



Welcome  
to  
**Newton**  
The Garden City

City of Newton, Massachusetts  
Long-Range Financial Plan &  
Five-Year Financial Forecast  
FY2021-FY2025

October 21, 2019



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Mayor

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October 21, 2019

Honorable City Council  
Newton City Hall  
1000 Commonwealth Avenue  
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Dear Honorable Councilors,

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

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

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

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

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

Yet, our City faces challenges. Unlike some of our peer communities, we are behind on funding our quite large pensions and retiree health care obligations. We need significant investments in many buildings, including schools, parks and recreation facilities, a new center that can serve our seniors, firehouses and police facilities, the Library and City Hall. We need to invest more in maintenance, including in our roads and playgrounds and our fields and trees. We have not yet fully incorporated the entire likely costs of snow removal and road repair into our annual operating budget.

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

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

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

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

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

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

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

Sincerely,



Ruthanne Fuller  
Mayor

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*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 by aggressively increasing our annual appropriation by 9.6% until we achieve full funding in FY2030. The plan also establishes financially responsible debt service levels, funding several critical capital projects including complete streets projects in West Newton Square and Newtonville, as well as the future homes for the Newton Early Childhood Program, the Lincoln-Eliot school community, and some or all of the Newton Center for Active Living (NewCAL), depending on the site.

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

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

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

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

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

fees, and/or interest income, to name the most likely sources. Reductions in expense projections may be possible in areas such as medical costs and utilities.

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

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

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

# I. Introduction

## Purpose

The City of Newton Long-Range Financial Strategy and Five-Year Financial Forecast FY2021 - FY2025 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, reducing the utilization of non-recurring funding sources to balance the annual budget, and making appropriate investments in the City’s capital infrastructure, and funding aggressively our significant liabilities for retiree benefits.

The City has been moving toward implementing expenditure budgets sufficient to address not less than 100% of projected operating requirements of the various departments of the City. Although the City has made significant progress in this endeavor, much remains to be done. The FY2020 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, The Senior Center, 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 or complete streets repairs 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 FY2020 for the City’s contribution to the pension fund was increased by 9.6% or an increase of slightly over \$2.7 million while the retiree health care, or OPEB, contribution was increased from 3.5% to 3.6% 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 and road repairs. 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 at the right pace other large municipal and school expenditures.

## Methodology

The Long-Range Financial Forecast covers ten years from Fiscal Year 2021 to Fiscal Year 2030. This ten-year period was chosen because of the critical need and important decision to fund fully the City’s significant pension liability in ten 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 ten years is crucial.

We built the forecast by first looking at revenue projections. One key assumption is that real and personal property taxes will increase by 2.5% annually as allowed under Proposition 2 ½. Another key assumption, the amount of additional tax revenues as a result of new growth and redevelopment, is far more difficult to project.

There continues to be speculation about a “market correction” or a “slowing of the economy” in the years ahead. History has shown us that although the 20-year average increase in City

revenues from new growth and redevelopment approximates 1.34%, slower economic times can yield additional tax revenues from new growth and redevelopment as low as only 1.0%. We have adjusted our revenue forecast slightly below the 20-year average accordingly. We have assumed a 1.3% growth rate for FY2021 through FY2030. This significantly effects our revenue forecast - and thus, the amount that we are comfortable appropriating to expenses.

On the expenditure side, the forecast begins with retiree benefits, including both pensions and retiree health care or OPEB. We begin with retiree benefits because we are significantly underfunded (52.6% for pensions and just under 2% for OPEB) and it is critical we address this now; we owe it to our current employees and our retirees and it is less costly in the long run to step up and pay down these liabilities. 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.). Debt service, as a percentage of revenues in this forecast, is 5.7% in FY2020, rising to 6.0% in FY2024 and FY2025, and then dropping back to high five percentages through FY2030, well within our Financial Guidelines. The budget for the Newton Public Schools, grows at 3.25% per year, while the budget for Municipal Services grows at 3.15% per year.

This forecast shows a deficit in each year, ranging from approximately \$1.6 million in FY2021 to as much as \$26 million in FY2029. Revenues may be higher than expected throughout the next decade. 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 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 (2017) 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, curbside trash and recycling, recreation, library, cultural, and health and human services. The Massachusetts Water Resources Authority provides public water supply and sewage treatment services and the City operates water, sewer and stormwater systems.

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. Our educators 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 increased by approximately 1,250 students or 10%. In the last two years, though, enrollment has dipped. Total NPS enrollment was 12,750 in FY2018, 12,685 in FY2019, and though not yet finalized, is expected to approximate 12,625 in FY2020.

Newton is home to a variety of private secondary and post-secondary schools which contribute to the fabric of Newton. The major colleges/universities in Newton include Boston College, Lasell University, William James College, and the UMass Amherst - Mount Ida Campus. Their combined student enrollment is approximately 17,000 students.

Newton is a very safe city. The City has a fully accredited Newton 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 17,500 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 22 snow and ice events each winter season.

Home to the outstanding Newton Free Library, often 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 1,200 acres of parkland, playgrounds, school grounds, and burial grounds, as well as extensive municipal grounds and recreation buildings. Newton also has a special City museum that served as 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

had 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 of older residents was close to 13,000 and represented 15.2 percent of the City's residents. Data indicates that the population of older residents 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 single family sale prices in twenty neighborhoods in Newton. As with the demographics of our residents, housing prices are quite varied. In September 2019, the annual sales review showed wide variations in calendar year 2018 median prices from \$677,500 in Nonantum to \$2,437,500 in Chestnut Hill. The review also showed escalating median sales prices; in 2009, the median sales price was \$705,000 and in 2018, it was \$1,176,000, a 62.81% increase in ten years or a compound average growth rate of 5.25%. These rising housing prices continue to show Newton is a very desirable residential community and, also demonstrate that it is increasingly difficult for many to afford to come here.

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

This past spring the Newton School Department commissioned a special demographic study by McKibben Demographics to better understand current demographic trends in Newton and their effect on enrollment over the next 10 years. For the purposes of the analysis, the report included proposed residential units at Northland (822), Riverside (663) as well as the previously approved units at Chestnut Hill Square (100). While not applicable to every school in the coming ten years, the enrollment forecast reflects close to flat forecast over current enrollment numbers at the elementary, middle and high school levels. We have instituted a regular working group of school department officials and a city team from Planning, Public Buildings and the Executive Office to regularly monitor and report to each other any developments which might impact these assumptions, including the School Department's detailed yearly enrollment forecast due out in November of every year. The full demographic report can be found at <https://www.newton.k12.ma.us/domain/78>.

## **Economic Profile**

Newton has a diversified economic base with approximately 4,700 establishments employing approximately 79,500 people, having added about 10,000 new jobs over the last ten years, an increase of 14%. The top industry sector for Newton, with over 18,000 jobs, continues to be education services including private schools, colleges, universities and professional training centers.

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 February 2019, 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, however, 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 city or town 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 (typically called a “general operating 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. Notably, 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 1<sup>st</sup>. 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 sitting Mayor has proposed and the City Council has voted to increase the tax levy by the 2.5% maximum. In FY2020, this 2.5% represents an increase of \$8,598,778. A critical revenue assumption in this Long-Range Financial Strategy presumes 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 \$5,762,382.

Voters in Newton have twice approved debt exclusion and/or general overrides. In 2002, a \$11,500,000 general override went into effect with the FY2003 property taxes. (In 2008, voters rejected a \$12 million general operating override.) In 2013, the voters approved two different debt exclusions (Angier and Cabot Elementary Schools) 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 FY2019, the amount of the debt exclusion debt payment was \$3,000,495. In terms of average single-family tax bills, in FY2019, Newton's average single family tax bill was \$12,393 which ranked 13<sup>th</sup> in the Commonwealth of Massachusetts for single family properties.

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 older residents 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.

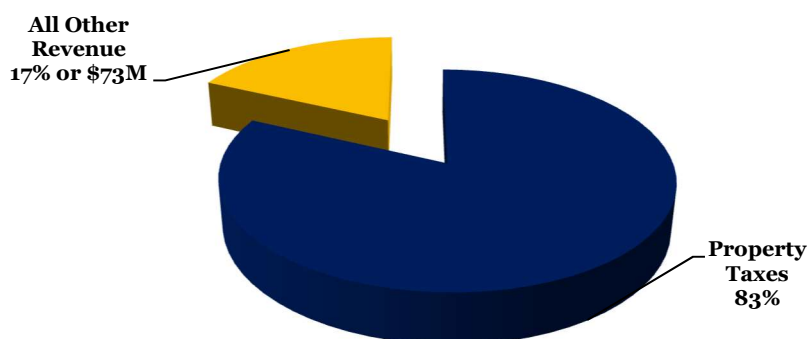
## Revenue Forecast: Key Drivers and Assumptions

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 2020 - Property Taxes = \$357M



The City of Newton has benefited from strong residential growth and a healthy commercial sector for much of its history. Its proximity to Boston, excellent public schools, and its commitment to

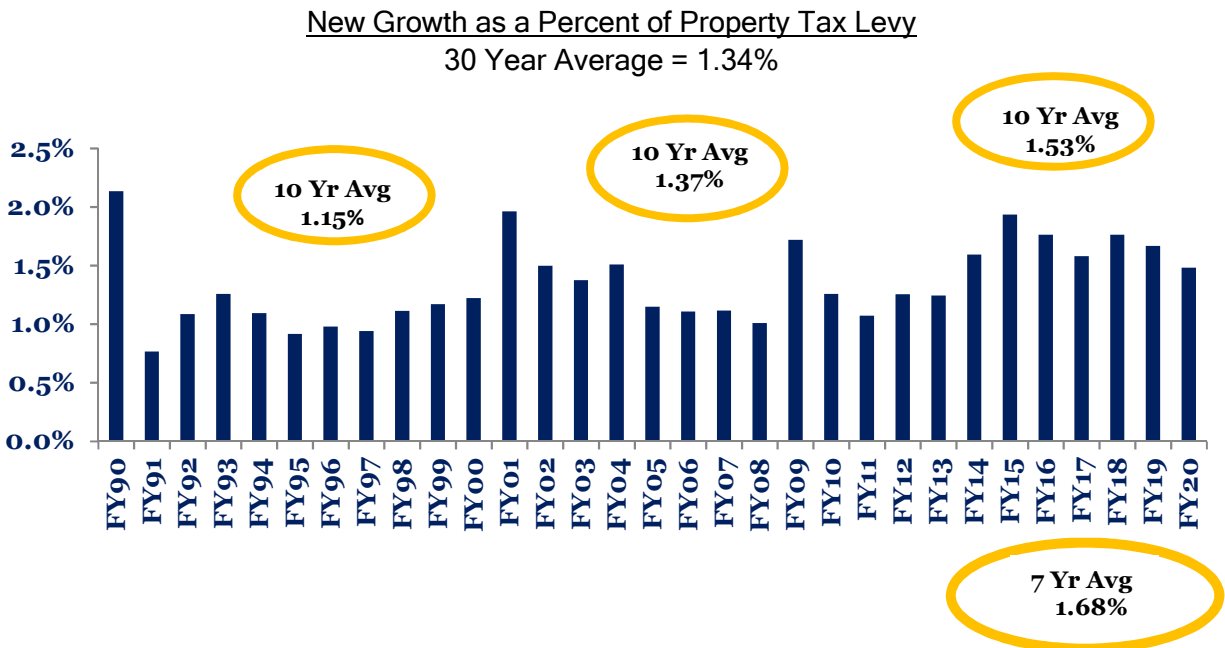


culture and community life have all been contributing factors. Average home property values have grown to more than \$1 million and our village centers and commercial sectors are thriving.

In FY2020, we assumed that we would increase the tax levy for real and personal property by 2.5% to a total of \$352.5 million (prior to the addition of taxes from “new growth and redevelopment”). We continue to assume a 2.5% annual increase for the coming 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 83% in FY2020. This means that more of the City’s operating budget is subject to an annual maximum increase of not more than 2.5% imposed by Proposition 2 ½.

Projecting the amount of new growth is perhaps the single most important assumption in the financial 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 significantly helped the City accomplish many of its goals. Sustaining these very positive historical trends will take much thought, effort and strategic planning.



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 has drafted a new zoning ordinance that will be exhaustively reviewed and refined by the City Council in 2020 (and perhaps beyond) 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 the village centers in both West Newton Square and Newtonville. These projects are specifically designed to enhance the village’s character and the experience of residents, customers 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.

The Newton Planning Department continues to undertake a pro-active approach to Newton’s future. Current initiatives before the City Council include a Vision Plan for Washington Street, from West Newton to Newtonville, as well as a city-wide Climate Action Plan. The Planning Department will continue to pursue specific new zoning for Washington Street as well as the entire city in 2020.

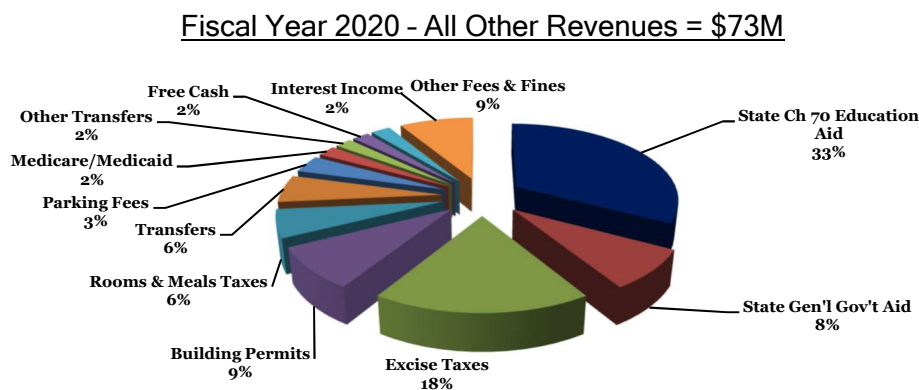
The Mayor will work closely with the Newton City Council and the Economic Development Commission to build on Newton’s successes including the recent accreditation of Newton as a gold level community for life science companies. Efforts will continue in marketing Wells Avenue, the N2 District and other 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.

The City Council is analyzing two major developments, Northland and Riverside, in the fall of 2019. Votes on both projects are anticipated this calendar year.

The forecast currently does not include either future debt exclusions or general operating overrides. In the out years, however, 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 when, and what the funding sources will be, to ensure our ambitions do not exceed our ability or willingness 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 - Chapter 70 State Education Aid and Unrestricted General Government Aid.

### State Education Aid - Chapter 70

The FY2015 State Budget established the Foundation Budget Review Commission (Commission) to “determine the educational programs and services necessary to achieve the Commonwealth’s educational goals” and to “review the way foundation budgets are calculated and to make recommendations for potential changes in those calculations as the Commission deems appropriate.” The statute also directed the Commission to “determine and recommend measures to promote the adoption of ways in which resources can be most effectively utilized and consider various models of efficient and effective resource allocation.” The Commission published its report on October 30, 2015.

On October 3, 2019, the Massachusetts State Senate unanimously passed the Student Opportunity Act, the most significant update to the education funding formula since its inception in 1993. It reflects many of the recommendations in the Commission’s report. The bill will infuse an additional \$1.5 billion annually into the state’s education aid over the next seven years and will provide increased funding for school districts with higher concentrations of low-income students. It will also increase funding to districts for transportation, school construction and renovation, and special education.

