

Long Range Financial Plan
&
Five-Year Financial Forecast
FY2020-FY2024

October 15, 2018



City of Newton
Mayor Ruthanne Fuller



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October 15, 2018

Honorable City Council
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Councilors:

Each year, we deliver to the Honorable City Council three inter-related financial documents: the annual budget in April and the five-year capital improvement plan and the financial forecast in October.

In many respects, the financial forecast is the foundational piece of analysis. By looking hard into the future - not just the next year or next five but the next ten to twenty years - we can more thoughtfully and proactively align the City's financial capacity with our mission to build a greater, better and more beautiful Newton to transmit to our children and grandchildren.

The financial forecast is sobering. It reminds us that we must be judicious in our spending and investment decisions because we need to do three things simultaneously.

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

The financial forecast shows we are in excellent financial health. As Moody's Investors Service notes, we have a strong, sizeable, wealthy and diverse tax base, a great location, and conservative financial policies.

Yet, we have our challenges. Unlike some of our peer communities, we are behind on funding our quite large pensions and retiree health care obligations. We need significant investments in many buildings, including schools, parks and recreation facilities, a community center that can serve our seniors, firehouses and police facilities, City Hall and the Library. We need to invest more in maintenance, including roads and playgrounds and our fields and trees. We have not

yet fully incorporated the entire likely costs of snow removal and road repair into our operating budget.

We need to offer fair and competitive packages of salaries, benefits and work conditions that will continue to attract and retain teachers, police officers and firefighters, DPW and Parks and Rec personnel, to name just a few of the 3,000 people who choose to work for us - as these people are the ones who every day make Newton a better place for our residents to raise a family, build a life, and enjoy their senior years.

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

After long hours of deliberation, both our annual budget and our five-year Capital Improvement Plan balance our immediate needs with our long-term goals.

We are addressing the challenge posed to us by our unfunded liabilities for retiree benefits, which are now close to \$1 billion dollars. We will pay the pensions that we have promised and continue to offer excellent health care to our employees and retirees, while providing fair wages and safe work conditions. We are investing in our buildings and roads, playgrounds and recreational facilities, our schools and our senior center, our water, sewer and stormwater infrastructure, and our trees and technology.

The decisions embedded in this Financial Forecast and the Capital Improvement Plan allow the City of Newton to remain in a strong position with the ability to provide great schools and services and take advantage of the many opportunities that lie ahead.

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

Sincerely,

A handwritten signature in black ink that reads "Ruthanne Fuller". The signature is written in a cursive, flowing style.

Ruthanne Fuller
Mayor

Table of Contents

Executive Summary

I. Introduction

Purpose	3
Philosophy	3
Methodology	4

II. Background Information

The City of Newton	6
Demographic Profile	7
Economic Profile	8
Financial Health	8

III. General Fund Revenues

Background on Proposition 2 ½ and Overrides	9
Revenue Forecast: Key Drivers and Assumptions	10
Property Taxes	10
Non-Property Tax Revenues	13
State and Federal Funding	13
Inspectional Services Building Licenses and Permitting Fees	15
Motor Vehicle Excise Taxes	15
Interest Income	16
Five Year Revenue Forecast FY2020 - FY2024	17

IV. General Fund Expenditures

Expenditure Forecast: Key Drivers and Assumptions	18
Employees and Retirees	18
Health Care	19
Retirees	20
Pensions	20
Retiree Health Care (OPEB)	23
The Funding Strategy for Pensions and Retiree Health Care (OPEB)	25
Capital Investments and Debt Service	25
Reserves, the Rainy Day Stabilization Fund, and Free Cash	27
Newton Public Schools	28
Enrollment	28
Full Day Kindergarten and Other Initiatives	29
Municipal/City Expenditures	29
Roads	29
Energy	30
Removal of Snow and Ice	30
Five Year Expenditure Forecast FY2020 - FY2024	31

Table of Contents (Cont'd)

V. Strengths, Challenges, Risks, Opportunities and Uncertainties

Capitalizing on Our Strengths.	32
Managing Our Challenges.	32
Preparing for Risks, Opportunities and Uncertainties.	32

VI. Long Range Financial Plan, Five Year Financial Forecast FY2020-FY2024, and FY2020 Budget

Long Range Financial Planning & Financial Modelling Techniques.	34
Long Range Financial Plan.	39

VII. Beyond the General Fund - Water/Sewer/Stormwater Enterprise Funds

Water Enterprise Fund.	42
Sewer Enterprise Fund.	43
Stormwater Enterprise Fund.	44

Appendices

I. Financial Management Guidelines.	47
II. City of Newton Finance and Budgeting Background Information.	50
i. FY2014 - FY2018 Actuals/FY2019 Budget.	50

Note: In developing this financial forecast, we looked closely at forecasts and forecast documents from several other communities. We borrowed ideas from them, sometimes word for word. In particular, we looked at Five Year Forecasts from Arlington, Boston, and Pittsfield, Massachusetts and Oakland, California as well as the guidelines issued by the Government Finance Officers Association (GFOA). In addition, we liberally used studies and reports developed by and for the City of Newton, ranging from the Comprehensive Annual Financial Report to the Demographic Trends and Projections studies from Northeastern University. Sometimes, we took ideas from these reports word for word.

Executive Summary

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

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

This long range financial plan through FY2030 allows us to meet both our current and long-term goals. It satisfies our pension funding schedule, aggressively increasing our annual appropriation by 9.6% until we have achieved full funding. The plan also establishes financially responsible debt service levels, allowing several critical capital projects including West Newton Square and Newtonville, as well as the future homes for the Newton Early Childhood Program, the Lincoln-Eliot school community, and the Newton Center for Active Living (NewCAL). It provides for a 3.4% increase in the FY2020 Newton Public Schools budget and a 3.25% increase in the FY2020 Municipal budget.

The Newton Public Schools are actively exploring a number of initiatives, some of which may have significant financial implications. Full day kindergarten is one that is actively planned. For now, we are estimating and have made provisions to appropriate an additional \$1 million per year when it is implemented.

Beyond FY2020, after satisfying annual Pension and Retiree Health obligations and Debt Service investments, this plan conservatively provides a 3.25% and a 3.00% annual increase in budgets for the Newton Public Schools and the Municipal Departments respectively. Perhaps most importantly, this plan provides the financial wherewithal for the City to begin fully funding its retiree health care or OPEB liabilities in FY2031.

This forecast is built on thoughtful assumptions for future revenues and expenditures. Based on these assumptions, this forecast knowingly shows a gap in each year between revenues and expenses. This gap grows from approximately \$1 million to as much as \$13 million in FY2029. These gaps will be reevaluated and addressed each year. The Fuller Administration will continue to identify cost saving measures throughout the departments and look for opportunities for additional revenue. Additional revenues may come from new growth or redevelopment, Chapter 70 State Aid, permitting fees, and/or interest income. Reductions in expenditures may be possible in areas such as medical costs and utilities.

This comprehensive long range financial forecast and plan is designed to enable the leadership of the City of Newton to proactively manage City and School personnel costs, operating expenditures, capital investments, technology improvements, equipment and fleet replacement, and debt service, while maintaining the City's Triple A bond rating, providing funding for long

term retiree liabilities, setting a strong financial foundation for future generations, and ultimately assuring the sustainability of the City of Newton for decades to come.

For the FY2020 Budget, FY2020-FY2024 Financial Forecast and the Long Range Financial Plan through FY2030 to be sustainable, City leaders must remain steadfast in their determination to balance revenue and expenditures while addressing the educational, social and emotional, and extracurricular needs of every student in our diverse community; funding infrastructure needs; providing for the functions of government; fully funding all liabilities, and maintaining an appropriate level of reserves.

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

I. Introduction

Purpose

The City of Newton Long Range Financial Strategy and Five Year Forecast FY2020 - FY2024 is designed to help the City make informed budgetary and operational decisions by anticipating future revenues and expenditures. The forecasting process also allows us to highlight and consider the City's financial strengths and challenges as well as potential risks, opportunities, and uncertainties.

By developing a forecast of revenues and expenditures under known conditions and budgeting appropriately for the unknowns, we move forward more thoughtfully with strategies for providing consistent and appropriate levels of service to our residents, compensating our employees fairly, investing sufficiently in roads, buildings and other capital assets, addressing long-term obligations, and developing sustainable budgets for the next year, the coming five years and over the long-term.

We need a sound financial forecast in order to be financially healthy and to spend wisely so we can achieve our overarching goals of:

- Ensuring academic excellence and educational equity
- Keeping Newton safe
- Making Newton more “all age” friendly with a focus on seniors
- Improving streets, sidewalks, and mobility & public buildings and infrastructure
- Preserving neighborhoods, increasing affordable housing, and diversifying housing options
- Promoting vibrant, walkable and financially robust village centers & commercial corridors
- Addressing climate change and sustaining our environment
- Protecting woods and open spaces & caring for our parks and recreation spaces
- Fostering art, culture & community life
- Facilitating a healthy, accessible and supportive Newton
- Providing excellent and responsive City services

Philosophy

We are committed to a balanced and sustainable budget. While each annual budget must be balanced by state law, beyond that, we believe deeply in avoiding a sudden need to cut expenses which often translates into layoffs as personnel costs are such a large percentage of our budget.

Therefore, to ensure a balanced budget, we consciously project revenues conservatively (i.e., we are extremely careful not to overestimate revenues). As per our Financial Guidelines, General Fund revenue financial forecast estimates are expected to capture 99% of total expected revenue for the year. We project expenditures in full (i.e., we are extremely careful not to underestimate costs). As per our Financial Guidelines, General Fund expenditure financial forecast estimates are expected to address not less than 100% of projected operating requirements of the various departments for the next fiscal year.

Throughout the past several years the City has focused on eliminating the “structural deficit,” developing conservative financial forecasts, improving financial reserves, implementing comprehensive financial policies, reducing the utilization of non-recurring funding sources to balance the annual budget, and making appropriate investments in the City’s capital infrastructure.

The City has been moving toward developing expenditure budget estimates sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year. Although the City has made significant progress in this endeavor, much remains to be done. The FY2019 municipal budget included a significant commitment to funding increases in snow/ice removal, building maintenance and infrastructure, as well as increased funding to bolster the City’s commitment to the social and mental well-being of Newton’s residents of all ages. Yet we still need significant additional investments in many buildings, including schools, parks and recreation facilities, City Hall and the Library. We need to invest more in maintenance, including our roads and playgrounds and our fields and trees. We have not yet fully incorporated the entire likely costs of snow removal into the operating budget. In each of these areas, we are committed to increasing the funding gradually in each fiscal year budget.

Attention has also been given to significant increased appropriations for the City’s long-term retirement liabilities. Following the funding schedule, the annual appropriation in FY2019 for the City’s contribution to the pension fund was increased by 9.6% or slightly over \$2.6 million while the retiree health care, or OPEB, contribution was increased from 3.25% to 3.5% of the salaries of employees signing up for health insurance beginning on July 1, 2012.

The City must continue to make progress in funding infrastructure, retiree benefits and the full costs of ongoing expenses like snow removal. In addition, along with the Newton Public Schools, we must remain committed to and disciplined in our resolve to settle collective bargaining agreements that maintain parity between revenue and expenditures, and to remain vigilant in managing other large municipal and school expenditures.

Methodology

The Long Range Financial Forecast covers eleven years from Fiscal Year 2020 to Fiscal Year 2030. This time period was chosen because of the critical need and important decision to fund fully the City’s significant pension liability in eleven years and then continue using those monies to fund the City’s retiree health care or OPEB liabilities in the 2030s and early 2040s. Thus, forecasting the financial condition of the City in the next eleven years is crucial.

The forecast was built by first looking at revenue projections. The two key assumptions are that real and personal property taxes will increase by 2.5% annually as allowed under Proposition 2 ½ and that the City of Newton would experience new growth and redevelopment tax revenues of an additional 1.34% annually. In total, revenues from property taxes (which account for approx. 83% of annual revenue) will increase by 3.84% annually.

On the expenditure side, the forecast begins with retiree benefits, including both pensions and retiree health care or OPEB. Pension contributions will increase by 9.6% annually and retiree health care benefits by 5 - 6%, for a blended growth rate of 8.5%. The forecast then looks at debt service (principal and interest on our bonds to finance investments in buildings, large equipment, etc.). The budget for the Newton Public Schools grows at 3.4% in FY2020 and thereafter at 3.25%. For City services, the budget increases by 3.25% in FY2020 and thereafter at 3.0%.

This forecast shows a deficit in each year, ranging from approximately \$1 million to \$13 million. Revenues may be higher than expected. If not, expenditures will need to be curtailed. In addition, unexpected cost increases may occur, also requiring cost cutting in other parts of the budget.

II. Background Information

The City of Newton

Settled in 1639, Newton incorporated itself as a City two hundred and thirty-four years later in 1873. The City is well located seven miles west of downtown Boston. It is bordered by the West Roxbury section of Boston on the southeast, the Town of Needham on the southwest, the Towns of Wellesley and Weston on the west, the City of Waltham and Town of Weston on the north; and the Town of Brookline and the Allston-Brighton sections of Boston on the east.

The City has a population of 88,817 and occupies a land area of 18.33 square miles. The City is principally suburban-residential in character. Unlike many communities that are established around a single Main Street or downtown, Newton is comprised of thirteen distinctive villages - Auburndale; Chestnut Hill; Newton Centre; Newton Corner; Newton Highlands; Newton Lower Falls; Newton Upper Falls; Newtonville; Nonantum; Oak Hill; Thompsonville; Waban; and West Newton. We pride ourselves on being known as “The Garden City” and open space comprises 19.6% of the City’s total land area, of which 55% is publicly owned.

Newton is a desirable community in which to live and work. We have an excellent public school system; safe and attractive neighborhoods; an active community life; multiple transportation systems; proximity to Boston; and a well-managed City government. In September 2018, Newton was again ranked #1 in Massachusetts as the best place to live and #12 in the U.S.

The City of Newton provides a complete range of services including education, public safety, public works, recreation, library, cultural and health and human services. The Massachusetts Water Resources Authority provides public water supply and sewage treatment services.

To provide this complete range of services, the City of Newton is served by approximately 3,000 employees: approximately 2,000 in the Newton Public Schools and close to 1,000 on the City side. Many of Newton’s employees have dedicated their lives to municipal service -- educating their neighbors’ children, plowing roadways in dangerous weather conditions, and literally putting their lives on the line while serving in Newton’s Police and Fire Departments.

The Newton Public Schools (NPS) are among the best in the Commonwealth. Great schools are a critical city service and serve as the cornerstone of Newton’s success. We focus on achieving our dual goals of academic excellence and educational equity. Our educators work diligently to meet the needs - educational, social and emotional, extracurricular - of every student in our diverse community. NPS also focuses on challenging our students while providing a safe, supportive, and inclusive learning environment. Unlike many cities and towns in Massachusetts, during the past decade, the number of school age children attending the Newton Public Schools has increased by approximately 1,250 students or 10%.

Newton has historically been home to three colleges: a significant portion of Boston College, Lasell College and Mount Ida College. While Mount Ida College has recently been acquired by the University of Massachusetts, Amherst, the City expects the facility to remain active with 800

students calling the campus home each year. The three colleges combine to add more than 9,000 college age residents to the City's population from September to May of each year.

The City of Newton has a fully accredited Police Department and is one of the reasons we have been ranked one of the safest cities in America several times during the last decade. Newton's Fire Department, one of only five "Class 1" Fire Departments in the Commonwealth as rated by the Insurance Service Office (ISO), has fully trained EMT's on all apparatus, a highly specialized Technical Rescue Vehicle and Team, and is currently far along in the process of a comprehensive upgrade of all station houses.

The Department of Public Works maintains over 300 miles of public streets, sidewalks, water mains, sewer lines and storm water drains, collects and disposes of more than 20,000 tons of municipal solid waste and 10,000 tons of recyclable materials annually, and plows or treats the City's roadways during an average of 16 snow and ice events each winter season.

Home to the outstanding Newton Free Library, the busiest single library building in the Commonwealth, the City also provides many recreational opportunities for residents of all ages. Through our Parks and Recreation Department, Senior Services, Newton Public Schools and Community Education Program, we offer camps, sports clinics, after school programs, swim facilities, senior trips and activities, and one of the largest therapeutic recreation programs in the state. The City maintains approximately 1,060 acres of parkland, playgrounds, school grounds, and burial grounds, as well as all municipal grounds and recreation buildings. Newton also has a special City museum that was a stop on the Underground Railroad.

Demographic Profile

In May 2014, a team from Northeastern University led by Barry Bluestone and Tracy Corley did an analysis of demographic trends in the City of Newton. They used the most up-to-date census information from 2010. The report notes that Newton's population has grown over the last decade, though not as rapidly as the rest of the Greater Boston region. Racial and ethnic diversity has increased over the decades. As of 1980, nearly 95 percent of the city's population was non-Hispanic white. By 2010, the non-Hispanic white population was less than 80 percent. The fastest growing group has been Asians, which grew from 2% in 1980 to nearly 13% in 2010.

