

# City of Newton, Massachusetts Five Year Financial Forecast FY2016 – FY2020



**CITY OF NEWTON, MASSACHUSETTS**

**Setti D. Warren, Mayor**

**20 October 2014**





MAYOR

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October 20, 2014

Honorable Board of Aldermen  
Newton, Massachusetts

Ladies and Gentlemen:

I am pleased to submit for your review **The FY2016 – FY2020 Five-Year Financial Forecast**. As you will see, this continues to be a very exciting time in the history of the City of Newton.

The opening of the Carr School for swing space was accomplished on time and under budget, and has set in motion the longer term plan for the replacement/expansion projects at the Angier, Zervas, and Cabot Elementary Schools. Fire Station #10 now resides in its temporary location, while construction is well underway on Dedham Street for the new Wires Division Building and the Station House replacement. Fire Station #3 and the Headquarters buildings are also moving through the design process.

Over the past two years we have added approximately 80 new teachers to deal with our explosive growth in student enrollment, and hired 7 additional police officers to keep our streets and city safe. And this year alone, we have paved more than 8 miles of roadways, created or repaired 4 miles of sidewalks, and implemented a field reclamation program to preserve our playing fields. Additionally, we have studied our intersections and developed a signalization plan, developed a replanting/pruning plan for our 24,000 street trees, developed a comprehensive technology vision for the City, and continued to implement our water and sewer improvement plan to preserve our infrastructure and save the City millions of dollars in MWRA assessments.

We have eliminated the structural deficit, reached our goal of setting aside 5% of our municipal budget or \$17 million in a Rainy Day Reserve Fund, 'shaved' nine years off the funding schedule for our pension liabilities, and put in place a realistic, attainable funding schedule to deal with the City's Other Post-Employment Benefits (O.P.E.B.).

Most importantly we are in the process of creating a livable, sustainable city for the 21<sup>st</sup> 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.

Much of this could not have been possible without the faith and trust that you, our citizens, have put in me and my administration. Please join me as we truly "Move Newton Forward".

Sincerely,

Setti D. Warren,  
Mayor



## ***Executive Summary***

*“We will continue to work with laser like focus to build long term financial sustainability. We will work to build a 21st century city hall that is smart, innovative, responsive, efficient and effective and meets the needs of every resident in every village of the city. We will continue to make Newton a leader in environmental sustainability, reduce our carbon foot print and reduce energy costs where we can. We will continue to make sure Newton is one of the safest places to live by continuing to build first class police and fire departments. We will use data and demographics to project and meet the needs of our residents in the next 20 to 30 years in the areas of housing, transportation, traffic patterns, accessibility, economic development, culture and the arts, recreation and city services. We will continue to ensure Newton has one of the best school systems in the Nation by attracting and retaining the best educators we can. And we will continue to rebuild our infrastructure and capital aggressively using a sustainable approach.”*

***Excerpt from the 2<sup>nd</sup> Inaugural Address of Mayor Setti Warren, Jan 1, 2014***

### ***The City of Newton – a livable, sustainable city for the 21<sup>st</sup> Century***

As Mayor Setti Warren completes his 5<sup>th</sup> year in office, the City of Newton is positioned for long-term financial sustainability while continuing to work toward 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.

As is evident in the following pages, although the Administration has eliminated the “structural deficit”, the preparation of the annual budgets will always remain a challenge. Leaders will always want to provide more services, improve infrastructure, or satisfy more long-term liabilities, however, all of these needs must be balanced against affordability.

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 collective bargaining agreements with all 17 of the City of Newton's bargaining units expired. The Administration has reached agreement with some of the municipal unions and continues to meet with the other groups. It is the expectation of the Administration that collaboration with union leadership will allow these new contracts to be structured to maintain parity between the growth rate of both revenue and expenditures. The three year collective bargaining agreements that were negotiated for the FY2011 – FY2014 period have had a profound impact on the ability of the City to develop a feasible, viable, and balanced five-year financial forecast. The Administration will again work respectfully and cooperatively to develop 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.

### **Performance Management**

Over the past 5 years, the City has employed performance-based management initiatives across all municipal departments utilizing a systematic approach to outline, analyze and improve city processes. This initiative has made the delivery of core services more efficient, effective, and adaptable to a variable environment. This fall, the Administration and departments collaborated to redraft the published "scorecards" for measuring performance in several new and different areas. Scorecards now reflect the eight overarching outcomes used as the basis for developing the budget and serve as an important vehicle for conveying transparency to the citizens of Newton. The data collected in these scorecards aid in budget and operational planning, and will



guide the City in making decisions that are both informed and data supported. The process of performance measurement will continue to expand and be an invaluable tool as the Administration strives for continuous improvement in the delivery of services to the citizens of Newton.

The Administration has also created more than 40 working groups targeting distinct objectives that will yield cost savings, efficiencies, and added convenience to the Citizens of Newton. Focusing on areas such as, online payments, parking management, traffic signalization, and energy procurement, these working groups are driving important initiatives city wide.

City of Newton Performance Management Scorecard  
September 2014

Metrics measured monthly unless otherwise noted

Metric	Metric Goal	Monthly			Yearly		
		Target	Actual	Result	LYTD	YTD	Trend
<b>Department of Public Works</b>							
<b>Energy Efficient Lighting</b>							
LED Streetlight changeover		100%	100%		0%	100%	
<b>Director of Sustainability</b>							
New solar kWh capacity through PPA's and city-owned generation	Annual Goal - 150kW new	150.00	0.00		0	0	
Solar installations through Newton Solar Smart program	Annual Goal - 50 in FY2015	50.00	0.00		0	0	
Total City AFV/hybrid vehicles	Annual Goal - 5 in FY2015	5.00	5.00		3	3	
New charging stations in the city	Annual Goal of 2 in FY2015	2.00	2.00		0	0	
Sustainability Public Events	Month Goal	2.00	1.00		6	7	
<b>Public Buildings</b>							
<b>Reduction of Energy Consumption</b>							
Total energy reduction, year to date		5.00%	5.37%		6.91%	5.37%	
Square Feet of Buildings Retrofit		539,275	922,275		217,548	922,275	
Number of Energy Conservation Measures (ECM) completed	Annual Goal of 90 in FY2015	8	38		18	38	

## Capital Plan

A key responsibility of the leadership of the City of Newton is the preservation and maintenance of the community's school buildings, municipal buildings, roadways, parks, recreation space, and water and sewer facilities. The City's capital assets include 78 buildings and the technology infrastructure that connects them, approximately 300 miles each of roadways, sewer lines, water lines, and storm drains, 58 parks and playgrounds, and over 300 vehicles and pieces of construction equipment. Proper maintenance and investment in these capital assets extends their life and is necessary to support City services to fully achieve the goals outlined in the Fiscal Year 2015 City Budget for each department and the City as a whole. Planning for the funding of the City's capital infrastructure is crucial in the development of sound financial management.

The FY2016-2020 Capital Improvement Plan (C.I.P.) continues to be built on the City's risk-based prioritization process that addresses infrastructure needs, reflects community values, and

supports city operations, programs and services, and exemplifies sustainable financial and environmental best practices. Since this process was introduced in the fall of 2011, the CIP has evolved each year to create a more logical and transparent plan to keep up with Newton's changing needs and priorities. This year a "Traffic Signalization" Plan has been developed and added to the C.I.P. document. This addition details Newton's plans and commitment to public safety and better and more fluid traffic flow. Other items highlighted in this year's CIP include continuing the City's commitment to increasing the capacity of the Newton Public Schools, continued implementation of the Technology Vision, and significant improvements to Play Structures, Hardscapes, and Ball Fields.



McGrath Tennis Courts

Bowen School Play Structure

West Newton- Traffic Signals

## **Economic Development**

With the continued improvement of the regional economy, Newton is well-positioned for investment and economic development activity. These activities include individual development projects and City-led initiatives to further enhance the opportunities available for private-sector investment. This year marked the completion of the Chestnut Hill Square project, which, along with 'The Street' completed last year, has served to revitalize that part of Route 9. The Riverside project, one of the largest developments in the history of Newton, worth \$350 million and expected to generate \$3 million annually in real estate tax revenue, continues to advance through the City's permitting process and is currently in the process of identifying the funding source for the construction of a new multi-modal facility and parking garage.

