initially affected the elementary schools and subsequently started to arrive at the middle schools in 2008-09 and the high schools in 2010-11. This growth trend is expected to

continue over the next five years, with a projected increase of approximately 660 students, or 5%, for all grade levels. The largest growth over the next five years is expected at the high school level, as the higher populations continue to move up from the middle schools. In 2014-15, Newton Public Schools experienced the second largest kindergarten class since 1975, an indicator of continued growth. In 2015-16, this class is over 1,000 students in 1st grade, the highest 1st grade class since 1976.



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, and to demonstrate that resources are being set aside for extraordinary and unforeseen revenue disruption or catastrophic expenditures. Through collaboration with the Chairman of the Aldermanic Finance Committee, the Comptroller, members of the Board of Aldermen, and the Administration the fund has reached the City’s goal of 5% of the City Operating Budget or \$18 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

In January of 2015, 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 2015 Bonds. Concurrently, Moody's reaffirmed the Aaa rating assigned to \$213 million of previously-rated long-term general obligation debt.

Per the official statement issued by Moody's - The Aaa rating incorporates the city's wealthy and diverse tax base within a strong regional economy and a manageable debt profile with moderate future borrowing plans. The rating also reflects the city's strong fiscal management with a narrow, but improved financial position.

Strengths continued to be cited as follows:

- Sizeable, wealthy and diverse tax base with favorable location and institutional presence,
- Sound financial policies and conservative budgeting approach,

Conversely, challenges were cited as follows:

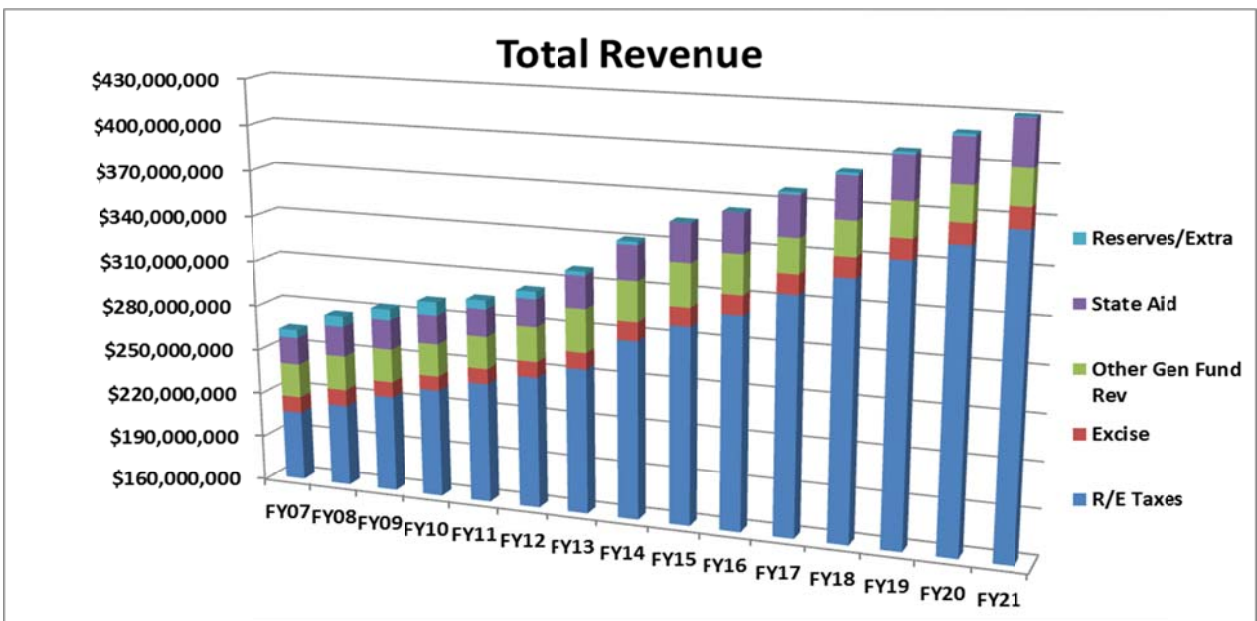
- Relatively narrow fund balance levels,
- Limited ability to raise property taxes under Proposition 2 ½, and
- High liabilities for pension and OPEB