Newton's residents have become increasingly affluent. Newton's increasing household income makes it one of the most affluent populations in the Commonwealth. In 2012 dollars, the median household income increased from \$96,252 in 1980 to \$148,877 in 2012. This rate of increase was more than 56 percent faster than the Greater Boston region. At the same time, nearly one out of eight Newton households as of 2010 (12.2%) live on less than \$25,000 a year.

The City's peak population was in the 1960s at 92,384. In 2010, the population was 85,146. Our current population as of 2017 is estimated at 88,817. At the same time, the average size of a Newton household declined faster over the decades than the number of residents to approximately 2.51 in 2010. In the past few decades, the number of school-age children in Newton has been growing and as of 2010 was virtually back to its peak 1980 level. Approximately 22 percent of the city's population was of school age in 2010. Simultaneously, the

ranks of seniors aged 65+ has been increasing continually since at least 1980. By 2010, the total was close to 13,000 and represented 15.2 percent of all residents. Data indicates that the senior population continues to grow.

Newton is comprised of 18 census tracts and they vary greatly in the demographic profiles of their residents. The variations are dramatic. These differences include median age (from 21.2 to 48), family households (38.6 to 72.9 percent), median household income (\$60,729 to \$204,156) and proportion of racial and ethnic minorities (10.1 to 27.8 percent). Newton is not a homogeneous city in terms of the demographics of our residents.

The City of Newton Assessor's Office analyzes housing sale prices in twenty districts in Newton. In November 2017, their annual report showed wide variations in prices from \$680,000 in West Newton and Newtonville north of the Mass Turnpike to \$1,887,000 in Chestnut Hill. The report also showed escalating median sales prices with 2008 at \$755,000 and 2017 at \$1,162,944, a 35% increase in nine years or a compound average growth rate of 4.9%. These rising housing prices are making it increasingly difficult for people to stay in Newton or to move here.

The Northeastern reports can be found at the City of Newton website (newtonma.gov). From the homepage, go to "About" and then to "Demographics."

Economic Profile

Newton has a diversified economic base with approximately 45,500 individuals employed in 3,700 establishments within the boundaries of the City, with an estimated annual payroll of \$2.2 billion. Businesses are generally small and service-oriented with retail and wholesale trade and services accounting for 74% of all jobs.

Commercial uses occupy 4.1% of the City's land area. Nearly 24% of commercial land parcels are office uses; 21% are small retail uses; and 6% are storage or warehouse uses. Only 1.1% of the City's land area is industrial.

Financial Health

The City of Newton is in excellent financial health. When Moody's Investors Service evaluated the City in December 2017, it assigned us its highest rating of Aaa. Moody's commented on our sizeable, wealthy and diverse tax base and Newton's favorable location and institutional presence; our formal financial policies and conservative, multi-year budgeting approach; and our strong fiscal management including plans to fully fund pensions by 2030. Moody's noted that the City has limited ability to raise property taxes under Proposition 2 ½ and large long-term liabilities for pensions and retiree health care (also known as OPEB). Moody's projected continued financial stability for the City due to our conservative budget forecasting, adherence to comprehensive financial and debt policies, and the strength of both the Newton and regional economies. It cautioned the City to avoid a multi-year trend in declining available General Fund balances, increased reliance on free cash appropriations to balance our operating budget, a material increase in our debt burden, and a failure to reduce our unfunded pension liability.

III. General Fund Revenues

Background on Proposition 2 ½ and Overrides

Proposition 2 ½ was enacted in Massachusetts in 1980 and significantly influences property tax administration. The property tax levy - usually simply called the levy - is the revenue a community can raise through property taxes. Prop 2 ½ places constraints both on the amount of the levy raised by a city or town and on how much the levy can be increased from year to year. First, a community cannot levy more than 2.5 percent of the total value of real and personal property in the community; this is the levy ceiling. Second, a community can only increase the levy by 2.5%. This amount combined with the property tax revenue generated each year from "New Growth or Redevelopment" becomes the levy limit.

A community can exceed the levy ceiling or levy limit temporarily by a majority vote of its residents for a debt or capital outlay expenditure exclusion or permanently by a majority vote for an override.

Another important aspect of understanding and applying Prop 2 ½ is that once a community's levy limit is established for a particular year, the community can determine what its levy will be. The community may set its levy at any amount up to the levy limit. Notably, as long as a community levies no more than its levy limit, there is no restriction on the dollar or percentage increase in its levy from year to year. Prop 2 ½ restricts increases in the levy limit, not the levy. When a community sets its levy below the limit, the difference between the levy and the levy limit is commonly referred to as excess levy capacity. This is an additional amount the community could, but chose not to, levy. The City of Newton's actual levy is very close to the levy limit. The City of Newton has essentially no excess levy capacity.

Massachusetts laws mandate that the assessed values of real property represent the full and fair cash value as of the previous January 1st. The City of Newton Assessor's Office annually reviews all assessments (i.e., market values). Although the increase or decrease in assessed values from the previous year do not impact the total property tax that the City will collect, changes in assessed values may cause a shift in the distribution of the taxes paid by individual property owners. If all assessed values remained the same or increased by the same percentage, the overall tax increase would be the overall increase due from Real Property Taxes in the budget approved by the City Council. If a certain segment of the market or a different class of properties (e.g. residential vs commercial) increased or decreased by varying amounts, a shift would occur in the overall tax burden by each group. For all properties that have not changed in value as a result of a renovation, addition or redevelopment, it is this shift in relative assessed value that causes property tax increases to vary from the 2 ½% allowed by Proposition 2 ½.

For many years, the Mayor has proposed and the City Council has voted to increase the tax levy by the 2.5% maximum. In FY2017, this 2.5% represented \$7,911,393. Revenue assumptions in this Long Range Financial Strategy presume a continuation of this policy.

The Assessor's Office determines the amount of new growth each year by evaluating all new construction projects, renovations and land use changes to determine the increase in the property value. The Massachusetts Commissioner of Revenue has an approval process to certify the Assessors determination of new growth. Most recently, the increase in the tax levy as a result of "new growth or redevelopment" was \$5,573,023.

Voters in Newton have twice approved debt exclusion or overrides. In 2002, there was an \$11,500,000 override that went into effect with the FY2003 property taxes. In 2013, the voters approved two different debt exclusions and an operating override. This resulted in a FY2014 \$8,400,000 override increase in taxes and debt exclusion debt payments that started in FY2015. In FY2018, the amount of the debt exclusion debt payment was \$1,960,280. In terms of average single family tax bills, in FY2018, Newton's average tax bill was \$11,346 which ranked 15th in the Commonwealth.

Preparing the annual operating budget within the confines of Proposition 2 ½ will never be easy. Achieving long-term financial sustainability, while we are investing in our children's education, improving and expanding the ways in which seniors can participate in community life, improving significantly our streets and sidewalks, making improvements to building and facilities such as Lincoln-Eliot and the Senior Center, proactively planning and investing in villages and commercial corridors such as Needham Street and Washington Street, and designing and building walkable, vibrant and financially robust village centers and commercial corridors is a challenging task to say the least.

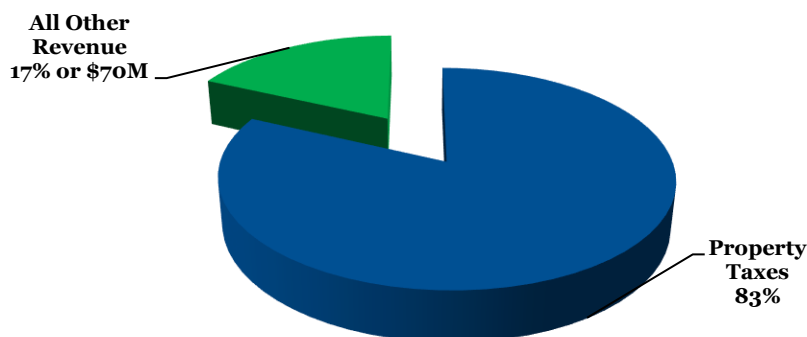
Revenue Forecast: Key Drivers and Assumptions

The long range planning process begins with revenue projections.

Property Taxes

Property taxes account for over 83% of the City of Newton's revenues.

Fiscal Year 19 - Property Taxes = \$342M



The City of Newton has been the beneficiary of strong residential growth and a healthy commercial sector for much of its history. Its proximity to Boston, excellent public schools, and its commitment to culture and community life have all been contributing factors. Average

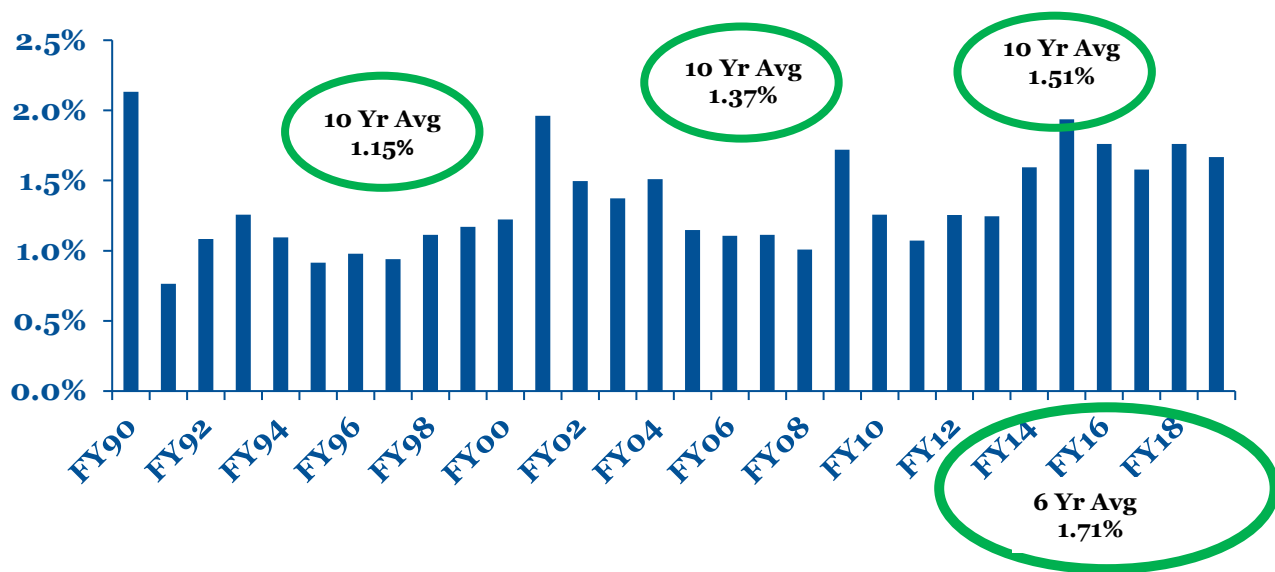
property values have grown to more than \$1 million and our village centers and commercial sectors are thriving.

In FY2019, the assumption was that the tax levy for real and personal property will be increased by 2.5% to a total of \$338 million. We continue to make this assumption for the coming eleven years.

In the last decade, the City of Newton has become more dependent on property tax revenues to fund City operations, increasing from 78% in FY2007 to a projected 84.5% in FY2024. This means that more of the City’s operating budget is subject to an annual maximum increase of not more than 2.5%.

Projecting the amount of new growth is perhaps the single most important assumption in the forecast. Property Tax Revenue from new growth and redevelopment has averaged 1.34% of the property tax levy limit (the total allowable property tax calculated by the state) over the past 30 years and has averaged 1.7% in the past six years. The growth in these property tax revenues has had a significant effect on the ability of the City to accomplish many of its goals. Sustaining these very positive historical trends will take much thought, effort and strategic planning.

New Growth as a Percent of Property Tax Levy
30 Year Average = 1.34%



In the residential sector, renovations as well as demolitions followed by a new home add to the property tax base. Although these changes generate additional tax revenue, they can significantly impact the character of our neighborhoods and make it increasingly difficult to find an affordable home in Newton. The Newton Planning Department is drafting a new zoning ordinance that will go to the City Council in October 2018 that focuses on preserving the character of Newton’s neighborhoods.

Commitment to the strong economic health and vitality of Newton's village centers and commercial areas is crucial to attaining long term financial stability for the City. Toward that end, the Fuller Administration is making significant investments in upcoming village center projects in both West Newton Square and Newtonville in 2019. These projects are specifically designed to enhance the village's character and the experience of residents and visitors by providing a more pleasant, safer, more walkable and bikeable environment to be complemented by improved lighting and the addition of street trees and sidewalk furniture.

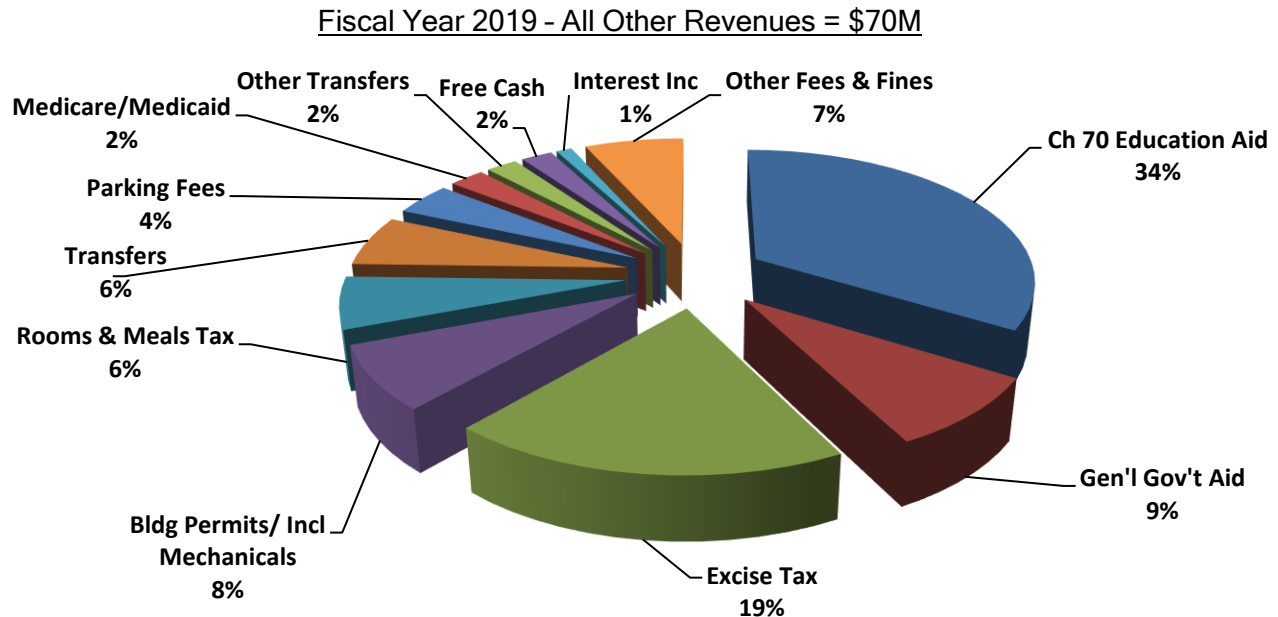
Under Mayor Fuller, the Administration is also focused on a pro-active planning approach to clearly articulate the City's vision for our village centers, commercial corridors and economic development. Examples of this pro-active approach include the formulation of an Economic Development Strategy to be completed in the fall of 2018, the completion of a Vision Plan for the Needham Street Area in June 2018, and the initiation of a community-driven master plan and draft zoning ordinance for Washington Street from West Newton to Newton Corner for Spring 2019.

The Mayor will work closely with the Newton City Council and the Economic Development Commission to build on Newton's successes including the recent accreditation of Newton as a gold level community for life science companies. Efforts will continue in marketing Wells Avenue, the N2 District and other parts of Newton as a place for businesses to invest. Special attention will be paid to engaging with and hearing from Newton's existing businesses by informal stop-ins with Newton's Economic Development Director as well as more formal business roundtables.

Notably, the forecast does not include either future debt exclusions or overrides. In the out years, there are a number of capital investments in buildings and infrastructure that do not have identified sources of funding from either the operating budget or bonding. We will continue to evaluate what projects should be done and ensure our ambitions do not exceed our ability to pay for them.

Non-Property Tax Revenues

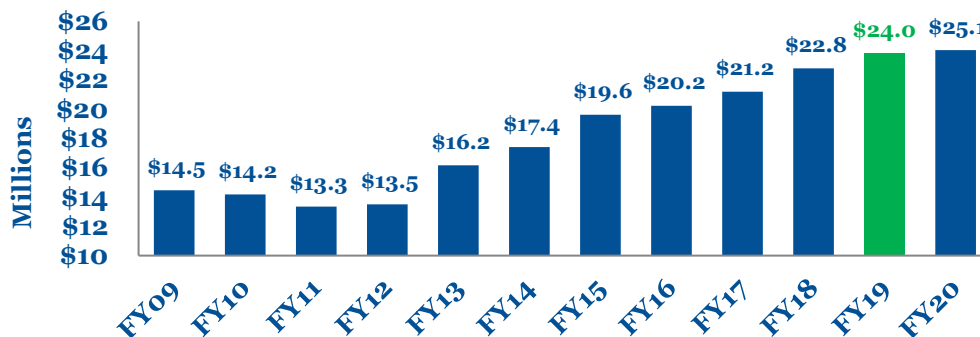
Non-property tax revenues account for 17% of our revenues and have been a declining portion of the City's revenue base. Four non-property tax revenue sources are particularly noteworthy: State funding, permitting fees, excise taxes and interest income.