The House of Representatives is expected to consider the bill before the end of October 2019.

Mayor Fuller has reached out to our State Senator Cynthia Creem and State Representatives Ruth Balsler and Kay Khan and has spoken to House Speaker Bob DeLeo to gain a better understanding of the impact that Newton can expect on our Chapter 70 Educational State Aid. Unfortunately, specific information on the impact on the City of Newton is limited.

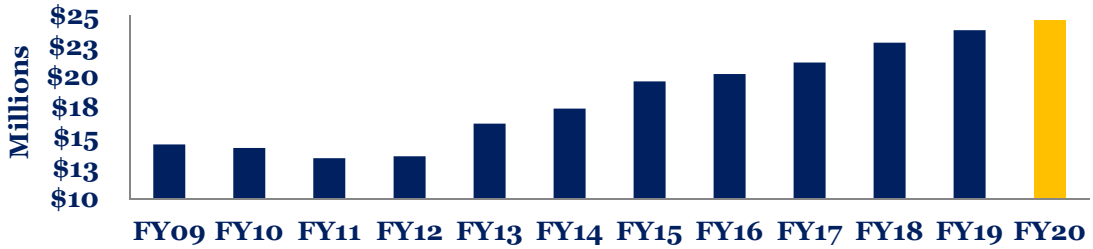
Our state representatives understand that although the numbers for each community are still not available, Newton can expect the following:

- No municipality will receive less than it currently receives.
- Over the next 4 years, out-of-district SPED transportation will be phased into the circuit breaker, thereby enabling it to be reimbursed at 75%. That provision will benefit the City of Newton.
- The City can reasonably expect a modest increase in Chapter 70 aid.

We will continue to watch the implementation of these changes very carefully and have incorporated the likely impact of these changes into the financial forecasts.

The final Fiscal Year 2020 Budget for total State Education Aid for the City of Newton increased by \$786,885 with a total Chapter 70 Grant of \$24,814,496.

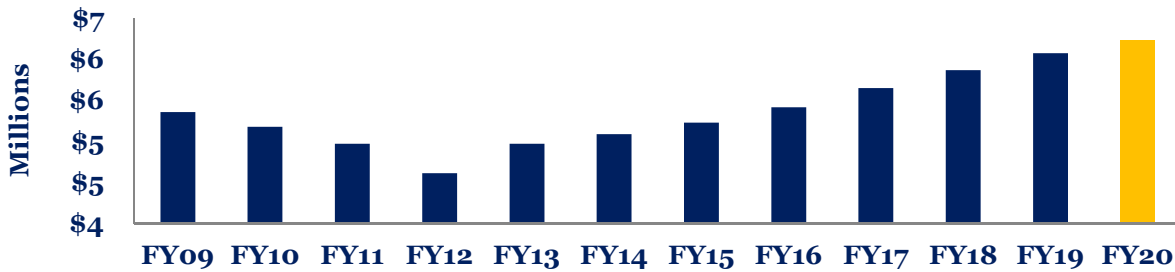
FY2020 Chapter 70 State Education Aid -  
Final Budget Increase of \$787K (3.3%)



Unrestricted General Government State Aid

In FY2010, the Lottery Aid Program (revenue from state lottery profits) and the Additional Assistance Program were combined to form a single revenue source now known as Unrestricted General Government Aid. As indicated in the chart below, this revenue source has seen steady increases over the past several years. The Governor’s FY2020 Budget includes an increase of General Government Aid to the City of Newton of \$164,069 or 2.7% for a total of \$6.24M.

FY2020 Unrestricted General State Aid -  
Governor’s Budget Increase of - \$164K (2.7%)



In addition to Chapter 70 State Education Aid and Unrestricted General Aid, the City of Newton receives many millions of dollars of additional funding that also should be considered when discussing state aid. The continuation of these funds is important. Key areas of additional state funding to the City of Newton are as follows:

Annual State Funds in FY2020

School - Special Education Circuit Breaker Funds	\$5,500,000
School - METCO Program	\$2,500,000
Chapter 90 - Highway Improvement Fund	\$2,300,000
Green Communities Competitive Grant - please confirm new #	\$ 111,217
Community Preservation Act (CPA) Matching Funds	\$ 713,012
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
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MSBA - Cabot Elementary School	\$14,000,000
Needham Street Reconstruction	\$26,000,000
MassWorks - Oak & Christina Intersection - Spring 2019	\$ 1,685,000
Washington Street at 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

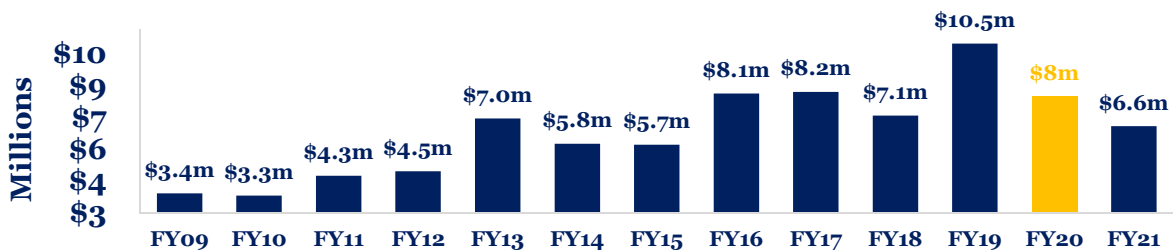
Community Development Block Grant & HOME Funds	\$2,000,000
Public Safety Funds	\$ 200,000
School - Special Education, Title I and other miscellaneous	\$4,000,000
Medicaid and Medicare Reimbursements for City retirees	\$2,000,000

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 FY2020 building permit revenues are strong primarily due to two significant buildings (one at Boston College and the Dana Farber build out at Life Fitness on Rt. 9, the former Atrium Mall). Therefore, we have revised our projection for this year, and currently expect to budget \$6.6 million for FY2021.

Inspectional Services

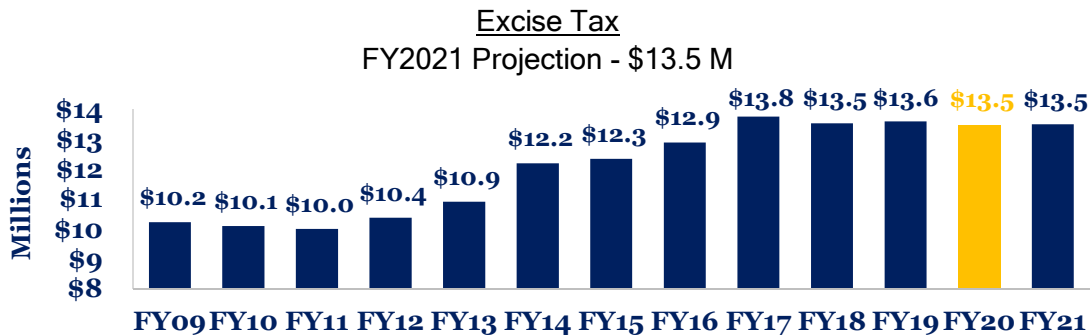
FY2020 Forecast Increased to \$8 M - FY2021 Anticipated Budget \$6.6 M



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 eight years, total revenue has fluctuated from a low of just over \$9.5 million in FY2011 to just over \$13.8 million in FY2017.

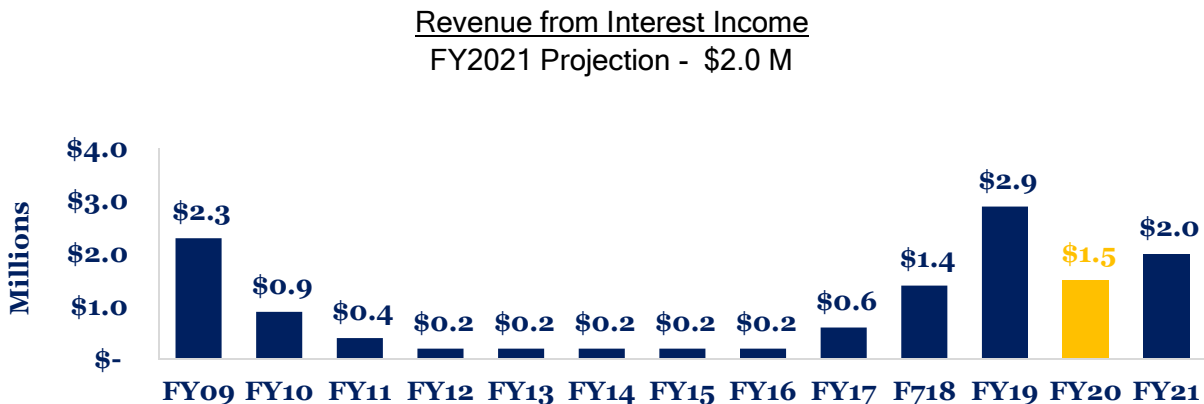
While there was significant pent-up demand as a result of the Great Recession of 2008, that demand has somewhat stabilized. The assumption for the forecast is a conservative one of \$13.5m for FY2021, the same as FY2020.



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 2018, the Federal Reserve kept raising the target range for the federal funds rate and in December 2018 it went up to 2.25% - 2.50%. However, the federal funds rate was recently decreased to 1.75% - 2.00% on September 19, 2019.

FY2019 actual Interest Income totaled just under \$3 million. We are conservatively projecting interest income at \$2 million in FY2021.



**City of Newton, Massachusetts**  
**Annual General Fund Revenue**  
**FY2020 BUDGET/FY2021 - FY2025 FORECAST**

(\$ million)	<BUDGET>		<-----FORECAST----->				
<b>Revenue from Operations</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>	
Real Estate Tax Revenue	\$ 356.9	\$ 371.0	\$ 384.6	\$ 399.3	\$ 414.4	\$ 430.2	
Excise Tax Revenue	\$ 13.5	\$ 13.5	\$ 13.6	\$ 13.8	\$ 13.9	\$ 14.0	
Hotel Room Tax	\$ 2.5	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	
Meals Tax - 0.75%	\$ 1.9	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.1	\$ 2.1	
Payments In Lieu of Taxes	\$ 0.2	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	
Interest/Divident Income	\$ 1.7	\$ 2.0	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	
License/Permit-ISD,Fire,H&HS	\$ 6.5	\$ 7.2	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	
Parking Meter Receipts	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	
Parking Violations	\$ 1.4	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	
Medicare D/SPED Medicaid	\$ 1.7	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	
Water/Sewer Gen'l Fund Adm	\$ 3.4	\$ 3.5	\$ 3.6	\$ 3.7	\$ 3.8	\$ 3.9	
Premium from Sale of Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other/Miscellaneous Revenue	\$ 6.5	\$ 6.6	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.9	
<b>REVENUE FROM OPERATIONS</b>	<b>\$ 397.6</b>	<b>\$ 412.5</b>	<b>\$ 426.0</b>	<b>\$ 440.9</b>	<b>\$ 456.5</b>	<b>\$ 472.5</b>	
<b>REVENUE FROM STATE AID</b>							
Unrestricted Gen'l State Aid	\$ 6.2	\$ 6.4	\$ 6.5	\$ 6.6	\$ 6.8	\$ 6.9	
Chapter 70 State Education Aid	\$ 24.7	\$ 25.6	\$ 26.4	\$ 27.1	\$ 27.9	\$ 28.7	
<b>REVENUE FROM STATE AID</b>	<b>\$ 30.9</b>	<b>\$ 32.0</b>	<b>\$ 32.9</b>	<b>\$ 33.8</b>	<b>\$ 34.7</b>	<b>\$ 35.6</b>	
<b>OPERATING REVENUE</b>	<b>\$ 428.5</b>	<b>\$ 444.4</b>	<b>\$ 458.9</b>	<b>\$ 474.7</b>	<b>\$ 491.1</b>	<b>\$ 508.1</b>	
% Increase		3.71%	3.25%	3.45%	3.46%	3.46%	
<b>REVENUE - FROM TRANSFERS</b>							
New Falls Settlement In Lieu of	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.0	\$ 0.0	
Capital Stabilization Fund	\$ 0.2	\$ 0.1	\$ 0.1	\$ -	\$ -	\$ -	
Free Cash	\$ 1.5	\$ 1.5	\$ 1.3	\$ 1.0	\$ 0.8	\$ 0.5	
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>REVENUE FROM TRANSFERS</b>	<b>\$ 1.8</b>	<b>\$ 1.7</b>	<b>\$ 1.4</b>	<b>\$ 1.1</b>	<b>\$ 0.8</b>	<b>\$ 0.5</b>	
<b>TOTAL REVENUE</b>	<b>\$ 430.3</b>	<b>\$ 446.1</b>	<b>\$ 460.2</b>	<b>\$ 475.7</b>	<b>\$ 491.9</b>	<b>\$ 508.7</b>	
% Increase		3.67%	3.17%	3.37%	3.40%	3.41%	

\* Annual Property Tax Revenue increased by 2.5% plus taxes from "New Growth and Redevelopment" as follows: FY2021 @ 1.30%, FY2022 - FY2025 @ 1.25%, FY2026 - FY2030 @ 1.30%

## IV. General Fund Expenditures

### Expenditure Forecast: Key Drivers and Assumptions

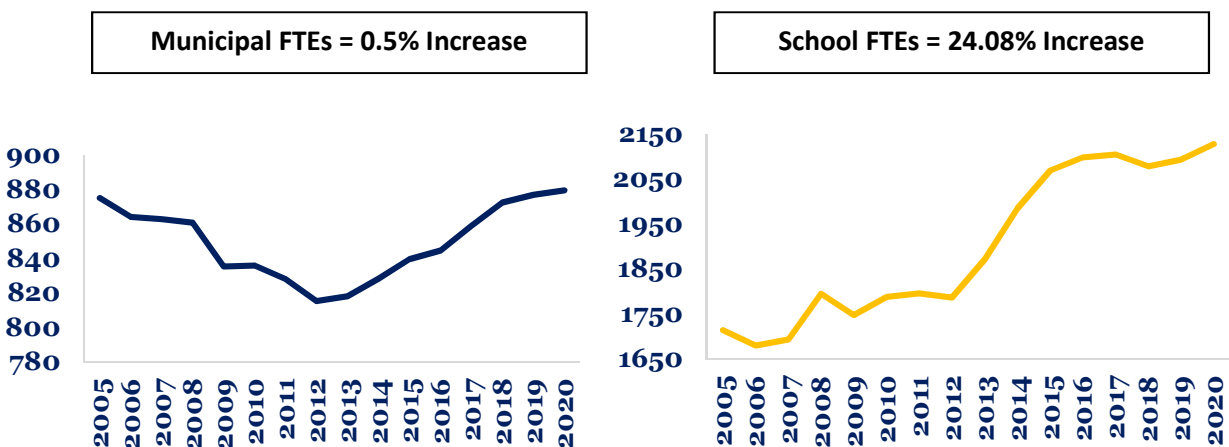
#### Employees and Retirees

The Fuller Administration is deeply respectful of and 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 cost of salaries, compensation, and benefits for active and retired NPS employees accounts for 86% of the Newton Public Schools operating expenditures while the cost of salaries, compensation, and benefits for active municipal employees account for 70% of the municipal operating expenditures. (Municipal retiree pensions and health benefits, and debt service are tracked separately). Consequently, personnel is the single most important cost element in our budget and has a significant impact on our forecast. The Newton Public Schools collective bargaining agreements expired August 31, 2019 while all ten collective bargaining agreements on the municipal side expired on June 30, 2019 or earlier.