The Administration will continue to work with the Honorable Board to develop innovative strategies to advance economic development. The N2 Corridor Initiative continues to draw attention and interest to Needham Street and the Wells Avenue Business Park, building on Newton's existing range of technology companies in the area. The Planning and Development Department will also begin a master planning process for Newton's villages and neighborhoods leading to zoning reform and further encouraging village vitality and business development.





The Street- Chestnut Hill



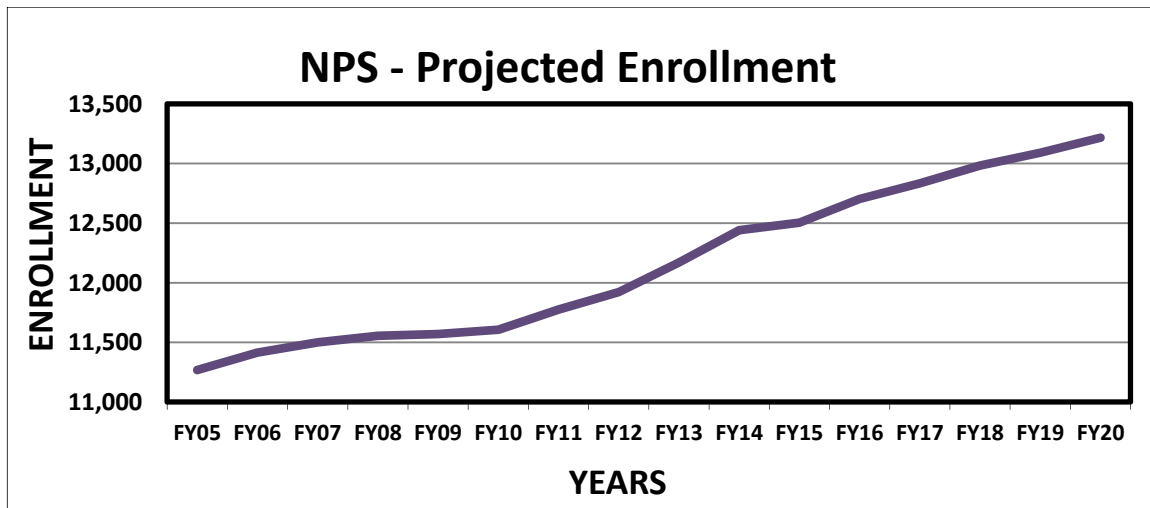
The Proposed "Station at Riverside"



Chestnut Hill Square

### **Growth in Enrollment**

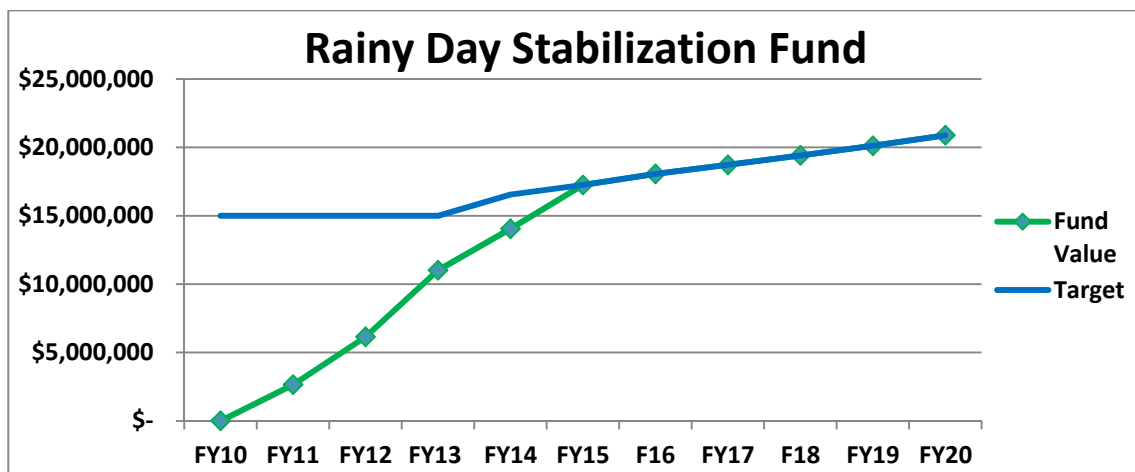
The Newton Public Schools continue to see consistent growth affecting all levels citywide. Accumulated net growth of approximately 1,240 students from 2004-05 through 2014-15, an increase of 11%, initially affected the elementary schools and subsequently the population started to arrive at the middle 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 700 students, or 6%, 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. This year, Newton Public Schools experienced the second largest kindergarten class since 1975, an indicator of continued growth.



### **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 expenditure. 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 its goal of 5% of the total operating budget for FY 2015 or \$17,251,343. 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 April of 2014, the City of Newton once again received an “Aaa – stable” rating (the highest possible), from Moody’s Investor Services for its \$20.936 million General Obligation Municipal Purpose Loan of 2015 bonds. Concurrently, Moody’s reaffirmed the Aaa rating assigned to \$204 million of outstanding debt. It is important to note that maintaining this rating is vital and saves the City from the additional interest expense associated with a lower bond rating, thus inherently acting as a key player in Newton’s future financial stability.

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, manageable debt profile with moderate future borrowing plans. The rating also reflects the city's strong fiscal management with a narrow financial position. The stable outlook recognizes*

*the city's improving financial position, conservative forecasting in five-year and capital plans and implementation of comprehensive financial policies.*

STRENGTHS

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

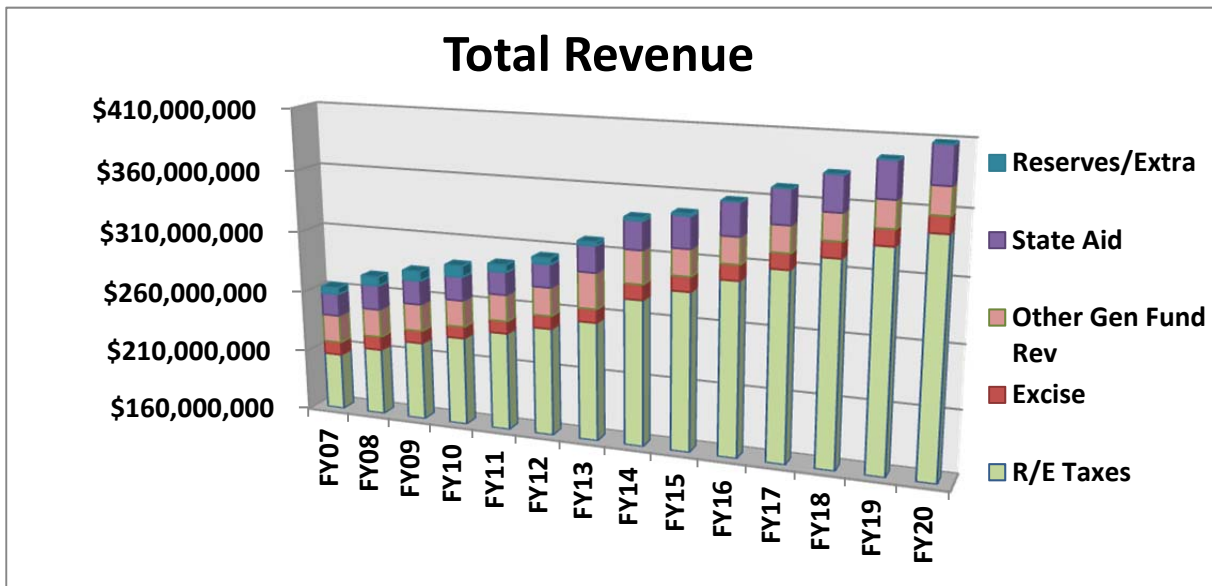
CHALLENGES

- Limited ability to raise property taxes under Proposition 2 ½
- High liabilities for pension and OPEB