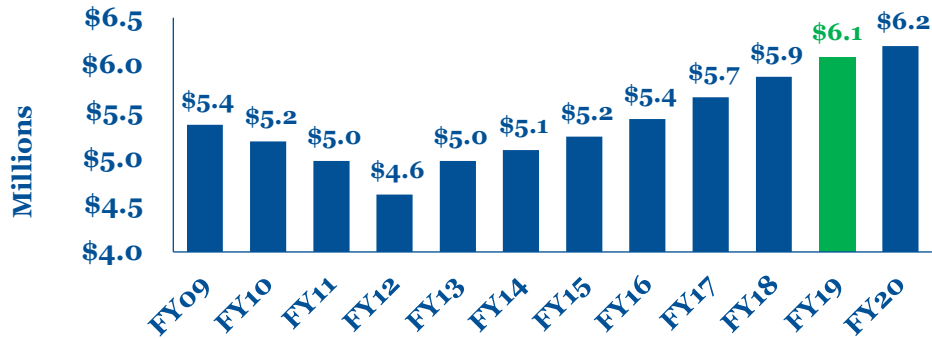
State and Federal Funding

The most significant non-property tax revenue source for the City of Newton is funding from the Commonwealth. This funding is heavily influenced by the State's economy. State Education and General Unrestricted Aid had been on the decline from Fiscal Year 2008 through Fiscal Year 2012. As represented in the charts below, the previous six fiscal years have seen an increase in the amount allotted to the City. Chapter 70 education funding is the largest part of State funding to Newton and strong economic conditions resulted in the State's final FY2019 budget providing a 5.6% increase in FY2019 or just over \$1.2 million. Unrestricted local aid, the next largest funding area, often equals the consensus revenue growth rate for state tax revenues. This increased by 3.5% or an additional \$205,478 in FY2019.

Chapter 70 State Education Aid
FY2020 Projected Increase - \$1.1 M



Unrestricted General Government State Aid
FY2020 Projected 1.5% Increase



In addition to Chapter 70 State Education Aid and Unrestricted General Aid, the City of Newton is the beneficiary of many millions of dollars of additional funding that is not often thought of when discussing state aid. The continuation of these funds is important. Key areas of additional state funding are as follows:

Annual State Funds

School - Special Education Circuit Breaker	\$5,500,000
School - METCO Program	\$2,500,000
Chapter 90 - Highway Improvement Fund	\$2,300,000
Green Communities Competitive Grant	\$ 250,000
CPA Matching Funds	\$ 531,000
Public Safety Funds	\$ 260,000
Meals & Rooms Tax Distribution	\$4,300,000
Seniors & Veterans Assistance	\$ 625,000

Recent One Time State Funds

MSBA - Angier Elementary School	\$10,000,000
MSBA - Cabot Elementary School	\$13,000,000
Needham Street Redesign - Summer 2019	\$26,000,000
MassWorks - Oak & Christina Intersection - Spring 2019	\$ 1,685,000
Washington St @ Harvard - Signalization	\$ 400,000

Likewise, the City benefits from several millions of dollars of federal funding on an annual basis that are crucial to many of the programs that we provide. The national economy and federal funding priorities, therefore, impacts the City directly. Key areas of federal funding include:

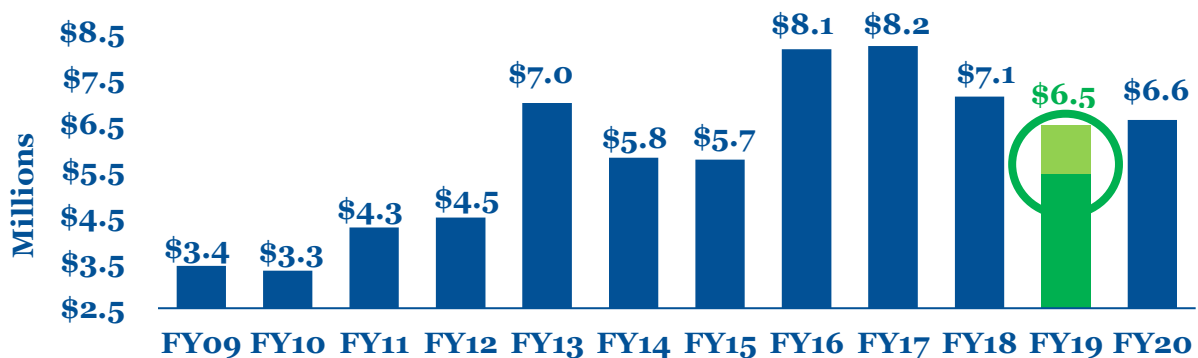
Annual Federal Funds

Community Development Block Grant & HOME Funds	\$2,000,000
Public Safety Funds	\$ 200,000
School - Special Education, Title I and other miscellaneous	\$4,000,000
Medicaid and Medicare Reimbursements	\$2,000,000

Inspectional Services Building Licenses and Permitting Fees

Permit revenues are a direct function of residential and commercial development in the City which in turn are a reflection of the economy. These revenues saw a decline from FY2008 to FY2010 after the Great Recession in 2008. As the economy improved two sizeable projects - Chestnut Hill Square and The Street on Rt. 9 - resulted in sizable increases starting in FY2014. FY2018 saw a drop in the number of permits. We budget conservatively and are careful to only include large projects such as Northland and Riverside once they receive a special permit. Early FY2019 building permit applications are strong, therefore, we have revised our projection for this year, and are currently forecasting \$6.6 million for FY2020.

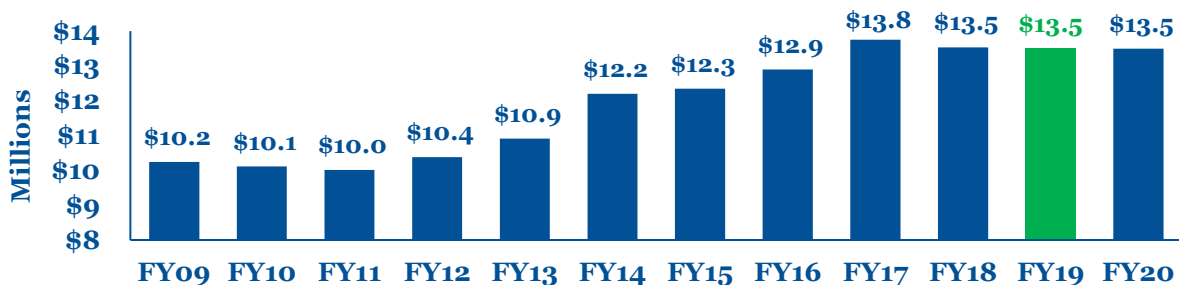
Inspectional Services
FY2020 Increased Projections to \$6.6 M



Motor Vehicle Excise Taxes

The Commonwealth imposes a tax on motor vehicles known as excise taxes and these excise taxes are received by the city or town where the vehicle is principally kept. The motor vehicle excise is set at \$25 per \$1,000 of vehicle valuation. The excise tax reflects the health of the economy which directly impacts the sale of new vehicles. Over the past seven years, total revenue has fluctuated from a low of just over \$9.5 million in FY2011 to just over \$13.6 million in FY2017. While there was significant pent-up demand as a result of the Great Recession of 2008, that demand has somewhat stabilized. The assumption for the forecast is a conservative one of \$13.5m for FY2019 as well as for FY2020.

Excise Tax
FY2020 Projection - \$13.5 M

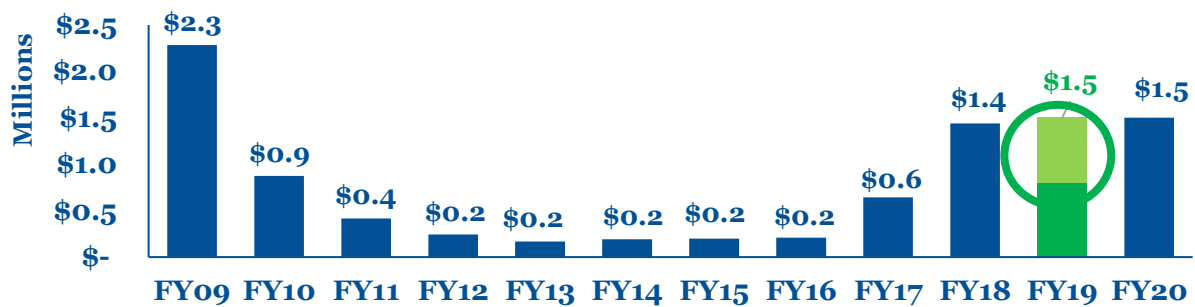


Interest Income

Interest income is influenced heavily by the Federal Reserve decisions on interest rates, also known as the federal funds rate. From 2010 to 2016, the City earned very little interest income as the Federal Reserve kept the rate below 1 percent. For example, in FY2013, our interest income dropped to approximately \$200,000, a significant decline from the over \$2 million we earned in FY2009. In August 2018, the Federal Reserve kept the target range for the federal funds rate at 1.75 percent to 2 percent which is the highest level since 2008. FY2018 Actual Interest Income totaled \$1.4 million therefore we are projecting interest income at \$1.5 million in FY2020.

Revenue from Interest Income

FY2020 Projection - \$1.5 M



**City of Newton, Massachusetts
FY2020 - FY2024 Revenue Forecast**

(\$ million)	<-BUDGET->		<-----FORECAST----->			
	FY19	FY20	FY21	FY22	FY23	FY24
Revenue from City Operations*						
Real Estate Tax Revenue	\$341.91	\$356.86	\$370.22	\$384.29	\$398.91	\$414.09
Excise Tax Revenue	\$13.50	\$13.50	\$13.64	\$13.77	\$13.91	\$14.05
Hotel Room Tax	\$2.50	\$2.45	\$2.47	\$2.50	\$2.52	\$2.57
Meals Tax - 0.75%	\$1.96	\$1.90	\$1.94	\$1.99	\$2.01	\$2.06
Payments In Lieu of Taxes	\$.19	\$.19	\$.18	\$.18	\$.18	\$.23
Interest/Dividend Income	\$.80	\$1.50	\$1.50	\$1.00	\$.50	\$.50
License/Permit-ISD,Fire,H&HS	\$6.01	\$6.65	\$6.55	\$6.60	\$6.65	\$6.70
Parking Meter Receipts	\$.00	\$.00	\$.00	\$.00	\$.00	\$.00
Parking Violations	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35
Medicare D/SPED Medicaid	\$1.70	\$1.65	\$1.50	\$1.50	\$1.50	\$1.50
Water/Sewer Gen'l Fund Adm	\$3.31	\$3.40	\$3.48	\$3.57	\$3.66	\$3.75
Other/Miscellaneous Revenue	\$7.32	\$8.46	\$8.29	\$8.32	\$8.33	\$8.46
Revenue from City Operations	\$380.55	\$397.91	\$411.12	\$425.07	\$439.52	\$455.26
Total Revenue from State Aid						
Unrestricted Gen'l State Aid	\$6.08	\$6.20	\$6.32	\$6.45	\$6.58	\$6.71
Chapter 70 State Education Aid	\$24.03	\$24.03	\$25.03	\$26.03	\$27.03	\$28.03
Total Revenue from State Aid	\$30.10	\$30.23	\$31.35	\$32.48	\$33.60	\$34.74
Operating Revenue	\$410.65	\$428.13	\$442.47	\$457.54	\$473.13	\$490.00
New Falls Settlement In Lieu of	\$.06	\$.06	\$.06	\$.06	\$.06	\$.04
Capital Stabilization Fund	\$.30	\$.20	\$.10	\$.05	\$.00	\$.00
Free Cash	\$1.50	\$.00	\$.00	\$.00	\$.00	\$.00
Fund Balance - Debt Service	\$.00	\$.10	\$.10	\$.10	\$.10	\$.10
Total Extraordinary Income	\$1.86	\$.36	\$.26	\$.21	\$.16	\$.14
Total Revenue	\$412.51	\$428.49	\$442.73	\$457.75	\$473.29	\$490.13
Revenue Increase %		3.87%	3.32%	3.39%	3.39%	3.56%

* Annual property tax revenue increased @ 2.5% plus taxes from "new growth and redevelopment" @1.34% of tax levy

IV. General Fund Expenditures

Expenditure Forecast: Key Drivers and Assumptions

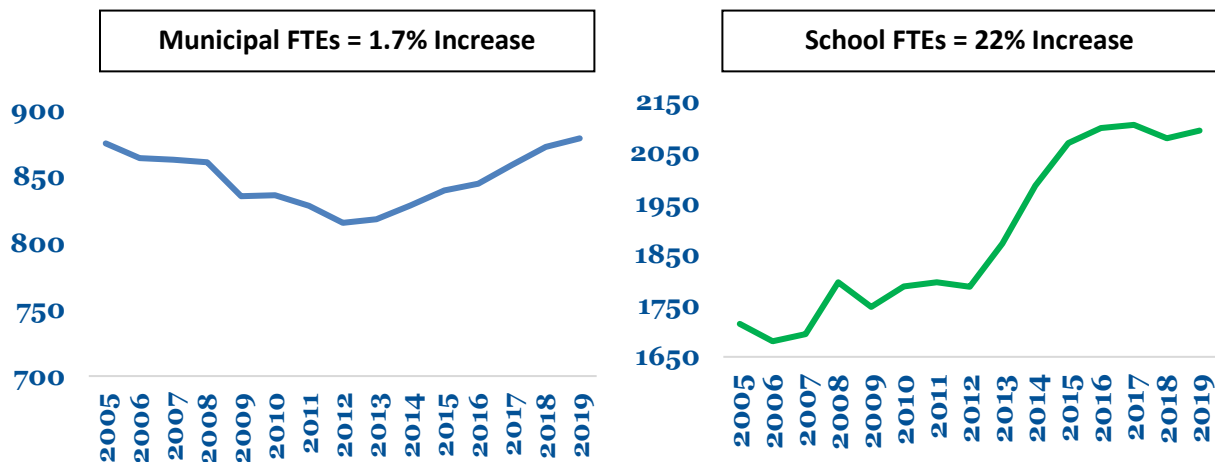
Employees and Retirees

The Fuller Administration is deeply grateful to the more than 2,000 employees of the Newton Public Schools and the more than 940 employees of the City who work so hard to help our students reach their full potential and to make Newton greater, better and more beautiful. The heart and soul of our Newton city government and our schools are the women and men who labor to deliver to our citizens and children the services and education that make Newton, Newton. We will invest in our employees, through fair salaries, good working conditions, excellent health care plans, funded pension and retiree health care plans, and training and professional development.

The costs of salaries, compensation, and health benefits account for 86% of the Newton Public Schools operating expenditures and 73% of the municipal operating expenditures (excluding retiree pensions and health benefits, and debt service). Consequently, these are the most important elements in our budget and have a significant impact on our forecast. The Newton Public Schools collective bargaining agreements end in 2019 while all ten collective bargaining agreements on the municipal side have expired.

Both the Newton Public Schools and the City are negotiating with their respective groups. Both NPS and the City Administration will work collaboratively and respectively with union leadership to develop compensation packages that are fair to the employees and taxpayers alike. This is one of the most important factors ensuring the future financial stability of the City of Newton and an attractive work environment for our employees.

Municipal and Newton Public Schools Headcount
Full Time Equivalents (FTE) FY2005 - FY2019



Providing municipal and educational services to the residents of Newton is a labor intensive service model. As technology, enrollment, and demographic needs change, we must be ready to change with them. However, we must be ever mindful of the long term obligations associated with increasing our numbers of employees. The Fuller Administration is committed to evaluating each and every position and request for additional personnel so that we do not find ourselves in a predicament where a “reduction in force” is necessary, particularly if its necessity is driven because the budget was not managed appropriately.

Health Care

The City provides health insurance benefits for almost 2,500 active employees and their dependents, and more than 2,800 retirees and their spouses, for a total insured population of more than 8,600 members.

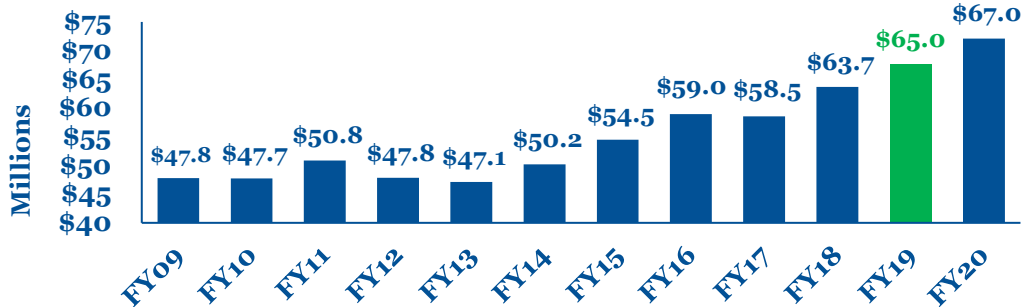
Because the City’s insured population is a substantial size, the City has been able to provide excellent health benefits at a reasonable cost by being self-insured. The Fuller Administration is committed to providing excellent health care plans to our employees. The cost of the City’s self-insured program is comprised of costs in two main areas: (1) the actual cost of claims, and (2) administrative fees charged by the health insurance carriers. Rather than paying “premium” rates, the City works with its insurance carriers to develop “working” rates. These working rates are projections of costs. If actual costs are less than projected, the City “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. The forecast assumption is that the City’s working rates will increase 5% annually.