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. The union contracts are 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 - FY2020





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. We also 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.

### 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 focus its budgets 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 that meets the needs of all students in the Newton Public Schools.

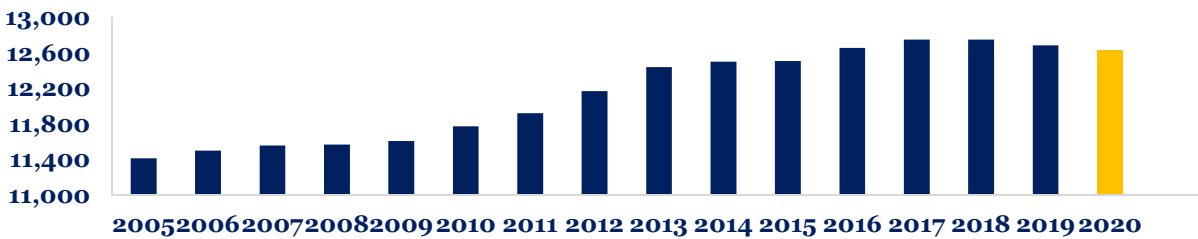
### Enrollment

A key assumption in the forecast is the number of students in the Newton Public Schools. Based on preliminary enrollment, NPS will serve approximately 12,624 students in our fifteen elementary, four middle, two high schools, and two alternative high school programs for the 2019-2020 school year, with approximately 200 additional students in the Newton Early Childhood Program (this enrollment is based on preliminary enrollment on 9/26/2019; finalized enrollment numbers will be provided in the November 2019 Enrollment Analysis Report).

The Newton Public Schools has seen a leveling of the growth trend of the prior decade. Based on the preliminary enrollment data, there is a decrease in enrollment from last year of 61 students for the 2019-2020 school year. This is the second year of declining enrollment. Over the next five years, a small increase of approximately 73 students, or 0.6% has been projected (these projections will be updated in November 2019). This projection, however, does not include potential new, large 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 and will publish updated projections in November 2019. 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 so NPS has both the teachers and staff and the space to educate all our students.

### Newton Public Schools - Enrollment Growth



### The Newton Public School Budget, Full Day Kindergarten and Other Initiatives

A key assumption of the forecast maintains the City’s commitment to the Newton Public Schools. The forecast increases the funding for FY2021 by \$7.7 million next year and by \$89 million in total over the next ten years. Newton’s schools continue to be the largest part of the City budget and increases more than the other municipal services. This translates into - a 3.25% annual increase in the NPS budget for staffing, services and compensation for FY2021 through FY2030.

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

As was mentioned earlier in this report, with the help of an additional \$1 million that Mayor Fuller added to the Newton Public Schools FY2020 budget, NPS implemented full day kindergarten for the first time in the City’s history in September 2019. Implementation of this long-awaited initiative will enable teachers to moderate the pacing of the kindergarten day, provide a more flexible schedule, and enhance our already rich kindergarten program in both the academic and the social and emotional realms. The additional \$1 million has been used to fund the hiring of a kindergarten assistant in every classroom. These assistants will allow us to provide small group learning opportunities for students throughout the day.

### 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 3.15% per year for FY2021 through FY2030.

### Roads

In FY2017, the City began the implementation of an Accelerated Pavement Management Program which substantially increased yearly expenditures on roadway infrastructure repairs from approximately \$3.3 million to \$9.5 million in order to 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 goal and, hence, this level of funding.

The Pavement Management Program seeks to use these funds in an efficient and effective 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, repair technique, roadway rating, etc). Development of this program is done in coordination with utility projects and forecasting future street paving condition ratings.

### Addressing Climate Change and Sustaining our Environment

In the City's first Climate Action Plan, a five-year plan to be finalized in late 2019, the City has set a carbon-neutral Newton goal for 2050. The title of the Plan is "Use Less and Green the Rest." The Plan sets six areas of action: A) Implementing the plan by adapting internal operations and working with partners; B) promoting clean and renewable power; C) greening Newton's transportation and streetscapes; D) improving new construction and major renovations; E) improving existing buildings; and F) reducing emissions associated with consumption and disposal. While much of the focus of the Climate Action Plan is on private development and vehicles (where the vast majority of greenhouse gases are generated), there are several areas involving municipal resources that the Plan calls for new City investment using either the operating or capital budget.

The City has already incorporated sustainable design principles into all new building projects, including school and municipal facilities and Complete Street projects. The three new schools Angier, Zervas, and Cabot, are all highly sustainable facilities. The renovations of 687 Watertown Street (former Horace Mann) to become the NECP facility will remove all fossil fuel sources for heating and cooling, a first in Newton. The Public Buildings Department has set sustainable design principles for all projects in collaboration with the Design Review Committee.

Newton has become a regional leader on solar electricity production. The City's solar arrays at the Rumford landfill and on municipal building roofs and parking lots generated 4.4 million kilowatt hours (kwh) of electricity last fiscal year, saving the City \$757,000 in that one year alone. Phase 3 solar projects coming online in 2020 will save \$3.3 million (net present value) over the next 20 years. Thanks to the contractual arrangements allowed under state law, Newton works with private sector partners to make financial investments in solar facilities.

The City has committed to replacing all passenger vehicles in the municipal fleet with electric cars by 2020 and is installing electric car charging stations at both municipal buildings and in city and school parking lots. As part of the Climate Action Plan implementation, this CIP includes \$400,000 to install 100 public charger points in 11 village centers, 5 municipal, and 23 school parking lots over two to three years. Newton will use Eversource's Make-Ready Program to finance and install the electrical connections necessary for these chargers while the City will pay for the charging stations in part with help from state grants.

The City will also continue its aggressive efforts to create efficiencies in school and municipal buildings. The Bigelow and Day Middle School boiler replacement projects, with funding from the MSBA, will greatly reduce natural gas use. For a fifth straight year Newton has received Green Communities Program grant funding, this time to convert lighting at the Newton South fieldhouse and tennis courts to LED lighting that will save large amounts of electricity.

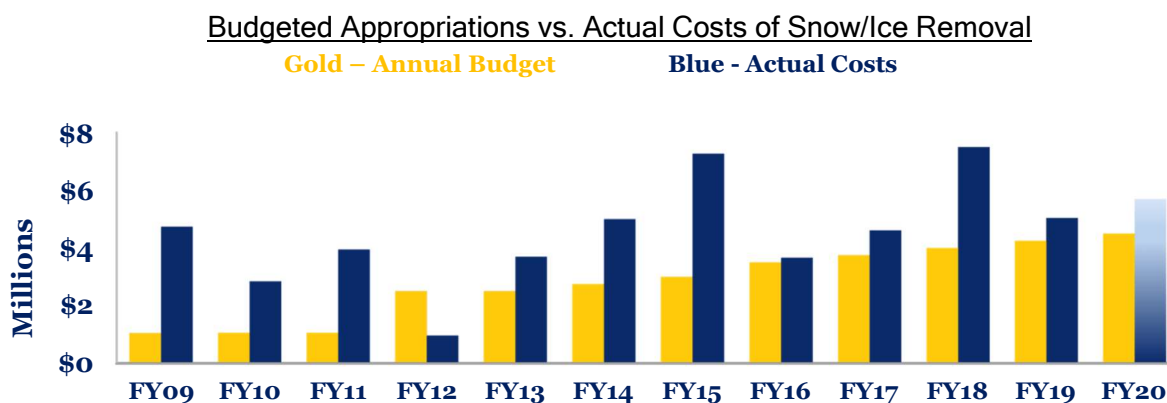
Climate change has already brought stormwater impacts to the metro Boston area, with intensification of severe events creating flooding, water quality problems, and droughts. Several stormwater projects included in the CIP will help the City address water quality conditions in the

Charles River Watershed. The new MS4 municipal stormwater permits will lead to new City projects to improve water quality.

To read more about the City’s energy and sustainability initiatives, please refer to the FY2021 - FY2025 Capital Improvement Plan which can be found online at [www.newtonma.gov/finance](http://www.newtonma.gov/finance).

### Removal of Snow and Ice

The policy of the Fuller Administration is to keep gradually 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 five years is \$5.7 million. The appropriation for FY2020 increased by \$250,000 to \$4.5 million so we continue to have realistically five more years of increased appropriations 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 again in FY2018. When the costs of \$1 million from the tree damage experienced are included in the FY2018 storm costs, we exceeded the FY2015 costs. When the actual costs exceed the amount in the operating budget, we use the Budget Reserve and/or Free Cash to fund the difference.



### 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 people.

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 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

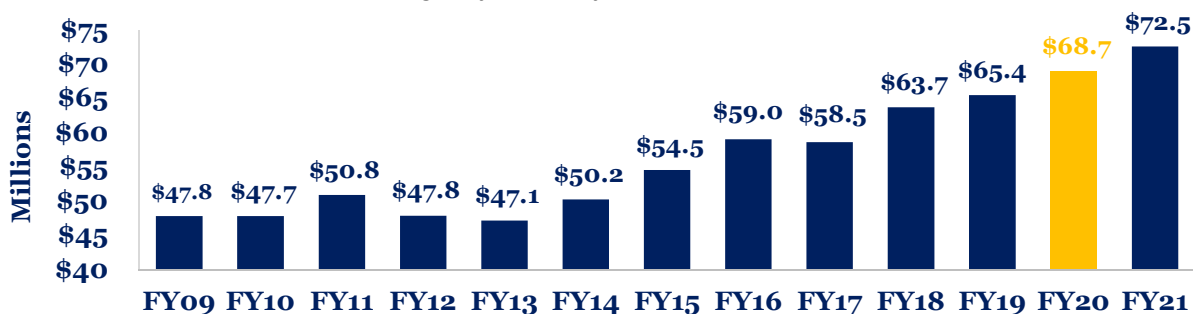
projections and actuals. An important forecast assumption is that the City’s working rates for healthcare will increase 5% annually.

The FY2020 General Fund City share of the health insurance working rates for NPS and municipal employees is \$23.4 million and \$10.9 million respectively, approximately 14% of the proposed salaries, wages and compensation for each.

As of June 30, 2019, the City’s Group Health Self-Insurance Fund had reserves of \$15 million which is the equivalent of 3.0 months of paid claims. The City has recently changed our philosophy and now is using our re-insurance or stop loss insurance policy for “catastrophic” claims, used for claims in excess of \$750,000, an increase from \$300,000 previously. Therefore, because we have increased our potential exposure in exchange for significantly reduced stop loss premium rates, our target reserve balance should be increased. The Administration will work with the City Council Finance Committee during the next few months to update the City’s policy.

In order to maintain the City’s 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  
Including City, Employee and Retiree Contributions



**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, notably 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.

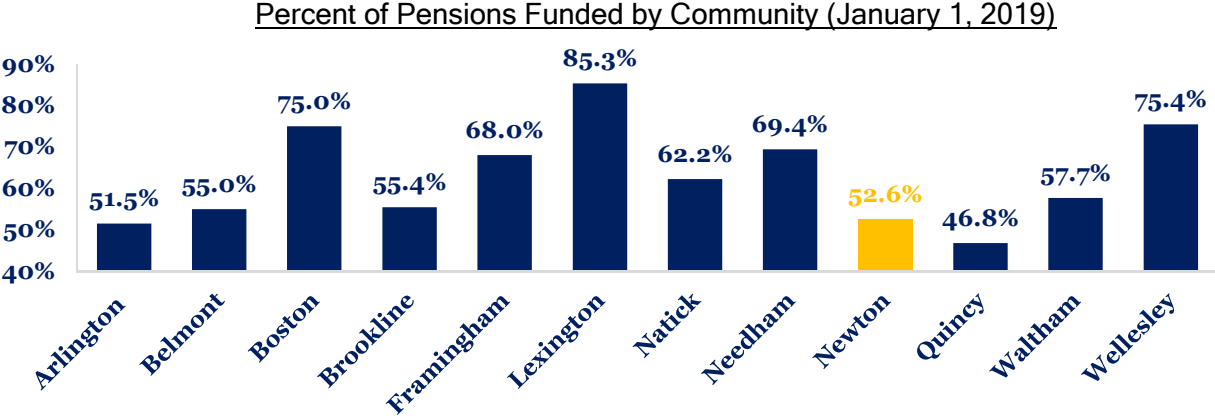
Commitment to fully funding the pension and OPEB retiree liabilities is also critical to maintaining the City of Newton’s financial sustainability. The Fuller Administration continues to follow a funding schedule designed to eliminate the City’s unfunded pension liability by the year 2030 and to fully 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 includes more than 3,500 people - 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.)

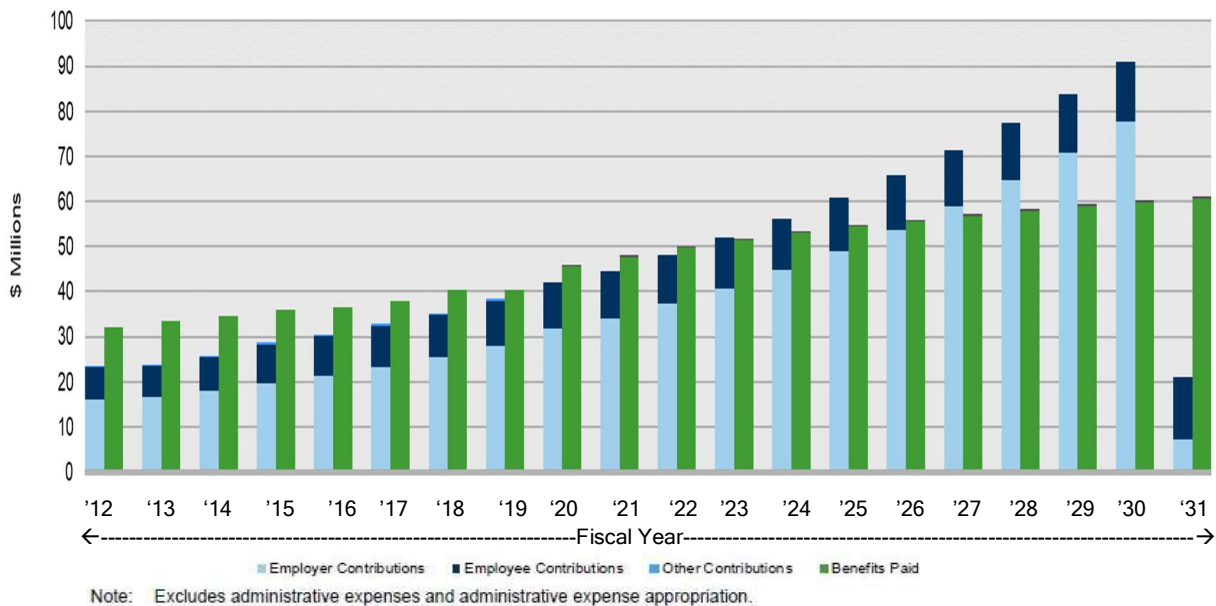
The teachers of the Newton Public Schools are not a part of the City of Newton Retirement plan. Rather, they are part of the Massachusetts Teachers Retirement System and the City is not “responsible” for their pensions. However, other school employees (e.g., aides, custodians, secretaries, and principals) are part of the City’s plan. School employees make up 678 of 1,605 or 42% of the active employees in the City’s pension plan and account for slightly more than 21% 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 47.36% as of January 1, 2019 (in other words, the pension liability is 52.64% funded) 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. In our peer benchmark communities, only Arlington and Quincy have lower funded ratios.



