

City of Newton, Massachusetts Five Year Financial Forecast FY2019 – FY2023



CITY OF NEWTON, MASSACHUSETTS

Setti D. Warren, Mayor

16 October 2017

The City of Newton – a City built with History, a Future built with Vision

Mayor Warren's Message -

When I arrived home from my yearlong deployment in Iraq in the fall of 2008 as a Navy Intelligence Specialist, Tassy and I together made the final decision that I would run for Mayor of the city that I grew up in. After being in a war zone for a year away from my newborn daughter and having the opportunity to come home to a place that gave me incredible opportunities in life, I knew where I wanted to be, and so did Tassy. My family's commitment to public service and my love of this city and desire to see it meet its full potential pulled me into the race for Mayor at the time. You--the residents of Newton--gave me a gift that I will forever be grateful for: the chance to be the Mayor of Newton and work to provide the next generation of Newtonians with the same opportunities that I had.

Back in 2008, the national recession was punishing too many individuals and families. It also had a terrible effect on our city's finances, on our housing market for moderate and lower income housing, the economic vibrancy of our village centers, and commercial tax base. Services and investment in education, infrastructure and public safety were cut in the years leading up to 2008, putting our community in jeopardy of not meeting our full potential at that time--or in future decades. Just as detrimental was the lack of trust in government and the poisonous, divisive politics that was pervasive in Newton at the time, particularly around the financing of Newton North High School . I knew--we knew--we needed to have a bold vision of a city government that transformed how we govern and that met the needs of all of its citizens in a new 21st Century ever-changing economic, social, cultural, and political environment.

I believe that the reason for our success over the last 7 years is because of my approach to governance from day one around 3 principles:

- 1. Putting in place strong fiscal discipline, and accounting for each taxpayer dollar spent so we were not being wasteful of your money, but efficient. Expenditures for my administration have been based on outcomes for people now and decades from now.*
- 2. Not being afraid to make tough fiscal and policy decisions based on the best outcome for individuals and families to live up to their full potential in Newton--the decisions must be made with directness, honesty, and transparency.*
- 3. Listening and bringing people together to solve difficult challenges by identifying the common good and working towards that end with an eye towards the future.*

These principles are based on my lifelong commitment to public service inspired by my family, my nine years in the armed services, and love of this city.

And now as I prepare to leave the office and the job that I love so much, I know that we have spent the last eight years positioning this City for financial sustainability while dramatically improving our infrastructure, funding our long-term liabilities, and developing strategic plans to address the environmental, housing and transportation challenges that we will face for decades to come.

Mayor Setti D. Warren

Executive Summary

As Mayor Setti Warren completes his eighth and final year in office, he is proud to declare that the City of Newton is well positioned for long-term financial sustainability, perhaps the most critical of the eight desired outcomes that make up the Mayor's vision for the City. Throughout the past eight years the Administration has focused tirelessly on eliminating the "structural deficit", developing conservative financial forecasts, improving financial reserves, implementing comprehensive financial policies, reducing the utilization of non-recurring funding sources to balance the annual budget, and making appropriate investment in the City's capital infrastructure. The effort of the Warren administration has been validated by both Moody's Investors Service as well as Standard and Poor's Rating Agency, two of the most highly regarded financial institutions.

Three times during the past 20 months both Moody's Investors Service and Standard and Poor's have awarded the City a Triple A Bond Rating.

Moody's Investors Service, one of the most preeminent municipal bond credit rating agencies, affirmed the City's rating of "Aaa", its highest rating attainable. The rating agency cited the City's sizeable, wealthy and diverse tax base within a strong regional economy, manageable debt profile with moderate future capital needs, strong fiscal management, sound financial policies and a conservative budgeting approach as positive credit factors.

Additionally, in January of 2017, the City was pleased to announce that not only did it again earn a AAA from Standard and Poor's, but also received a revised management assessment from S&P who *"revised their assessment of the city's management to "very strong" from "strong" based on the introduction of a debt policy that formalized a historical practice. An assessment of "very strong" indicates that financial practices are strong, well-embedded and likely sustainable."*

"The announcements.....from Moody's Investors Service and Standard and Poor's Ratings Services affirm the hard work that we have done to ensure our long-term financial sustainability. Since taking office seven years ago, we have established a rainy day stabilization reserve which now totals more than \$19 million and adopted aggressive funding schedules to address our long-term liabilities. The strength of our financial position is what is allowing us to pursue an unprecedented roads program, a school building program that includes five new elementary schools in six years, and the rebuilding of antiquated Fire Stations while continuing to rank as one of the safest cities in the country." Mayor Setti Warren said in January 2017. "This would not have been possible without the hard work and partnership of City Council Finance Chair Lenny Gentile and his colleagues, Comptroller David Wilkinson and CFO Maureen Lemieux."