The FY2019 General Fund City share of the health insurance working rates for our municipal employees is \$10.5 million, 15% of the proposed salaries, wages and compensation.

As of June 30, 2017, the City’s Group Health Self-Insurance Fund had reserves of \$17 million which is the equivalent of 3.5 months of paid claims. The City’s fund balance policy is 1.5 to 2 months of paid claims. Therefore, the City implemented a “Health Holiday” for a two week period in November 2017. A health holiday is a technique utilized to manage the trust fund. This technique allows the employees and taxpayers alike (through the City budget) to benefit from not contributing to the Health Insurance Fund in order to bring the fund balance back in line to an appropriate level of reserves.

In order to maintain financial sustainability, the Administration must continuously evaluate health insurance options. One such option is the Group Insurance Commission (G.I.C.) run by the Commonwealth of Massachusetts. On a yearly basis, the City has and will continue to monitor this option so as to be in a position to make the most informed decisions possible in the ever changing health insurance market.

Total Cost of Newton's Health Insurance Program



Retirees: Pensions and Retiree Health Care (OPEB)

The City of Newton's current long term pension and retiree health insurance obligations approximate \$950 million. The City of Newton employees earn two types of compensation – current and deferred. Salaries and other forms of current compensation (e.g., health insurance) are received by employees during their employment. Deferred compensation is received after the employee retires and only when vesting and age requirements have been met.

There are two major categories of deferred compensation for City of Newton employees. First are pensions, monthly payments to a retiree from an investment fund to which both the employee and the City of Newton have contributed. Notably, public employees in Massachusetts, including employees of the City of Newton, are not covered by, and therefore do not receive, Social Security benefits. The second category is non-pension post-employment benefits - retiree health insurance and life insurance. These are known as “Other Post-Employment Benefits” or OPEB.

The City's commitment to funding long term retiree liabilities, specifically pensions and OPEB, preserving sound financial policies, and developing conservative budgets and forecasts will be key factors in the City's ability to maintain the Aaa rating it has earned from Moody's Investors Service.

Commitment to fully funding the long term retiree liabilities is also critical to maintaining the City of Newton's financial sustainability. The Fuller Administration continues to follow a funding schedule designed to eliminate the City's unfunded pension liability by the year 2030, and to fully fund the City's OPEB (Other Post-Employment Benefits) liability by the year 2045.

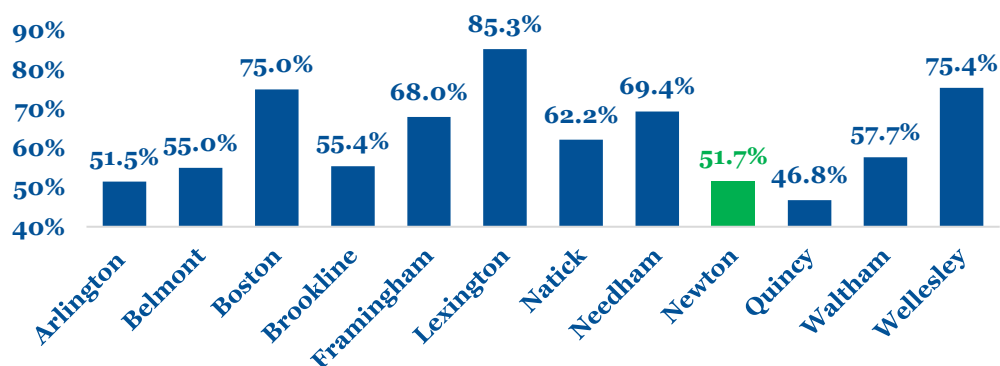
Pensions

The City of Newton Contributory Retirement Plan is our pension plan. It covers more than 3,500 current active employees, inactive participants, and retired employees and beneficiaries. (Inactive refers to people who no longer work for us but have left their contributions on deposit in the plan to take at a later date.)

It is important to note that the teachers of the Newton Public Schools are not a part of The City of Newton Retirement plan. Rather, they are part of the Massachusetts Teachers Retirement System and the City is not “responsible” for their pensions. However, other school employees (e.g.: aides, custodians and secretaries) are part of the City’s plan. School employees make up 42% of the active employees and account for slightly more than 20% of the unfunded liability.

Prior to the 2008 downturn in the economy, the total unfunded actuarial accrued pension liability was approximately 33%. (In other words, the pension liability was 67% funded.) However, as a result of the difficult economic pressures experienced by the fund in the years of the “great recession” combined with the increased life expectancy of Americans, the total unfunded actuarial accrued liability had reached a high of 49.2% but has now finally begun to decrease slightly and was 48.3% as of January 1, 2018. Although the increase in the unfunded pension liability is not unique to Newton, Newton lags many of the surrounding communities in percent funded for this significant liability.

Percent of Pensions Funded by Community (July, 1 2018)

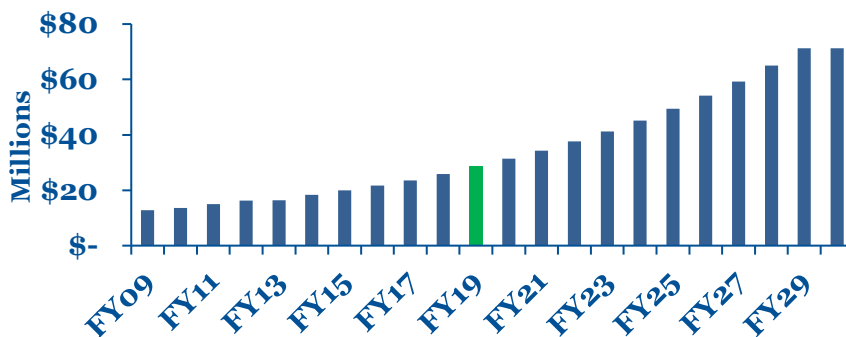


These funding gaps matter. Newton’s employees, like all Massachusetts public employees, do not pay into, nor do they receive, Social Security in their retirement. Police, firefighters, and other Newton employees depend on their pensions for income (and for health insurance) in their retirement. The funding gaps also matter because if a greater portion of Newton’s budget is needed to fund commitments to retirees that were made years ago, funds available for current services may be impacted. The challenge lies in proactively managing tax revenues, operating expenditures, capital investments and retiree benefit expenses while maintaining an Aaa credit rating. The magnitude of the pension and healthcare liabilities and the complexity of the issue as well as changes in accounting requirements require the City of Newton to focus on long term financial sustainability by creating a financial strategy that extends through FY2030 and beyond.

As a result of the negative impact to funding ratios in most communities in 2008, the Massachusetts State Legislature passed legislation enabling cities and towns to have until the year 2040 to “fully fund” pension retirement plans. Although the City of Newton had been willing to extend the time period 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 from the previous and current

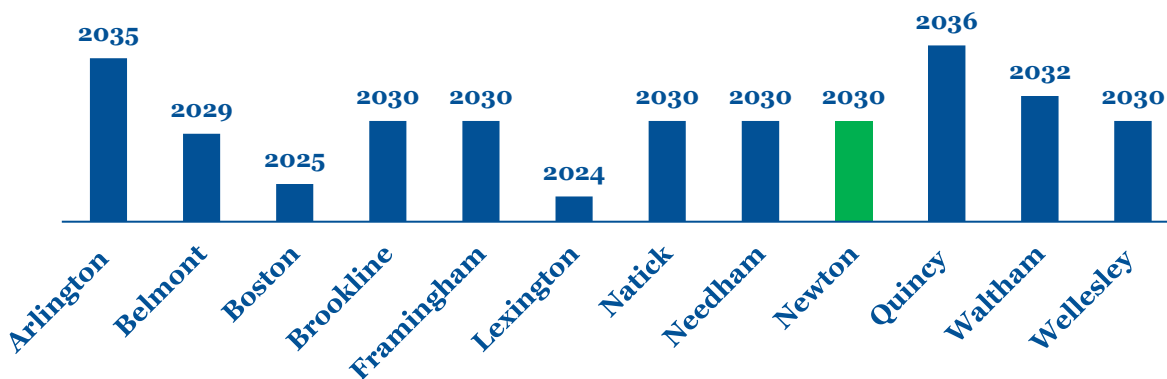
Administration, voted to implement a funding schedule which will fully fund the Newton retirement pension fund by the year 2030. The FY2019 Budget, as well as this Long Range Financial Forecast, includes an annual increase of 9.60% in support of this decision.

Projected Pension Expenses - through Full Funding in 2030



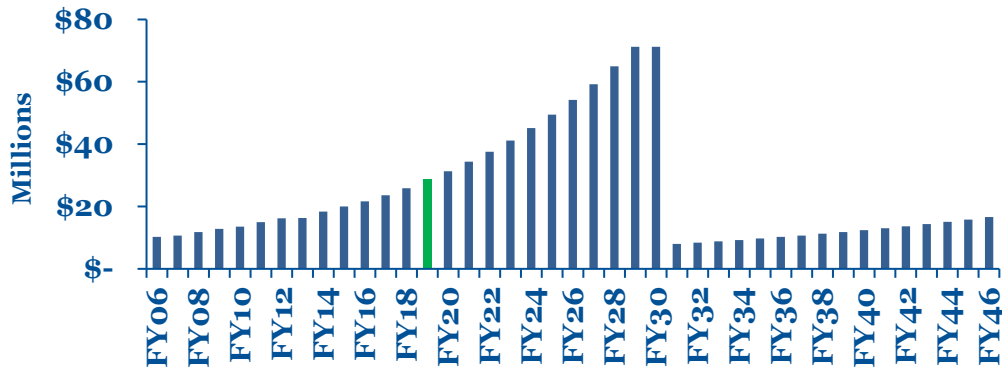
Fully funding the City’s pension obligations by the year 2030 may seem aggressive, however, when compared to our peer communities, Newton once again is not a leader. Although it might be appealing to push the full funding date out in the years to come, if the City is to achieve real financial sustainability, City leaders must avoid any temptations in the next decade to delay full funding.

Achievement Year of Fully Funded Pension System by Community



Once the City has fully funded its pension obligations, it will then be able to reduce its pension appropriation to the “normal cost” for current employees at that point in time. The “normal cost” is the annual cost of providing pension benefits by the current employees. Much of the costs we are facing currently are for the pensions of former employees who have retired; the City of Newton did not set aside sufficient funds in the past for their pensions. Once we have fully funded our pension liability, we will be in a position to tackle our other major unfunded long term retiree obligation - Retiree Health Insurance or OPEB.

Pensions at Normal Cost Funding beginning FY2031



Retiree Health Insurance or OPEB

In addition to pension obligations, the City of Newton (like most municipalities) provides health insurance to retirees (also known as Other Post-Employment Benefits or OPEB). The Commonwealth prescribes the minimum percentage that a city or town must contribute towards retiree health insurance (50%) and the minimum level of benefits. The City of Newton provides 80% which is more than the minimum required level of contributions and benefits. However, in contrast to pensions, the state does not yet require pre-funding for retiree health and life insurance benefits.

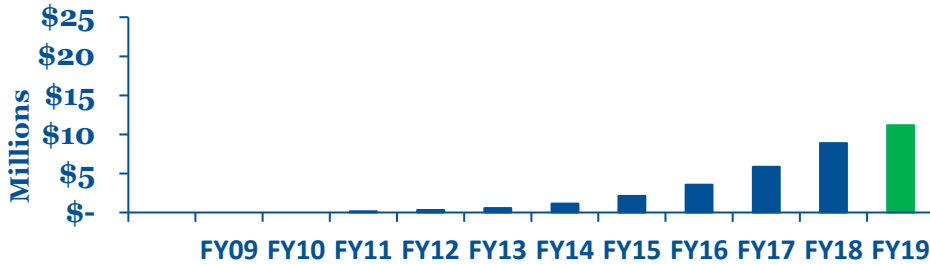
In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

In 2010, the City established an Other Post-Employment Benefits (OPEB) Liability Trust Fund and subsequently established an OPEB Trust Agreement for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for these retirement health care benefits.

The FY2014 Budget included the implementation of a funding schedule for the City’s OPEB liability by appropriating approximately \$200,000 or 2.5% of the salary for all newly insured employees beginning July 1, 2012, with the expectation that this percentage would increase gradually over time. Additionally, it was anticipated that as the City brought on more and more new employees, this funding method would cause the appropriation to grow exponentially. For the first time in several years, the Fuller Administration increased the percentage in the FY2019 Budget from 3.25% to 3.50% for newly insured employees beginning in July 1, 2012. This is important to note as the City should be setting aside approximately 8% of the salary of all employees.

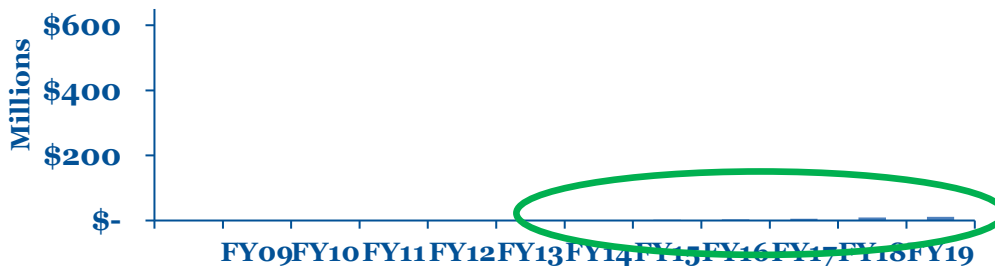
Due to the continued addition of employees covered under this methodology as well as the increased percentage, the June 30, 2018 value of the OPEB liability trust fund totaled \$8.6 million and the FY2019 OPEB appropriation has grown to approximately \$2.5 million.

OPEB Trust Fund Value (June 30, 2018 - \$8.6m)



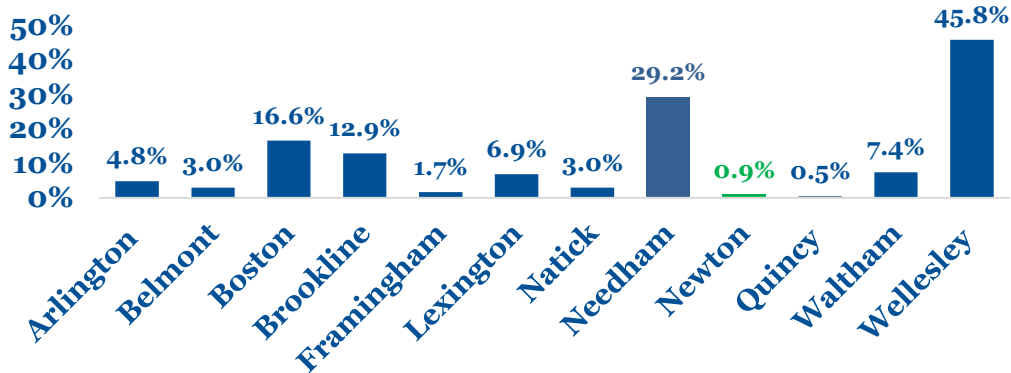
The long-term OPEB liability now approximates \$635 million. Instead of pre-funding, most municipalities use a policy of pay-as-you-go for retiree health insurance benefits. In other words, the city or town pays the cost of health insurance benefits for retirees from current operating revenues as those benefits come due. While Newton is setting aside a very small portion of its liability, the City’s policy is primarily pay-as-you-go for the next eleven years.

OPEB Trust Fund Value as of June 30, 2018 - \$8.6M
1.4% of Liability is Funded



As with pensions, Newton lags behind many of its neighboring or peer communities. Cities and towns that Newton uses as benchmarks have more in common when it comes to gaps in funding for retiree health insurance and other non-pension benefits. In our comparison group, the majority of cities and towns have set aside little or nothing to meet these OPEB obligations. Three communities have set aside meaningful sums: Wellesley (45.8% funded), Needham (29.23% funded), and Brookline (12.9% funded).