Another way of looking at the strength of our Contributory Retirement Plan (i.e. the pension plan) is comparing the annual contributions paid into the plan by the City and the employees to the benefits paid out each year. Unfortunately, the benefits being paid out are still higher than the contributions, hence our funded ratio is still not increasing in a noticeable way. This highlights the need for us to continue sizeable increases of contributions into the pension plan.

Comparison of Contributions with Benefits  
For FY2012 - FY2031

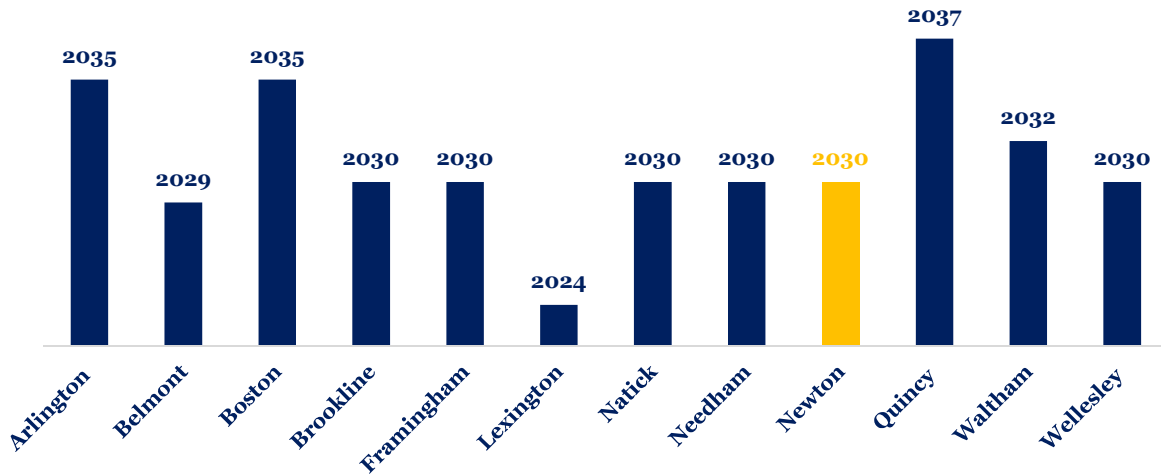


These funding gaps matter. Newton’s employees, like all Massachusetts public employees, do not pay into, nor do they receive, Social Security in their retirement. Newton employees depend on their pensions for income in their retirement. The funding gaps also matter because as a greater portion of Newton’s 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 strategically and carefully managing tax revenues, operating expenditures, capital investments and retiree benefit expenses while maintaining an Aaa credit rating. The magnitude of the pension and retiree 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 past FY2030.

As a result of the negative impact to funding ratios for pension plans 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 earlier funding which in turn allows the City to address the OPEB unfunded liability sooner. Therefore, the City of Newton Contributory Retirement Board, with full support from the previous and current Administration,

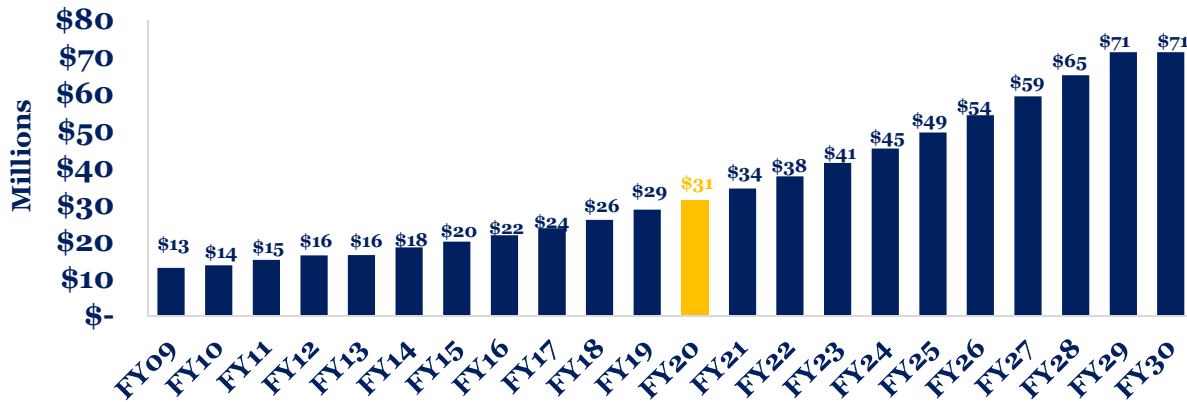
voted to implement a funding schedule which will fully fund the Newton retirement pension fund by the year 2030.

Achievement Year of Fully Funded Pension System by Community  
Current Projections



The FY2020 Budget, as well as this Long-Range Financial Forecast, includes an annual increase of 9.60% in support of this decision.

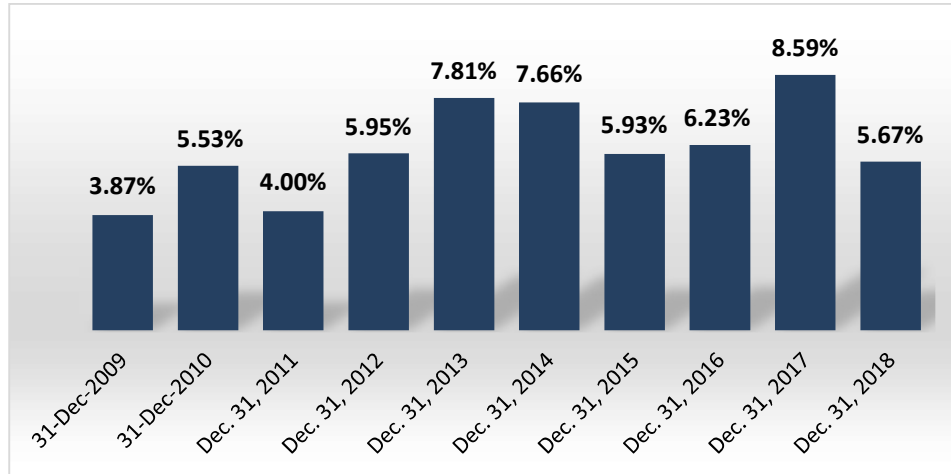
Projected City of Newton Pension Contributions - through Full Funding in 2030



Importantly, a funding schedule is only as good as the assumptions within it. Over the past few years, the Newton Retirement Board - with the support of the Executive Office -- has taken several steps to implement more conservative assumptions. The funding schedule includes updated mortality information (our retirees are living longer), adjusted salary increases and a reduced assumed rate of return on investment from 8.00% down to 7.25%. However, further adjustments may still be required.



FY2010 - FY2019 Actual Rate of Return  
Average Rate of Return = 6.14%

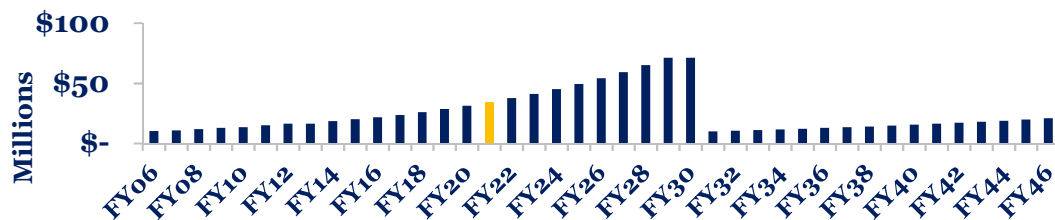


As shown in the chart above, the average rate of return during the past 10 years has only been 6.14%. The Newton Retirement Board will have to take a very hard look at these rates of return and determine whether there should be a further reduction in our assumed rate - perhaps to as low as 6.5%. This decision will obviously have an impact on the year that the City can expect to fully fund its pension obligations, as investing more than a 9.6% increase annually will be close to impossible. Yet, we must use realistic assumptions when setting aside funds for the very important obligation.

If the assumed rate of return is reduced, fully funding the City's pension obligations by the year 2030 may become too aggressive and may need to be adjusted slightly.

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. The "normal cost" is the annual cost of setting aside in advance pension benefits for 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, even larger, 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 provides health and life 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. In contrast to pensions, the state does not yet require pre-funding for retiree health and life insurance benefits.

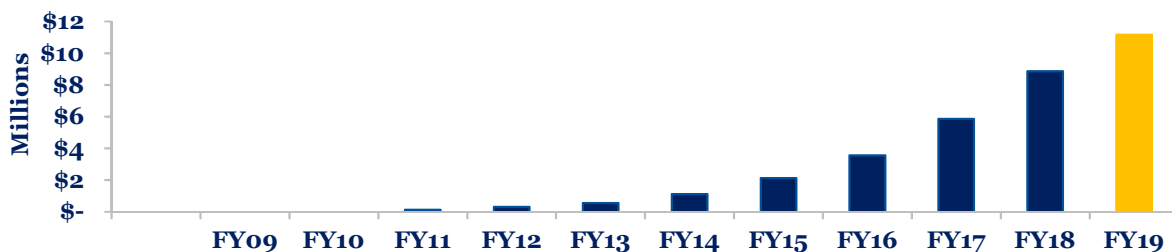
In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

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 City of Newton Budget included the implementation of a funding schedule for the City’s OPEB liability for the first time by appropriating approximately \$200,000 or 2.5% of the salaries for all newly hired and 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.

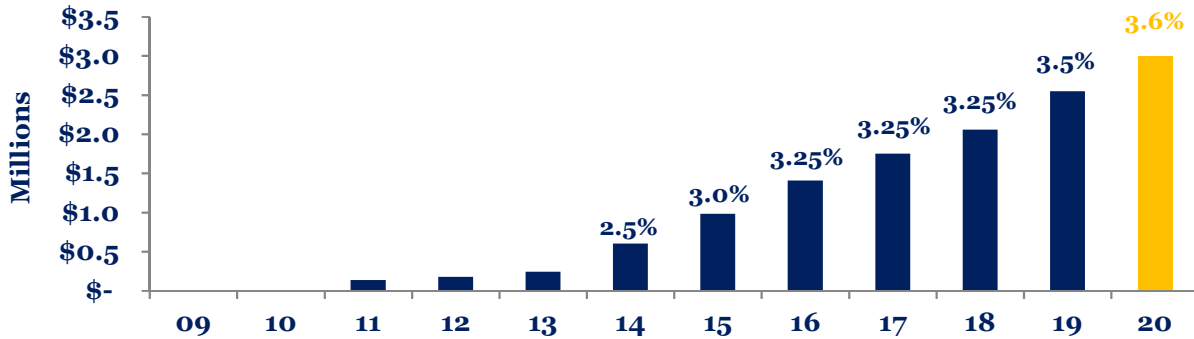
Due to the continued addition of employees covered under this methodology as well as the increased percentage, the June 30, 2019 value of the OPEB liability trust fund totaled \$11.8 million.

OPEB Trust Fund Value (June 30, 2019 - \$11.8m)



For the first time in several years, the Fuller Administration increased the percentage in the FY2019 Budget from 3.25% to 3.50%, and then again in the FY2020 Budget from 3.50% to 3.60% 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.

Percent of Newly Insured Employee Salaries  
Appropriated for OPEB Funding



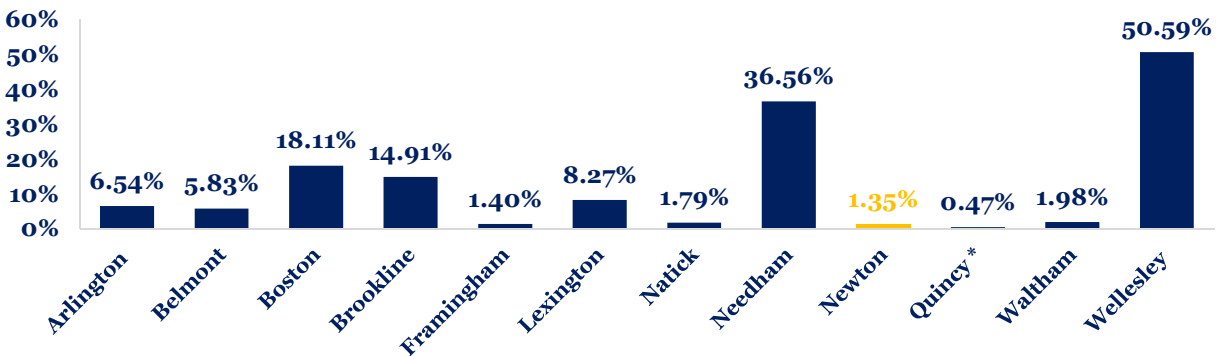
Of note, although the City appropriated the same percentage (3.25%) in FY2016, FY2017, and FY2018 the actual dollar amount set aside for our OPEB liability increased each year as a result of additional employees being covered each year.

The long-term OPEB unfunded 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. In this ten-year period when Newton is setting aside a very small portion of its liability ahead of time, the City’s policy is primarily pay-as-you-go.

As with pensions, Newton lags behind its 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 or OPEB than with pensions. In our comparison group, many cities and towns have set aside little to meet these OPEB obligations. Four communities have set aside meaningful sums: Wellesley (50.59% funded), Needham (36.56% funded), Boston (18.11% funded), and Brookline (14.91% funded).

OPEB Liabilities Funded, June 30, 2018

\*Quincy’s data is from 6/30/2017

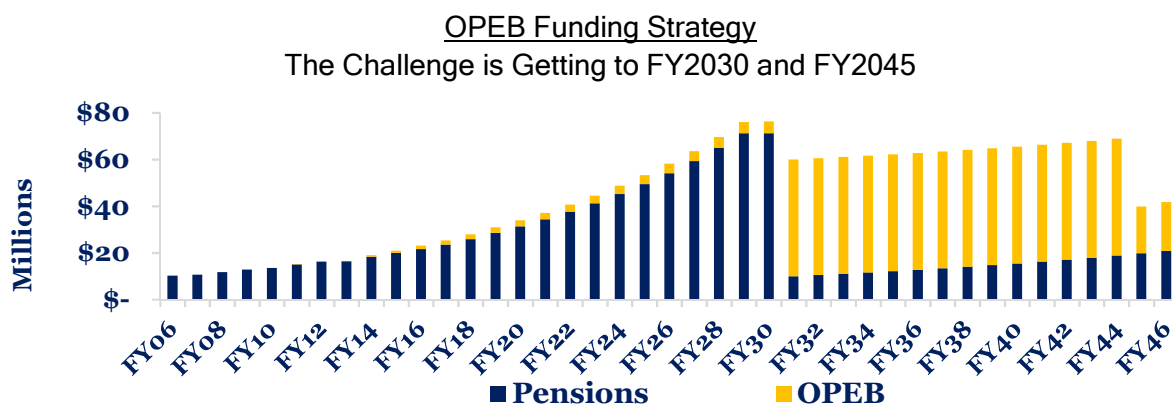


The way that the City has historically underinvested each of these significant long-term retiree liabilities is problematic. This past practice has transferred costs of former Newton taxpayers to current and future Newton taxpayers, costs that were accrued over the past few decades.