The City's position on funding long term liabilities, particularly 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 "Double Triple A Rating" from these two prestigious institutions.

Commitment to fully funding the City's long term liabilities is critical to maintaining financial sustainability. The Administration continues to follow a funding schedule designed to eliminate the City's Unfunded Pension Liability by the year 2030, and fully fund the the City's OPEB (Other Post-Employment Benefits) Liability by the year 2042. Funding the annual increase to the pension appropriation is the key component of this strategy and will require discipline and commitment.

While the Administration is proud of the prudent financial policies the City has established over the past eight years, preparing the annual budget will always remain a challenging task. Meeting long-term financial sustainability, along with providing excellence in education, unparalleled public safety, a vibrant, diverse community life, improved capital infrastructure, environmental sustainability, robust economic development and opportunities for community engagement will require a thoughtful, controlled balance which is crucial to the viability of the City.

This five-year, comprehensive, financial forecast is meant to enable the leadership of the City of Newton to proactively manage personnel costs, operating expenditures, capital improvement plans, technology improvement plans, equipment replacement schedules, and debt service schedules, while maintaining the City's Triple A bond ratings, providing funding for long term liabilities, setting a path for future generations and ultimately assuring the sustainability of the City of Newton for decades to come.

City of Newton Financial Update and Overview

Collective Bargaining Agreements

All but two of the City of Newton's collective bargaining agreements are settled through Fiscal Year 2017 or Fiscal Year 2018. The Administration will continue to work collaboratively with the remaining groups in order to structure arrangements that maintain parity between the growth rate of both revenue and expenditures. The cost of Salaries and Benefits is the largest cost driver for the City, and in order to maintain financial stability these contracts must not increase by more than the increase in Revenue.

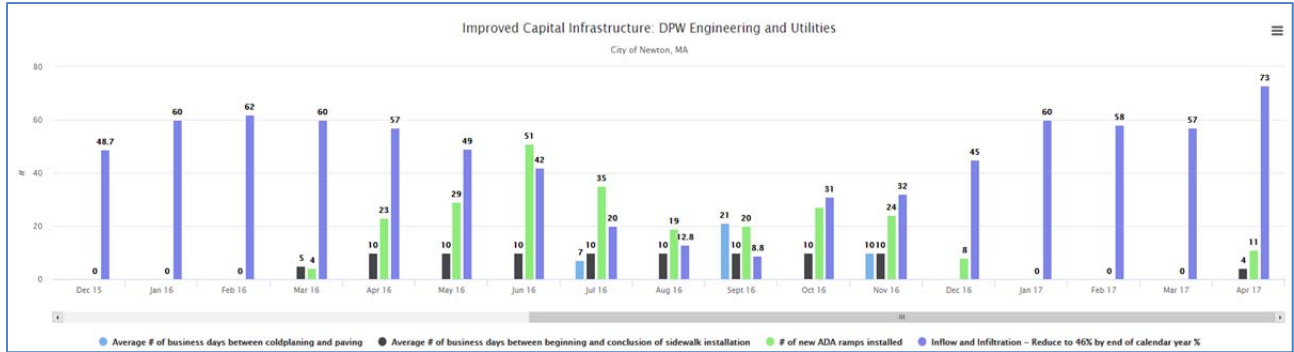
Outcomes-Based Budgeting

The City uses what is known as Outcomes-Based Budgeting. As opposed to more traditional line-item incremental budgeting, where expenditures are increased or decreased by a percentage from prior year levels, outcomes-based budgeting is unique in that it ties strategic planning, performance management, and a zero-based approach to the annual allocation of resources. Outcomes-based budgeting has directly enhanced efficient allocation of resources, requiring departments to find cost effective ways to improve operations, increase communication and cross department coordination, uncover and eliminate duplicative efforts, and identify opportunities for cost savings. It has also allowed the City to make unprecedented strides toward the achievement of its eight desired outcomes, most notably in the areas of unparalleled public safety, improved infrastructure, and excellence in education.

DataStat Newton/Performance Management

Since 2010, the City has made Performance Management a high priority. Using data to help inform key decisions allows the Administration to make the delivery of services more effective, more efficient, and more capable of adapting to an ever-changing environment. Two years ago Mayor Warren launched "DataStat Newton" - a program which allows the City to track progress on meeting each of the 8 desired outcomes by identifying trends and addressing issues of concern; providing opportunities for interdepartmental collaboration; and serving as a platform for professional development for staff at all levels. The City is also using DataStat to track the progress of major projects such as the construction of school buildings, upgrades to traffic signals, and improvements in technology infrastructure. In addition to

helping the City make critical decisions in each outcome area, DataStat Newton also plays an important role in the City’s commitment to transparency. Data collected from every department is posted on the city website for residents to view, with data from previous months also available so that residents can see trends in each area. This program will continue to evolve and play a critical role in ensuring that the City reaches each of its eight desired outcomes.