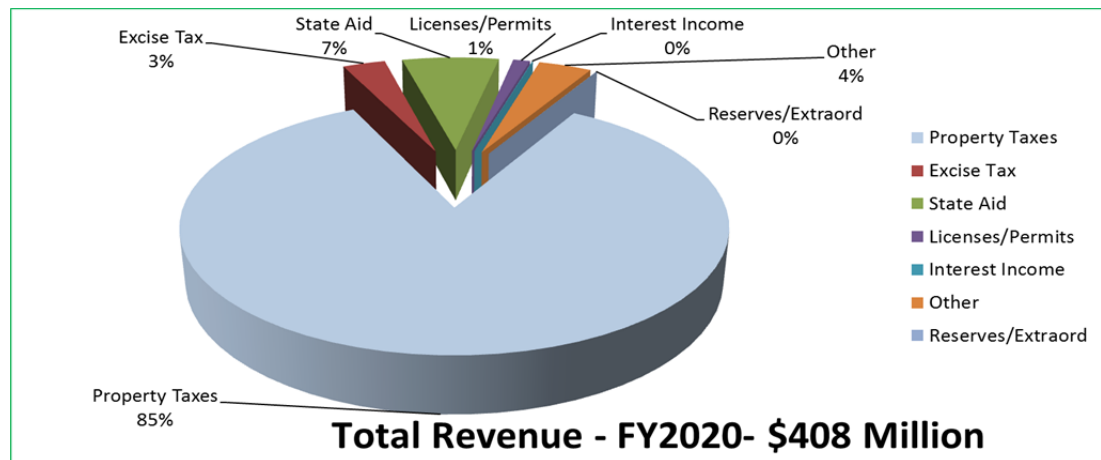
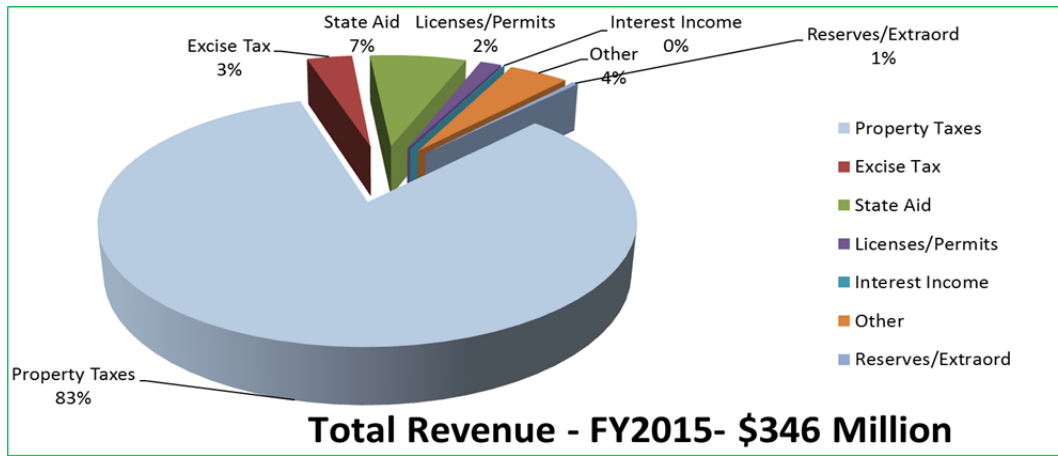
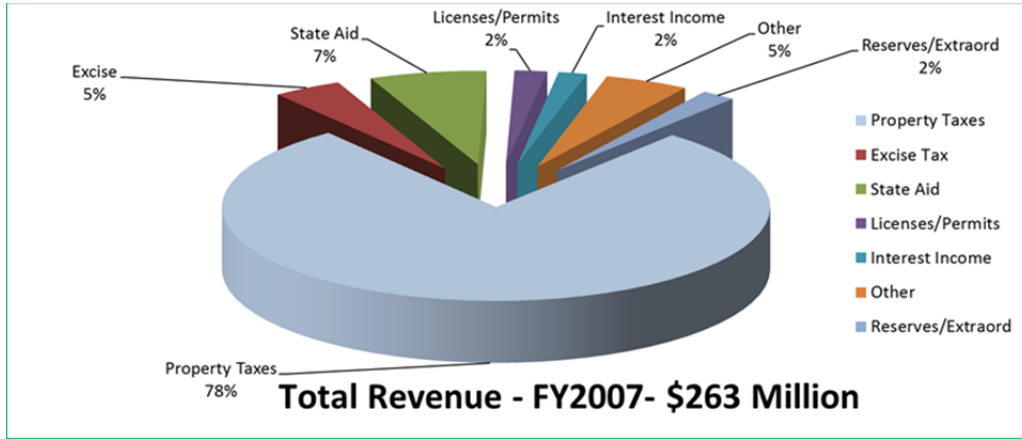
The City is very pleased to have maintained the Moody's Aaa bond rating issued in April of 2014 and has worked diligently to establish and follow refined, responsible, and forward-looking financial management guidelines.

## Revenue Projections

Total annual increase in revenue for the City had been averaging approximately 2.5% 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 FY16-FY20 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 \$3.5M 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 FY2020. 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 FY2020. 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  
FY2014 Actual/FY2015 Budget/FY2016 through FY2020 Forecast**

	<-ACTUAL->		<-BUDGET->		-----FORECAST----->			
	FY14	FY15	FY16	FY17	FY18	FY19	FY20	
<b>OPERATING REVENUE</b>								
Real Estate Tax Revenue	\$ 277,381,501	\$ 287,222,833	\$ 299,253,404	\$ 310,722,239	\$ 322,330,295	\$ 334,078,552	\$ 346,018,016	
Excise Tax Revenue	\$ 12,196,691	\$ 11,700,000	\$ 12,200,000	\$ 12,322,000	\$ 12,445,220	\$ 12,569,672	\$ 12,695,369	
Hotel Room Tax	\$ 2,218,759	\$ 2,200,000	\$ 2,225,000	\$ 2,269,500	\$ 2,314,890	\$ 2,361,188	\$ 2,408,412	
Meals Tax - 0.75%	\$ 1,557,737	\$ 1,500,000	\$ 1,550,000	\$ 1,588,750	\$ 1,628,469	\$ 1,669,180	\$ 1,710,910	
Payments In Lieu of Taxes	\$ 355,596	\$ 284,000	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000	
Interest/Divident Income	\$ 190,647	\$ 200,000	\$ 210,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	
License/Permit-ISD,Fire,H&HS	\$ 6,448,540	\$ 5,454,100	\$ 5,381,700	\$ 5,056,700	\$ 5,056,700	\$ 5,056,700	\$ 5,056,700	
Parking Meter Receipts	\$ 1,709,300	\$ 1,773,597	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	
Parking Violations	\$ 1,459,059	\$ 1,350,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	
Medicare D/SPED Medicaid	\$ 1,201,165	\$ 1,350,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000	
Water/Sewer Gen'l Fund Adm	\$ 1,983,994	\$ 2,088,882	\$ 2,141,104	\$ 2,194,632	\$ 2,249,497	\$ 2,305,735	\$ 2,363,378	
Premium from Sale of Bonds	\$ 650,998	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other/Miscellaneous Revenue	\$ 8,572,909	\$ 4,810,908	\$ 4,610,964	\$ 4,603,249	\$ 4,605,934	\$ 4,559,025	\$ 4,571,296	
<b>REVENUE FROM OPERATIONS</b>	<b>\$ 315,926,896</b>	<b>\$ 319,934,320</b>	<b>\$ 332,357,172</b>	<b>\$ 343,742,070</b>	<b>\$ 355,616,005</b>	<b>\$ 367,585,053</b>	<b>\$ 379,809,080</b>	
<b>REVENUE FROM STATE AID</b>								
Unrestricted Gen'l State Aid	\$ 5,088,123	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	
Chapter 70 State Education Aid	\$ 17,403,779	\$ 19,700,479	\$ 20,700,479	\$ 21,450,479	\$ 22,200,479	\$ 22,950,479	\$ 23,700,479	
<b>REVENUE FROM STATE AID</b>	<b>\$ 22,491,902</b>	<b>\$ 24,929,705</b>	<b>\$ 25,929,705</b>	<b>\$ 26,679,705</b>	<b>\$ 27,429,705</b>	<b>\$ 28,179,705</b>	<b>\$ 28,929,705</b>	
<b>OPERATING REVENUE</b>	<b>\$ 338,418,798</b>	<b>\$ 344,864,025</b>	<b>\$ 358,286,877</b>	<b>\$ 370,421,775</b>	<b>\$ 383,045,710</b>	<b>\$ 395,764,758</b>	<b>\$ 408,738,785</b>	
% Increase		1.90%	3.89%	3.39%	3.41%	3.32%	3.28%	
<b>REVENUE - FROM TRANSFERS</b>								
New Falls Settlement In Lieu of	\$ 66,555	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	
Capital Stabilization Fund	\$ 2,140,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Free Cash	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,000,000	\$ 750,000	\$ 500,000	
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>REVENUE FROM TRANSFERS</b>	<b>\$ 2,206,666</b>	<b>\$ 1,560,000</b>	<b>\$ 1,560,000</b>	<b>\$ 1,560,000</b>	<b>\$ 1,060,000</b>	<b>\$ 810,000</b>	<b>\$ 560,000</b>	
<b>TOTAL REVENUE</b>	<b>\$ 340,625,464</b>	<b>\$ 346,424,025</b>	<b>\$ 359,846,877</b>	<b>\$ 371,981,775</b>	<b>\$ 384,105,710</b>	<b>\$ 396,574,758</b>	<b>\$ 409,298,785</b>	
% Increase		1.70%	3.87%	3.37%	3.26%	3.25%	3.21%	