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 this principle and therefore to increasing gradually the funding for current employees for their retiree health insurance.

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

The funding strategy is to make significant investments in the pension system for the next ten years, until full funding, currently projected in 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. This is a viable, sustainable financial strategy to fully fund all of the City’s retiree costs by FY2045.



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. Newton’s 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, trucks 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 our citizens with necessary services for years to come.

The FY2021 - FY2025 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 2019) equalized valuation is approximately \$30 billion, which means that the current statutory debt limit is approximately \$1.50 billion. Current outstanding principal of bonded debt is significantly lower and approximates \$350 million or 24% of the City’s debt capacity.

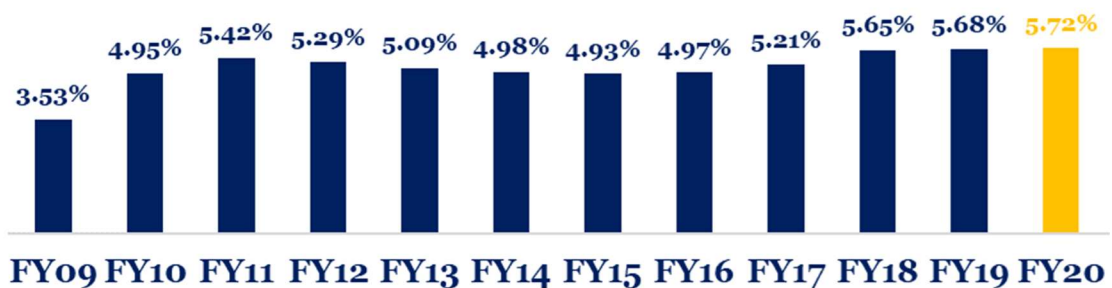
In conjunction with the state statutory debt limit, the City of Newton has developed its own financial policy of limiting debt service on long-term bonded debt to between 4.0% and 7.5% of the annual General Fund budget. Debt service, which includes both principal and interest, totals 5.7% of the Fiscal Year 2020 Municipal Budget.

The City has made significant investments in capital assets in the last decade and needs 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 \$24.6 million or 5.7% in FY2020. This increase reflects both this Administration’s and the previous one to better maintenance of capital assets from school buildings to roads.

FY2020 Debt Service - \$24.6M

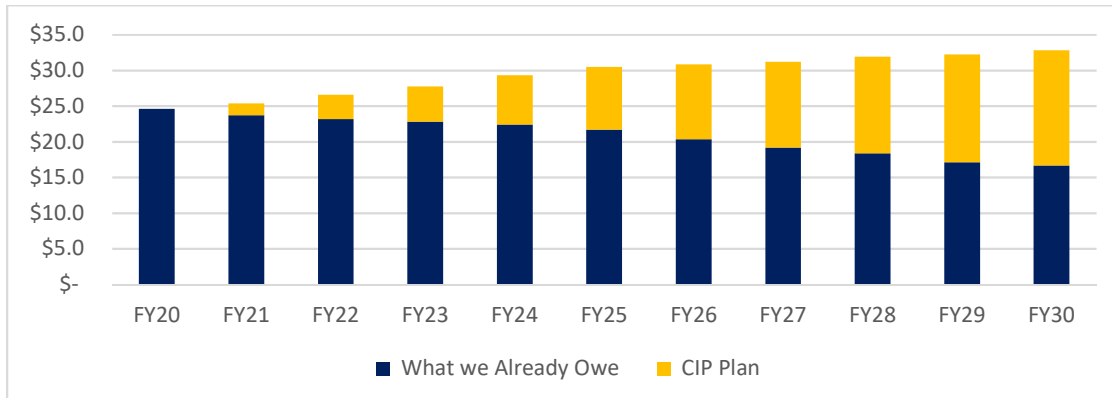


Debt Service as a Percent of Operating Budget



This long-range plan has been developed in conjunction with the City’s FY2021 - FY2025 Five-Year Capital Improvement Plan. Projected debt service costs reflect those capital investments.

**Projected Debt Service Costs**  
based on FY2021 - FY2025 C.I.P.



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,
- \$6.7 million annual Sewer Improvement Program to reduce inflow and infiltration; and
- \$2.25 million annual Stormwater System improvements.

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

- \$3+ million expenditures on fleet replacement, building improvements, police cruisers, etc. through annual operating budget capital expenditures;
- \$3.2 million annual investment in capital improvements in school facilities in the school department operating budget (formerly known as Charter Maintenance); and
- \$9.5 million annual investment in pavement management and Complete Streets Program through the operating budget and free cash.

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

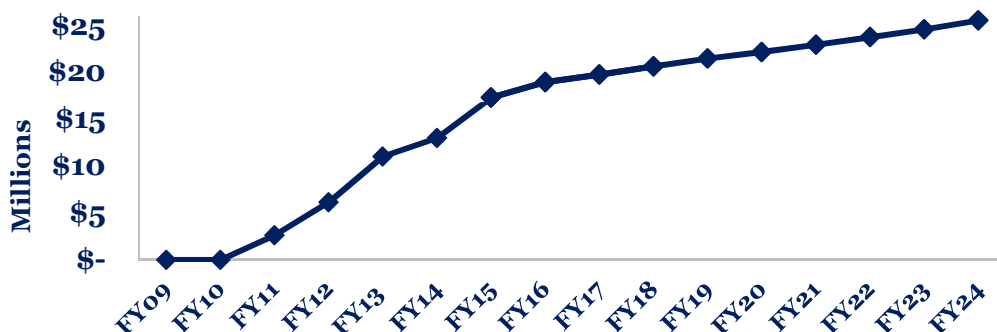
**Reserves, Rainy Day Stabilization Fund, and Free Cash**

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 event that requires a significant expenditure. These funds may be utilized to address cyclical declines in operating revenues, generally resulting from economic factors outside the City’s control, or an unusually large expenditure resulting from an unusual circumstance such 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 an 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 Rainy Day Stabilization Fund balance totals more than \$21.5 million.

Sustaining a Rainy Day Stabilization Fund that totals 5% of the more than \$430 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 two years and continues to study appropriate investment strategies. As a result of its efforts and collaboration with the Administration, the Fund is invested in a safe and liquid money market fund with a higher return than in the past.

Rainy Day Stabilization Fund Value  
Current Balance \$21.5M



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. Free Cash 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. 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. The Massachusetts State Bureau of Accounts certifies free cash and it is not available for appropriation until certified. (Certification typically occurs in October or November.)

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.

Free cash in the Fuller Administration is an important part of the financial strategy and is used in a methodical 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 from the Rainy Day Stabilization Fund and the amount of the required 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: One-time, non-recurring expenditures and/or funding 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.



**City of Newton, Massachusetts**  
**Annual Expenditures by Functional Element**  
**FY2020 BUDGET/FY2021 - FY2025 FORECAST**

	<BUDGET>	<-----F-O-R-E-C-A-S-T----->				
	FY20	FY21	FY22	FY23	FY24	FY25
<b>TOTAL REVENUE</b>	\$ 430.3	\$ 446.1	\$ 460.2	\$ 475.7	\$ 491.9	\$ 508.7
<b>TOTAL EXPENDITURES</b>						
<b>Newton Public Schools</b>	\$ 236.4	\$ 244.1	\$ 252.0	\$ 260.2	\$ 268.6	\$ 277.4
Annual % Increase		3.25%	3.25%	3.25%	3.25%	3.25%
Percentage of Revenue	54.9%	54.7%	54.8%	54.7%	54.6%	54.5%
<b>Revenue Remaining</b>	\$ 193.9	\$ 202.0	\$ 208.2	\$ 215.6	\$ 223.3	\$ 231.3
<b>Municipal Services</b>						
<b>Municipal Services</b>	\$ 127.6	\$ 131.6	\$ 135.8	\$ 140.0	\$ 144.5	\$ 149.0
Annual % Increase		3.15%	3.15%	3.15%	3.15%	3.15%
Percentage of Revenue	29.7%	29.5%	29.5%	29.4%	29.4%	29.3%
<b>Revenue Remaining</b>	\$ 66.3	\$ 70.4	\$ 72.5	\$ 75.5	\$ 78.8	\$ 82.3
<b>Pensions &amp; Municipal Retiree Health</b>						
<b>Pensions &amp; Municipal Retiree Health</b>	\$ 41.8	\$ 45.6	\$ 49.5	\$ 53.7	\$ 58.2	\$ 63.1
Annual % Increase		9.1%	8.4%	8.5%	8.5%	8.4%
Percentage of Revenue	9.7%	10.2%	10.7%	11.3%	11.8%	12.4%
<b>Revenue Remaining</b>	\$ 24.5	\$ 24.8	\$ 23.0	\$ 21.9	\$ 20.6	\$ 19.2
<b>Debt Service</b>						
Debt Service Authorized/Issued	\$ 24.5	\$ 23.7	\$ 23.2	\$ 22.8	\$ 22.4	\$ 21.7
Debt Service Additional Bonding	-	\$ 2.0	\$ 3.3	\$ 5.0	\$ 7.1	\$ 9.1
<b>Projected Debt Service</b>	\$ 24.5	\$ 25.7	\$ 26.5	\$ 27.8	\$ 29.6	\$ 30.8
Annual % Increase		5.0%	3.1%	4.8%	6.4%	4.3%
Percentage of Revenue	5.7%	5.8%	5.8%	5.8%	6.0%	6.1%
<b>Revenue Remaining</b>	\$ (0.0)	\$ (0.9)	\$ (3.5)	\$ (5.9)	\$ (9.0)	\$ (11.6)
<b>Snow Removal/Recycling</b>						
<b>Snow Removal/Recycling</b>	\$ -	\$ 1.0	\$ 1.3	\$ 1.6	\$ 1.9	\$ 2.2
Annual % Increase			29.50%	22.78%	18.55%	15.65%
Percentage of Revenue		0.2%	0.3%	0.3%	0.4%	0.4%
<b>TOTAL PROJECTED EXPENDITURES</b>						
<b>TOTAL PROJECTED EXPENDITURES</b>	\$ 430.3	\$ 448.0	\$ 465.0	\$ 483.3	\$ 502.8	\$ 522.5
<b>Revenue Shortfall</b>	\$ (0.0)	\$ (1.9)	\$ (4.8)	\$ (7.5)	\$ (10.8)	\$ (13.8)
<b>"GAP" as % of Revenue</b>		-0.4%	-1.0%	-1.6%	-2.2%	-2.7%

## 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 budget and quickly change the financial forecast. These uncertainties are one of the primary reasons why we maintain reserves and forecast conservatively. We know that revenues can, and hopefully will, exceed our forecast. If major new developments with positive net fiscal impacts are constructed or new revenue sources such as additional recreational retail marijuana establishments are approved, there can be a positive financial impact. Likewise, implementation of changes to the Education Foundation Budget, additional competition for Massachusetts School Building Authority (MSBA) building improvement matching funds, and escalating building and maintenance costs may yield negative financial impacts.

### 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 assets
- Balancing annual operating budgets
- Incorporating all expenditures fully into the operating budget
- 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
    - Older 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
- Waste and Recycling costs
- Interest rates on bond financing
- Energy
- Medical costs
- Construction costs
- State and Federal Legislation with Unfunded Mandates
  - Stormwater regulations
- Implementing New Initiatives
  - Climate Change Actions
  - 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 FY2021 Budget

A well-managed, fiscally sound City is essential to fund excellence in education, 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.

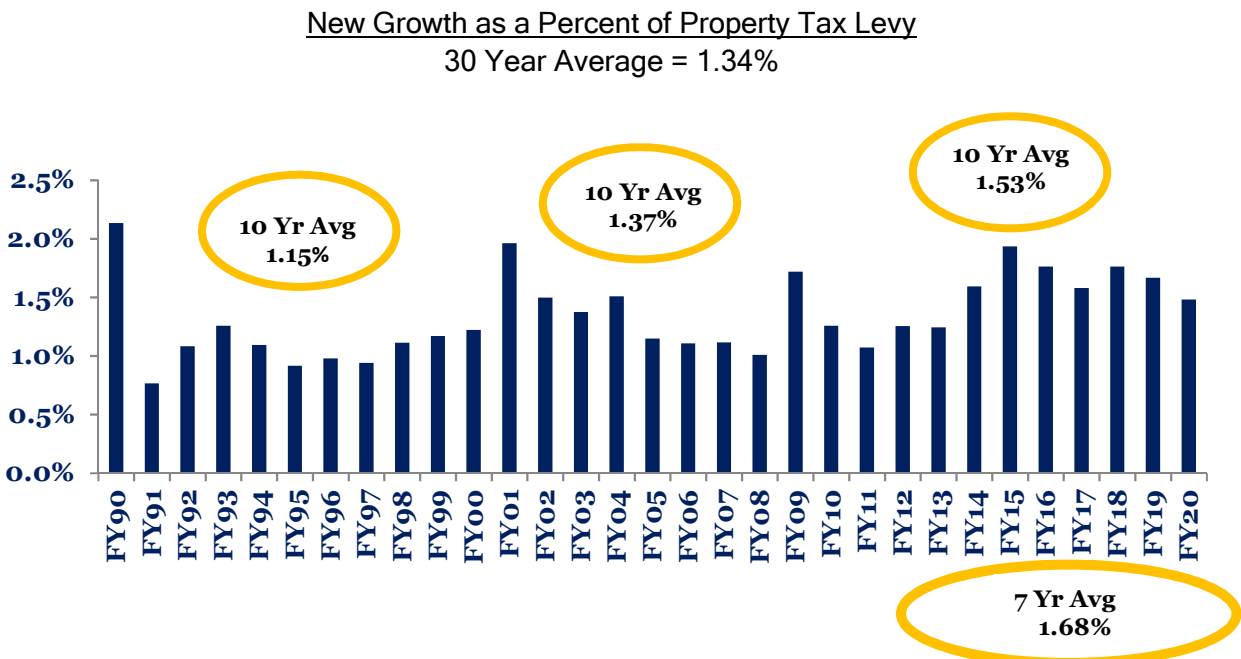
Therefore, a One-Year and Five-Year Financial Forecast is no longer sufficient. The City's strategy for fully funding its long-term retirement liabilities and infrastructure needs stretches out to Fiscal Year 2030 and beyond; consequently, this forecasting process will do the same.