Capital Plan

One of the primary responsibilities of the City of Newton’s leadership is the preservation and maintenance of the community’s school buildings, municipal buildings, roadways, parks, recreation space, and water, sewer, and stormwater facilities. Capital assets make up the vast majority of the City’s property and resources, and they include 78 buildings and the technology infrastructure that connects them, approximately 330 miles each of roadways, sewer lines, water lines, and storm drains, 51 parks and playgrounds, and over 325 vehicles and pieces of construction equipment. In order for the City of Newton to meet its eight desired outcomes outlined in the Fiscal Year 2018 City Budget, these capital assets must be maintained to extend their useful lives, and new capital investments must be made so that the City can continue to provide its citizens with necessary services for years to come. As in previous years, the FY2019-2023 Capital Improvement Plan (C.I.P.) is based upon the City’s risk-based prioritization process that addresses infrastructure needs, reflects community values, supports city operations, programs and services, and exemplifies sustainable financial and environmental best practices.



Zervas Elementary



Cabot School



Station 3 & Headquarters

Economic Development

Having a strong commercial tax base and a thriving local economy remains one of the priorities for the Administration, with several development projects progressing during the past year.

- Work is nearly complete at Newton Nexus, a 142,000 sq. ft. mixed- use development on Needham Street, featuring a variety of retail, food, office uses and now home to Boston Ballet.
- Wells Avenue Office park also experienced growth in both in existing and new businesses as well as investment from property owners in new construction and expansion.
- The Newton Innovation Center , located on Vernon Street in Newton Corner, enjoyed tremendous success in attracting start-up businesses to its incubator space with a current census of 62 companies using the space on an as-needed basis.
- Newton also continued to work closely with the Town of Needham advancing the implementation of the N2 Innovation District strategy designed to attract innovation companies to Newton.

The Administration, Economic Development Commission and City Council partnered to revise/streamline the City's rDNA licensing procedure, to make it easier for life science companies to locate in Newton.

Village enhancement projects for both West Newton Square and Newtonville progressed with streetscape plans designed to beautify the village center environment and at the same time, provide safe and convenient access for pedestrians, motorists and bicyclists.

Two key mixed-use village revitalization projects are anticipated to begin in the coming year in Newtonville (Austin Street and Washington Place). These projects provide housing, retail, and attractive outdoor gathering space which combined will enhance the overall attractiveness and vibrancy of the village center.



"MassChallenge in Newton Corner"



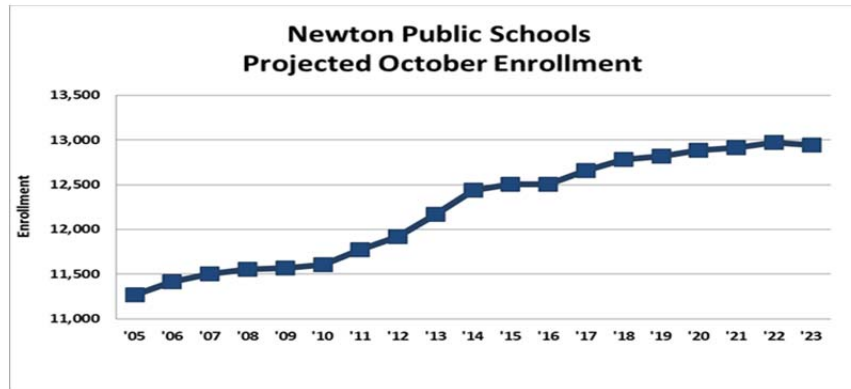
"The Rockport Group"



"2 Wells Avenue"