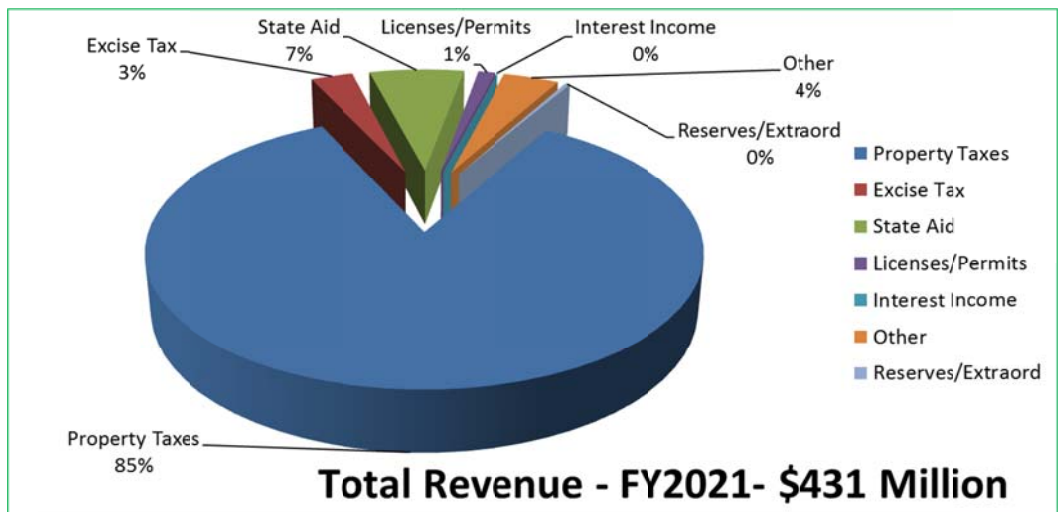
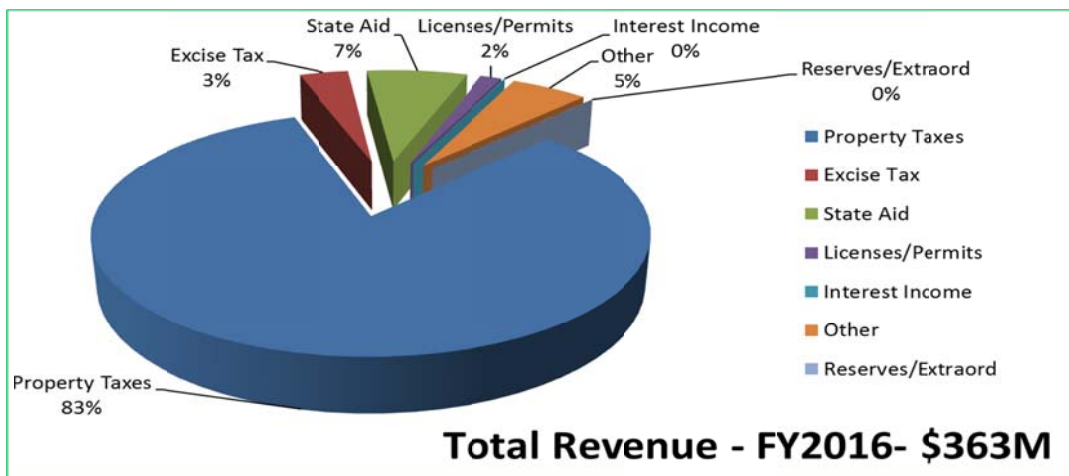
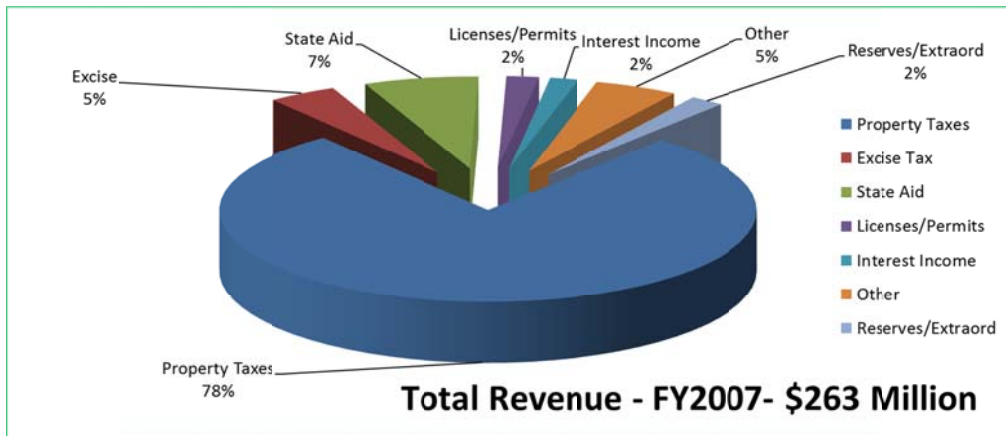
The City's position on funding long term liabilities, particularly pensions, will be a key factor that will determine future bond ratings. The City is very pleased to have maintained the Moody's Aaa Bond Rating and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

Revenue Projections

Total annual increase in revenue for the City had been averaging approximately 2.5% for several years, but has begun to climb as a result of the improving economy and is projected to approximate 3% for the next few years. 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 FY17-FY21 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 85% by FY2021. 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 4% by FY2021. 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
FY2015 Actual/FY2016 Adjusted Budget/FY2017 through FY2021 Forecast

<u>OPERATING REVENUE</u>	<u><-ACTUAL-></u>	<u><-ADJ. BDGT-></u>	<u>-----FORECAST-----></u>				
	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>
Real Estate Tax Revenue	\$ 289,650,737	\$ 299,918,118	\$ 312,016,071	\$ 323,403,973	\$ 335,076,572	\$ 346,540,986	\$ 358,292,011
Excise Tax Revenue	\$ 12,353,468	\$ 12,703,000	\$ 12,703,000	\$ 12,830,000	\$ 12,958,270	\$ 13,087,823	\$ 13,218,671
Hotel Room Tax	\$ 2,330,724	\$ 2,400,000	\$ 2,460,000	\$ 2,521,500	\$ 2,584,538	\$ 2,649,151	\$ 2,715,380
Meals Tax - 0.75%	\$ 1,786,617	\$ 1,800,000	\$ 1,845,000	\$ 1,891,125	\$ 1,938,403	\$ 1,986,863	\$ 2,036,535
Payments In Lieu of Taxes	\$ 268,057	\$ 320,963	\$ 295,000	\$ 295,000	\$ 295,000	\$ 295,000	\$ 295,000
Interest/Divident Income	\$ 205,203	\$ 210,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
License/Permit-ISD,Fire,H&HS	\$ 6,351,923	\$ 5,470,063	\$ 5,579,700	\$ 5,359,700	\$ 5,359,700	\$ 5,359,700	\$ 5,355,700
Parking Meter Receipts	\$ 1,773,597	\$ 1,527,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Parking Violations	\$ 1,429,088	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
Medicare D/SPED Medicaid	\$ 1,290,511	\$ 1,200,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000
Water/Sewer Gen'l Fund Adm	\$ 2,088,882	\$ 2,440,062	\$ 2,501,064	\$ 2,563,590	\$ 2,627,680	\$ 2,693,372	\$ 2,760,706
Premium from Sale of Bonds	\$ 828,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 9,536,226	\$ 8,613,242	\$ 5,029,468	\$ 5,016,995	\$ 4,974,220	\$ 4,990,555	\$ 4,966,437
REVENUE FROM OPERATIONS	\$ 329,893,360	\$ 338,002,448	\$ 346,779,303	\$ 358,231,882	\$ 370,164,383	\$ 381,953,451	\$ 393,990,439
REVENUE FROM STATE AID							
Unrestricted Gen'l State Aid	\$ 5,229,226	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478
Chapter 70 State Education Aid	\$ 19,617,930	\$ 20,038,127	\$ 20,538,127	\$ 21,288,127	\$ 22,038,127	\$ 22,788,127	\$ 23,538,127
REVENUE FROM STATE AID	\$ 24,847,156	\$ 25,455,605	\$ 25,955,605	\$ 26,705,605	\$ 27,455,605	\$ 28,205,605	\$ 28,955,605
OPERATING REVENUE	\$ 354,740,516	\$ 363,458,053	\$ 372,734,908	\$ 384,937,487	\$ 397,619,988	\$ 410,159,056	\$ 422,946,044
% Increase		2.46%	2.55%	3.27%	3.29%	3.15%	3.12%
REVENUE - FROM TRANSFERS							
New Falls Settlement In Lieu of	\$ 65,450	\$ 60,000	\$ 65,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 40,000
Capital Stabilization Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Free Cash	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUE FROM TRANSFERS	\$ 65,450	\$ 60,000	\$ 1,565,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,540,000
REVENUE FROM OVERRIDE	\$ -	\$ -	\$ 3,594,670	\$ 5,056,174	\$ 6,945,781	\$ 6,934,715	\$ 6,730,248
TOTAL REVENUE	\$ 354,805,966	\$ 363,518,053	\$ 377,894,578	\$ 391,553,661	\$ 406,125,769	\$ 418,653,770	\$ 431,216,293
% Increase		2.46%	3.95%	3.61%	3.72%	3.08%	3.00%

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".