### 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 7 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.

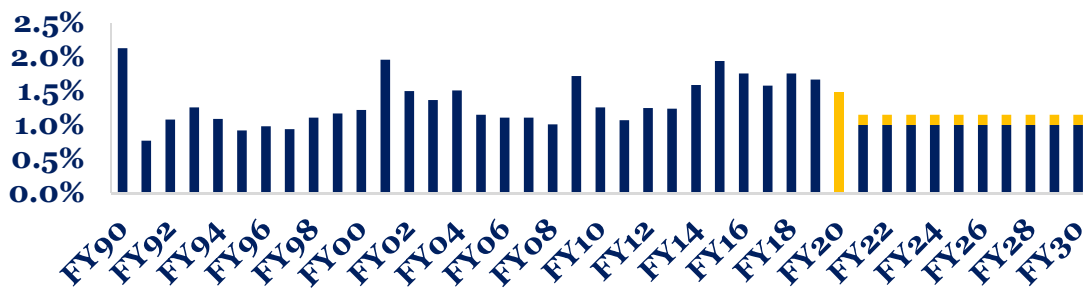


Revenue from new growth and redevelopment has averaged 1.34% over the past 30 years. Although we can “model” averages, each year fluctuates based on the economy, time frame of large developments and other factors. The “worst” 10 years (FY91 - FY00) generated a 10-year average of 1.05% in revenues from new growth and redevelopment while the past 7 years have been the best, averaging 1.68%.

To prepare this strategic long-range forecast, we have utilized this very important data to create 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.

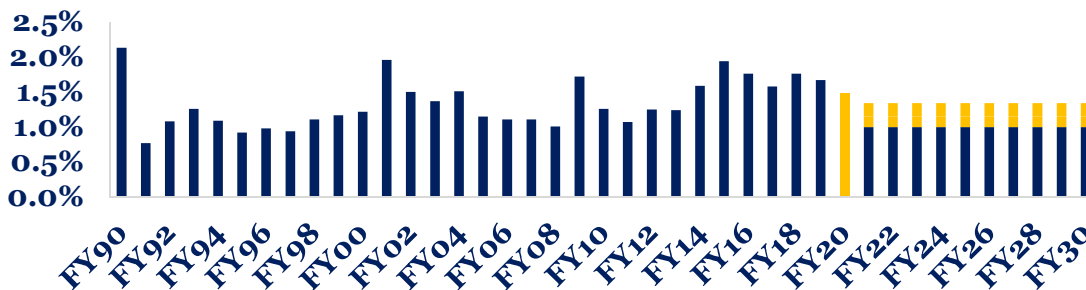
New Growth Projection; Average Growth @ 1.15%

Total Revenue FY2030 = \$595M



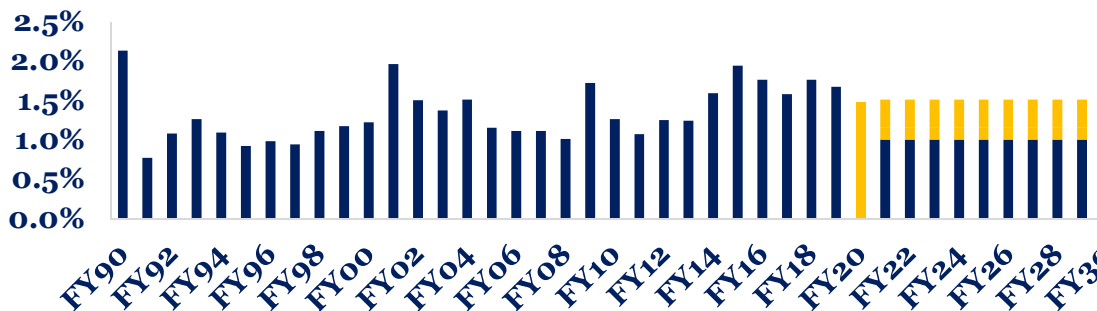
New Growth Projection; Average Growth @ 1.34%

Total Revenue FY2030 = \$605M

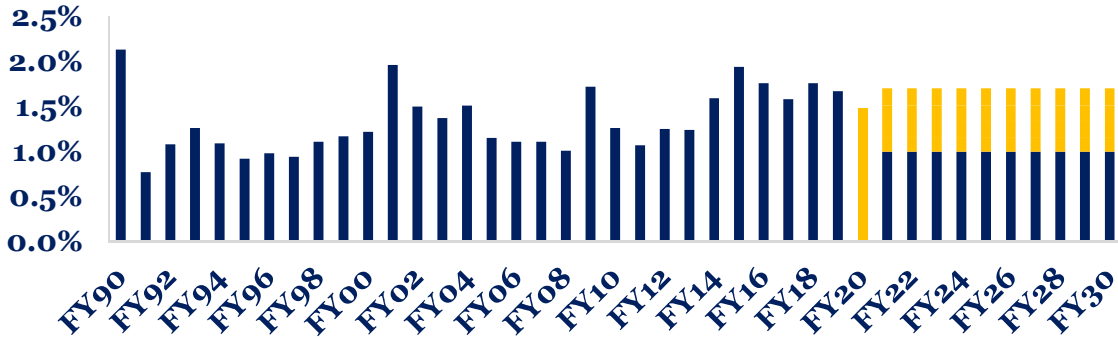


New Growth Projection; Average Growth @ 1.51%

Total Revenue FY2030 = \$613M

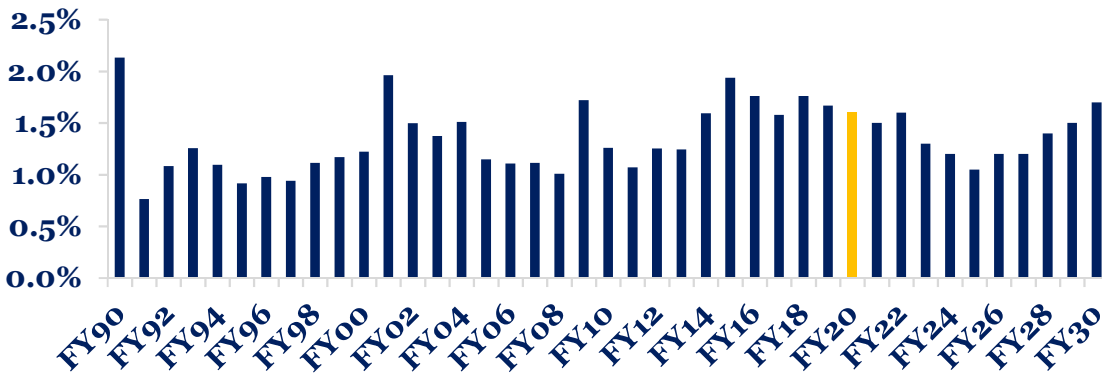


New Growth Projection; Average Growth @ 1.70%  
Total Revenue FY2030 = \$624M



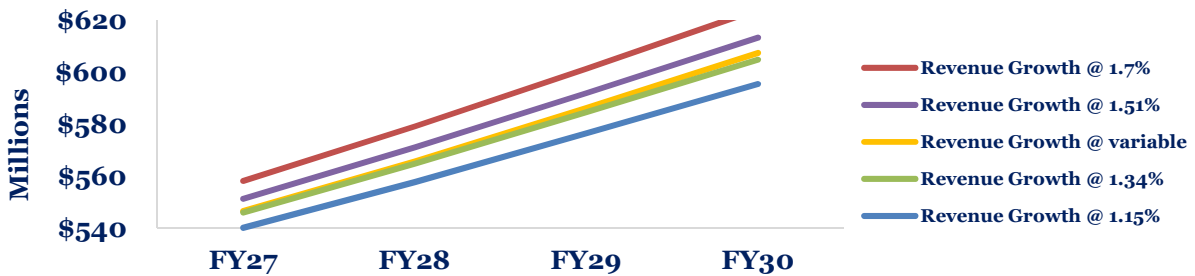
Although each of these scenarios based on averages are helpful, in reality, the new growth factor will probably be variable and may resemble the chart below.

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 and personnel such as public safety or education.

Total Revenue through FY2030 based on Different Scenarios

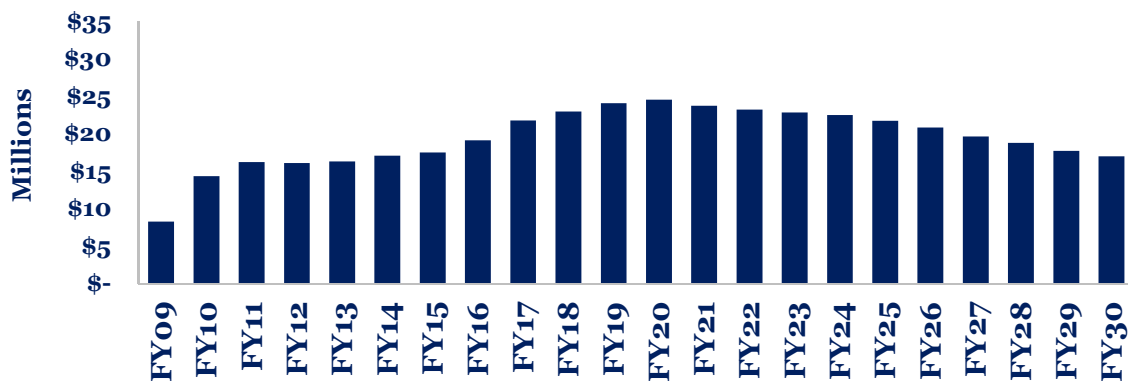


As was mentioned earlier in this report, there has been speculation of a “market correction” or a “slowing of the economy” on the horizon. History has shown us that although the 20-year average increase in revenues from new growth and redevelopment approximates 1.34%, slower economic times can yield additional tax revenues from new growth and redevelopment as low as only 1.0%. We are using a revenue forecast that incorporates this uncertainty. This significantly impacts our revenue forecast - and thus, the amount that we are comfortable appropriating to expenses.

Therefore, in addition to the assumption of a 2.5% annual property tax increase as allowed under Proposition 2 ½, we have assumed a 1.3% new growth rate in FY21 through FY30, a slight decrease from the 1.34% used for the 10-year forecast last year. Additionally, we have adjusted our projected growth in Chapter 70 State Education Aid downward based on the Foundation Budget Review Commission’s recommendations for “enhancements” to the Commonwealth’s school funding framework which has a fully phased in target date of FY2026.

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.

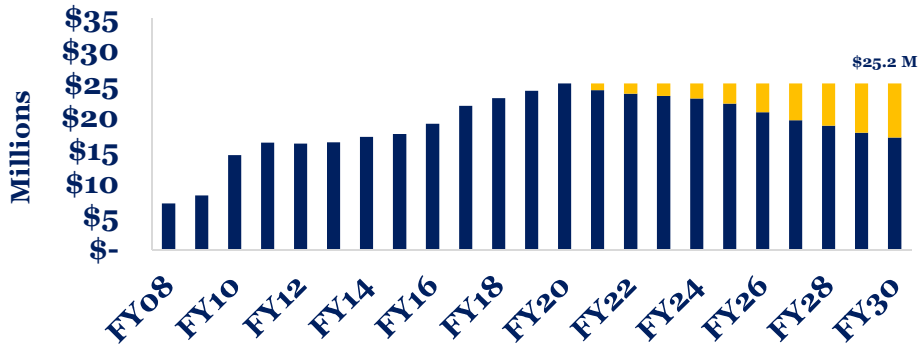
Current Debt Schedule (What We Already Owe)



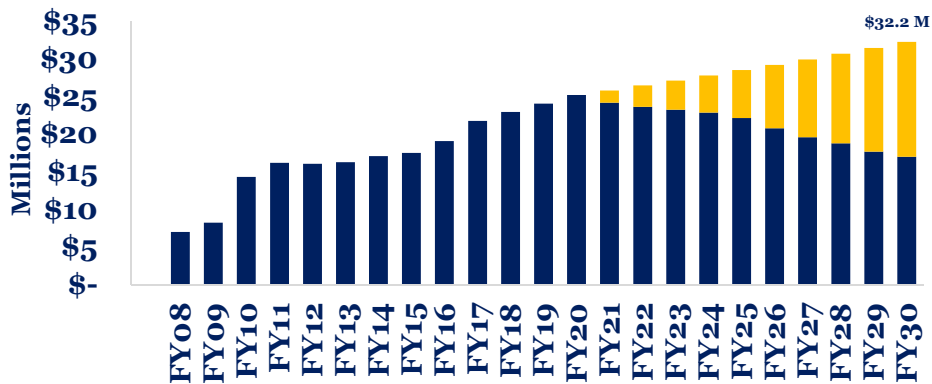
Given the significant condition issues in our capital assets, we will need to continue to invest heavily in the years ahead. The quality and condition of our school buildings, library, recreational facilities (e.g., the Hut next to Mason Rice, Gath Pool, Crystal Lake Bath House), the Senior Center, Police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

We ran two scenarios for the level of investment in capital assets. One looked at level debt service payments at the FY2020 level through FY2030 while the other increased debt service by 2.5% annually.

Level Debt Service Costs through FY2030

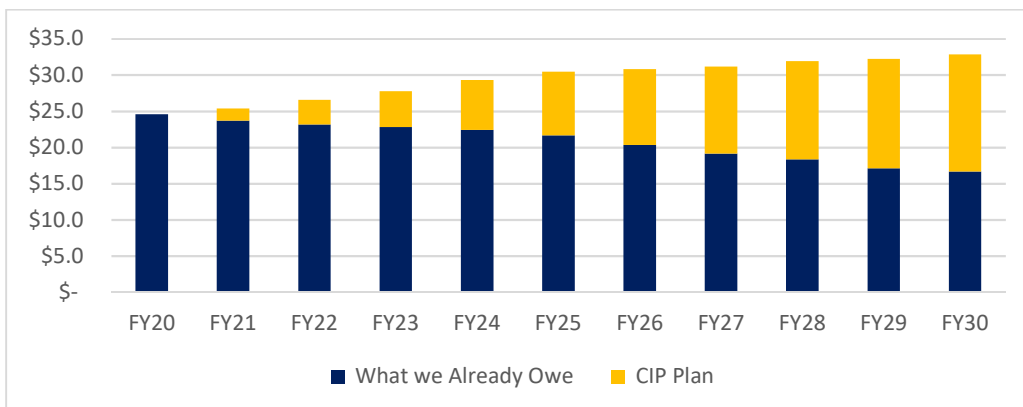


2.5% Annual Increase in Debt Service Costs through FY2030



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 if there is capacity in the financial forecast to absorb this additional debt service.

Projected Debt Service Costs  
based on FY2021 - FY2025 C.I.P.





In summary, the Long-Range Financial Plan is comprised of a 3.25% annual growth in our investments and expenditures on current services in the Newton Public Schools, 3.15% annual growth in City services, significant additional investments (8.8% annual increases) in retiree obligations, and steady investments in capital assets (e.g., school buildings and complete streets). To fund building improvements such as Countryside or Franklin or move more quickly to address other priorities, the City will need to consider in more detail the feasibility, the timing, the cost and the funding mechanisms to make these investments possible.