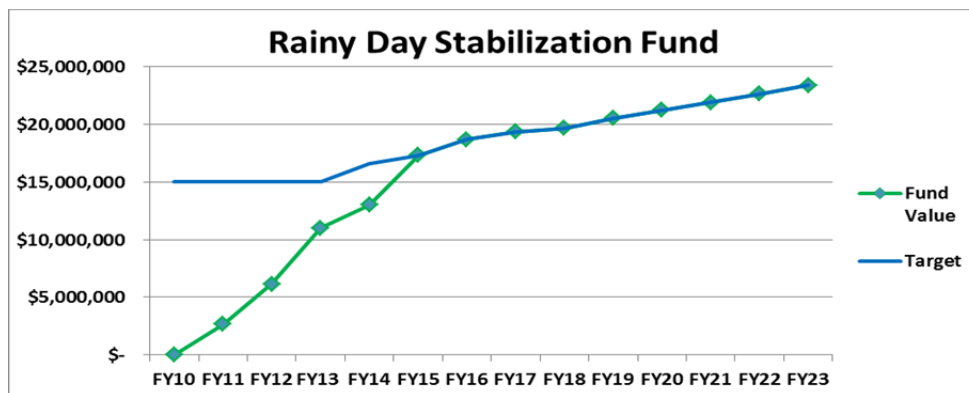
Growth in Student Enrollment

The Newton Public Schools continue to see consistent enrollment growth affecting all grade levels citywide. Net growth of approximately 1,389 students from 2004-05 through 2016-17, an increase of 12%, initially affected the elementary schools and subsequently started to arrive at the middle schools in 2008-09 and the high schools in 2010-11. This trend is projected to continue in 2017-18 with a projected increase of 130 students. Over the following five years, modest growth of 160 students, or 1.2%, is projected; the largest growth is expected at the high school level, as larger grade cohorts continue to move up from the middle schools.



Rainy Day Stabilization Fund

In 2010 the City of Newton established a Rainy Day Stabilization Fund with an initial funding level of \$2,643,271. The Fund was established as a reserve for years when the City faces a multiple year economic recession or a rare, catastrophic expenditure. These funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the City’s control, or an unusually large expenditure resulting from such things as a catastrophic weather event. These funds remain segregated to prevent these reserves from being depleted for unrelated city needs. Through collaboration with the Chairman of the Council’s Finance Committee, the Comptroller, members of the City Council, and the Administration the fund reached the City’s goal of 5% of the City Operating Budget in FY2015. This Fund now totals just under \$20 million. The City intends to continue to contribute to the fund each fiscal year to maintain the target goal of 5% of the annual operating budget.