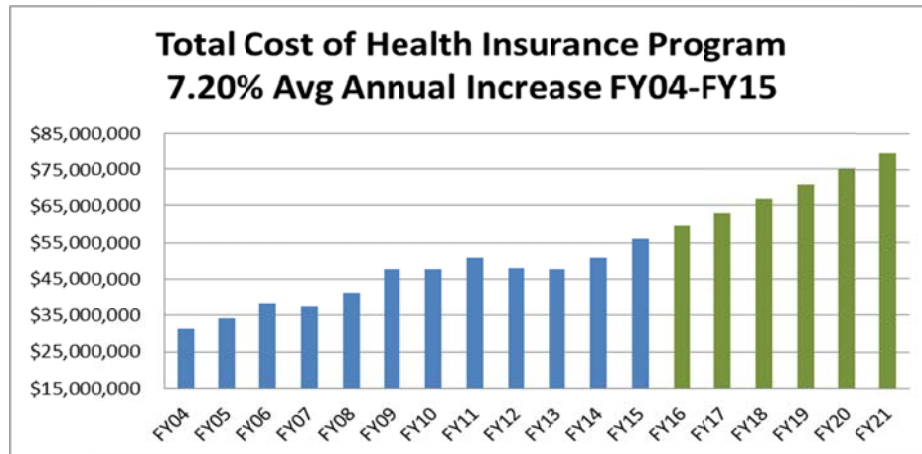
As mentioned earlier, the Administration has reached agreement with the majority of its 17 unions and is currently in negotiations with all remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy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

Health Insurance Benefits

The City of Newton provides health insurance benefits for more than 2,400 active employees and their dependents, as well as more than 2,700 retirees, for a total insured population of more than 8,500 members. Because the City's insured population is as large as it is, the City is "Self Insured". The cost of a Self-Insured Health Insurance Program is comprised of costs in three main areas: the actual cost of claims, the administrative fees charged by the health insurance carriers and the cost of an excess policy to protect the City from exposure to unusually large claims (greater than \$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 was conducted and it was determined that the total cost of the City's Health Insurance Program for FY13 was less than it would have experienced as a member of the G.I.C. Similarly, a Loss Ratio Analysis was conducted on the City's FY14 total costs, and

although the total cost of the plan was slightly higher than the G.I.C. would have been, the City’s share was slightly less, due to the cost sharing arrangements negotiated in the last round of contract negotiations. This analysis has been completed for Fiscal Year 2015. It is clear that the City would have experienced a financial benefit by G.I.C. membership during FY15. The Administration will continue to monitor these trends closely, and will evaluate whether or not a change in this position is warranted.

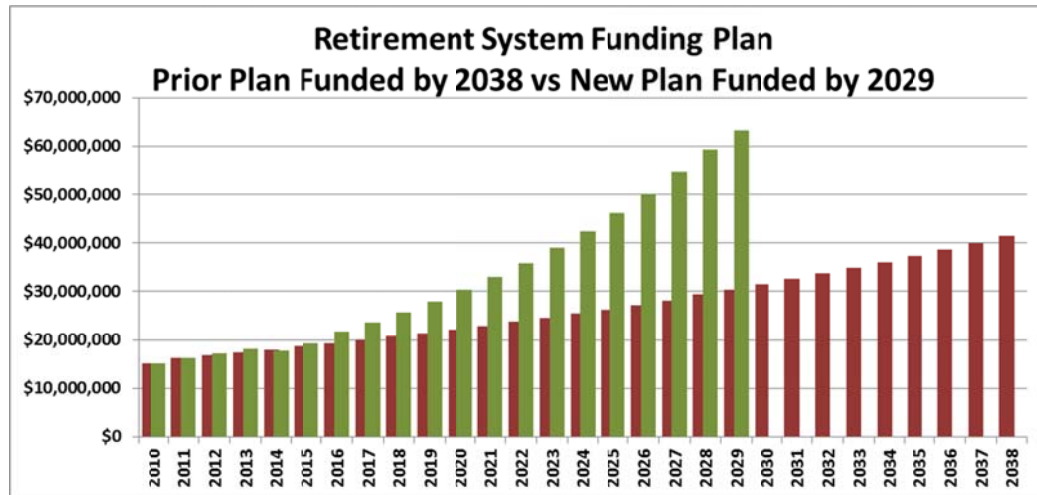


Retiree Pensions and Health Insurance

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 combined with the increased life expectancy of Americans, the total unfunded actuarial accrued liability has increased to almost 50.82% as of January 1, 2015. 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. The five year financial forecast includes an annual increase of 8.75% in support of this decision. 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 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.



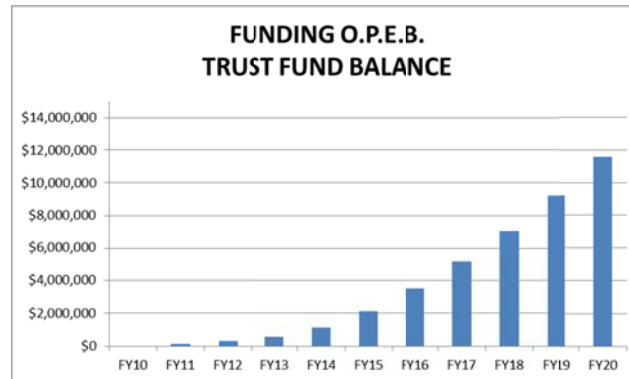
Retiree Health Benefits - Other Post-Employment Benefits (O.P.E.B.)