## **Long-Range Financial Strategy - Revenue & Expenditures**

**City of Newton, Massachusetts**  
**Annual General Fund Revenue**  
**FY2020 BUDGET/FY2021 - FY2030 FORECAST**

(\$ million)	-----F-O-R-E-C-A-S-T----->											
	<BUDGET> FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30	
<b>Revenue from Operations</b>												
Real Estate Tax Revenue	\$ 356.9	\$ 371.0	\$ 384.6	\$ 399.3	\$ 414.4	\$ 430.2	\$ 446.6	\$ 463.6	\$ 481.2	\$ 499.5	\$ 518.5	
Excise Tax Revenue	\$ 13.5	\$ 13.5	\$ 13.6	\$ 13.8	\$ 13.9	\$ 14.0	\$ 14.0	\$ 14.2	\$ 14.2	\$ 14.3	\$ 14.3	
Hotel Room Tax	\$ 2.5	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.4	\$ 2.5	\$ 2.5	\$ 2.6	
Meals Tax - 0.75%	\$ 1.9	\$ 2.0	\$ 2.0	\$ 2.0	\$ 2.1	\$ 2.1	\$ 2.2	\$ 2.2	\$ 2.3	\$ 2.3	\$ 2.4	
Payments In Lieu of Taxes	\$ 0.2	\$ 0.1	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	\$ 0.2	
Interest/Divident Income	\$ 1.7	\$ 2.0	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	\$ 1.0	
License/Permit-ISD,Fire,H&HS	\$ 6.5	\$ 7.2	\$ 7.0	\$ 7.0	\$ 7.0	\$ 7.0	\$ 6.5	\$ 6.5	\$ 6.5	\$ 6.5	\$ 6.5	
Parking Meter Receipts	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	
Parking Violations	\$ 1.4	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	\$ 1.3	
Medicare D/SPED Medicaid	\$ 1.7	\$ 1.4	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.5	\$ 1.4	
Water/Sewer Gen'l Fund Adm	\$ 3.4	\$ 3.5	\$ 3.6	\$ 3.7	\$ 3.8	\$ 3.9	\$ 4.0	\$ 4.1	\$ 4.2	\$ 4.3	\$ 4.4	
Premium from Sale of Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Other/Miscellaneous Revenue	\$ 6.5	\$ 6.6	\$ 6.8	\$ 6.8	\$ 6.8	\$ 6.9	\$ 6.9	\$ 6.9	\$ 7.0	\$ 7.0	\$ 7.0	
<b>REVENUE FROM OPERATIONS</b>	<b>\$ 397.6</b>	<b>\$ 412.5</b>	<b>\$ 426.0</b>	<b>\$ 440.9</b>	<b>\$ 456.5</b>	<b>\$ 472.5</b>	<b>\$ 487.9</b>	<b>\$ 505.3</b>	<b>\$ 523.2</b>	<b>\$ 541.9</b>	<b>\$ 561.0</b>	
<b>REVENUE FROM STATE AID</b>												
Unrestricted Gen'l State Aid	\$ 6.2	\$ 6.4	\$ 6.5	\$ 6.6	\$ 6.8	\$ 6.9	\$ 7.0	\$ 7.2	\$ 7.3	\$ 7.5	\$ 7.6	
Chapter 70 State Education Aid	\$ 24.7	\$ 25.6	\$ 26.4	\$ 27.1	\$ 27.9	\$ 28.7	\$ 29.5	\$ 30.2	\$ 31.0	\$ 31.8	\$ 32.6	
<b>REVENUE FROM STATE AID</b>	<b>\$ 30.9</b>	<b>\$ 32.0</b>	<b>\$ 32.9</b>	<b>\$ 33.8</b>	<b>\$ 34.7</b>	<b>\$ 35.6</b>	<b>\$ 36.5</b>	<b>\$ 37.4</b>	<b>\$ 38.3</b>	<b>\$ 39.2</b>	<b>\$ 40.2</b>	
<b>OPERATING REVENUE</b>	<b>\$ 428.5</b>	<b>\$ 444.4</b>	<b>\$ 458.9</b>	<b>\$ 474.7</b>	<b>\$ 491.1</b>	<b>\$ 508.1</b>	<b>\$ 524.4</b>	<b>\$ 542.7</b>	<b>\$ 561.5</b>	<b>\$ 581.1</b>	<b>\$ 601.2</b>	
<b>% Increase</b>												
<b>REVENUE - FROM TRANSFERS</b>												
New Falls Settlement In Lieu of	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.1	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.0	
Capital Stabilization Fund	\$ 0.2	\$ 0.1	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Free Cash	\$ 1.5	\$ 1.5	\$ 1.3	\$ 1.0	\$ 0.8	\$ 0.5	\$ 0.3	\$ -	\$ -	\$ -	\$ -	
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
<b>REVENUE FROM TRANSFERS</b>	<b>\$ 1.8</b>	<b>\$ 1.7</b>	<b>\$ 1.4</b>	<b>\$ 1.1</b>	<b>\$ 0.8</b>	<b>\$ 0.5</b>	<b>\$ 0.3</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	<b>\$ 0.0</b>	
<b>TOTAL REVENUE</b>	<b>\$ 430.3</b>	<b>\$ 446.1</b>	<b>\$ 460.2</b>	<b>\$ 475.7</b>	<b>\$ 491.9</b>	<b>\$ 508.7</b>	<b>\$ 524.7</b>	<b>\$ 542.7</b>	<b>\$ 561.5</b>	<b>\$ 581.2</b>	<b>\$ 601.2</b>	
<b>% Increase</b>		<b>3.67%</b>	<b>3.17%</b>	<b>3.37%</b>	<b>3.40%</b>	<b>3.41%</b>	<b>3.15%</b>	<b>3.44%</b>	<b>3.47%</b>	<b>3.50%</b>	<b>3.45%</b>	

\* Annual Property Tax Revenue increased by 2.5% plus taxes from "New Growth and Redevelopment" as follows: FY2021 @ 1.30%, FY2022 - FY2025 @ 1.25%, FY2026 - FY2030 @ 1.30%

**Annual Expenditures by Functional Element  
FY2020 BUDGET/FY2021 - FY2030 FORECAST**

	F-O-R-E-C-A-S-T											
	<BUDGET>	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28	FY29	FY30
<b>TOTAL REVENUE</b>	\$	430.3	\$ 446.1	\$ 460.2	\$ 475.7	\$ 491.9	\$ 508.7	\$ 524.7	\$ 542.7	\$ 561.5	\$ 581.2	\$ 601.2
<b>TOTAL EXPENDITURES</b>												
<b>Newton Public Schools</b>	\$	236.4	\$ 244.1	\$ 252.0	\$ 260.2	\$ 268.6	\$ 277.4	\$ 286.4	\$ 295.7	\$ 305.3	\$ 315.2	\$ 325.5
Annual % Increase			3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%	3.25%
Percentage of Revenue		54.9%	54.7%	54.8%	54.7%	54.6%	54.5%	54.6%	54.5%	54.4%	54.2%	54.1%
<b>Revenue Remaining</b>	\$	193.9	\$ 202.0	\$ 208.2	\$ 215.6	\$ 223.3	\$ 231.3	\$ 238.3	\$ 247.0	\$ 256.2	\$ 266.0	\$ 275.8
<b>Municipal Services</b>	\$	127.6	\$ 131.6	\$ 135.8	\$ 140.0	\$ 144.5	\$ 149.0	\$ 153.7	\$ 158.5	\$ 163.5	\$ 168.7	\$ 174.0
Annual % Increase			3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%	3.15%
Percentage of Revenue		29.7%	29.5%	29.5%	29.4%	29.4%	29.3%	29.3%	29.2%	29.1%	29.0%	28.9%
<b>Revenue Remaining</b>	\$	66.3	\$ 70.4	\$ 72.5	\$ 75.5	\$ 78.8	\$ 82.3	\$ 84.6	\$ 88.5	\$ 92.7	\$ 97.3	\$ 101.8
<b>Pensions &amp; Municipal</b>												
<b>Retiree Health</b>	\$	41.8	\$ 45.6	\$ 49.5	\$ 53.7	\$ 58.2	\$ 63.1	\$ 68.5	\$ 74.4	\$ 80.8	\$ 87.8	\$ 94.0
Annual % Increase			9.1%	8.4%	8.5%	8.5%	8.4%	8.5%	8.6%	8.6%	8.7%	1.4%
Percentage of Revenue		9.7%	10.2%	10.7%	11.3%	11.8%	12.4%	13.0%	13.7%	14.4%	15.1%	14.8%
<b>Revenue Remaining</b>	\$	24.5	\$ 24.8	\$ 23.0	\$ 21.9	\$ 20.6	\$ 19.2	\$ 16.1	\$ 14.1	\$ 11.9	\$ 9.5	\$ 12.8
<b>Debt Service</b>												
Debt Service Authorized/Issued	\$	24.5	\$ 23.7	\$ 23.2	\$ 22.8	\$ 22.4	\$ 21.7	\$ 20.4	\$ 19.2	\$ 18.4	\$ 17.3	\$ 16.9
Debt Service Additional Bonding	\$	-	\$ 1.7	\$ 3.4	\$ 4.9	\$ 6.9	\$ 8.8	\$ 10.5	\$ 12.0	\$ 13.6	\$ 15.1	\$ 16.1
<b>Projected Debt Service</b>	\$	24.5	\$ 25.4	\$ 26.6	\$ 27.7	\$ 29.3	\$ 30.5	\$ 30.9	\$ 31.2	\$ 32.0	\$ 32.4	\$ 33.0
Annual % Increase			3.8%	4.6%	4.3%	5.9%	3.9%	1.3%	1.0%	2.6%	1.3%	1.9%
Percentage of Revenue		5.7%	5.7%	5.8%	5.8%	6.0%	6.0%	5.9%	5.7%	5.7%	5.6%	5.5%
<b>Revenue Remaining</b>	\$	(0.0)	\$ (0.6)	\$ (3.6)	\$ (5.9)	\$ (8.7)	\$ (11.3)	\$ (14.8)	\$ (17.1)	\$ (20.1)	\$ (22.9)	\$ (20.2)
<b>Extraordinary Expenses -</b>												
<b>Recycling/Snow Removal</b>	\$		\$ 1.0	\$ 1.3	\$ 1.6	\$ 1.9	\$ 2.2	\$ 2.5	\$ 2.8	\$ 3.1	\$ 3.4	\$ 3.7
Annual % Increase				29.50%	22.78%	18.55%	15.65%	13.53%	11.92%	10.65%	9.62%	8.78%
Percentage of Revenue		0.0%	0.2%	0.3%	0.3%	0.4%	0.4%	0.5%	0.5%	0.5%	0.6%	0.6%
<b>TOTAL PROJECTED EXPENDITURES</b>												
	\$	430.3	\$ 447.7	\$ 465.1	\$ 483.2	\$ 502.5	\$ 522.1	\$ 541.9	\$ 562.6	\$ 584.7	\$ 607.5	\$ 625.1
<b>Revenue Shortfall</b>	\$	(0.0)	\$ (1.6)	\$ (4.9)	\$ (7.4)	\$ (10.6)	\$ (13.5)	\$ (17.2)	\$ (19.8)	\$ (23.2)	\$ (26.3)	\$ (23.9)
<b>"GAP" as % of Revenue</b>			-0.4%	-1.1%	-1.6%	-2.2%	-2.6%	-3.3%	-3.7%	-4.1%	-4.5%	-4.0%

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

The Public Works Department of the City of Newton supplies water distribution and provides sewer operations to approximately 35,000 households, commercial properties, and industrial establishments, 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 Deer Island Wastewater Treatment Facility, the City owns all the pipes, drains, and infrastructure within the City limits 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 fee 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 fees for 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 (ISO). 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.

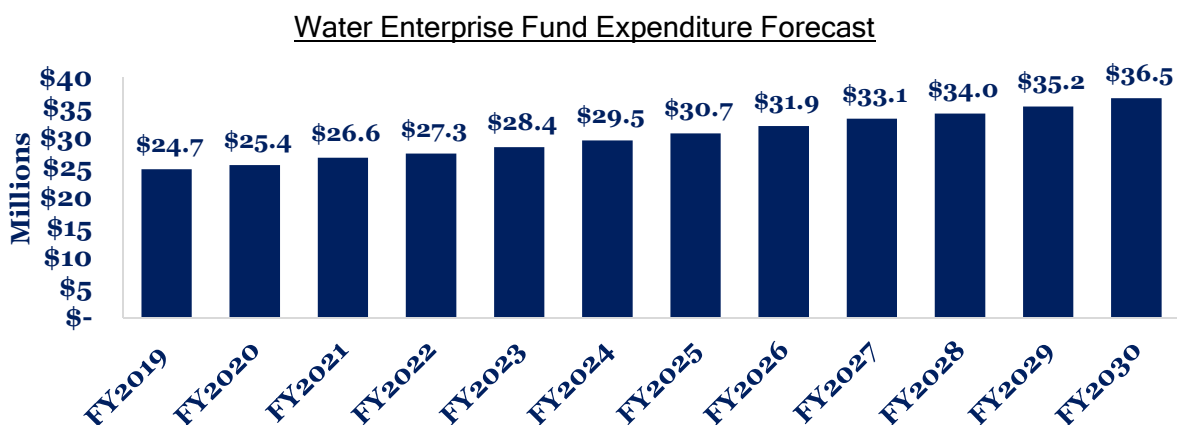
The City recognized the need to increase the renewal of the aging water distribution pipe network, much of which dates back to the 1870's and developed a comprehensive capital improvement program as part of the Water and Sewer Strategic Plan initiative.

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, especially the leak-prone pipes installed circa World War II. We are currently in the construction phase of year 7 water projects 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 by pipe type how much replacement is required annually. The results of the analysis indicate that the City should be replacing or cleaning and lining approximately 4 to 5 miles of water main pipes per year, which is supported within the FY2021-FY2025 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 its failure. Consequence of failure takes into account the proximity of the pipe to critical facilities (e.g., 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 (e.g., 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.



More detailed information on the City’s water system infrastructure plan can be found in the City’s FY2021-FY2025 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). The additional flow to MWRA in the form of inflow and infiltration 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.

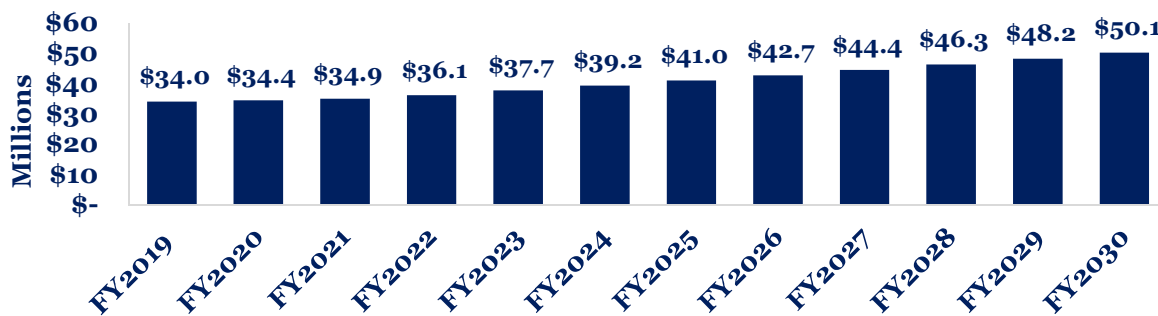
The City originally developed an 11-year program to systematically address the approximately 300 miles of sewer mains and related manhole structures, beginning with those areas known to

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 so it will be completed in 10 years.