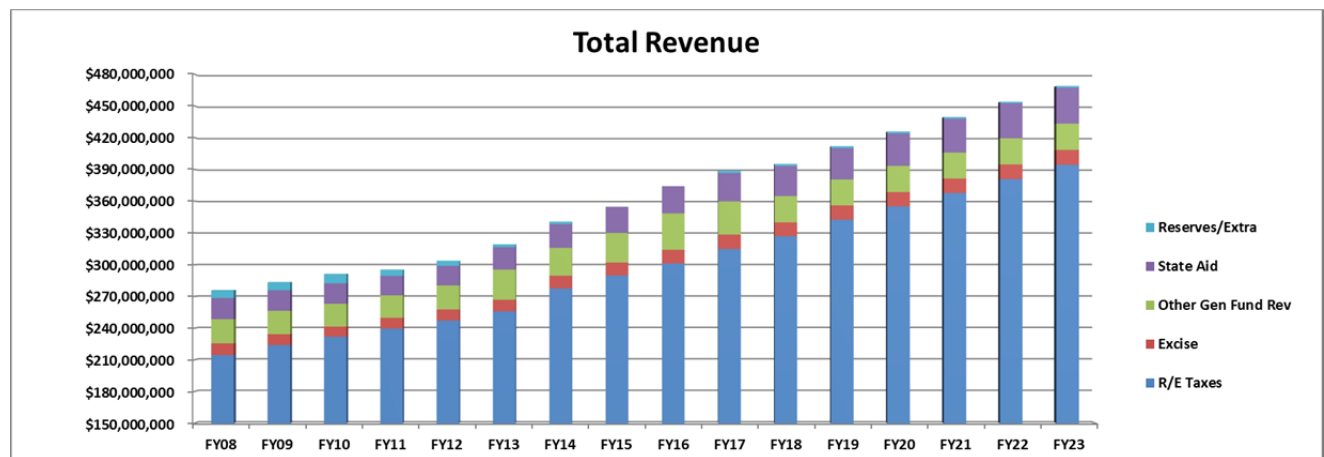


The City of Newton’s Aaa Bond Rating

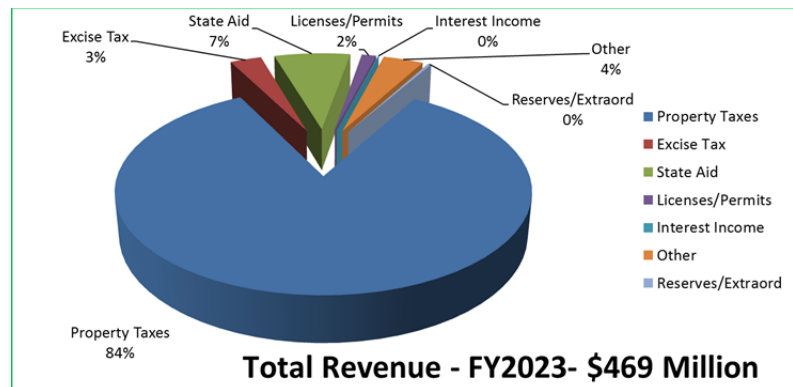
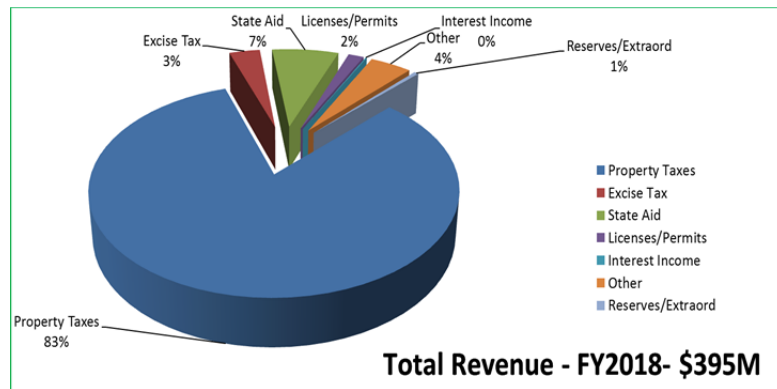
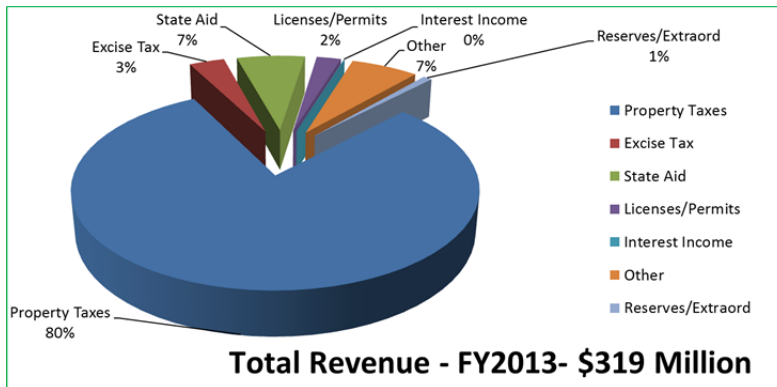
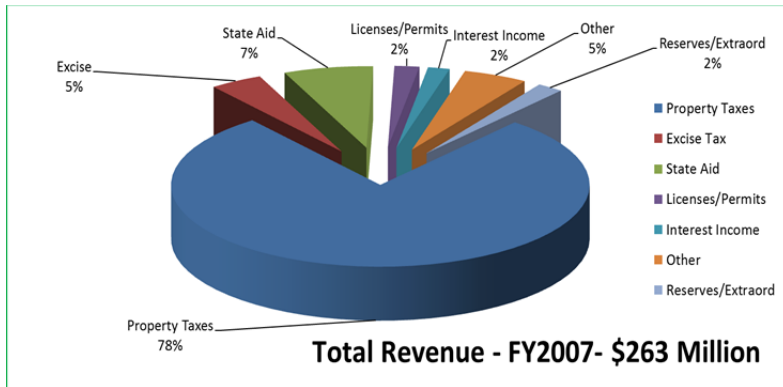
As mentioned earlier in this report, three times during the past 20 months both Moody’s Investors Service and Standard and Poor’s have awarded the City a Triple A Bond Rating. The City’s position on funding long term liabilities, particularly pensions and OPEB, preserving sound financial policies and developing conservative budgets and forecasts will be key factors in the City’s ability to maintain the “Double Triple A Rating” from these two prestigious institutions.

Revenue Projections

Total annual increase in revenue for the City had hovered around 2.5% from FY2009 through FY2012, but has improved since then as a result of the improving economy and is projected to approximate 3.2% for the next few years. Once again, a crucial component in the development of the revenue projections in this five-year forecast was the desire to avoid under budgeting revenues, thereby causing reductions in public safety or education where they were not truly necessary. Therefore, the FY19-FY23 Revenue Projections include funding related to the successful passage of the Operating and Debt Exclusion Overrides, 2.5% annual increase to the property tax levy, 1.2% of annual additional revenue from “new growth” or “redevelopment”, increases in Chapter 70 Education Aid due to growing enrollments, and stabilized licensing/permitting fees as a result of an improving economy.



As is apparent from the following comparative charts, in recent years the City has continued to become more and more dependent on Property Tax Revenues to fund city operations, increasing from 78% in FY2007 to a projected 84% by FY2023. With the recent increase in Chapter 70 State Education Aid, State Aid as a percent of Revenues is expected to remain approximately 7%. Concurrently, Investment Income, Licensing & Permitting Fees and Excise Tax have declined in the past few years from more than 9% of total revenue in FY2007 to only 4% by FY2023. As a direct result, the City is relying less and less on outside forces for revenue; this phenomenon means that more and more of the City’s revenue is subject to an annual maximum increase of not more than 2.5%, thus significantly impacting overall revenue growth. The Administration will continue to monitor all revenue streams and make every effort to maximize revenue wherever possible.