OPEB Liabilities Funded, June 30, 2017

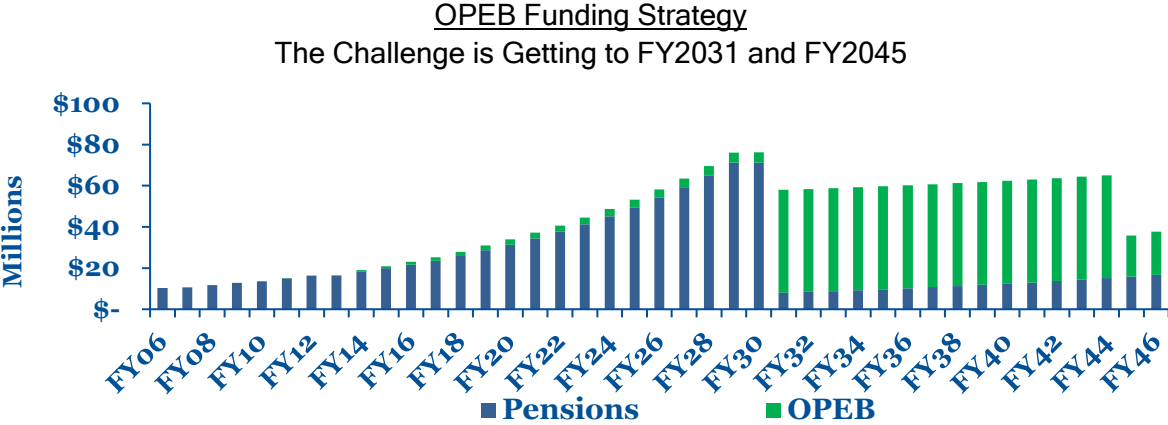


The way that the City has dealt with each of these significant long-term retiree liabilities over the past several decades is problematic. This practice has transferred costs of former Newton tax payers to current and future Newton tax payers, costs that were accrued throughout the past few decades.

The year in which residents receive services from employees is the year the City should set aside funds to pay for the compensation the employees will receive in their retirement. The Fuller Administration is committed to increasing gradually the funding for current employees for their retiree health insurance.

The Funding Strategy for Pensions and Retiree Health Care (OPEB)

The funding strategy is to make significant investments in the pension system for the next eleven years, until full funding, currently projected as the year 2030. Then, the City of Newton will begin significant investments in the retiree health care or OPEB liability. In other words, with the projected full-funding of the Newton Contributory Pension Retirement Fund in FY2030, the City will then repurpose \$50 million in pension liability appropriations to the OPEB Trust Fund, creating a viable, sustainable financial strategy to fully fund all of the City’s retiree costs.



Capital Investments and Debt Service

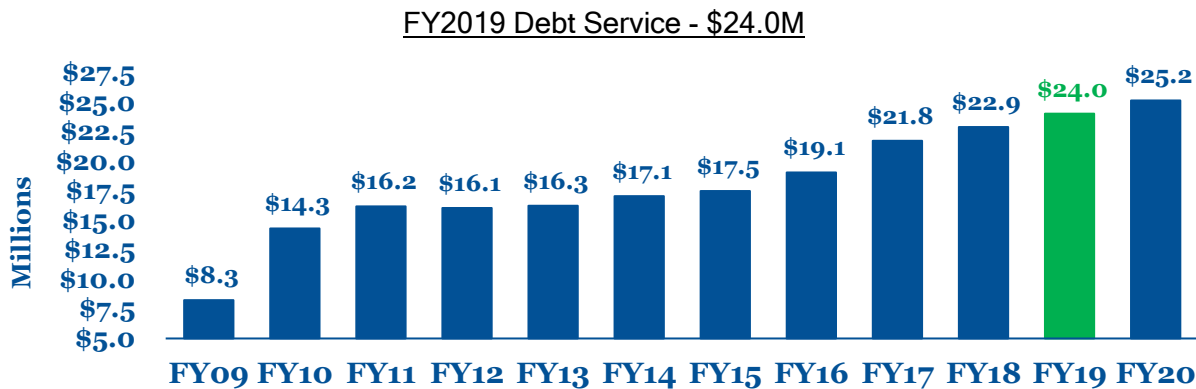
One of the primary responsibilities of the City of Newton’s leadership is the preservation and maintenance of the community’s school and municipal buildings, roadways, parks, recreation spaces, and water, sewer, and stormwater infrastructure. Capital assets include 78 buildings and the technology infrastructure that connects them, approximately 330 miles each of roadways, sewer lines, water lines, and storm drains, 51 parks and playgrounds, and over 325 vehicles and pieces of construction equipment. In order for the City of Newton to meet its goals, 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.

The FY2020-2024 Capital Improvement Plan (CIP) is based upon the City’s mission and risk-based prioritization process that addresses infrastructure needs, reflects community values, supports city operations, programs and services, and exemplifies sustainable financial, accessibility and environmental best practices.

Capital assets with a life expectancy of 10 or more years that cost more than \$150,000 are typically paid for through bond sales by the City of Newton. Massachusetts municipal finance law limits the total amount of long term debt that the City can incur for most purposes to not more than 5% of the City's equalized valuation (i.e., the taxable value of the real estate tax base). The City's current (October 2018) equalized valuation is approximately \$29 billion, which means that the current statutory debt limit is approximately \$1.45 billion. Current outstanding principal of bonded debt is significantly lower and approximates \$350 million or 24% of the City's debt capacity.

In conjunction with the state statutory debt limit, the City of Newton has developed its own financial policy of limiting debt service on long term bonded debt to between 4.0% and 7.5% of the annual General Fund budget. Debt service, which includes both principal and interest, totals 5.85% of the Fiscal Year 2019 Municipal Budget.

We have made significant investments in capital assets in the last decade and need to continue to do so. Debt payments for principal and interest on our bonds have grown from \$8.3 million or 3% of revenues in FY2009 to \$24 million or 5.8% in FY2019.



In addition to the current bonded debt in the City's operating budget, significant capital investments are currently underway in the Water, Sewer and Stormwater infrastructure systems. The water, sewer and stormwater systems are in separate enterprise accounts rather than part of the City's General Fund because fees, rather than taxes, pay for these services. The projects currently underway include:

- \$4.5 million annual Cleaning and Lining or Replacement of the City's Water System Infrastructure,
- \$5 million annual Sewer Improvement Program to reduce inflow and infiltration; and
- \$1 million annual Stormwater System improvements.

Further, the City includes annual appropriations within the operating budget as well as the utilization of Free Cash to accomplish additional infrastructure improvements. These appropriations include:

- I. \$3+ million annual operating budget capital expenditures (fleet replacement, building improvements, police cruisers, etc);
- I. \$2.7 million annual “Charter Maintenance” - or capital improvements in the school department operating budget; and
- II. \$9.5 million annual Pavement Management and Complete Streets Program;

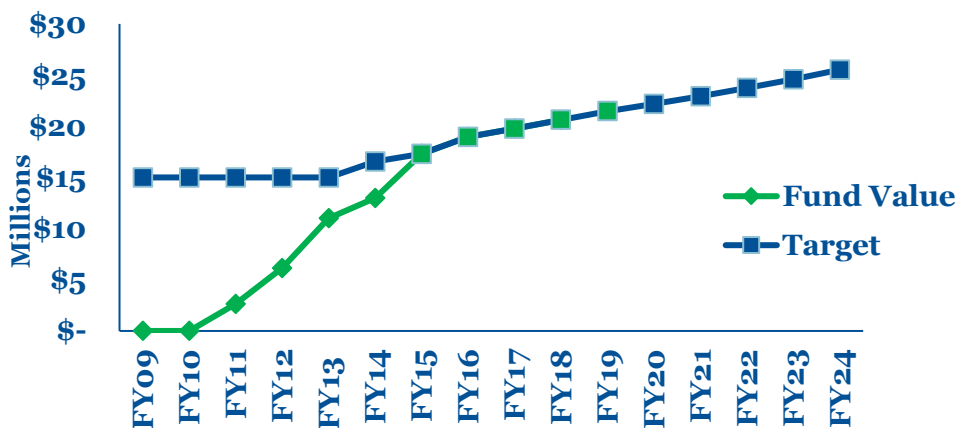
The Fuller Administration will continue to utilize these different strategies to further improve the City infrastructure.

Reserves, the Rainy Day Stabilization Fund, and Free Cash

In 2010, the City of Newton established a Rainy Day Stabilization Fund to serve 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. The funds remain segregated to prevent the 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 members of the City Council, the Comptroller, and the current and past Administration, the fund has reached its goal of 5% of the total operating budget. The current fund balance totals more than \$20 million.

Sustaining a Rainy Day Stabilization Fund that totals 5% of the more than \$400 million City of Newton General Fund Budget requires the annual addition of more than \$750,000. The City Council has established an Investment Advisory Committee, whose purpose is to advise the City Treasurer/Collector on investment management options that minimize the need for ongoing tax levy subsidies for the City’s Rainy Day Stabilization Fund, while maintaining appropriate levels of safety and liquidity, and complying with State law governing the investment of Stabilization Fund assets. This committee has been meeting throughout the past year and continues to study appropriate investment strategies.

Rainy Day Stabilization Fund
Current Balance \$20.6M



Free cash is technically the accumulated difference of unrestricted funds between General Fund revenues and expenditures on a cash basis of accounting. In less technical terms, free cash is the remaining, unrestricted funds from operations from the previous fiscal year. The Massachusetts State Bureau of Accounts certifies free cash and it is not available for appropriation until certified.

While the City of Newton is not yet fully funding 100% of anticipated expenditures (i.e. removal of snow and ice, maintenance of roadways, etc.), the City depends on and pays close attention to the amount of Free Cash. It will come 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. The Fuller Administration is committed to full staffing and will not hold back on filling open positions in order to increase the amount of Free Cash.

Free cash is used in the following manner. First: the difference between the actual budget for snow and ice removal and the most recent current maximum spent; Second: the amount necessary to supplement the prior year's Interest Income and the following year's Rainy Day appropriation; Third: Up to \$1.5 million is used as a general revenue source for the ensuing year's operating budget. Fourth: Free Cash is used for one-time, non-recurring expenditures or to replenish reserve funds depleted in the previous year, such as the Inclement Weather Stabilization Reserve.

Our goal is to continue to have Free Cash available to fund these purposes. The forecasts reflect this goal.

Newton Public Schools

The delivery of an excellent education to our students by the Newton Public Schools (NPS) is perhaps the single most important municipal service as education is a 'bedrock' value of the community.

The Newton Public Schools continue to put together budgets focused on expanding opportunities for students, building the capacity to support the social and emotional needs of students, implementing promising initiatives to address race and achievement, maintaining favorable class sizes and improving and expanding school facilities with the goal of providing a high-quality education to all students in the Newton Public Schools.

Enrollment

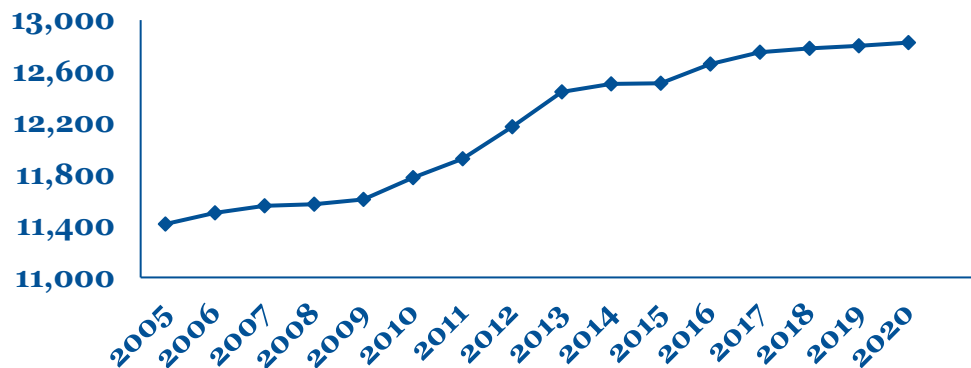
A key assumption in the forecast is the number of students in the Newton Public Schools. NPS will serve 12,780 students in our fifteen elementary, four middle, two high schools, and two alternative high school programs for the 2018-2019 school year.

The Newton Public Schools continue to see enrollment growth citywide but the rate of growth has diminished dramatically. The growth trend has leveled with an overall increase of approximately 30 students for the 2018-2019 school year. Over the next five years, a small increase of approximately 73 students, or 0.6% has been projected. This projection does not

include potential new developments such as Northland and Riverside. The Fuller Administration is very focused on the potential increase in student population if these projects are permitted.

A joint team of School and City staff are reviewing the projections carefully right now. We are carefully analyzing demographic trends (e.g., birthrates, household sizes) as well as known and potential changes in the number and type of housing units.

Newton Public Schools - Enrollment Growth



The NPS Budget Growth Rate, Full Day Kindergarten and Other Initiatives

A key assumption of the forecast is that the allocation for staffing, services and compensation for Newton Public Schools will grow at 3.4% in FY2020 and at 3.25% in the ensuing years.

The Newton Public Schools are actively exploring a number of initiatives, some of which may have significant financial implications. Full day kindergarten is one that is actively planned. For now, we are estimating an additional cost of \$1 million per year when it is implemented.

Municipal/City Expenditures

A key assumption is that the combination of staffing, services and compensation for the municipal side of City services will grow at 3.25% for FY2020 and at 3.0% in the ensuing years.

Roads

In FY2017 the City began the implementation of an Accelerated Pavement Management Program which has increased yearly expenditures on roadway infrastructure repairs from approximately \$3.3 million to \$9.5 million and will increase the average condition index of all of Newton's streets to either "good" or "very good" condition within the next 10 years. The Fuller Administration is completely committed to this level of funding.

The Pavement Management Program seeks to use these funds in an efficient manner and is utilizing a Cost Benefit Value (CBV) Report that prioritizes the streets. The CBV is a data driven analysis to prioritize roadway repairs based on a number of factors (traffic volumes, cost to repair/maintain, suggested repair technique, roadway rating, etc). Development of this program will allow for coordination with utility projects and forecasting future street ratings.

Energy

Furthering the City's environmental sustainability continues to be a key objective and requires a comprehensive approach. This is being addressed through the development of a citywide comprehensive Climate Action Plan that identifies specific actions and responsibilities for city government and citizens. The City takes a holistic view of sustainability to ensure the roads are designed as "complete streets", safe for all modes of non-motorized transportation, that buildings are constructed to meet stringent energy codes, and that the declining tree population trend is reversed - all with the purpose of safeguarding the future long term environmental sustainability of the City and its long-term health.

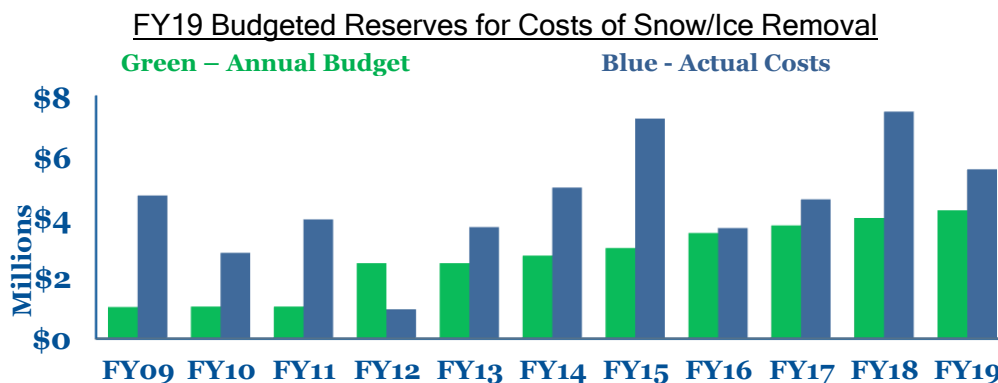
The City of Newton is actively engaged in energy initiatives on several fronts. Energy efficiency and solar energy projects will continue to be areas of emphasis. Newton has also been adding green energy to its own supply mix by purchasing additional Class 1 Massachusetts Renewable Energy Credits directly from a large wind turbine located in the region. We participate in the ISO-NE demand response program where we get paid to reduce our energy use in our largest buildings during peak use periods to help relieve stress on the electricity grid.

Newton is also embarking on a city wide municipal electricity aggregation program. This program, called Newton Power Choice, will provide Newton residents and businesses an opportunity to purchase greener electricity for use in their homes and businesses.

To read more about the City's energy and sustainability initiatives please refer to the FY2020 - FY2024 Capital Improvement Plan which can be found on line at www.newtonma.gov/finance.

Removal of Snow and Ice

The policy of the Fuller Administration is to keep increasing the amount of the snow and ice budget in the General Fund until it equals at least the average cost of the previous four or five years. The average of the previous four years is \$5.6 million. The appropriation for FY2019 increased by \$250,000 to \$4.25 million so we continue to have work to do to reach the target level. Notably, perhaps due to climate change, we have experienced our two highest years of snow and ice removal costs recently, in FY2015 and this past year, FY2018. When the costs of \$1 million from the tree damage experienced last season are included in the FY2018 storm costs, we exceeded the FY2015 costs.