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 millions of 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

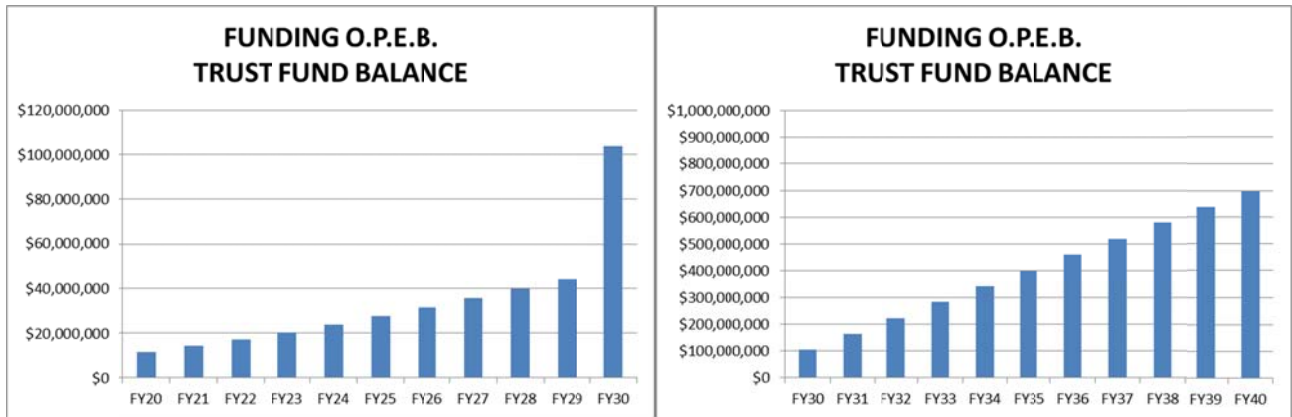
care benefits. As reflected below, the FY16 Budget includes an appropriation of approximately \$1,400,000 representing 3.25% of the salaries of employees hired after July 1, 2012. The City will continue to increase this percentage. Additionally, as the City brings on more and more new employees, this funding method will cause this appropriation to grow exponentially. For the next 15 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 Retire Costs.

Recently, the City announced that a third party actuary has confirmed the Administration’s funding strategy which will enable the City of Newton to eliminate the City’s Unfunded Pension Liability by the year 2029 and the OPEB (Other Post-Employment Benefits) Liability by the year 2042. The Actuarial Valuation of the City’s OPEB Liabilities for the fiscal year ending June 30, 2015 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 by 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 out-of-district placements over the last two years. At the same time, the average cost per placement has increased due to students being placed with higher needs. 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 “year over year” annual cost increases have outpaced revenue increases. 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. Student fees for regular transportation serve as an offset to the full cost of daily busing. Special education transportation is in the final year of a three year contract. It is assumed that there will be annual increases of 6% in future years. 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. However, the City's electricity and gas contracts recently expired. A new gas contract was signed at a reduced cost and will extend through October 31, 2017. A new electricity contract was signed at a fixed rate that is higher than the previous rate but will protect the City from the price spikes of up to 23 cents per kWh that large, natural gas customers experienced last winter. This rate is fixed at 9.5 cents through November 30, 2016. Next summer the City will begin soliciting electricity prices through an electricity broker to pro-actively lock in the best rates available before this contract expires.

As a result of the volatile/ever increasing utility commodity market, 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 an aggressive energy efficiency program in city buildings. These projects coupled with efficiency reductions of an additional 13% between FY2008 and FY2014 have yielded a savings of more than 6 million kilowatt hours annually. Lighting efficiency projects scheduled for this year will save another 800,000 kWh annually in schools and city buildings.

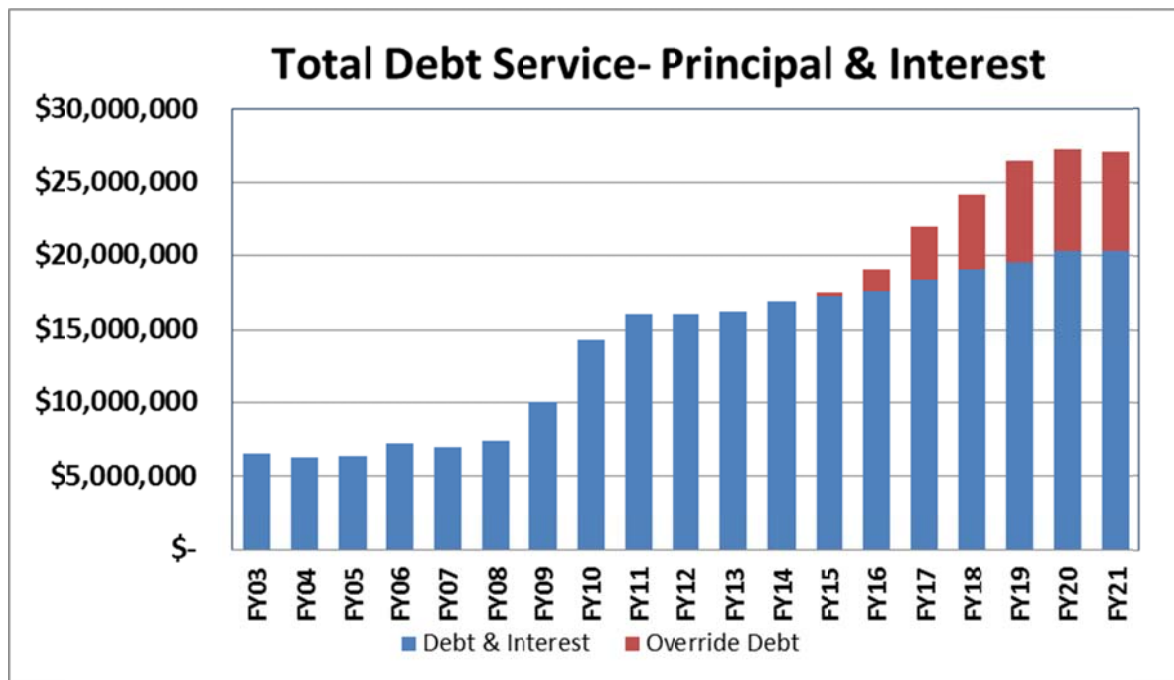
In FY2014 the City entered the energy generation field, contracting with a Massachusetts energy company to install 650kW of solar panels on four City of Newton buildings. These projects generated over 700,000 kWh and will save the City \$68,000 on its electric bill each year. These solar panels will 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. The City is currently reviewing proposals from developers that could provide over 2,400 KW of solar capacity on City properties and commensurate cost saving to the City. The solar landfill project would 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.