## **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".

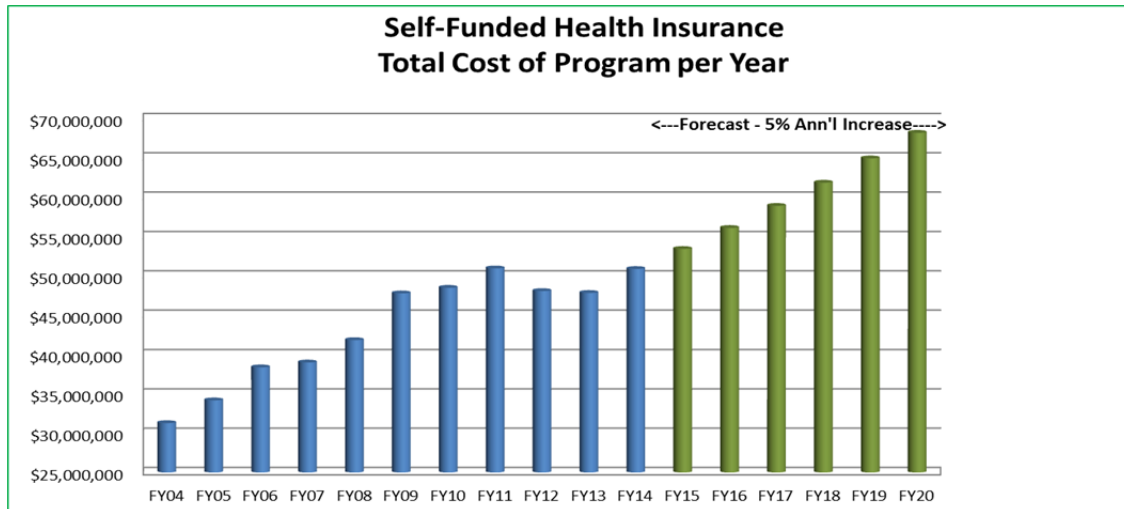
As mentioned earlier, the Administration has reached agreement with some of its 17 unions and is currently in negotiations with all remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy to the 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 \$250,000). Rather than paying "premium" rates, the City works with its insurance carriers and health consultants to develop "working" rates. These working rates are projections of costs. If actual costs are less than projected, the City benefits and "saves" money. Conversely, if the actual costs are more than projected, the City must pay the difference. In order to do this, the City maintains a Health Insurance Trust Fund to manage any variances between the projections and actuals.

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 approximately 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. Although it is too early to tell what FY15 will yield, the City will continue to closely monitor these costs so as to be in a position to make the most informed decisions possible in the ever changing health insurance market.

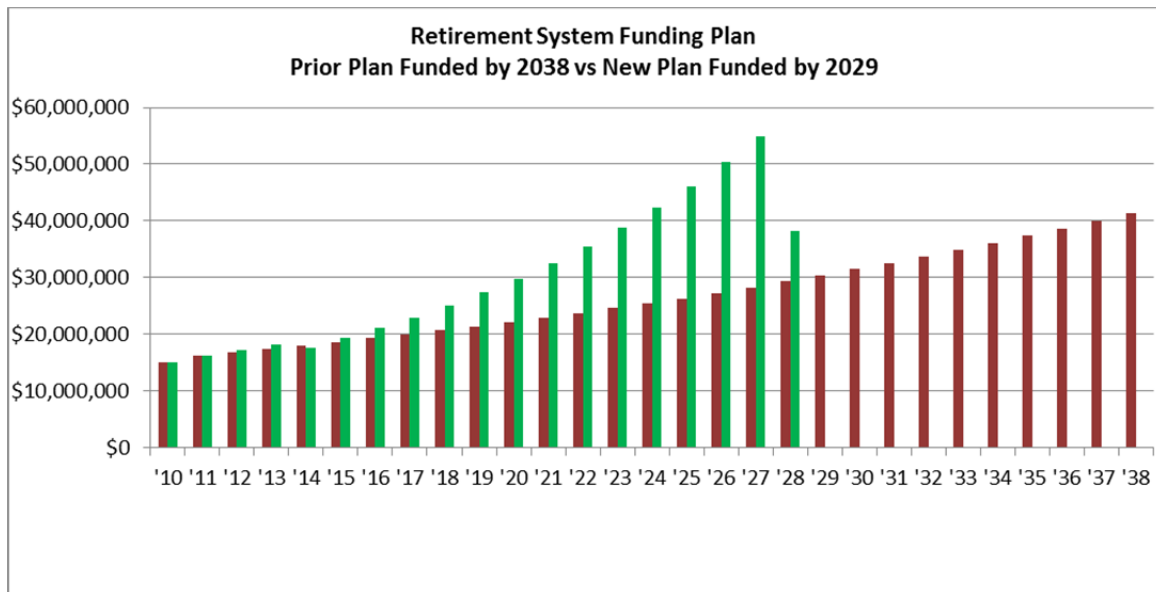


Average Annual Increase over 10 Years – FY04 to FY14 – 6.2%

### **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 49% as of January 1, 2014. 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 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 8.5% in support of this decision.



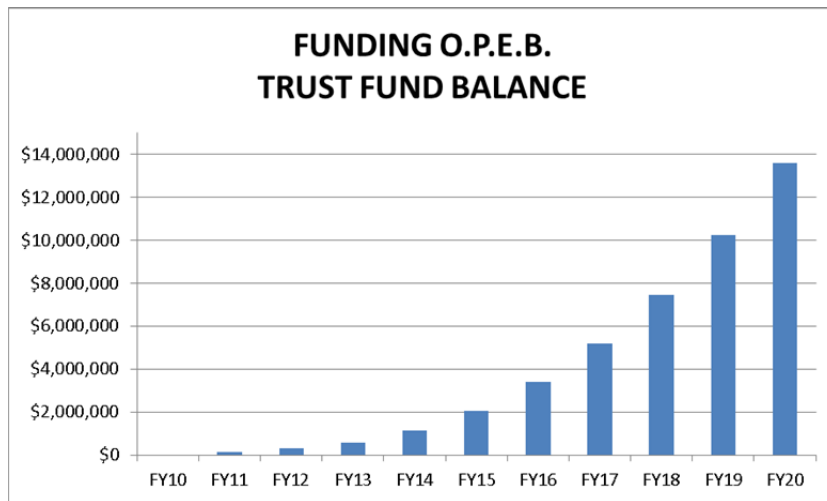
**Retiree Health Benefits - Other Post-Employment Benefits (O.P.E.B.)**

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.