**City of Newton, Massachusetts
Annual General Fund Revenue
FY2017 Actual/FY2018 Budget/FY2019 through FY2023 Forecast**

OPERATING REVENUE	<-ACTUAL->	<BUDGET>	<-----FORECAST----->				
	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Real Estate Tax Revenue	\$ 314,685,140	\$ 326,821,940	\$ 342,542,631	\$ 355,045,386	\$ 367,680,730	\$ 380,834,066	\$ 394,315,506
Excise Tax Revenue	\$ 13,756,305	\$ 13,125,000	\$ 13,500,000	\$ 13,635,000	\$ 13,771,350	\$ 13,909,064	\$ 14,048,154
Hotel Room Tax	\$ 2,263,279	\$ 2,493,132	\$ 2,300,000	\$ 2,323,000	\$ 2,346,230	\$ 2,369,692	\$ 2,393,389
Meals Tax - 0.75%	\$ 1,938,182	\$ 1,918,224	\$ 1,956,589	\$ 1,995,721	\$ 2,035,635	\$ 2,086,526	\$ 2,107,391
Payments In Lieu of Taxes	\$ 279,685	\$ 200,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000
Interest/Divident Income	\$ 644,856	\$ 525,000	\$ 600,000	\$ 500,000	\$ 300,000	\$ 300,000	\$ 300,000
License/Permit-ISD, Fire, H&HS	\$ 8,877,278	\$ 6,630,243	\$ 6,224,150	\$ 6,494,150	\$ 6,490,150	\$ 6,487,150	\$ 6,487,150
Parking Meter Receipts	\$ 2,497,903	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Parking Violations	\$ 1,389,784	\$ 1,225,000	\$ 1,400,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000
Medicare D/SPED Medicaid	\$ 1,910,852	\$ 1,475,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Water/Sewer Gen'l Fund Adm	\$ 2,501,063	\$ 3,234,065	\$ 3,314,917	\$ 3,397,790	\$ 3,482,734	\$ 3,569,803	\$ 3,659,048
Premium from Sale of Bonds	\$ 245,691	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 8,767,278	\$ 5,687,533	\$ 5,450,143	\$ 5,338,657	\$ 5,357,865	\$ 5,389,578	\$ 5,405,008
REVENUE FROM OPERATIONS	\$ 359,757,296	\$ 364,835,138	\$ 380,468,429	\$ 393,259,703	\$ 405,994,695	\$ 419,475,878	\$ 433,245,647
REVENUE FROM STATE AID							
Unrestricted Gen'l State Aid	\$ 5,650,430	\$ 5,870,797	\$ 5,958,859	\$ 6,048,242	\$ 6,138,965	\$ 6,231,050	\$ 6,324,516
Chapter 70 State Education Aid	\$ 21,155,777	\$ 22,647,802	\$ 23,789,852	\$ 24,789,852	\$ 25,789,852	\$ 26,789,852	\$ 27,789,852
REVENUE FROM STATE AID	\$ 26,806,207	\$ 28,518,599	\$ 29,748,711	\$ 30,838,094	\$ 31,928,817	\$ 33,020,902	\$ 34,114,368
OPERATING REVENUE	\$ 386,563,503	\$ 393,353,737	\$ 410,217,140	\$ 424,097,797	\$ 437,923,512	\$ 452,496,780	\$ 467,360,015
% Increase		1.76%	4.29%	3.38%	3.26%	3.33%	3.28%
REVENUE - FROM TRANSFERS							
New Falls Settlement In Lieu of	\$ 56,414	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
Capital Stabilization Fund	\$ 2,376,662	\$ 400,000	\$ 300,000	\$ 200,000	\$ 100,000	\$ -	\$ -
Free Cash	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
REVENUE FROM TRANSFERS	\$ 2,433,076	\$ 1,960,000	\$ 1,860,000	\$ 1,760,000	\$ 1,660,000	\$ 1,560,000	\$ 1,560,000
TOTAL REVENUE	\$ 388,996,580	\$ 395,313,737	\$ 412,077,140	\$ 425,857,797	\$ 439,583,512	\$ 454,056,780	\$ 468,920,015
% Increase		1.62%	4.24%	3.34%	3.22%	3.29%	3.27%

Expenditure Projections

Salaries, Compensation and Health Benefits

Salaries, compensation, and health benefits for the City's active employees total 65% of the general fund operating budget, and are consequently the single most important cost driver. During the prior decade the average increase in salaries, compensation, and health care benefits for active employees for the period FY2006 through FY2010 was 4.37%. This previous growth rate was unsustainable and contributed in large part to the City's "structural deficit".