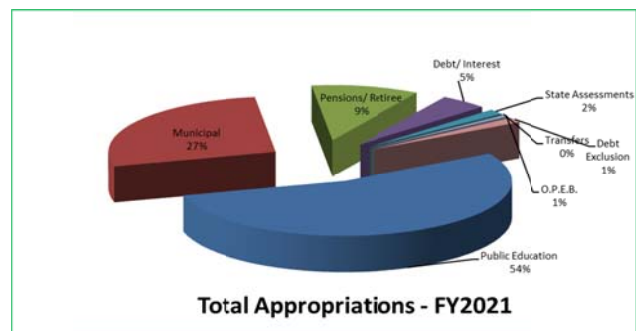
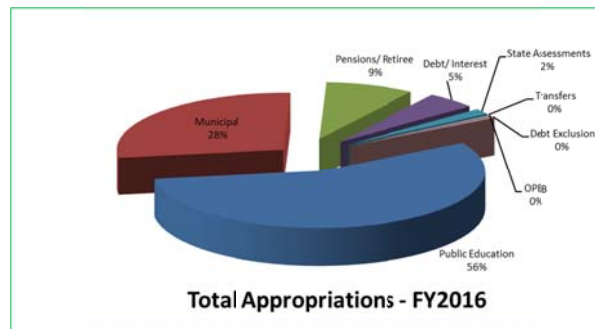
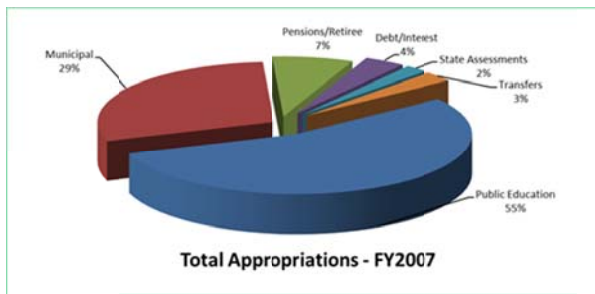
Debt Service

This Five Year Financial Forecast is the counterpart and is directly linked to the FY2017-2021 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, new parking meters throughout the city, and upgrades to the water and sewer systems. This past year, largely in part due to the City’s Aaa bond rating, the administration was able to refund \$19,635,000 of 2006 and 2007 General Obligation Bonds. This action will generate total savings of \$2,048,718 over the remaining life of the refunded bonds.



Projected FY2017 – FY2021 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 FY2016 and FY2021. 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 revenue.



Projected FY2017 - FY2021 Needs 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 FY2017- FY2021 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
FY2015 Actual/FY2016 Adjusted Budget/FY2017 through FY2021 Forecast

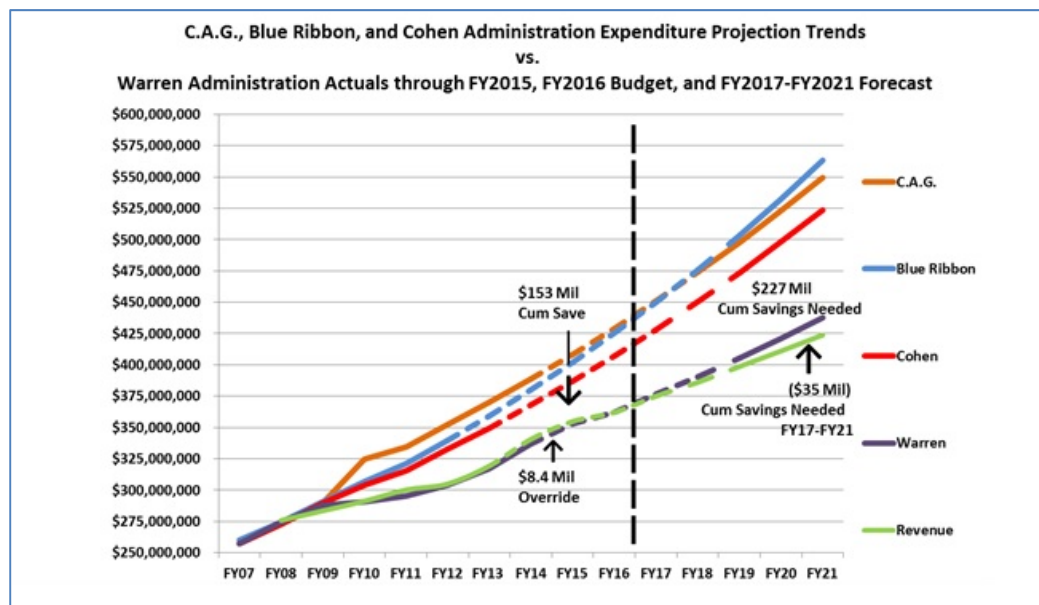
EXPENDITURES	<-ACTUAL->		<-ADJ. BDGT->		-----FORECAST----->			
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	
Education	\$ 195,843,867	\$ 203,710,912	\$ 210,677,825	\$ 218,051,549	\$ 225,683,353	\$ 233,582,270	\$ 241,757,650	
% Increase	4.34%	4.02%	3.42%	3.50%	3.50%	3.50%	3.50%	
\$ Increase	\$	\$ 7,867,045	\$ 6,966,913	\$ 7,373,724	\$ 7,631,804	\$ 7,898,917	\$ 8,175,379	
Debt Service	\$ 17,273,964	\$ 17,589,024	\$ 18,354,467	\$ 19,053,230	\$ 19,531,179	\$ 20,340,498	\$ 20,343,361	
% Increase	2.15%	1.82%	4.35%	3.81%	2.51%	4.14%	0.01%	
\$ Increase	\$	\$ 315,060	\$ 765,442	\$ 698,763	\$ 477,950	\$ 809,319	\$ 2,863	
Override Debt Service	\$ -	\$ 1,488,045	\$ 3,594,670	\$ 5,056,174	\$ 6,945,781	\$ 6,934,715	\$ 6,730,248	
% Increase	0.00%	0.00%	141.57%	40.66%	37.37%	-0.16%	-2.95%	
\$ Increase	\$	\$ 1,488,045	\$ 2,106,625	\$ 1,461,504	\$ 1,889,607	\$ (11,066)	\$ (204,466)	
Pensions & Retiree Benefits	\$ 29,539,582	\$ 31,571,646	\$ 34,153,609	\$ 36,955,665	\$ 39,995,628	\$ 43,282,644	\$ 46,860,608	
% Increase	7.41%	6.88%	8.18%	8.20%	8.23%	8.22%	8.27%	
\$ Increase	\$	\$ 2,032,064	\$ 2,581,962	\$ 2,802,057	\$ 3,039,963	\$ 3,287,016	\$ 3,577,965	
State Charges	\$ 5,869,938	\$ 6,000,544	\$ 6,150,558	\$ 6,304,322	\$ 6,461,930	\$ 6,623,478	\$ 6,789,065	
% Increase	1.49%	2.22%	2.50%	2.50%	2.50%	2.50%	2.50%	
\$ Increase	\$	\$ 130,606	\$ 150,014	\$ 153,764	\$ 157,608	\$ 161,548	\$ 165,587	
Transfers to Other Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
% Increase	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%	-	
\$ Increase	\$	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Municipal Expenditures	\$ 96,515,245	\$ 101,637,092	\$ 105,832,494	\$ 109,673,606	\$ 113,627,929	\$ 117,742,663	\$ 121,995,258	
% Increase	6.13%	5.31%	4.13%	3.63%	3.61%	3.62%	3.61%	
\$ Increase	\$	\$ 5,121,847	\$ 4,195,402	\$ 3,841,112	\$ 3,954,323	\$ 4,114,734	\$ 4,252,595	
TOTAL EXPENDITURE FCST	\$ 345,042,596	\$ 361,997,264	\$ 378,763,622	\$ 395,094,545	\$ 412,245,800	\$ 428,506,268	\$ 444,476,190	
		4.91%	4.63%	4.31%	4.34%	3.94%	3.73%	