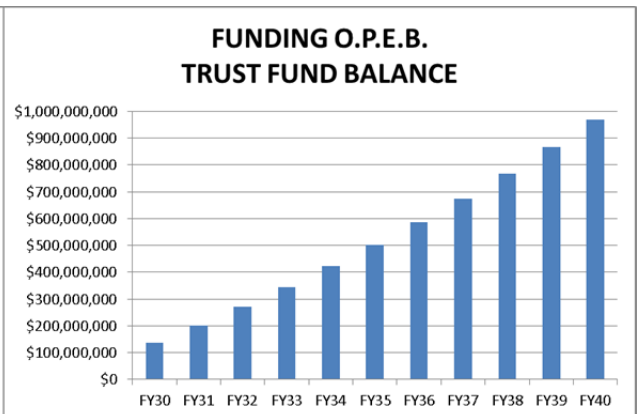
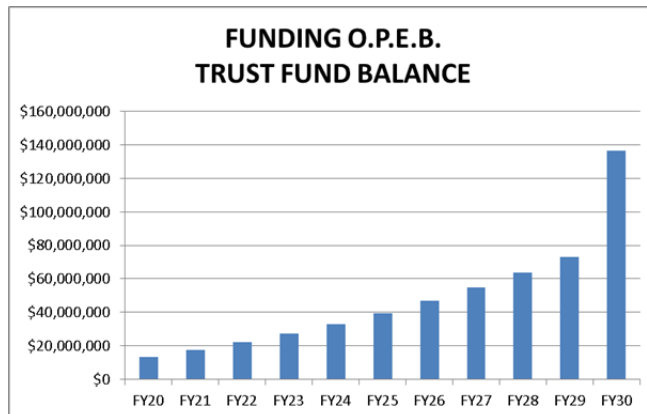
Although the adoption of M.G.L. c32B section 18 has had a significant impact on controlling the costs of Retiree Health Insurance, the City of Newton was ill prepared for this liability. Like many municipalities throughout the Commonwealth and the Nation, the City of Newton promised benefits and incurred liabilities over the years for which it did not prepare and is now faced with a \$554 million unfunded liability.

As a result, in 2010 the City established an Other Post-Employment Benefits (O.P.E.B.) Liability Trust Fund and has recently 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 FY15 Budget includes an appropriation in excess of \$900,000

representing 3% of the salaries of approximately 600 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.



### **Out-of-District Tuition**

Out-of-District Tuition has also 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 strategy has been very effective in controlling costs in the last few years. Even so, tuition costs are projected to increase in future years for two main reasons. Although out-of-district tuition rates are controlled by the Massachusetts Department of Elementary and Secondary Education, many private schools seek and are granted "extraordinary relief" which allows for a higher rate of tuition increase. Also, a steady increase in the number of out-of-district placements, along with growth in the overall population, is also projected for future years. 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 second 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 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' very favorable rates. However, the City's electricity contract is set to expire on June 30, 2015 while its natural gas contract is set to expire on November 1, 2015.

Therefore, 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. Within the past year, the city has undertaken a complete conversion of streetlights to LEDs, and has embarked on an aggressive

energy efficiency program in city buildings. These two projects will reduce the city's electricity use by over 13%. 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 in the past seven years.

In FY2014 the city entered the energy generation field, contracting with Massachusetts energy company Ameresco to install 650kW of solar panels on five Newton buildings. These solar panels will provide electricity to the City at a below-rate, stable price for the next twenty years, saving approximately \$2 million.



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.

## **Technology Vision**

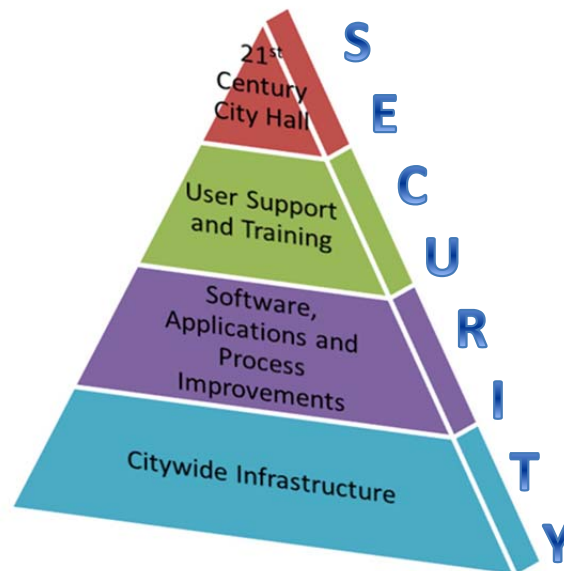
In 2013, the Administration developed the "Technology Cluster", an assemblage of the City's IT employees from City Hall, Police, Fire, Library, Department of Public Works and Newton Public Schools to discuss current issues, trends driving the future of technology, and to create an evolving path for the city to follow for the next five years. The result was the City of Newton's first 5 Year Technology Plan.

The City is well on its way to implementing many of the projects listed in the plan. Physical servers were retired after being replaced by a storage area network. Applications, such as Email, have been moved to the "cloud" allowing for savings in maintenance costs, hardware replacement and giving users access 24 hours a day from a variety of devices. As the City looks ahead, it must be able to adapt to the changing technological landscape. It has been projected that by 2017 the



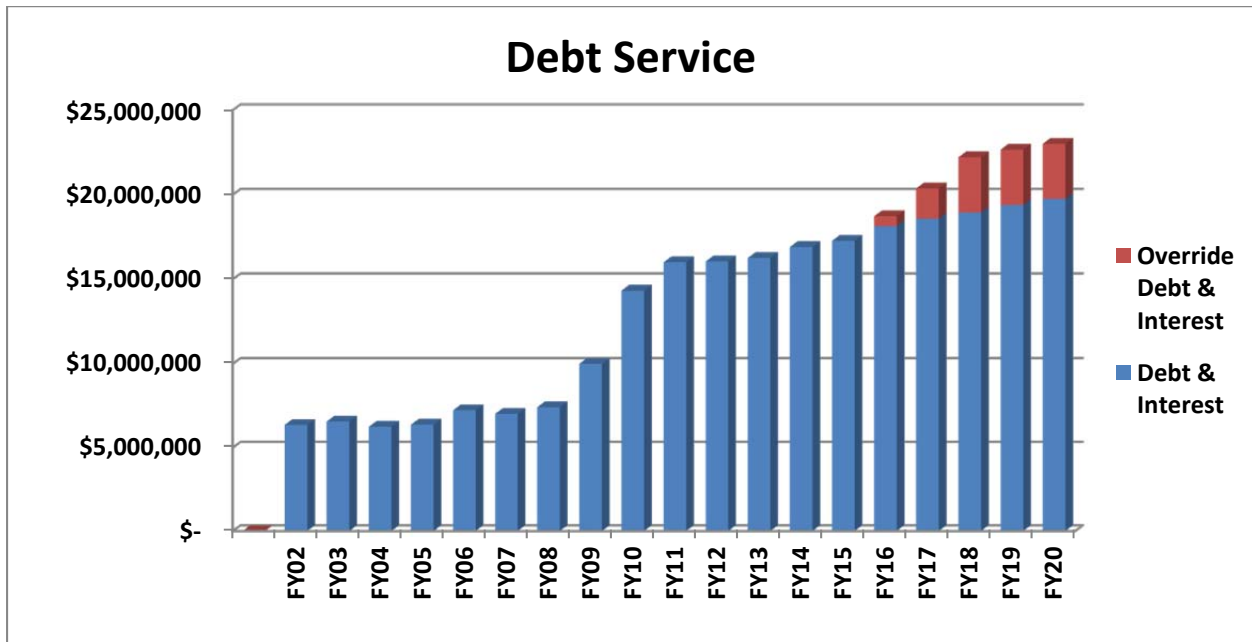
average person will have at least 2 internet connected devices. End-users expect instant access to information and the ability to interact with their local government via the web quickly and seamlessly. Municipalities have an obligation to deliver increased functionality and services to residents using a mix of public and private cloud-based application and platform services, while assuring that data is secure and private.

Establishing a vision and positioning the City of Newton for the future requires an evaluation of current infrastructure, applications, security, customer interfaces, an understanding of the future of technology, and the development of a blueprint for investments in and modernization of the City's technology. The financial resources required to fund the Technology Vision as presented in the FY16-FY20 Capital Improvement Plan are incorporated in this Five Year Financial Forecast.



### **Debt Service**

This Five Year Financial Forecast is the counterpart and is directly linked to the FY2016-2020 Capital Improvement Plan. The City continues to make progress on many of its long term capital projects such as the Angier, Zervas, and Cabot Elementary Schools, the replacement of Fire Stations #3 and #10, the installation of an ADA compliant elevator for the War Memorial, and upgrades to the water and sewer systems. This year, the City will be taking on new and exciting capital challenges. A top priority will be the improvement of the traffic signals citywide to increase traffic flow and improve safety. Additionally, other new capital projects will include upgrades to parking meters, play structures, tennis and basketball courts and ball fields.