**City of Newton, Massachusetts
FY2020 - FY2024 Expenditure Forecast**

(\$ million)	<---BUDGET--->	<-----FORECAST----->				
	FY19	FY20	FY21	FY22	FY23	FY24
Total Revenue*	\$412.51	\$428.49	\$442.73	\$457.75	\$473.29	\$490.13
Expenditure Forecast						
<u>Pensions & Municipal Retiree Health**</u>						
Pensions & Municipal Retiree Health	\$39.18	\$42.55	\$46.10	\$49.96	\$54.19	\$58.79
Annual % Increase		8.62%	8.33%	8.37%	8.47%	8.50%
Percentage of Revenue	9.50%	9.93%	10.41%	10.91%	11.45%	12.00%
Revenue Remaining	\$373.34	\$385.94	\$396.63	\$407.80	\$419.10	\$431.34
<u>Debt Service Authorized/Issued</u>						
Debt Service Authorized/Issued	\$24.05	\$24.23	\$24.50	\$23.67	\$23.31	\$22.93
Additional Bonding		\$1.29	\$1.30	\$2.73	\$4.82	\$7.00
TOTAL DEBT SERVICE	\$24.05	\$25.53	\$25.81	\$26.40	\$28.12	\$29.93
Annual % Increase		6.15%	1.09%	2.32%	6.51%	6.41%
Percentage of Revenue	5.83%	5.96%	5.83%	5.77%	5.94%	6.11%
Revenue Remaining	\$349.29	\$360.41	\$370.83	\$381.39	\$390.98	\$401.41
<u>Newton Public Schools Allocation</u>						
NPS Allocation***	\$227.56	\$235.30	\$242.94	\$250.84	\$258.99	\$267.41
Annual % Increase		3.40%	3.25%	3.25%	3.25%	3.25%
Percentage of Revenue	55.16%	54.91%	54.87%	54.80%	54.72%	54.56%
Revenue Remaining	\$121.73	\$125.11	\$127.88	\$130.55	\$131.98	\$134.00
<u>Municipal Services Allocation</u>						
Municipal Allocation****	\$121.73	\$125.69	\$129.46	\$133.34	\$137.34	\$141.46
Annual % Increase		3.25%	3.00%	3.00%	3.00%	3.00%
Percentage of Revenue	29.51%	29.33%	29.24%	29.13%	29.02%	28.86%
GAP	\$0.00	(\$.57)	(\$1.57)	(\$2.79)	(\$5.36)	(\$7.46)
GAP AS A % OF REVENUE	0.00%	-0.13%	-0.36%	-0.61%	-1.13%	-1.52%

* Annual property tax revenue increased @ 2.5% plus taxes from "new growth and redevelopment" @1.34% of tax levy

** NPS Retiree Health not included

***NPS revenue allocation @3.4% increase in FY2020, 3.25% beyond

****Municipal revenue allocation @3.2% in FY2020, 3.0% beyond

V. Strengths, Challenges, Risks, Opportunities and Uncertainties

The Fuller Administration continuously is looking for ways to capitalize on our strengths, manage our challenges effectively, plan for known risks, look for opportunities, and be prepared when the unexpected occurs. We are acutely aware that a host of factors can impact the City and quickly change the financial forecast. It is one of the primary reasons why we maintain reserves and forecast conservatively. We also know that revenues can also increase. If major new developments with positive net fiscal impacts or new industries like recreational retail marijuana are approved, there can be a positive financial impact.

Capitalizing on Our Strengths

- Strong residential and commercial sectors
- Diverse and robust regional economy
- Manageable capital debt levels
- Conservative budgets
- Strong cash reserves

Managing Our Challenges

- Paying for long-term retiree obligations
 - Pensions
 - Retiree Health Care or OPEB
- Funding appropriately capital investments
- Balancing annual operating budgets
- Depending on State and Federal funding

Preparing for Risks, Opportunities and Uncertainties

- Managing the City during an Economic Contraction
 - End of bull stock market impacting both pension investments and residents
 - Uptick in interest rates impacting City borrowing costs
 - Increased unemployment
 - Retail and commercial vacancies
- Responding to Demographic and Social Trends
 - Significant growth in:
 - Student enrollment
 - Out of district tuitions
 - Senior citizens
 - Opioid use and mental health issues
- Staffing and Paying for Additional Severe Public Safety and Weather Events
- Funding Unexpected Spikes in Costs
 - Student transportation
 - Recycling costs
 - Interest rates on bond financing
 - Energy
 - Medical Costs

- State and Federal Legislation with Unfunded Mandates
 - Stormwater regulations
- Implementing New Initiatives
 - Full Day Kindergarten
 - Late Start High School
 - Newton Center for Active Living (NewCAL)
 - Webster Woods

VI. Long Range Financial Plan, Five Year Financial Forecast, and the FY2020 Budget

A well-managed, fiscally sound City is essential to fund our great schools, deliver top-notch city services to our changing population, and make important updates to our infrastructure. Similarly, we must ensure our tax dollars are being put to use in an effective and accountable manner, and perhaps most importantly, we must make smart financial decisions to create the funding for thoughtful investments in Newton's future. We must also ensure that we maintain our deep commitment to the health, well-being, and safety of our approximately 3,000 valued employees and honor our commitments to them in their retirement years.

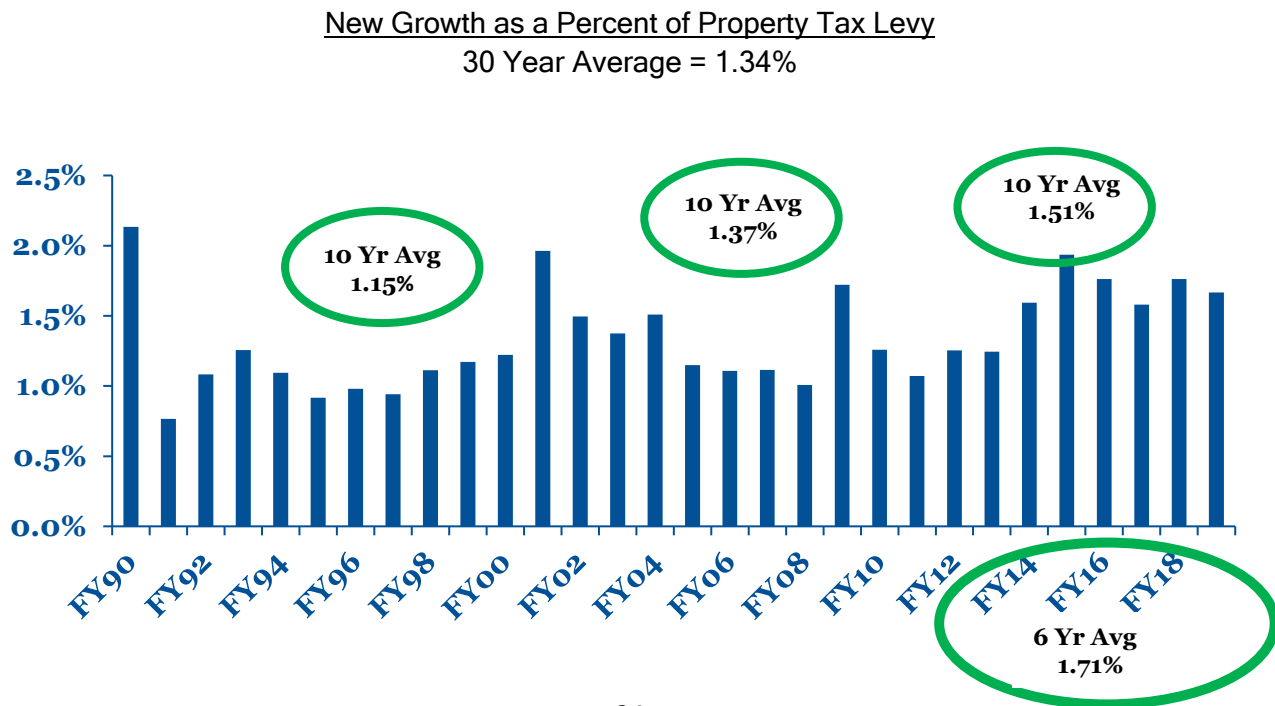
Therefore, a One-Year and Five-Year Financial Forecast is no longer sufficient. The City's strategy for fully funding its long term retirement liabilities and infrastructure needs stretches out to Fiscal Year 2030 and beyond; consequently, this forecasting process will do the same.

Long Range Financial Planning & Financial Modelling Techniques

As is true with any long range financial plan, there will always be unexpected events and adjustments to be made. The challenge is to prepare for those variables and have a management strategy in place to deal with them.

Revenue from new growth and redevelopment is perhaps the leading predictor of the City's ability to implement this long range plan and weather unexpected changes.

The City of Newton has been enjoying a period of unprecedented sustained new growth as a percent of the levy limit of more than 1.5% for each of the past 6 years. Although we may be tempted to utilize recent new growth as a predictor of the future, we must recognize that the economy is cyclical.



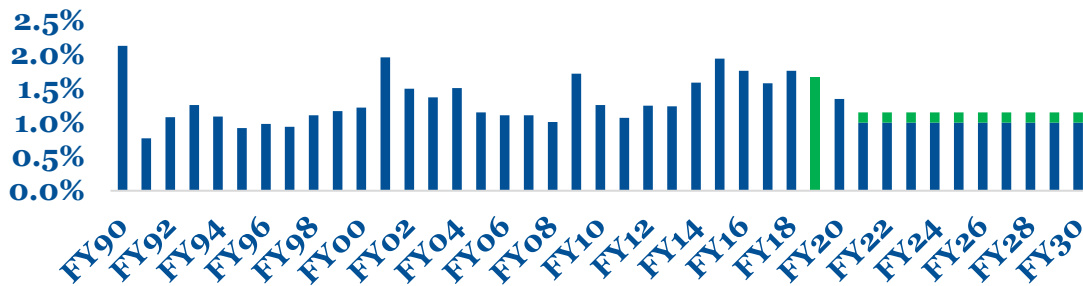
Revenue from new growth and redevelopment has averaged 1.34% over the past 30 years. Although we can “model” averages, each year fluctuates based on the economy, time frame of large developments and other factors. The “worst” 10 years (FY91 - FY00) generated a 10 year average of 1.05% in revenues from new growth and redevelopment while the past 6 years have been the best, averaging 1.7%.

To prepare this strategic long range forecast, we have utilized this very important data to develop several different scenarios to develop a sensitivity analysis for our long term revenue projections. Using the four new growth percentages that mirror each of the prior three decades, and also the 30 year average, we have been able to model a range of revenue expectations.

Total Projected Revenue based on Different Assumptions of New Growth

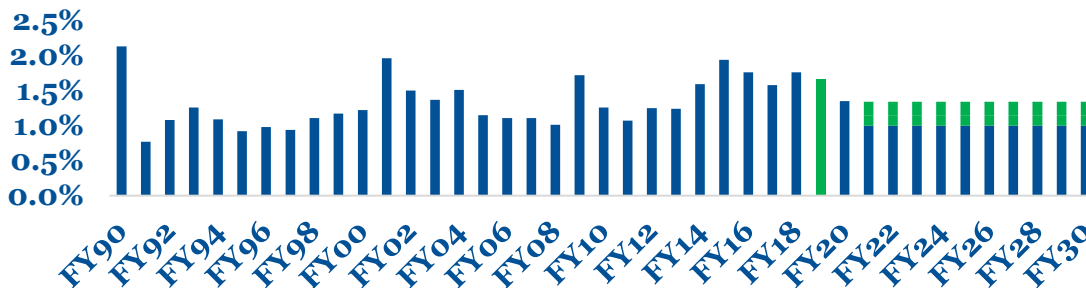
New Growth Projection; Average Growth @ 1.15%

Total Revenue FY2030 = \$595M



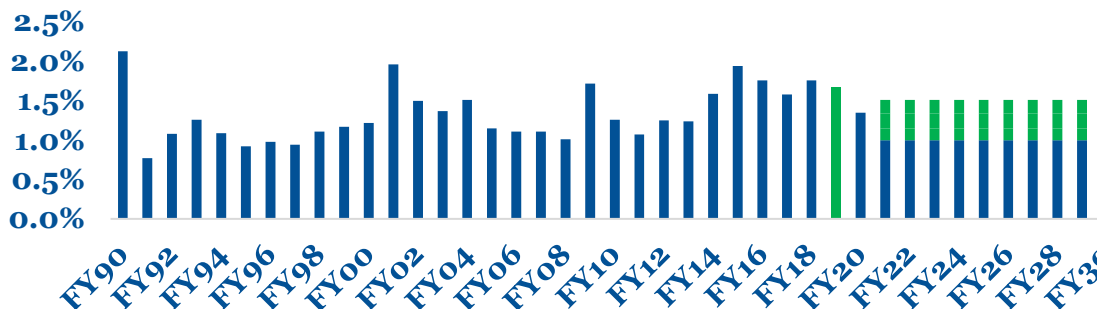
New Growth Projection; Average Growth @ 1.34%

Total Revenue FY2030 = \$605M

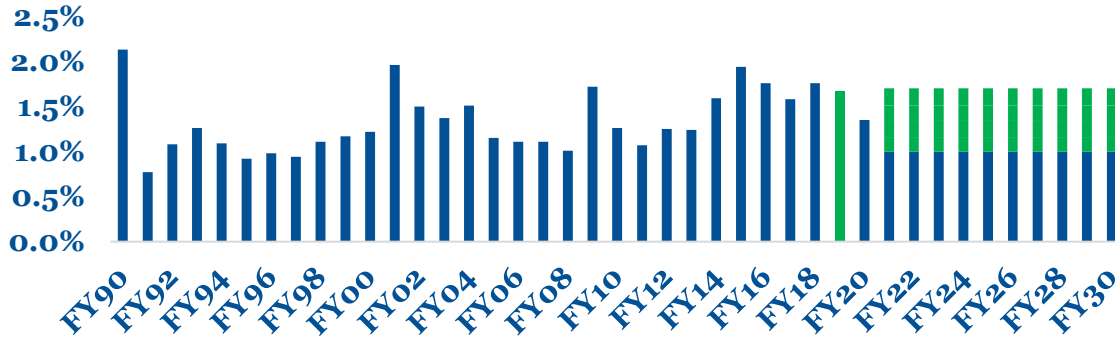


New Growth Projection; Average Growth @ 1.51%

Total Revenue FY2030 = \$613M

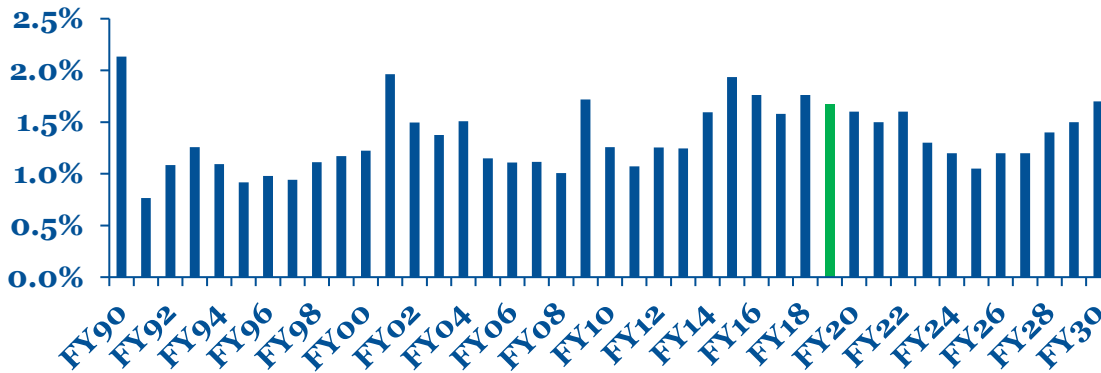


New Growth Projection; Average Growth @ 1.70%
Total Revenue FY2030 = \$624M



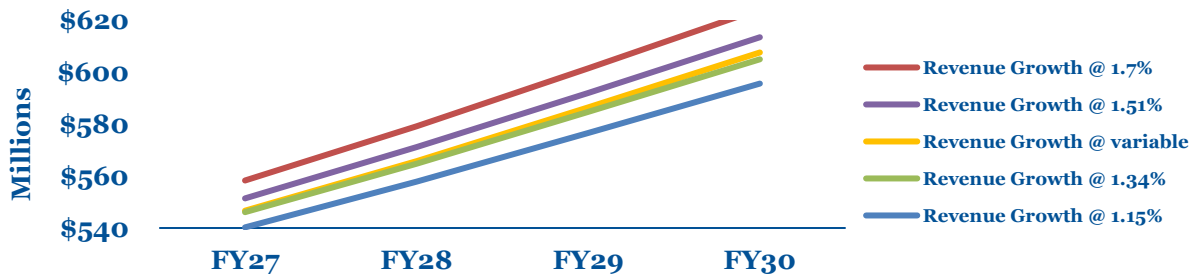
Although each of these scenarios based on averages are helpful, in reality, the new growth factor will probably be variable and may resemble the chart below.

Total Revenue Scenario through FY2030 with Variable Rates of New Growth



As the chart below indicates, there is as much as a \$30 million swing between the worst scenario (1.15%) and the best (1.7%). A crucial component in the development of the revenue projections in this financial forecast was the desire to avoid under budgeting revenues, thereby causing reductions in services such as public safety or education where they were not truly necessary.