Balancing the Budgets

This five year financial forecast has been prepared as an “Aggressively Conservative Roadmap” for the next five years. Expenditures have been projected “Aggressively”, while Revenues have been projected somewhat “Conservatively”. 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,
Projections by Functional Element and Projections by
Major Cost Driver for the following time periods:**

FY2008 – FY2015 Actuals

FY2016 Adjusted Budget

FY2017 – FY2021 Forecast

Five Year Financial Forecast

City of Newton, MA

City of Newton, Massachusetts
Annual General Fund Revenue
FY2007 - FY2015 Actual/FY2016 Adjusted Budget/FY17 through FY21 Forecast

GENERAL FUND REVE	A-C-T-U-A-L										-ADJ. BDGT-	Forecast				
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16		FY17	FY18	FY19	FY20	FY21
Real Estate Tax Revenue	\$ 206,442,804	\$ 214,497,388	\$ 223,982,213	\$ 231,880,254	\$ 239,709,050	\$ 247,254,734	\$ 255,856,303	\$ 277,381,501	\$ 289,650,737	\$ 299,918,118	\$ 312,016,071	\$ 323,403,973	\$ 335,076,572	\$ 346,540,986	\$ 358,292,011	
Excise Tax Revenue	\$ 10,745,229	\$ 11,008,570	\$ 10,239,711	\$ 9,576,320	\$ 10,008,481	\$ 10,382,197	\$ 10,914,807	\$ 12,196,691	\$ 12,353,468	\$ 12,703,000	\$ 12,703,000	\$ 12,830,000	\$ 12,958,270	\$ 13,087,823	\$ 13,218,671	
Hotel Room Tax	\$ 1,138,921	\$ 1,103,549	\$ 1,108,199	\$ 1,168,095	\$ 1,588,882	\$ 1,814,792	\$ 2,051,414	\$ 2,218,759	\$ 2,330,724	\$ 2,400,000	\$ 2,460,000	\$ 2,521,500	\$ 2,584,538	\$ 2,649,151	\$ 2,715,380	
Meals Tax - 0.75%	\$ -	\$ -	\$ -	\$ 382,934	\$ 1,308,191	\$ 1,403,261	\$ 1,407,803	\$ 1,557,737	\$ 1,786,617	\$ 1,800,000	\$ 1,845,000	\$ 1,891,125	\$ 1,938,403	\$ 1,986,863	\$ 2,036,535	
Payments In Lieu of Taxes	\$ 230,857	\$ 231,373	\$ 406,418	\$ 316,177	\$ 300,261	\$ 477,395	\$ 255,547	\$ 355,596	\$ 268,057	\$ 320,963	\$ 295,000	\$ 295,000	\$ 295,000	\$ 295,000	\$ 295,000	
Interest/Divident Income	\$ 4,425,105	\$ 3,933,619	\$ 2,283,822	\$ 874,757	\$ 417,144	\$ 244,319	\$ 167,201	\$ 190,647	\$ 205,203	\$ 210,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	
License/Permit-	\$ 5,041,880	\$ 4,556,132	\$ 3,885,054	\$ 3,805,987	\$ 4,723,631	\$ 5,011,251	\$ 7,565,365	\$ 6,448,540	\$ 6,351,923	\$ 5,470,063	\$ 5,579,700	\$ 5,359,700	\$ 5,359,700	\$ 5,359,700	\$ 5,355,700	
Parking Meter Receipts	\$ 852,832	\$ 1,130,000	\$ 1,140,000	\$ 1,142,645	\$ 1,740,000	\$ 1,325,000	\$ 1,681,650	\$ 1,709,300	\$ 1,773,597	\$ 1,527,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	
Parking Violations	\$ 1,439,010	\$ 1,534,407	\$ 1,704,087	\$ 1,764,064	\$ 1,580,087	\$ 1,675,117	\$ 1,572,867	\$ 1,459,059	\$ 1,429,088	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	
Medicare D/SPED	\$ 1,249,579	\$ 1,334,846	\$ 1,143,439	\$ 1,123,135	\$ 1,791,041	\$ 1,814,072	\$ 1,662,557	\$ 1,201,165	\$ 1,290,511	\$ 1,200,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	
Water/Sewer Gen'l Fund	\$ 1,228,831	\$ 1,264,968	\$ 1,457,225	\$ 1,376,187	\$ 1,396,335	\$ 1,429,518	\$ 1,640,260	\$ 1,983,994	\$ 2,088,882	\$ 2,440,062	\$ 2,501,064	\$ 2,563,590	\$ 2,627,680	\$ 2,693,372	\$ 2,760,706	