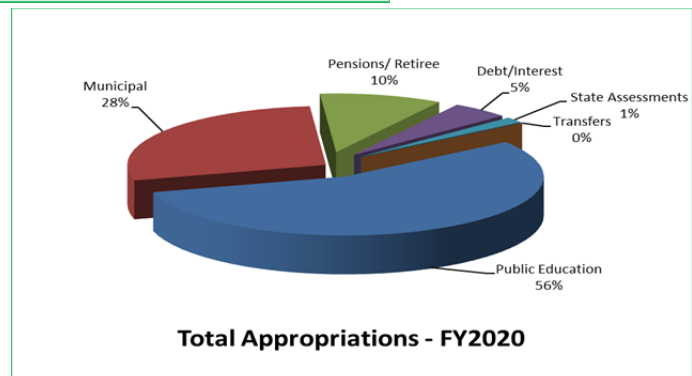
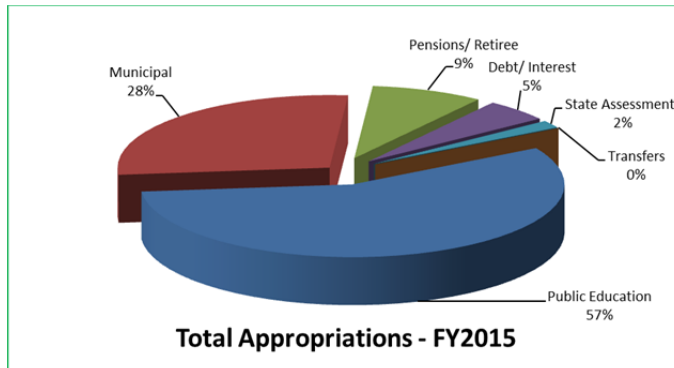
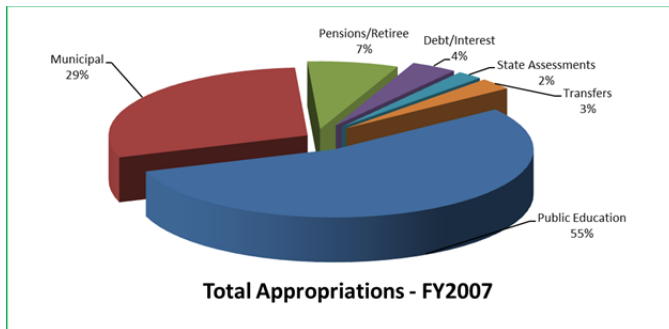
FY07 adjusted by \$2.6 million for firefighter’s loan liability

### Summary of Major Cost Drivers

It is important to note that the projection of major cost drivers is based on prior run rates as well as known conditions. Based on these projections it is clear that controlling cost increases in Health Care Benefits, Utilities, Special Education/Out of District Placements, and Pupil Transportation, while funding Retiree Pensions, and the City’s O.P.E.B. Liability Trust Fund will be a challenge. However, all of this is attainable as long as the City remains committed to and disciplined in its resolve to following the planned funding schedule.

**Projected FY2016 – FY2020 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 improvements at Angier, Zervas, and Cabot Elementary schools. Pensions/Retiree Benefits will continue to consume more of the City’s resources as they have increased from 7% in FY2007, to approximately 9% in FY2015 and 10% by FY2020. 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 FY2016 - FY2020 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 FY2016- FY2020 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% additional funding each year, while retiree benefits are expected to require an additional 7% 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.

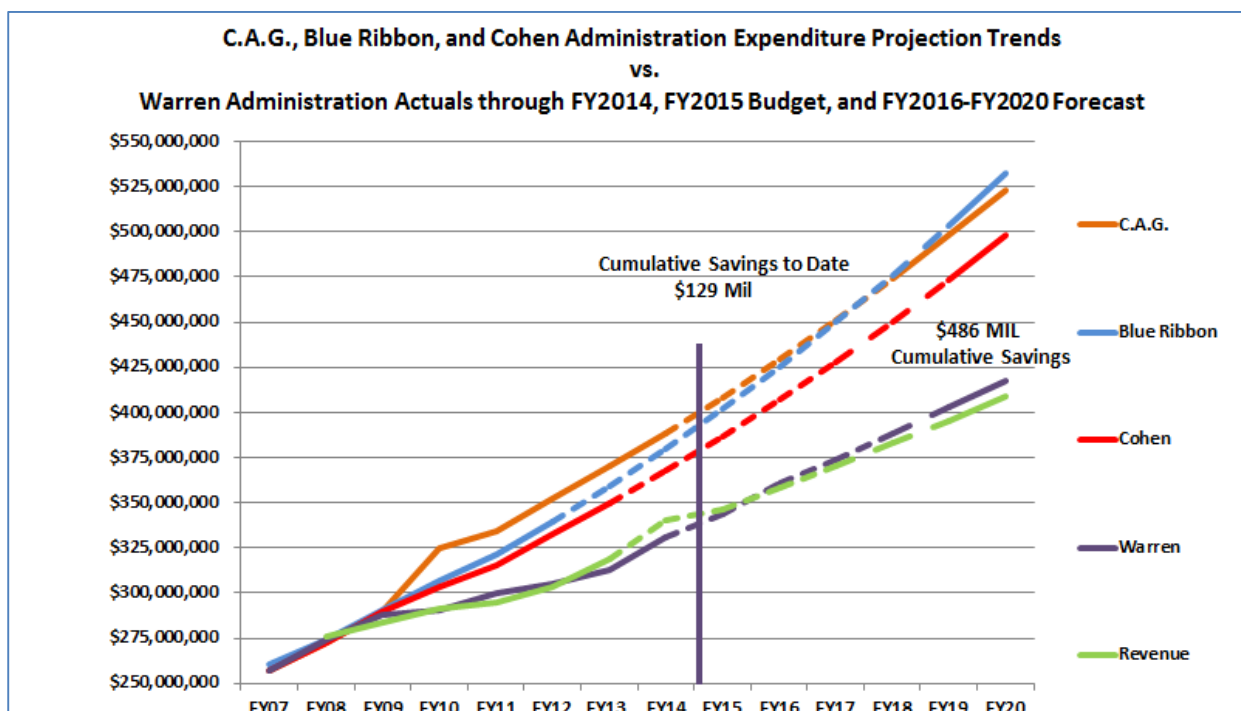
**City of Newton, Massachusetts  
Five Year Projected Expenditure Needs by Functional Element  
FY2014 Actual/FY2015 Budget/FY2016 through FY2020 Forecast**

<b>EXPENDITURES</b>	<b>&lt;-BUDGET-&gt;</b>		<b>&lt;-----FORECAST-----&gt;</b>				
	<b>FY14</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>
<b>Education</b>	\$ 187,701,909	\$ 195,843,867	\$ 202,991,912	\$ 209,937,883	\$ 217,285,709	\$ 224,890,709	\$ 232,761,884
% Increase	6.08%	4.34%	3.65%	3.42%	3.50%	3.50%	3.50%
\$ Increase		\$ 8,141,958	\$ 7,148,045	\$ 6,945,971	\$ 7,347,826	\$ 7,605,000	\$ 7,871,175
<b>Debt Service</b>	\$ 16,910,530	\$ 17,273,964	\$ 18,150,000	\$ 18,585,520	\$ 18,950,000	\$ 19,400,000	\$ 19,750,000
% Increase	3.99%	2.15%	5.07%	2.40%	1.96%	2.37%	1.80%
\$ Increase		\$ 363,434	\$ 876,036	\$ 435,520	\$ 364,480	\$ 450,000	\$ 350,000
<b>Pensions &amp; Retiree Benefits</b>	\$ 27,501,760	\$ 29,539,582	\$ 31,627,901	\$ 33,863,994	\$ 36,285,269	\$ 38,890,551	\$ 41,700,394
% Increase	6.45%	7.41%	7.07%	7.07%	7.15%	7.18%	7.23%
\$ Increase		\$ 2,037,822	\$ 2,088,319	\$ 2,236,093	\$ 2,421,276	\$ 2,605,282	\$ 2,809,842
<b>State Charges</b>	\$ 5,783,939	\$ 5,869,938	\$ 6,016,686	\$ 6,167,104	\$ 6,321,281	\$ 6,479,313	\$ 6,641,296
% Increase	1.07%	1.49%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 85,999	\$ 146,748	\$ 150,417	\$ 154,178	\$ 158,032	\$ 161,983
<b>Transfers to Other Funds</b>	\$ 7,738,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% Increase	1.48%	-100.00%	0.00%	0.00%	0.00%	0.00%	0.00%
\$ Increase		\$ (7,738,524)	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Municipal Expenditures</b>	\$ 90,940,552	\$ 96,515,245	\$ 101,826,500	\$ 105,390,428	\$ 109,079,092	\$ 112,896,861	\$ 116,848,251
% Increase	7.08%	6.13%	5.50%	3.50%	3.50%	3.50%	3.50%
\$ Increase		\$ 5,574,693	\$ 5,311,255	\$ 3,563,927	\$ 3,688,665	\$ 3,817,768	\$ 3,951,390
<b>TOTAL EXPENDITURE FCST</b>							
<b>FY15 - FY19 BUDGET</b>	\$ 336,577,214	\$ 345,042,596	\$ 360,612,999	\$ 373,944,927	\$ 387,921,352	\$ 402,557,434	\$ 417,701,824
		2.52%	4.51%	3.70%	3.74%	3.77%	3.76%