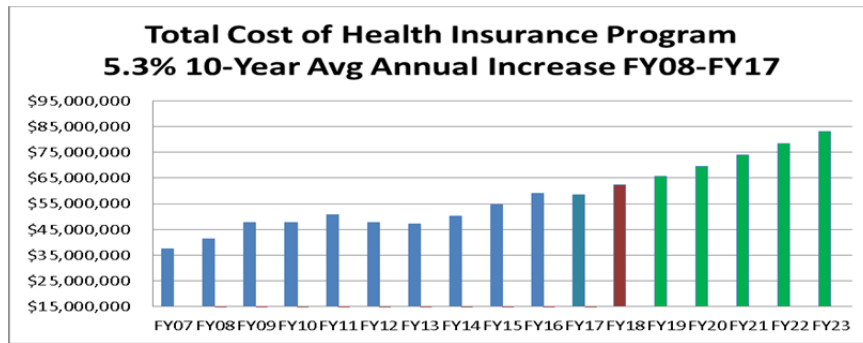
As mentioned earlier, the Administration has reached agreement with the majority of its 17 unions and is currently in negotiations with the remaining groups to draft new collective bargaining agreements. The Administration will work to continue to construct new contracts that uphold a similar philosophy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

Health Insurance Benefits

The City of Newton provides health insurance benefits for more than 2,500 active employees and their dependents, as well as approximately 2,800 retirees, for a total insured population of more than 8,500 members. Because the City's insured population is as large as it is, the City is "Self Insured". The cost of a Self-Insured Health Insurance Program is comprised of costs in three main areas: the actual cost of claims, the administrative fees charged by the health insurance carriers and the cost of an excess policy to protect the City from exposure to unusually large claims (greater than \$300,000). Rather than paying "premium" rates, the City works with its insurance carriers and health consultants to develop "working" rates. These working rates are projections of costs. If actual costs are less than projected, the City benefits and "saves" money. Conversely, if the actual costs are more than projected, the City must pay the difference. In order to do this, the City maintains a Health Insurance Trust Fund to manage any variances between the projections and actuals.

In order to maintain financial sustainability, the administration must continuously evaluate health insurance options. One such option is plan design changes. The Administration is currently reviewing plan design options, recognizing that any plan design changes must be part of collective bargaining negotiations.

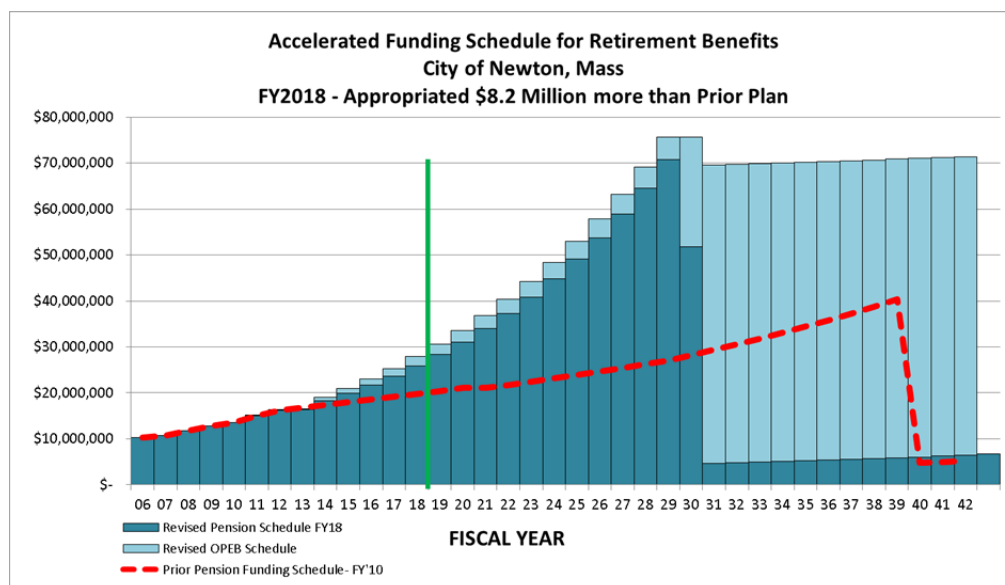
Another option that the Administration has monitored closely is the Group Insurance Commission (G.I.C.), or the State run plan. However, a comparative analysis has become increasingly difficult in the past few years. Whereas the G.I.C. used to offer very similar plans to those offered by the City of Newton, this is no longer the case. The G.I.C. now limits plan options for new members to plans that have significantly different benefit levels. The Administration will continue to monitor all trends in the health insurance market very closely.



Retiree Pensions and Health Insurance

The City of Newton Contributory Retirement Plan covers approximately 3,000 active and retired participants and more than 600 inactive participants. Prior to the 2008 downturn in the economy the total unfunded actuarial accrued liability was approximately 33%. However, as a result of the less than favorable economic pressures experienced by the fund in the past several years combined with the increased life expectancy of Americans, the total unfunded actuarial accrued liability peaked at 49.22% as of January 1, 2014, but has not made any progress since then.