Premium from Sale of Bond	\$ 90,087	\$ 235,056	\$ 1,557,255	\$ 815,357	\$ 168,147	\$ 131,379	\$ 590,740	\$ 650,998	\$ 828,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other/Miscellaneous Reven	\$ 6,865,283	\$ 7,639,373	\$ 7,411,929	\$ 8,760,563	\$ 6,320,579	\$ 7,412,572	\$ 9,990,705	\$ 8,572,909	\$ 9,536,226	\$ 8,613,242	\$ 5,029,468	\$ 5,016,995	\$ 4,974,220	\$ 4,990,555	\$ 4,966,437	
REVENUE FROM CITY OPERATIONS	\$ 239,750,418	\$ 248,469,281	\$ 256,319,352	\$ 262,986,476	\$ 271,051,828	\$ 280,375,606	\$ 295,357,219	\$ 315,926,896	\$ 329,893,360	\$ 338,002,448	\$ 346,779,303	\$ 358,231,882	\$ 370,164,383	\$ 381,953,451	\$ 393,990,439	
REVENUE FROM STATE AID																
Unrestricted Gen'l State Aid	\$ 7,224,573	\$ 7,314,042	\$ 6,601,316	\$ 5,177,738	\$ 4,970,628	\$ 4,970,628	\$ 4,970,628	\$ 5,088,123	\$ 5,229,226	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	\$ 5,417,478	
Chapter 70 State Education	\$ 10,966,835	\$ 12,754,101	\$ 12,939,869	\$ 14,171,395	\$ 13,343,502	\$ 13,504,221	\$ 16,173,153	\$ 17,403,779	\$ 19,617,930	\$ 20,038,127	\$ 20,538,127	\$ 21,288,127	\$ 22,038,127	\$ 22,788,127	\$ 23,538,127	
TOTAL REVENUE FROM STATE AID	\$ 18,191,408	\$ 20,068,143	\$ 19,541,185	\$ 19,349,133	\$ 18,314,130	\$ 18,474,848	\$ 21,143,781	\$ 22,491,902	\$ 24,847,156	\$ 25,455,605	\$ 25,955,605	\$ 26,705,605	\$ 27,455,605	\$ 28,205,605	\$ 28,955,605	
OPERATING REVENUE	\$ 257,941,826	\$ 268,537,424	\$ 275,860,537	\$ 282,335,609	\$ 289,365,958	\$ 298,850,454	\$ 316,501,000	\$ 338,418,798	\$ 354,740,516	\$ 363,458,053	\$ 372,734,908	\$ 384,937,487	\$ 397,619,988	\$ 410,159,056	\$ 422,946,044	
		4.11%	2.73%	2.35%	2.49%	3.28%	5.91%	6.93%	4.82%	2.46%	2.55%	3.27%	3.29%	3.15%	3.12%	
EXTRAORDINARY INCOME/RESERVES																
Stark Street Settlement	\$ 2,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
New Falls Settlement In Lie	\$ 53,751	\$ -	\$ 53,254	\$ 2,703,300	\$ 38,494	\$ 73,059	\$ 62,256	\$ 66,555	\$ 65,450	\$ 60,000	\$ 65,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 40,000	
School Building Assistance	\$ 2,377,843	\$ 7,040,446	\$ 4,914,768	\$ 4,941,992	\$ -	\$ -	\$ -	\$ 5,685	\$ 3,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Capital Stabilization Fund	\$ 82,449	\$ 216,700	\$ 2,592,020	\$ 1,179,046	\$ 5,776,562	\$ 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	
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
TOTAL EXTRAORDINARY INCOME/RESERVES	\$ 5,364,043	\$ 7,257,146	\$ 7,560,042	\$ 8,824,337	\$ 5,815,056	\$ 4,873,059	\$ 2,762,256	\$ 2,212,351	\$ 68,910	\$ 60,000	\$ 1,565,000	\$ 1,560,000	\$ 1,560,000	\$ 1,560,000	\$ 1,540,000	
OVERRIDE INCOME											\$ 3,594,670	\$ 5,056,174	\$ 6,945,781	\$ 6,934,715	\$ 6,730,248	
TOTAL REVENUE	\$ 263,305,869	\$ 275,794,570	\$ 283,420,579	\$ 291,159,946	\$ 295,181,015	\$ 303,723,513	\$ 319,263,256	\$ 340,631,149	\$ 354,809,426	\$ 363,518,053	\$ 377,894,578	\$ 391,553,661	\$ 406,125,769	\$ 418,653,770	\$ 431,216,293	
% Increase		4.74%	2.77%	2.73%	1.38%	2.89%	5.12%	6.69%	4.16%	2.45%	3.95%	3.61%	3.72%	3.08%	3.00%	

Five Year Financial Forecast

City of Newton, MA

Five Year Expenditure Forecast - by Functional Element
FY2007 - FY2015 Actual/FY2016 Adjusted Budget/FY17 through FY21 Forecast