## Sustainable Budget Strategy

Over the past five years, the City has made great strides toward putting its financial house in order. The Administration will continue to refine the zero-based budgeting process while maintaining efficient allocation of resources and exploring new opportunities for fiscal responsibility. The Administration further plans to continue to employ performance management techniques to streamline operations, implement the conclusions of the comprehensive citywide infrastructure assessment, work to encourage economic development where appropriate, and to maintain an open and honest dialogue with the residents of the City of Newton.

For any City’s budget or financial plan to be sustainable, its leaders must remain steadfast in their 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. All of this is 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. Only then will the City of Newton truly be a livable, sustainable, model city for the 21<sup>st</sup> century.



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

**FY2007 – FY2014 Actuals**

**FY2015 Budget**

**FY2016 – FY2020 Forecast**



Five Year Financial Forecast

City of Newton, MA

City of Newton, Massachusetts  
Annual General Fund Revenue  
FY2007 - FY2014 Actual/FY2015 Budget/FY16 through FY20 Forecast

	A-C-T-U-A-L								-<BUDGET->	F-O-R-E-C-A-S-T				
GENERAL FUND REVENUE	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
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	\$ 287,222,833	\$ 299,253,404	\$ 310,722,239	\$ 322,330,295	\$ 334,078,552	\$ 346,018,016
Excise Tax Revenue	\$ 10,745,229	\$ 11,008,570	\$ 10,239,711	\$ 9,578,320	\$ 10,008,481	\$ 10,382,197	\$ 10,914,807	\$ 12,196,691	\$ 11,700,000	\$ 12,200,000	\$ 12,322,000	\$ 12,445,220	\$ 12,569,872	\$ 12,695,389
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	\$ 2,200,000	\$ 2,225,000	\$ 2,269,500	\$ 2,314,890	\$ 2,361,188	\$ 2,408,412
Meals Tax - 0.75%	\$ -	\$ -	\$ -	\$ 382,934	\$ 1,308,191	\$ 1,403,261	\$ 1,407,803	\$ 1,557,737	\$ 1,500,000	\$ 1,550,000	\$ 1,588,750	\$ 1,628,469	\$ 1,669,180	\$ 1,710,910
Payments In Lieu of Taxes	\$ 230,857	\$ 231,373	\$ 406,418	\$ 316,177	\$ 300,261	\$ 477,395	\$ 255,547	\$ 355,596	\$ 284,000	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000	\$ 335,000
Interest/Divident Income	\$ 4,425,105	\$ 3,933,619	\$ 2,283,822	\$ 874,757	\$ 417,144	\$ 244,319	\$ 167,201	\$ 190,647	\$ 200,000	\$ 210,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
License/Permit-	\$ 5,041,880	\$ 4,556,132	\$ 3,895,054	\$ 3,805,987	\$ 4,723,631	\$ 5,011,251	\$ 7,565,365	\$ 6,448,540	\$ 5,454,100	\$ 5,381,700	\$ 5,056,700	\$ 5,056,700	\$ 5,056,700	\$ 5,056,700
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	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000	\$ 1,400,000
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	\$ 1,350,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000	\$ 1,425,000
Medicare D/SPED Medicaid	\$ 1,249,579	\$ 1,334,846	\$ 1,143,439	\$ 1,123,135	\$ 1,791,041	\$ 1,814,072	\$ 1,662,557	\$ 1,201,165	\$ 1,350,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000
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	\$ 2,141,104	\$ 2,194,632	\$ 2,249,497	\$ 2,305,735	\$ 2,363,378
Premium from Sale of Bonds	\$ 90,087	\$ 235,056	\$ 1,557,255	\$ 815,357	\$ 168,147	\$ 131,379	\$ 590,740	\$ 650,998	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenu	\$ 6,865,283	\$ 7,639,373	\$ 7,411,929	\$ 8,760,563	\$ 6,320,579	\$ 7,412,572	\$ 9,990,705	\$ 8,572,909	\$ 4,810,908	\$ 4,610,964	\$ 4,603,249	\$ 4,605,934	\$ 4,559,025	\$ 4,571,296
<b>REVENUE FROM CITY OPERATIONS</b>	<b>\$ 239,750,418</b>	<b>\$ 248,469,281</b>	<b>\$ 256,319,352</b>	<b>\$ 262,986,476</b>	<b>\$ 271,051,828</b>	<b>\$ 280,375,606</b>	<b>\$ 295,357,219</b>	<b>\$ 315,926,896</b>	<b>\$ 319,934,320</b>	<b>\$ 332,357,172</b>	<b>\$ 343,742,070</b>	<b>\$ 355,616,005</b>	<b>\$ 367,585,053</b>	<b>\$ 379,809,080</b>
<b>REVENUE FROM STATE AID</b>														
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	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226	\$ 5,229,226
Chapter 70 State Education	\$ 10,986,835	\$ 12,754,101	\$ 12,939,889	\$ 14,171,395	\$ 13,343,502	\$ 13,504,221	\$ 16,173,153	\$ 17,403,779	\$ 19,700,479	\$ 20,700,479	\$ 21,450,479	\$ 22,200,479	\$ 22,950,479	\$ 23,700,479
<b>TOTAL REVENUE FROM STATE AID</b>	<b>\$ 18,191,408</b>	<b>\$ 20,068,143</b>	<b>\$ 19,541,185</b>	<b>\$ 19,349,133</b>	<b>\$ 18,314,130</b>	<b>\$ 18,474,848</b>	<b>\$ 21,143,781</b>	<b>\$ 22,491,902</b>	<b>\$ 24,929,705</b>	<b>\$ 26,929,705</b>	<b>\$ 26,679,705</b>	<b>\$ 27,429,705</b>	<b>\$ 28,179,705</b>	<b>\$ 28,929,705</b>
<b>OPERATING REVENUE</b>	<b>\$ 257,941,826</b>	<b>\$ 268,537,424</b>	<b>\$ 275,860,537</b>	<b>\$ 282,335,609</b>	<b>\$ 289,365,958</b>	<b>\$ 298,850,454</b>	<b>\$ 316,501,000</b>	<b>\$ 338,418,798</b>	<b>\$ 344,864,025</b>	<b>\$ 358,286,877</b>	<b>\$ 370,421,775</b>	<b>\$ 383,045,710</b>	<b>\$ 395,764,758</b>	<b>\$ 408,738,785</b>
		4.11%	2.73%	2.35%	2.49%	3.28%	5.91%	6.93%	1.90%	3.89%	3.39%	3.41%	3.32%	3.28%
<b>EXTRAORDINARY INCOME/RESERVES</b>														
Stark Street Settlement	\$ 2,850,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Falls Settlement In Lieu	\$ 53,751	\$ -	\$ 53,254	\$ 2,703,300	\$ 38,494	\$ 73,059	\$ 62,256	\$ 66,555	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
School Building Assistance	\$ 2,377,843	\$ 7,040,446	\$ 4,914,768	\$ 4,941,992	\$ -	\$ -	\$ -	\$ 5,685	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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	\$ 1,000,000	\$ 750,000	\$ 500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL EXTRAORDINARY INCOME/RESERVES</b>	<b>\$ 5,364,043</b>	<b>\$ 7,267,146</b>	<b>\$ 7,660,042</b>	<b>\$ 8,924,337</b>	<b>\$ 6,815,056</b>	<b>\$ 4,673,059</b>	<b>\$ 2,762,256</b>	<b>\$ 2,212,351</b>	<b>\$ 1,560,000</b>	<b>\$ 1,560,000</b>	<b>\$ 1,560,000</b>	<b>\$ 1,060,000</b>	<b>\$ 810,000</b>	<b>\$ 660,000</b>
<b>TOTAL REVENUE</b>	<b>\$ 263,305,869</b>	<b>\$ 275,794,670</b>	<b>\$ 283,420,679</b>	<b>\$ 291,169,946</b>	<b>\$ 295,181,015</b>	<b>\$ 303,723,613</b>	<b>\$ 319,263,256</b>	<b>\$ 340,631,149</b>	<b>\$ 346,424,025</b>	<b>\$ 359,846,877</b>	<b>\$ 371,981,775</b>	<b>\$ 384,105,710</b>	<b>\$ 395,574,758</b>	<b>\$ 409,298,785</b>
<b>% Increase</b>		4.74%	2.77%	2.73%	1.38%	2.89%	5.12%	6.69%	1.70%	3.87%	3.37%	3.26%	3.26%	3.21%