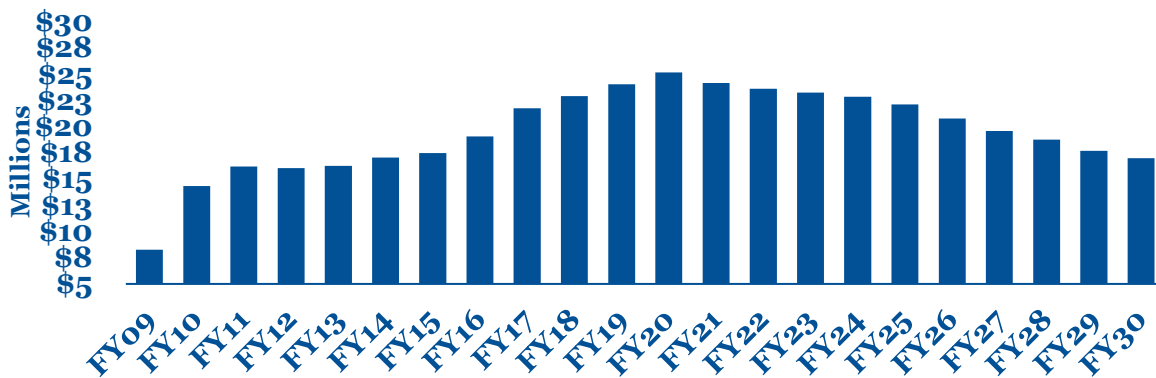
Total Revenue through FY2030 based on Different Scenarios



Two scenarios have yielded very similar FY2030 revenue projections - the variable growth model and the 30 year average model. Therefore, in addition to a 2.5% annual property tax increase as allowed under Proposition 2 ½ and average growth in Chapter 70 and other State Aid, we have built this long range forecast using the 30 year average for revenue growth from new growth or redevelopment of 1.34% of the annual Property Tax Levy Limit.

Another key assumption in the forecast is the investment level in capital assets such as school and city buildings, the fleet, bridges, equipment, parks, traffic signals and the water, sewer and stormwater systems. Our current debt service schedule for what we have already bonded provides an opportunity to bond some new projects without impacting the percent of revenue devoted to capital investments.

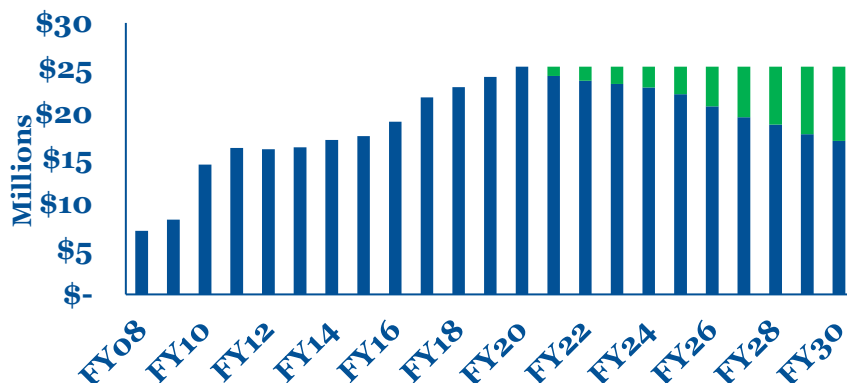
Current Debt Schedule (What We Already Owe)



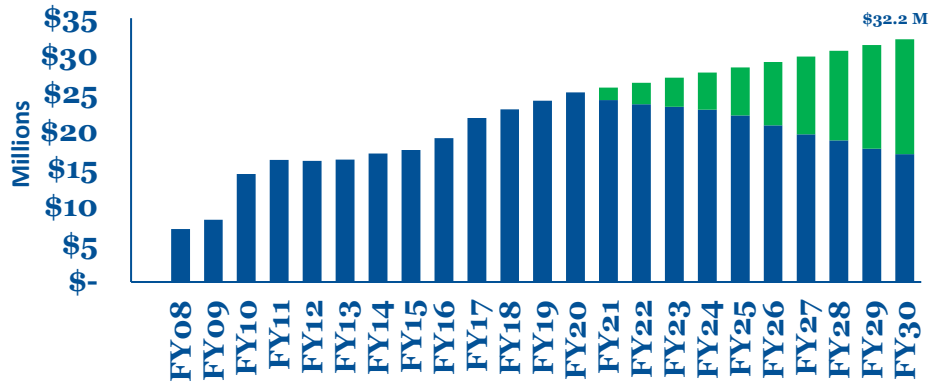
Given the significant condition issues in our capital assets, we will need to continue to invest heavily in the years ahead. The quality and condition of our school buildings, library, recreational facilities (e.g., the Hut next to Mason Rice, Gath Pool, Crystal Lake Bath House), the Senior Center, Police Headquarters and Fire Stations have a significant impact on both our residents and employees.

We ran two scenarios. One looked at level debt service payments through 2030 while the other increased debt service by 2.5% annually.

Level Debt Service through 2030

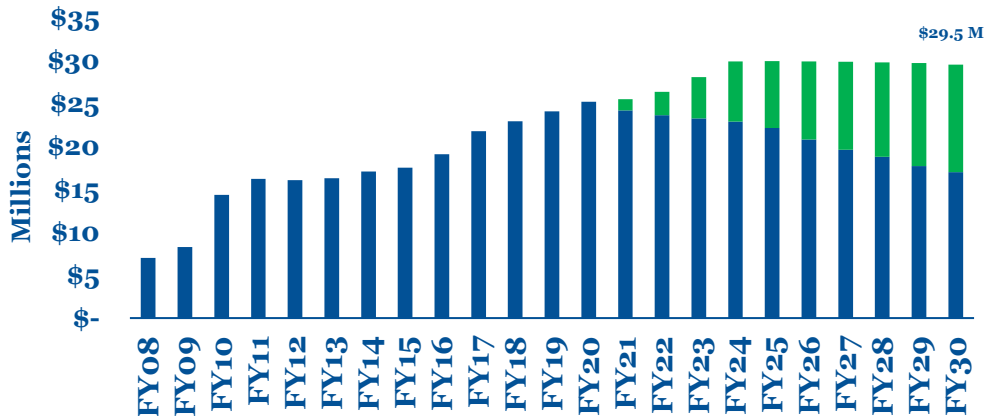


Debt Service - 2.5% Annual Increase



In the end, a 2.5% annual increase is more than the Administration is comfortable proposing given the other financial constraints that we are facing in the coming decade. Therefore, the forecast establishes financially responsible debt service levels, allowing several critical projects including West Newton Square and Newtonville, as well as the future homes for the Newton Early Childhood Program, the Lincoln-Eliot school community, and the Newton Center for Active Living (NewCAL). These projects along with all projects included in the Capital Improvement Plan will be evaluated on an annual basis to determine whether or not there is capacity in the financial forecast to absorb this additional debt service.

Debt Service Projections - Evaluated on an Annual Basis



Long Range Financial Strategy - Revenue & Expenditures

**CITY OF NEWTON, MASSACHUSETTS
FY2020 - FY2030 LONG RANGE REVENUE FORECAST**

(<BUDGET-> \$ million)	-----FY2020 - FY2030 LONG RANGE REVENUE FORECAST----->											
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Revenue from City Operations*												
Real Estate Tax Revenue	\$341.91	\$356.86	\$370.22	\$384.29	\$398.91	\$414.09	\$429.86	\$446.22	\$463.22	\$480.86	\$499.18	\$518.22
Excise Tax Revenue	\$13.50	\$13.50	\$13.64	\$13.77	\$13.91	\$14.05	\$14.19	\$14.19	\$14.33	\$14.33	\$14.47	\$14.47
Hotel Room Tax	\$2.50	\$2.45	\$2.47	\$2.50	\$2.52	\$2.57	\$2.63	\$2.68	\$2.73	\$2.79	\$2.84	\$2.90
Meals Tax - 0.75%	\$1.96	\$1.90	\$1.94	\$1.99	\$2.01	\$2.06	\$2.11	\$2.16	\$2.21	\$2.27	\$2.33	\$2.38
Payments In Lieu of Taxes	\$1.19	\$1.19	\$1.18	\$1.18	\$1.18	\$1.23	\$1.23	\$1.23	\$1.23	\$1.23	\$1.23	\$1.23
Interest/Dividend Income	\$0.80	\$1.50	\$1.50	\$1.00	\$0.50	\$0.50	\$0.50	\$0.50	\$0.50	\$0.20	\$0.20	\$0.20
License/Permit-ISD,Fire,H&HS	\$6.01	\$6.65	\$6.55	\$6.60	\$6.65	\$6.70	\$6.79	\$6.84	\$6.90	\$6.95	\$7.01	\$7.06
Parking Meter Receipts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Parking Violations	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35	\$1.35
Medicare D/SPED Medicaid	\$1.70	\$1.65	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.50	\$1.43
Water/Sewer Gen'l Fund Adm	\$3.31	\$3.40	\$3.48	\$3.57	\$3.66	\$3.75	\$3.84	\$3.94	\$4.04	\$4.14	\$4.24	\$4.35
Other/Miscellaneous Revenue	\$7.32	\$8.46	\$8.29	\$8.32	\$8.33	\$8.46	\$8.46	\$8.48	\$8.51	\$8.53	\$8.56	\$8.49
Revenue from City Operations	\$380.55	\$397.91	\$411.12	\$425.07	\$439.52	\$455.26	\$471.46	\$488.10	\$505.52	\$523.15	\$541.91	\$561.08
Total Revenue from State Aid												
Unrestricted Gen'l State Aid	\$6.08	\$6.20	\$6.32	\$6.45	\$6.58	\$6.71	\$6.81	\$6.91	\$7.02	\$7.12	\$7.23	\$7.34
Chapter 70 State Education Aid	\$24.03	\$24.03	\$25.03	\$26.03	\$27.03	\$28.03	\$30.03	\$31.03	\$32.03	\$33.03	\$34.03	\$35.03
Total Revenue from State Aid	\$30.10	\$30.23	\$31.35	\$32.48	\$33.60	\$34.74	\$36.84	\$37.94	\$39.04	\$40.15	\$41.25	\$42.36
Operating Revenue	\$410.65	\$428.13	\$442.47	\$457.54	\$473.13	\$490.00	\$508.29	\$526.03	\$544.56	\$563.30	\$583.17	\$603.44
New Falls Settlement In Lieu of	\$0.06	\$0.06	\$0.06	\$0.06	\$0.06	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04	\$0.04
Capital Stabilization Fund	\$0.30	\$0.20	\$0.10	\$0.05	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Free Cash	\$1.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Fund Balance - Debt Service	\$0.00	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10
Total Extraordinary Income	\$1.86	\$0.36	\$0.26	\$0.21	\$0.16	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
Total Revenue	\$412.51	\$428.49	\$442.73	\$457.75	\$473.29	\$490.13	\$508.43	\$526.17	\$544.70	\$563.43	\$583.30	\$603.58
Revenue Increase %		3.87%	3.32%	3.39%	3.39%	3.56%	3.73%	3.49%	3.52%	3.44%	3.53%	3.48%

* Annual property tax revenue increased @ 2.5% plus taxes from "new growth and redevelopment" @1.34% of tax levy

**City of Newton, Massachusetts
FY2020 - FY2030 Long Range Expenditure Forecast**

(\$ million)	FY2020 - FY2030 LONG RANGE EXPENDITURE FORECAST											
	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
Total Revenue*	\$412.51	\$428.49	\$442.73	\$457.75	\$473.29	\$490.13	\$508.43	\$526.17	\$544.70	\$563.43	\$583.30	\$603.58
Expenditure Forecast												
Pensions & Municipal Retiree Health**												
Pensions & Municipal Retiree Health	\$39.18	\$42.55	\$46.10	\$49.96	\$54.19	\$58.79	\$63.81	\$69.27	\$75.22	\$81.70	\$88.76	\$90.98
Annual % Increase		8.62%	8.33%	8.37%	8.47%	8.50%	8.53%	8.56%	8.59%	8.62%	8.64%	2.50%
Percentage of Revenue	9.50%	9.93%	10.41%	10.91%	11.45%	12.00%	12.55%	13.16%	13.81%	14.50%	15.22%	15.07%
Revenue Remaining	\$373.34	\$385.94	\$396.63	\$407.80	\$419.10	\$431.34	\$444.62	\$456.90	\$469.48	\$481.73	\$494.54	\$512.60
Debt Service Authorized/Issued												
Debt Service Authorized/Issued	\$24.05	\$24.23	\$24.50	\$23.67	\$23.31	\$22.93	\$22.17	\$20.85	\$19.65	\$18.82	\$17.75	\$17.03
Additional Bonding		\$1.29	\$1.30	\$2.73	\$4.82	\$7.00	\$7.80	\$9.10	\$10.25	\$11.00	\$12.00	\$12.50
TOTAL DEBT SERVICE	\$24.05	\$25.53	\$25.81	\$26.40	\$28.12	\$29.93	\$29.97	\$29.95	\$29.90	\$29.82	\$29.75	\$29.53
Annual % Increase		6.15%	1.09%	2.32%	6.51%	6.41%	0.15%	-0.09%	-0.15%	-0.26%	-0.26%	-0.71%
Percentage of Revenue	5.83%	5.96%	5.83%	5.77%	5.94%	6.11%	5.90%	5.69%	5.49%	5.29%	5.10%	4.89%
Revenue Remaining	\$349.29	\$360.41	\$370.83	\$381.39	\$390.98	\$401.41	\$414.65	\$426.95	\$439.58	\$451.90	\$464.79	\$483.06
Newton Public Schools Allocation												
NPS Allocation***	\$227.56	\$235.30	\$242.94	\$250.84	\$258.99	\$267.41	\$276.10	\$285.07	\$294.34	\$303.90	\$313.78	\$323.98
Annual % Increase		3.40%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Percentage of Revenue	55.16%	54.91%	54.87%	54.80%	54.72%	54.56%	54.30%	54.18%	54.04%	53.94%	53.79%	53.68%
Revenue Remaining	\$121.73	\$125.11	\$127.88	\$130.55	\$131.98	\$134.00	\$138.55	\$141.88	\$145.24	\$148.00	\$151.01	\$159.08
Municipal Services Allocation												
Municipal Allocation****	\$121.73	\$125.69	\$129.46	\$133.34	\$137.34	\$141.46	\$145.70	\$150.07	\$154.58	\$159.21	\$163.99	\$168.91
Annual % Increase		3.25%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Percentage of Revenue	29.51%	29.33%	29.24%	29.13%	29.02%	28.86%	28.66%	28.52%	28.38%	28.26%	28.11%	27.98%
GAP	\$0	(\$.57)	(\$1.57)	(\$2.79)	(\$5.36)	(\$7.46)	(\$7.16)	(\$8.19)	(\$9.34)	(\$11.21)	(\$12.98)	(\$9.83)
GAP AS A % OF REVENUE	0.00%	-0.13%	-0.36%	-0.61%	-1.13%	-1.52%	-1.41%	-1.56%	-1.71%	-1.99%	-2.23%	-1.63%

VII. Beyond the General Fund: Water, Sewer, Stormwater Enterprise Funds

The Public Works Department of the City of Newton supplies all water distribution and provides all sewer operations to more than 30,000 households, institutions, and business, and maintains stormwater drainage systems throughout more than 300 miles of roadways. While Newton purchases its water from the Massachusetts Water Resources Authority (MWRA), and sends its sewage to the MWRA treatment facility at Deer Island, the City owns all the pipes, drains, and infrastructure required to supply these services.

As is customary in many municipalities, the City of Newton has established a Water Enterprise Fund, Sewer Enterprise Fund, and a Stormwater Enterprise Fund through which fees are charged to all property owners to support each of these three different enterprise activities. These funds are separate from the general operating fund of the City (which is supported primarily through tax revenues). Rates are set on an annual basis and must cover all operations of each enterprise activity. Combined revenue for all three services exceeds \$60 million, with more than \$34 million of that payable to the MWRA.

Several years ago, the City recognized that the aging water, sewer, and stormwater infrastructure was in need of repair. The capital needs for these three enterprise funds exceeds \$100 million. Therefore, the City developed a capital improvement plan and funding schedule with the commitment of maintaining no more than a 3.9% total annual increase in the combination of these three funds. That commitment is being continued by the Fuller Administration and is reflected in this financial plan.

Water Enterprise Fund

The City of Newton has been identifying, evaluating and improving Newton's water main distribution system for many years. In fact, the Newton Fire Department was recently rated a Class 1 agency, the highest possible ranking from the Insurance Service Organization. Improvements made over the last few years to the City's Water Distribution System played an integral part in this upgrade. The ISO grades on a point system, with fire department operations accounting for 50 percent of the rating, fire flow or available water supply is 40 percent of the grade and dispatch operations constitute the remaining 10 percent.

The City recognized the need to increase the renewal of the aging water distribution pipe network, much of which dates back to the 1870's and developed a comprehensive capital improvement program as part of the Water and Sewer Strategic Plan initiative.