	A-C-T-U-A-L										<-ADJ. BDGT->	F-O-R-E-C-A-S-T				
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16		FY17	FY18	FY19	FY20	FY21
EXPENDITURES																
Education	\$ 140,824,276	\$ 152,871,129	\$ 156,010,151	\$ 163,283,643	\$ 166,260,251	\$ 169,673,728	\$ 176,950,191	\$ 187,701,909	\$ 195,843,867	\$ 203,710,912	\$ 210,677,825	\$ 218,051,549	\$ 225,683,353	\$ 233,582,270	\$ 241,757,650	
% Increase		8.55%	2.05%	4.66%	1.82%	2.05%	4.29%	6.08%	4.34%	4.02%	3.42%	3.50%	3.50%	3.50%	3.50%	
\$ Increase		\$ 12,046,853	\$ 3,139,022	\$ 7,273,492	\$ 2,976,608	\$ 3,413,477	\$ 7,276,463	\$ 10,751,718	\$ 8,141,958	\$ 7,867,045	\$ 6,966,913	\$ 7,373,724	\$ 7,631,804	\$ 7,898,917	\$ 8,175,379	
% of Total Adj. Budget	54.74%	55.71%	54.25%	56.17%	55.40%	55.65%	55.75%	55.77%	56.76%	56.27%	55.62%	55.19%	54.74%	54.51%	54.39%	
Debt Service	\$ 9,631,312	\$ 7,426,543	\$ 10,009,160	\$ 14,332,264	\$ 16,009,264	\$ 16,055,273	\$ 16,262,237	\$ 16,910,530	\$ 17,273,964	\$ 17,589,024	\$ 18,354,467	\$ 19,053,230	\$ 19,531,179	\$ 20,340,498	\$ 20,343,361	
% Increase		-22.89%	34.78%	43.19%	11.70%	0.29%	1.29%	3.99%	2.15%	1.82%	4.35%	3.81%	2.51%	4.14%	0.01%	
\$ Increase		\$ (2,204,769)	\$ 2,582,617	\$ 4,323,104	\$ 1,677,000	\$ 46,009	\$ 206,964	\$ 648,293	\$ 363,434	\$ 315,060	\$ 765,442	\$ 698,763	\$ 477,950	\$ 809,319	\$ 2,863	
% of Total Adj. Budget	3.74%	2.71%	3.48%	4.93%	5.33%	5.27%	5.12%	5.02%	5.01%	4.86%	4.85%	4.82%	4.74%	4.75%	4.58%	
Override Debt Service										\$ 1,488,045	\$ 3,594,670	\$ 5,056,174	\$ 6,945,781	\$ 6,934,715	\$ 6,730,248	
% Increase											141.57%	40.66%	37.37%	-0.16%	-2.95%	
\$ Increase											\$ 2,106,625	\$ 1,461,504	\$ 1,889,607	\$ (11,066)	\$ (204,466)	
% of Total Adj. Budget											0.95%	1.28%	1.68%	1.62%	1.51%	
Pensions & Retiree Benefits	\$ 19,043,013	\$ 19,666,614	\$ 20,827,227	\$ 21,932,507	\$ 23,774,440	\$ 25,352,632	\$ 25,835,950	\$ 27,501,760	\$ 29,539,582	\$ 31,571,646	\$ 34,153,609	\$ 36,955,665	\$ 39,995,628	\$ 43,282,644	\$ 46,860,608	
% Increase		3.27%	5.90%	5.31%	8.40%	6.64%	1.91%	6.45%	7.41%	6.88%	8.18%	8.20%	8.23%	8.22%	8.27%	
\$ Increase		\$ 623,601	\$ 1,160,613	\$ 1,105,280	\$ 1,841,933	\$ 1,578,192	\$ 483,318	\$ 1,665,810	\$ 2,037,822	\$ 2,032,064	\$ 2,581,962	\$ 2,802,057	\$ 3,039,963	\$ 3,287,016	\$ 3,577,965	
% of Total Adj. Budget	7.40%	7.17%	7.24%	7.55%	7.92%	8.32%	8.14%	8.17%	8.56%	8.72%	9.02%	9.35%	9.70%	10.10%	10.54%	
State Charges	\$ 5,375,365	\$ 5,512,027	\$ 5,453,169	\$ 5,619,317	\$ 5,472,487	\$ 5,503,956	\$ 5,772,550	\$ 5,783,939	\$ 5,869,938	\$ 6,000,544	\$ 6,150,558	\$ 6,304,322	\$ 6,461,930	\$ 6,623,478	\$ 6,789,065	
% Increase		2.54%	-1.07%	3.05%	-2.61%	0.58%	4.88%	0.20%	1.49%	2.22%	2.50%	2.50%	2.50%	2.50%	2.50%	
\$ Increase		\$ 136,662	\$ (58,858)	\$ 166,148	\$ (146,830)	\$ 31,469	\$ 268,594	\$ 11,389	\$ 85,999	\$ 130,606	\$ 150,014	\$ 153,764	\$ 157,608	\$ 161,548	\$ 165,587	
% of Total Adj. Budget	2.09%	2.01%	1.90%	1.93%	1.82%	1.81%	1.82%	1.72%	1.70%	1.66%	1.62%	1.60%	1.57%	1.55%	1.53%	
Transfers to Other Funds	\$ 7,167,220	\$ 9,464,685	\$ 8,723,736	\$ 3,146,879	\$ 5,461,830	\$ 6,899,051	\$ 7,625,408	\$ 7,738,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
% Increase		32.06%	-7.83%	-63.93%	73.56%	26.31%	10.53%	1.48%	-100.00%							
\$ Increase		\$ 2,297,465	\$ (740,949)	\$ (5,576,857)	\$ 2,314,951	\$ 1,437,221	\$ 726,357	\$ 113,116	\$ (7,738,524)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
% of Total Adj. Budget	2.79%	3.45%	3.03%	1.08%	1.82%	2.26%	2.40%	2.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	
Municipal Expenditures	\$ 75,217,900	\$ 79,454,144	\$ 86,531,595	\$ 82,359,424	\$ 83,156,349	\$ 81,416,273	\$ 84,925,936	\$ 90,940,552	\$ 96,515,245	\$ 101,637,092	\$ 105,832,494	\$ 109,673,606	\$ 113,627,929	\$ 117,742,663	\$ 121,995,258	
% Increase		5.63%	8.91%	-4.82%	0.97%	-2.09%	4.31%	7.08%	6.13%	5.31%	4.13%	3.63%	3.61%	3.62%	3.61%	
\$ Increase		\$ 4,236,244	\$ 7,077,451	\$ (4,172,171)	\$ 796,925	\$ (1,740,076)	\$ 3,509,663	\$ 6,014,616	\$ 5,574,693	\$ 5,121,847	\$ 4,195,402	\$ 3,841,112	\$ 3,954,323	\$ 4,114,734	\$ 4,252,595	
% of Total Adj. Budget	29.24%	28.96%	30.09%	28.33%	27.71%	26.70%	26.76%	27.02%	27.97%	28.08%	27.94%	27.76%	27.56%	27.48%	27.45%	
TOTAL EXPENDITURES																
& TRANSFERS	\$ 257,259,086	\$ 274,395,142	\$ 287,555,038	\$ 290,674,034	\$ 300,134,621	\$ 304,900,913	\$ 317,372,272	\$ 336,577,214	\$ 345,042,596	\$ 361,997,264	\$ 378,763,622	\$ 395,094,545	\$ 412,245,800	\$ 428,506,268	\$ 444,476,190	
\$ Increase		\$ 17,136,056	\$ 13,159,896	\$ 3,118,996	\$ 9,460,587	\$ 4,766,292	\$ 12,471,359	\$ 19,204,942	\$ 8,465,382	\$ 16,954,668	\$ 16,766,358	\$ 16,330,923	\$ 17,151,255	\$ 16,260,468	\$ 15,969,922	
% Increase		6.66%	4.80%	1.08%	3.25%	1.59%	4.09%	6.05%	2.52%	4.91%	4.63%	4.31%	4.34%	3.94%	3.73%	

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.