Five Year Financial Forecast

City of Newton, MA

**Five Year Expenditure Forecast - by Functional Element**  
**FY2007 - FY2014 Actual/FY2015 Budget/FY16 through FY20 Forecast**

EXPENDITURES	A-C-T-U-A-L								<-BUDGET->	F-O-R-E-C-A-S-T				
	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14		FY15	FY16	FY17	FY18	FY19
<b>Education</b>	\$ 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	\$ 202,991,912	\$ 209,937,883	\$ 217,285,709	\$ 224,890,709	\$ 232,761,884
% Increase		8.55%	2.05%	4.66%	1.82%	2.05%	4.29%	6.08%	4.34%	3.65%	3.42%	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	\$ 7,148,045	\$ 6,945,971	\$ 7,347,826	\$ 7,605,000	\$ 7,871,175
% of Total Budget	54.74%	55.71%	54.25%	56.17%	55.40%	55.65%	56.76%	55.77%	56.76%	56.29%	56.14%	56.01%	55.87%	55.72%
<b>Debt Service</b>	\$ 9,631,312	\$ 7,426,543	\$ 10,009,160	\$ 14,332,284	\$ 16,009,264	\$ 16,055,273	\$ 16,262,237	\$ 16,910,530	\$ 17,273,964	\$ 18,150,000	\$ 18,585,520	\$ 18,950,000	\$ 19,400,000	\$ 19,750,000
% Increase		-22.89%	34.78%	43.18%	11.70%	0.29%	1.29%	3.99%	2.15%	5.07%	2.40%	1.86%	2.37%	1.80%
\$ Increase		\$ (2,204,769)	\$ 2,582,617	\$ 4,323,104	\$ 1,677,000	\$ 46,009	\$ 206,964	\$ 648,293	\$ 363,434	\$ 876,036	\$ 435,520	\$ 364,480	\$ 450,000	\$ 350,000
% of Total Budget	3.74%	2.71%	3.48%	4.93%	5.33%	5.27%	5.12%	#DIV/0!	5.01%	5.03%	4.97%	4.89%	4.82%	4.78%
<b>Pensions &amp; Retiree Benefits</b>	\$ 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	\$ 31,627,901	\$ 33,863,994	\$ 36,285,269	\$ 38,890,551	\$ 41,700,394
% Increase		3.27%	5.90%	5.31%	8.40%	6.64%	1.91%	6.45%	7.41%	7.07%	7.07%	7.15%	7.16%	7.23%
\$ Increase		\$ 623,601	\$ 1,160,613	\$ 1,105,280	\$ 1,841,933	\$ 1,578,192	\$ 483,318	\$ 1,665,810	\$ 2,037,822	\$ 2,088,319	\$ 2,236,093	\$ 2,421,276	\$ 2,605,282	\$ 2,809,842
% of Total Budget	7.40%	7.17%	7.24%	7.55%	7.92%	8.32%	8.14%	8.17%	8.56%	8.77%	9.06%	9.35%	9.66%	9.98%
<b>State Charges</b>	\$ 5,375,365	\$ 5,512,027	\$ 5,453,169	\$ 5,619,317	\$ 5,472,487	\$ 5,503,956	\$ 5,722,550	\$ 5,783,939	\$ 5,869,938	\$ 6,016,886	\$ 6,187,104	\$ 6,321,281	\$ 6,479,313	\$ 6,641,296
% Increase		2.54%	-1.07%	3.05%	-2.61%	0.58%	3.87%	1.07%	1.48%	2.50%	2.50%	2.50%	2.50%	2.50%
\$ Increase		\$ 136,662	\$ (88,858)	\$ 166,148	\$ (146,830)	\$ 31,469	\$ 218,594	\$ 61,389	\$ 85,999	\$ 146,748	\$ 150,417	\$ 154,178	\$ 158,032	\$ 161,983
% of Total Budget	2.09%	2.01%	1.90%	1.93%	1.82%	1.81%	1.80%	1.72%	1.70%	1.67%	1.65%	1.63%	1.61%	1.59%
<b>Transfers to Other Funds</b>	\$ 7,167,220	\$ 9,464,885	\$ 8,723,736	\$ 3,146,879	\$ 5,461,830	\$ 6,899,051	\$ 7,625,408	\$ 7,738,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
% Increase		32.06%	-7.83%	-83.93%	73.56%	28.31%	10.53%	1.48%	-100.00%	-	-	-	-	-
\$ Increase		\$ 2,297,465	\$ (740,949)	\$ (5,576,857)	\$ 2,914,951	\$ 1,437,221	\$ 726,357	\$ 113,116	\$ (7,738,524)	\$ -	\$ -	\$ -	\$ -	\$ -
% of Total Budget	2.79%	3.45%	3.02%	1.08%	1.82%	2.26%	2.40%	2.30%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>Municipal Expenditures</b>	\$ 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	\$ 101,826,500	\$ 105,390,428	\$ 109,079,092	\$ 112,896,861	\$ 116,848,251
% Increase		5.63%	8.81%	-4.82%	0.87%	-2.08%	4.31%	7.08%	6.13%	5.50%	3.50%	3.50%	3.50%	3.50%
\$ Increase		\$ 4,236,244	\$ 7,077,451	\$ (4,172,171)	\$ 796,925	\$ (1,740,076)	\$ 3,509,663	\$ 6,014,616	\$ 5,574,693	\$ 5,311,255	\$ 3,563,927	\$ 3,688,665	\$ 3,817,768	\$ 3,951,390
% of Total Budget	29.24%	28.96%	30.09%	28.33%	27.71%	26.70%	26.76%	27.02%	27.97%	28.24%	28.18%	28.12%	28.04%	27.97%
<b>TOTAL EXPENDITURES &amp; TRANSFERS</b>	\$ 257,259,086	\$ 274,395,142	\$ 287,555,038	\$ 290,674,034	\$ 300,134,621	\$ 304,900,913	\$ 317,322,272	\$ 336,577,214	\$ 346,042,596	\$ 360,612,999	\$ 373,944,927	\$ 387,921,352	\$ 402,557,434	\$ 417,701,824
\$ Increase		\$ 17,136,056	\$ 13,159,896	\$ 3,118,996	\$ 9,460,587	\$ 4,766,292	\$ 12,421,359	\$ 19,254,942	\$ 8,465,382	\$ 15,570,403	\$ 13,331,928	\$ 13,976,424	\$ 14,636,082	\$ 15,144,390
% Increase		6.66%	4.80%	1.08%	3.25%	1.59%	4.07%	6.07%	2.52%	4.51%	3.70%	3.74%	3.77%	3.76%
<b>POTENTIAL GAP</b>							\$ 4,053,935	\$ 1,381,429	\$ (766,123)	\$ (1,963,153)	\$ (3,815,642)	\$ (5,982,676)	\$ (8,403,039)	\$ (8,403,039)
										-0.21%	-0.52%	-0.98%	-1.49%	-2.01%

## 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.