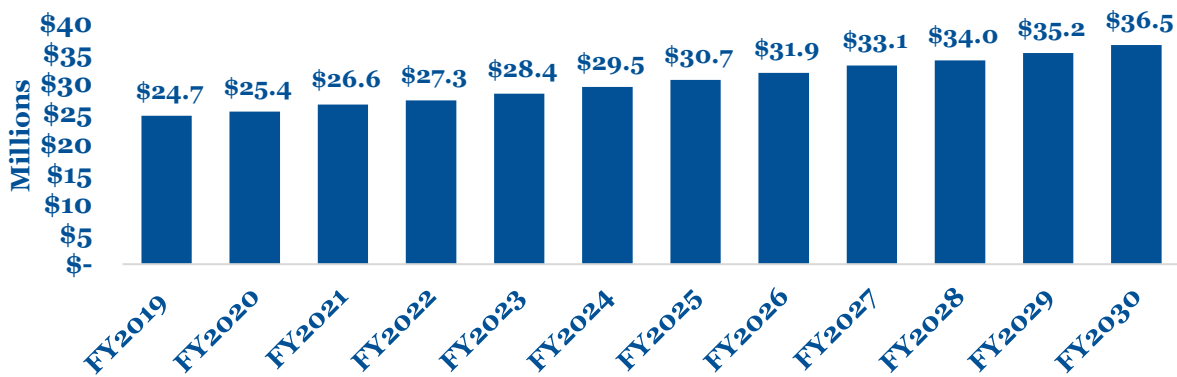
From 2013 through 2016 we aggressively targeted water main improvements for fire flow purposes, meaning replacement of pipes, not just cleaning and lining old pipes. We completed a hydraulic model analysis in 2016, and we redirected our efforts to target and replace leak prone pipes, the pipes installed circa World War II. We are currently in year 3 of a 20 year water main cleaning and lining program.

The City utilized a pipe renewal needs forecasting software program to provide a long-range calculation of the anticipated pipe replacement quantities required to keep pace with the expected end of useful service life of pipe assets in the distribution system. The results take the form of a customized pipe replacement needs distribution curve for the City's pipe assets

showing graphically, by pipe type, how much replacement is required annually. The results of the analysis indicate that the City should be renewing approximately 4 to 5 miles of water main pipe per year, which is supported within the FY2020-FY2024 Capital Improvement Plan (CIP).

In addition, a risk-based ranking system was developed for integrating and managing the water system pipe asset rankings. The ranking takes into account the consequence of failure of the pipe and the probability of failure of the pipe. Consequence of failure takes into account the proximity of the pipe to critical facilities (hospitals, schools), as well as the potential for flood damage due to breakage. Probability of failure takes into account pipe type, age, joint type, and vibrations under heavy loads (highways, railroad tracks). The water main assets were then grouped into a risk matrix, by condition and criticality, from low priority to high priority, with recommended actions that range from immediate pipe replacement to acoustic monitoring, advanced in-pipe inspection, as well as cleaning and cement lining.

Water Enterprise Fund Expenditure Forecast



More detailed information on the City’s water system infrastructure plan can be found in the City’s FY2020-FY2024 Capital Improvement Plan.

Sewer Enterprise Fund

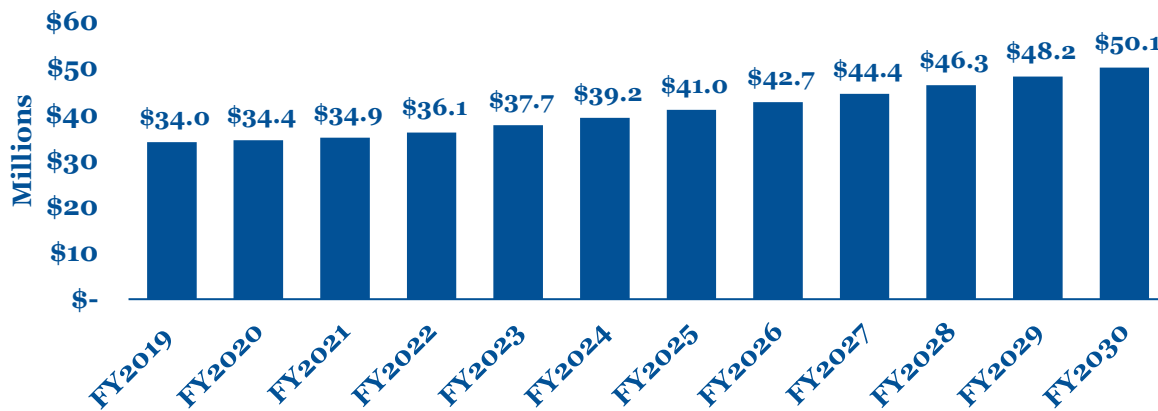
Prior to the development of the City’s comprehensive strategic plan for the improvement of its sewer infrastructure, it was estimated that more than 60% of the sewage and wastewater that was sent to the Massachusetts Water Resource Authority (MWRA) for processing by the City of Newton was the result of Inflow (stormwater from direct illegal connections) and Infiltration (groundwater that gets into the sewer pipes through cracks and other imperfections). This was costing the City in excess of \$5 million per year. Furthermore, back-ups in the sewer lines due to insufficient capacity with the additional groundwater/stormwater resulted in sewer surcharges from some street and park manholes.

The City developed a 10-year program to systematically address the approximately 300 miles of sewer mains and related manhole structures, beginning with those areas known to have significant inflow and infiltration problems, as well as those areas that were experiencing flooding or sewer surcharging problems. The work in each project area is divided into 3

categories: Inspection and Assessment, including heavy cleaning; Design of repair work; and Construction, including post-construction flow assessment. Each project area is expected to be completed over a 2 year period. As a result of the financial benefits of recent MWRA sewer assessment increases that are much lower for Newton than most other MWRA communities, this program has been accelerated.

In FY2020, Public Works expects to complete Post Construction Flow Evaluation in Project Area 5 (Newton Centre/Newtonville & Chestnut Hill), complete Construction in Project Area 6 (Newtonville/Newton Centre/Nonantum & Chestnut Hill), complete Design and start Construction in Project Area 7 (Newton Upper Falls/Newton Highlands & Thompsonville), Complete Inspection and Assessment and Design for Project Area 8 (Upper Falls, Newton Highlands, Thompsonville & Oak Hill). We are currently in year 5 of a 10 year sewer main capital improvement program.

Sewer Enterprise Fund Expenditure Forecast



More detailed information on the City’s sewer system infrastructure plan can be found in the City’s FY2020-FY2024 Capital Improvement Plan.

Stormwater Enterprise Fund

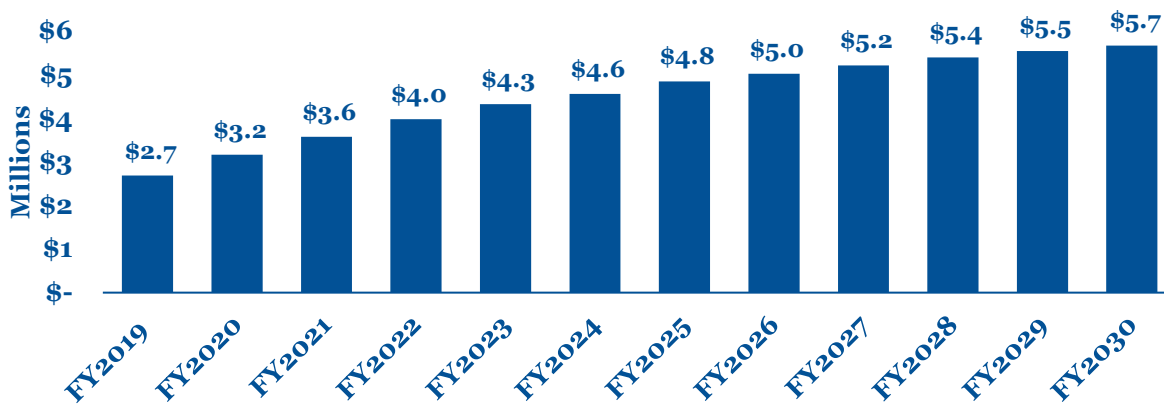
Like many communities, Newton’s storm water system is old and faces challenges related to storm water quantity and quality, system maintenance and upgrades, and localized flooding. In 2006, the City initiated a Storm Water Fee to help fund necessary improvements.

While the City has completed a number of localized drainage repairs, the Department of Public Works recognized the need to develop a comprehensive plan to identify and address all storm water needs throughout the City and to establish a funding plan to accomplish this work. In addition, the National Pollutant Discharge Elimination System (NPDES) MS4 Permit, which is mandated for all communities by the EPA, took effect on July 1, 2018 and will increase requirements for maintaining and improving storm water quality. These needs must also be factored into all storm water planning.

Therefore, the City has undertaken a system-wide assessment to identify its program needs and develop a 20 year Storm Water Infrastructure Improvement Plan. Four primary areas being evaluated are: Stream Improvements, Localized Flooding, Culvert Maintenance and National Pollutant Discharge Elimination System (NPDES) compliance. Recommended projects include removal of debris within the stream bed and on nearby embankments; removal of sediment in stream beds, culverts and ponds; structural and capacity evaluation; rehabilitation and maintenance of pipes and culverts; repair of failing retaining walls, and public education.

A methodology and rating criteria will be used to prioritize the list of projects based on probability of failure and consequence of failure. Probability of failure is based on two factors; the age of the asset and the condition of the asset. Consequence of failure will look at the potential impacts related to the potential failure of the asset, including: public health and safety, property damage, cost of deferred maintenance, number of people influenced and City development priorities. Combined with regulatory timelines for implementation of projects associated with the pending NPDES MS4 Permit and the financial impacts for each of the identified projects, the City has prioritized the results for the Storm Water Infrastructure Improvement Plan.

Stormwater Enterprise Fund Expenditure Forecast



More detailed information on the City’s stormwater system infrastructure plan can be found in the City’s FY2020-FY2024 Capital Improvement Plan

The long range forecast shows that the storm water costs will grow at a higher rate than those for sewer and water. However, storm water is a much smaller fund growing to slightly under \$6 million by 2030 compared to \$36 million and \$50 million for water and sewer respectively. The forecast shows that the combined fees will grow at 3.9% annually.

APPENDIX I
Financial Management Guidelines

CITY OF NEWTON

FINANCIAL MANAGEMENT GUIDELINES

Financial Principles

On April 20, 2011 the Honorable City Council adopted a revised set of Financial Management Guidelines. There are several guiding principles that are incorporated into these guidelines which have been included as an integral part of this plan. 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 budgets are expected to capture 99% of total expected revenue for the year.

Expenditure Budgeting: Expenditure budget estimates will strive to be sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year. It is anticipated that this guideline will continue to take several years to fully implement.

Debt Management Policy: Massachusetts municipal finance law limits the total amount of long term debt that the City can incur for most purposes to not more than 5% of the City's equalized valuation (taxable value of the real estate tax base). The City's current (October 2018) equalized valuation is approximately \$29 billion, which means that the current statutory debt limit is approximately \$1.4 billion. In addition to the statutory debt limit, the City of Newton has a self-imposed policy of limiting debt service on long term bonded debt to between 4.0% and 7.5% of the annual General Fund budget.

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: It is the intent of the City to use Free Cash in the following manner, understanding that this will take a number of years to implement fully. 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 may 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 Administration has established an Inclement Weather Stabilization Reserve 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.

APPENDIX II.
City of Newton Finance and Budgeting Background Information

City of Newton, Massachusetts
Annual General Fund Revenue
FY2014 - FY2018 ACTUAL/FY2019 BUDGET

<u>OPERATING REVENUE</u>	<-----ACTUAL----->					<BUDGET>
	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Real Estate Tax Revenue	\$ 277,381,501	\$ 289,650,737	\$ 301,098,407	\$ 314,685,140	\$ 329,849,151	\$ 342,183,546
Excise Tax Revenue	\$ 12,196,691	\$ 12,353,468	\$ 12,903,047	\$ 13,756,305	\$ 13,541,813	\$ 13,500,000
Hotel Room Tax	\$ 2,218,759	\$ 2,330,724	\$ 2,444,007	\$ 2,263,279	\$ 2,440,667	\$ 2,500,000
Meals Tax - 0.75%	\$ 1,557,737	\$ 1,786,617	\$ 1,880,428	\$ 1,938,182	\$ 1,902,662	\$ 1,956,589
Payments In Lieu of Taxes	\$ 355,596	\$ 268,057	\$ 251,922	\$ 279,685	\$ 382,805	\$ 190,000
Interest/Divident Income	\$ 190,647	\$ 205,203	\$ 345,221	\$ 644,856	\$ 1,441,094	\$ 800,000
License/Permit-ISD,Fire,H&HS	\$ 6,448,540	\$ 6,351,923	\$ 8,821,902	\$ 8,877,278	\$ 7,811,593	\$ 6,009,150
Parking Meter Receipts	\$ 1,709,300	\$ 1,773,597	\$ 1,527,000	\$ 2,497,903	\$ 1,583,900	\$ 1,375,000
Parking Violations	\$ 1,459,059	\$ 1,429,088	\$ 1,488,744	\$ 1,389,784	\$ 1,373,600	\$ 1,350,000
Medicare D/SPED Medicaid	\$ 1,201,165	\$ 1,290,511	\$ 1,738,458	\$ 1,910,852	\$ 1,529,417	\$ 1,700,000
Water/Sewer Gen'l Fund Adm	\$ 1,983,994	\$ 2,088,882	\$ 2,441,457	\$ 2,501,063	\$ 3,234,067	\$ 3,314,917
Premium from Sale of Bonds	\$ 650,998	\$ 828,328	\$ 3,693,897	\$ 245,691	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 8,572,909	\$ 9,446,840	\$ 9,320,788	\$ 8,767,278	\$ 9,092,794	\$ 5,890,516
REVENUE FROM OPERATIONS	\$ 315,926,896	\$ 329,803,974	\$ 347,955,277	\$ 359,757,296	\$ 374,183,562	\$ 380,769,718
<u>REVENUE FROM STATE AID</u>						
Unrestricted Gen'l State Aid	\$ 5,088,123	\$ 5,229,226	\$ 5,417,478	\$ 5,650,430	\$ 5,499,718	\$ 6,076,265
Chapter 70 State Education Aid	\$ 17,403,779	\$ 19,617,930	\$ 20,226,057	\$ 21,155,777	\$ 23,182,835	\$ 23,807,406
REVENUE FROM STATE AID	\$ 22,491,902	\$ 24,847,156	\$ 25,643,535	\$ 26,806,207	\$ 28,682,553	\$ 29,883,671
OPERATING REVENUE	\$ 338,418,798	\$ 354,651,130	\$ 373,598,812	\$ 386,563,504	\$ 402,866,115	\$ 410,653,389
% Increase			5.34%	3.47%	4.22%	1.93%
<u>REVENUE - FROM TRANSFERS</u>						
New Falls Settlement In Lieu of	\$ 66,555	\$ 65,450	\$ 72,233	\$ 56,414	\$ 60,000	\$ 60,000
Capital Stabilization Fund	\$ 2,140,111	\$ 89,386	\$ 550,939	\$ 2,376,662	\$ 400,000	\$ 300,000
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUE FROM TRANSFERS	\$ 2,206,666	\$ 154,836	\$ 623,172	\$ 2,433,076	\$ 1,960,000	\$ 1,860,000
TOTAL REVENUE	\$ 340,625,464	\$ 354,805,966	\$ 374,221,984	\$ 388,996,580	\$ 404,826,115	\$ 412,513,389
% Increase			5.47%	3.95%	4.07%	1.90%

City of Newton, Massachusetts
Annual Expenditures by Functional Element
FY2014 - FY2018 ACTUAL/FY2019 BUDGET

<u>EXPENDITURES</u>	<-----ACTUAL----->					<BUDGET>
	<u>FY14</u>	<u>FY15</u>	<u>FY16</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>
Pensions & Municipal Retiree						
Health	\$ 27,451,688	\$ 29,199,509	\$ 31,235,486	\$ 33,397,815	\$ 35,566,546	\$ 39,175,944
% Increase		6.37%	6.97%	6.92%	6.49%	10.15%
\$ Increase		\$ 1,747,821	\$ 2,035,977	\$ 2,162,329	\$ 2,168,731	\$ 3,609,398
Debt Service	\$ 16,910,530	\$ 17,488,086	\$ 18,595,065	\$ 20,255,168	\$ 22,870,406	\$ 24,088,174
% Increase		3.42%	6.33%	8.93%	12.91%	5.32%
\$ Increase		\$ 577,556	\$ 1,106,979	\$ 1,660,103	\$ 2,615,238	\$ 1,217,768
Newton Public Schools	\$ 188,932,442	\$ 197,241,174	\$ 204,712,278	\$ 211,905,404	\$ 219,436,486	\$ 227,560,263
% Increase		4.40%	3.79%	3.51%	3.55%	3.70%
\$ Increase		\$ 8,308,732	\$ 7,471,104	\$ 7,193,126	\$ 7,531,082	\$ 8,123,777
Municipal Services	\$ 100,655,398	\$ 108,214,631	\$ 108,611,634	\$ 115,054,666	\$ 117,711,388	\$ 121,689,008
% Increase		7.51%	0.37%	5.93%	2.31%	3.38%
\$ Increase		\$ 7,559,233	\$ 397,003	\$ 6,443,032	\$ 2,656,722	\$ 3,977,620
TOTAL EXPENDITURES						
FY2014 - FY2019	\$ 333,950,058	\$ 352,143,400	\$ 363,154,463	\$ 380,613,053	\$ 395,584,826	\$ 412,513,389
% Increase		5.45%	3.13%	4.81%	3.93%	4.28%
\$ Increase		\$ 18,193,342	\$ 11,011,063	\$ 17,458,590	\$ 14,971,773	\$ 16,928,563