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), and Complete Inspection and Assessment and Design for Project Area 8 (Upper Falls, Newton Highlands, Thompsonville & Oak Hill). We are currently in year 5 of the 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 FY2021-FY2025 Capital Improvement Plan.

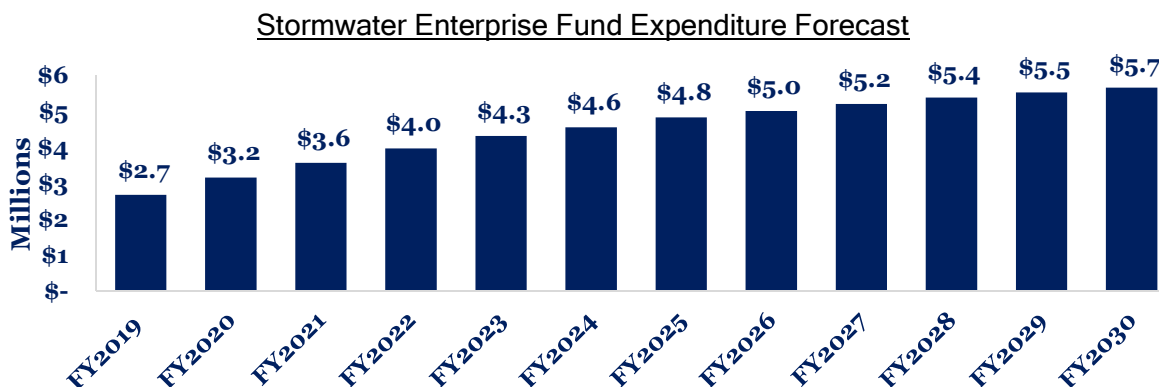
**Stormwater Enterprise Fund**

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 increases requirements for maintaining and improving storm water quality. These needs must also be factored into all storm water planning and funding.

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 is being used to prioritize the list of projects based on probability of failure and consequence of failure. Probability of failure is based entirely on the condition of the asset. Consequence of failure looks 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 impacted, impacts to traffic and development in the City. 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 work in the Storm Water Infrastructure Improvement Plan.



More detailed information on the City’s stormwater system infrastructure plan can be found in the City’s FY2021-FY2025 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**  
**FY2015 - FY2019 ACTUAL/FY2020 BUDGET/FY2021 - FY2025 FORECAST**

(\$ million)	ACTUAL					BUDGET	FORECAST				
	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
<b>Revenue from Operations</b>											
Real Estate Tax Revenue	\$ 289,650,737	\$ 301,098,407	\$ 314,685,140	\$ 329,852,297	\$ 342,154,092	\$ 356,885,261	\$ 371,033,525	\$ 384,620,816	\$ 399,251,605	\$ 414,442,873	\$ 430,213,263
Excise Tax Revenue	\$ 12,353,468	\$ 12,903,047	\$ 13,756,305	\$ 13,541,813	\$ 13,600,808	\$ 13,500,000	\$ 13,500,000	\$ 13,635,000	\$ 13,771,350	\$ 13,909,064	\$ 14,048,154
Hotel Room Tax	\$ 2,330,724	\$ 2,444,007	\$ 2,263,279	\$ 2,440,667	\$ 2,411,164	\$ 2,500,000	\$ 2,400,000	\$ 2,400,000	\$ 2,400,000	\$ 2,400,000	\$ 2,400,000
Meals Tax - 0.75%	\$ 1,786,617	\$ 1,880,428	\$ 1,938,182	\$ 1,902,662	\$ 2,026,232	\$ 1,900,000	\$ 1,950,000	\$ 1,998,750	\$ 2,018,738	\$ 2,069,206	\$ 2,120,936
Payments In Lieu of Taxes	\$ 268,057	\$ 251,922	\$ 279,685	\$ 382,805	\$ 432,013	\$ 190,000	\$ 100,000	\$ 180,000	\$ 180,000	\$ 230,000	\$ 230,000
Interest/Divident Income	\$ 205,203	\$ 345,221	\$ 644,856	\$ 1,441,094	\$ 3,171,711	\$ 1,745,064	\$ 2,000,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
License/Permit-ISD,Fire,H&HS	\$ 6,351,923	\$ 8,821,902	\$ 8,877,278	\$ 7,811,593	\$ 11,196,192	\$ 6,520,400	\$ 7,217,400	\$ 7,016,400	\$ 7,016,400	\$ 7,016,400	\$ 7,011,000
Parking Meter Receipts	\$ 1,773,597	\$ 1,527,000	\$ 3,548,686	\$ 1,598,898	\$ 1,550,000	\$ 1,380,000	\$ 1,520,000	\$ 1,520,000	\$ 1,520,000	\$ 1,520,000	\$ 1,520,000
Parking Violations	\$ 1,429,088	\$ 1,488,744	\$ 1,389,784	\$ 1,373,600	\$ 1,258,770	\$ 1,350,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000	\$ 1,250,000
Medicare D/SPED Medicaid	\$ 1,290,511	\$ 1,738,458	\$ 1,910,852	\$ 1,664,436	\$ 1,218,235	\$ 1,650,000	\$ 1,400,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Water/Sewer Gen'l Fund Adm	\$ 2,088,882	\$ 2,441,457	\$ 2,501,063	\$ 3,234,065	\$ 3,314,917	\$ 3,437,853	\$ 3,523,799	\$ 3,611,894	\$ 3,702,192	\$ 3,794,746	\$ 3,889,615
Premium from Sale of Bonds	\$ 828,328	\$ 3,693,897	\$ 245,691	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 9,446,840	\$ 9,320,788	\$ 8,767,278	\$ 12,173,812	\$ 8,453,963	\$ 6,543,966	\$ 6,561,192	\$ 6,766,008	\$ 6,809,498	\$ 6,824,199	\$ 6,863,588
<b>REVENUE FROM OPERATIONS</b>	<b>\$ 329,803,974</b>	<b>\$ 347,955,277</b>	<b>\$ 360,808,079</b>	<b>\$ 377,417,742</b>	<b>\$ 390,788,097</b>	<b>\$ 397,602,544</b>	<b>\$ 412,455,916</b>	<b>\$ 425,998,869</b>	<b>\$ 440,919,782</b>	<b>\$ 456,456,487</b>	<b>\$ 472,546,556</b>
<b>REVENUE FROM STATE AID</b>											
Unrestricted Gen'l State Aid	\$ 5,229,226	\$ 5,417,478	\$ 5,650,430	\$ 5,499,718	\$ 6,076,275	\$ 6,240,334	\$ 6,365,141	\$ 6,492,443	\$ 6,622,292	\$ 6,754,738	\$ 6,889,833
Chapter 70 State Education Aid	\$ 19,617,930	\$ 20,226,057	\$ 21,155,777	\$ 23,182,835	\$ 24,027,611	\$ 24,681,503	\$ 25,589,496	\$ 26,364,496	\$ 27,139,496	\$ 27,914,496	\$ 28,689,496
<b>REVENUE FROM STATE AID</b>	<b>\$ 24,847,156</b>	<b>\$ 25,643,535</b>	<b>\$ 26,806,207</b>	<b>\$ 28,682,553</b>	<b>\$ 30,103,886</b>	<b>\$ 30,921,837</b>	<b>\$ 31,954,637</b>	<b>\$ 32,856,939</b>	<b>\$ 33,761,788</b>	<b>\$ 34,669,234</b>	<b>\$ 35,579,329</b>
<b>OPERATING REVENUE</b>	<b>\$ 354,651,130</b>	<b>\$ 373,598,812</b>	<b>\$ 387,614,286</b>	<b>\$ 406,100,295</b>	<b>\$ 420,891,983</b>	<b>\$ 428,524,381</b>	<b>\$ 444,410,553</b>	<b>\$ 458,855,808</b>	<b>\$ 474,681,570</b>	<b>\$ 491,125,722</b>	<b>\$ 508,125,885</b>
% Increase							3.71%	3.25%	3.45%	3.46%	3.46%
<b>REVENUE - FROM TRANSFERS</b>											
New Falls Settlement In Lieu of	\$ 65,450	\$ 72,233	\$ 56,414	\$ 76,666	\$ 141,266	\$ 60,000	\$ 75,000	\$ 60,000	\$ 60,000	\$ 40,000	\$ 40,000
Capital Stabilization Fund	\$ 89,386	\$ 550,939	\$ 2,376,662	\$ 400,000	\$ 1,550,000	\$ 200,000	\$ 100,000	\$ 50,000	\$ -	\$ -	\$ -
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,250,000	\$ 1,000,000	\$ 750,000	\$ 500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>REVENUE FROM TRANSFERS</b>	<b>\$ 154,836</b>	<b>\$ 623,172</b>	<b>\$ 2,433,076</b>	<b>\$ 476,666</b>	<b>\$ 1,691,266</b>	<b>\$ 1,760,000</b>	<b>\$ 1,675,000</b>	<b>\$ 1,360,000</b>	<b>\$ 1,060,000</b>	<b>\$ 790,000</b>	<b>\$ 540,000</b>
<b>TOTAL REVENUE</b>	<b>\$ 354,805,966</b>	<b>\$ 374,221,984</b>	<b>\$ 390,047,363</b>	<b>\$ 406,576,961</b>	<b>\$ 422,583,249</b>	<b>\$ 430,284,381</b>	<b>\$ 446,085,553</b>	<b>\$ 460,215,808</b>	<b>\$ 475,741,570</b>	<b>\$ 491,915,722</b>	<b>\$ 508,665,885</b>
% Increase							3.67%	3.17%	3.37%	3.40%	3.41%

\* Annual Property Tax Revenue increased by 2.5% plus taxes from "New Growth and Redevelopment" as follows: FY2021 @ 1.30%, FY2022 - FY2025 @ 1.25%

**Annual Expenditures by Functional Element**  
**FY2015 - FY2019 Actual/FY2020 BUDGET/FY2021 - FY2025 FORECAST**

	←-----A-C-T-U-A-L----->					<BUDGET>	←-----F-O-R-E-C-A-S-T----->				
	FY15	FY16	FY17	FY18	FY19		FY20	FY21	FY22	FY23	FY24
<b>TOTAL REVENUE</b>	\$ 354.8	\$ 374.2	\$ 390.0	\$ 406.6	\$ 422.6	\$ 430.3	\$ 446.1	\$ 460.2	\$ 475.7	\$ 491.9	\$ 508.7
<b>TOTAL EXPENDITURES</b>											
<b>Newton Public Schools</b>	\$ 197.2	\$ 204.7	\$ 211.9	\$ 219.4	\$ 227.6	\$ 236.4	\$ 244.1	\$ 252.0	\$ 260.2	\$ 268.6	\$ 277.4
Annual % Increase		3.79%	3.51%	3.55%	3.70%	3.87%	3.25%	3.25%	3.25%	3.25%	3.25%
Percentage of Revenue	55.6%	54.7%	54.3%	54.0%	53.8%	54.9%	54.7%	54.8%	54.7%	54.6%	54.5%
<b>Revenue Remaining</b>	\$ 157.6	\$ 169.5	\$ 178.1	\$ 187.1	\$ 195.0	\$ 193.9	\$ 202.0	\$ 208.2	\$ 215.6	\$ 223.3	\$ 231.3
<b>Municipal Services</b>	\$ 108.2	\$ 108.6	\$ 115.1	\$ 117.7	\$ 121.4	\$ 127.6	\$ 131.6	\$ 135.8	\$ 140.0	\$ 144.5	\$ 149.0
Annual % Increase		0.37%	5.93%	2.31%	3.17%	5.08%	3.15%	3.15%	3.15%	3.15%	3.15%
Percentage of Revenue	30.5%	29.0%	29.5%	29.0%	28.7%	29.7%	29.5%	29.5%	29.4%	29.4%	29.3%
<b>Revenue Remaining</b>	\$ 49.4	\$ 60.9	\$ 63.1	\$ 69.4	\$ 73.6	\$ 66.3	\$ 70.4	\$ 72.5	\$ 75.5	\$ 78.8	\$ 82.3
<b>Pensions &amp; Municipal</b>											
<b>Retiree Health</b>	\$ 29.2	\$ 31.2	\$ 33.4	\$ 35.6	\$ 39.4	\$ 41.8	\$ 45.6	\$ 49.5	\$ 53.7	\$ 58.2	\$ 63.1
Annual % Increase		7.0%	6.9%	6.5%	10.8%	6.1%	9.1%	8.4%	8.5%	8.5%	8.4%
Percentage of Revenue	6.8%	7.0%	7.3%	7.5%	8.0%	8.2%	10.2%	10.7%	11.3%	11.8%	12.4%
<b>Revenue Remaining</b>	\$ 20.2	\$ 29.7	\$ 29.7	\$ 33.9	\$ 34.2	\$ 24.5	\$ 24.8	\$ 23.0	\$ 21.9	\$ 20.6	\$ 19.2
<b>Debt Service</b>											
Debt Service Authorized/Issued	\$ 17.5	\$ 18.6	\$ 20.3	\$ 22.9	\$ 24.0	\$ 24.5	\$ 23.7	\$ 23.2	\$ 22.8	\$ 22.4	\$ 21.7
Debt Service Additional Bonding	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2.0	\$ 3.3	\$ 5.0	\$ 7.1	\$ 9.1
<b>Projected Debt Service</b>	\$ 17.5	\$ 18.6	\$ 20.3	\$ 22.9	\$ 24.0	\$ 24.5	\$ 25.7	\$ 26.5	\$ 27.8	\$ 29.6	\$ 30.8
Annual % Increase		6.3%	8.9%	12.9%	5.0%	2.0%	5.0%	3.1%	4.8%	6.4%	4.3%
Percentage of Revenue	4.1%	4.2%	4.4%	4.8%	4.9%	4.8%	5.8%	5.8%	5.8%	6.0%	6.1%
<b>Revenue Remaining</b>	\$ 2.7	\$ 11.1	\$ 9.4	\$ 11.0	\$ 10.2	\$ (0.0)	\$ (0.9)	\$ (3.5)	\$ (5.9)	\$ (9.0)	\$ (11.6)
<b>Snow Removal/Recycling</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1.0	\$ 1.3	\$ 1.6	\$ 1.9	\$ 2.2
Annual % Increase								29.50%	22.78%	18.55%	15.65%
Percentage of Revenue	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.3%	0.3%	0.4%	0.4%
<b>TOTAL PROJECTED EXPENDITURES</b>											
	\$ 352.1	\$ 363.2	\$ 380.6	\$ 395.6	\$ 412.4	\$ 430.3	\$ 448.0	\$ 465.0	\$ 483.3	\$ 502.8	\$ 522.5
<b>Revenue Surplus/(Shortfall)</b>	\$ 2.7	\$ 11.1	\$ 9.4	\$ 11.0	\$ 10.2	\$ (0.0)	\$ (1.9)	\$ (4.8)	\$ (7.5)	\$ (10.8)	\$ (13.8)
<b>"GAP" as % of Revenue</b>		3.0%	2.4%	2.7%	2.4%	0.0%	-0.4%	-1.0%	-1.6%	-2.2%	-2.7%