Because of the continued under-performance of the fund, the five year financial forecast now not only includes an annual increase of 9.60% in support of the Newton Retirement Board’s vote to fully fund the plan by FY2030, but also reflects a reduction in the investment return assumption from 7.65% to 7.50%. Although this action creates an increase in the calculated unfunded liability of \$9,153,027, it is a more conservative approach which will continue to be evaluated on an annual basis. It is important to note that proper funding of the retirement plan is a key driver of financial sustainability. Funding this long-term liability has impacts on the City’s bond rating and ability to maintain a balanced budget. Commitment to this funding schedule is also an integral part in the City’s plan to address O.P.E.B. liabilities and is therefore, key to the City’s Long Term Financial Stability Strategy.



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

In 2009, the City of Newton adopted M.G.L. c32B section 18 which requires all eligible Municipal retirees to enroll in Medicare. This statute allows the City to enroll retirees in health insurance plans that supplement Medicare coverage, reducing coverage costs for both the City and the retiree. This law requires all retirees who are eligible for Medicare Part A to also enroll in Medicare Part B. Since December 2009, the City has notified retirees that they are required to enroll in Medicare or provide proof in the form of a letter from the local Social Security Office indicating that they have not paid into Medicare for the required 10 years and are not eligible. Additionally, employees hired on or after April 1, 1986 are required to pay 1.45% Medicare tax. Employees who have paid this tax for at least 10 years are entitled to Medicare coverage at age 65. Therefore, through attrition, the number of Medicare-eligible retirees is increasing each year.

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

Therefore, in 2010 the City established an Other Post-Employment Benefits (O.P.E.B.) Liability Trust Fund and later established an OPEB Trust Agreement for the purpose of providing an irrevocable, dedicated trust fund as a vehicle to make advance contributions for retiree health care benefits. The Fund, which now exceeds \$6 million will grow by more than \$2 million per year, or 3.25% of the salaries of employees who subscribe to the City's Health Insurance hired after July 1, 2012. As the City brings on more and more new employees, this funding method will cause this appropriation to grow exponentially. For the next 12 years the City will employ this policy for all employees hired after July 1, 2012, and will continue the policy of "pay as you go" for employees and retirees hired prior to July 1, 2012.

All of this will change, however, in the year 2030. With the projected full-funding of the Newton Contributory Retirement Fund, the City will then be able to focus on repurposing pension liability appropriations to the O.P.E.B. Trust Fund, creating a viable, sustainable financial model by which to fully fund the City's Retiree Costs.

Out-of-District Tuition

Out-of-District Tuition has been identified as a major cost driver in the school department budget each year. The Newton Public Schools have taken many proactive steps to control this area, offering a number of programs which reduce the need to send students outside the district to meet their educational needs. This has resulted in a decrease in the number of placements and costs over the last four years. However, over the last ten years, the out-of-district tuition budget has increased by close to \$6 million, with average annual increases of 6.5%. Tuition costs are projected to increase in future years for two main reasons. First, private school out-of-district tuition rates are expected to increase, as allowed for by the Massachusetts Department of Elementary and Secondary Education. Second, a continued increase in the number of high cost special education placements is expected, with corresponding increases in both out-of-district and in-district costs. The Student Services Department continues to look carefully at staffing patterns and to determine through data analysis and program evaluations new initiatives and programs, as well as expansions of current programs, to improve outcomes for students while controlling costs.

Pupil Transportation

Pupil Transportation is another area where annual cost increases continue to outpace revenue. In Spring 2017, the Newton Public Schools completed a public bid process for regular transportation, resulting in a new five-year contract. The new contract has a first-year increase of 22% in FY18, and annual increases ranging from 2% to 3% in FY19 through FY22. Student fees for regular transportation were increased in FY19 and continue to serve as an offset to the full cost of daily busing. Special education transportation is in the second year of a three-year contract. It is assumed that there will be annual increases of 6% in all future years to account for both rate increases and increases in the number of students transported. All transportation contracts allow for cost increases due to fuel escalation. The Newton Public Schools administration continues to monitor all transportation costs and contracts for possible efficiencies and savings.

Roads

In 2016, the City contracted the services of StreetScan, Inc. to conduct a pavement inspection of all City streets utilizing their innovative and patented vehicle-mounted sensing technology (acoustic, radar, optical) to detect surface and subsurface roadway defects, removing human bias and allowing data-driven, evidence-based decision making strategies for the maintenance and improvement of the City's roadways.

Following the results of this investigation, the City has implemented an Accelerated Pavement Management Program which has increased yearly expenditures on roadway infrastructure repairs from approximately \$3.3 million to \$9.5 million and will increase the average condition index of all of Newton's streets to either "good" or "very good" condition within the next 10 years.

The City recently contracted the services of BETA Group, Inc. to assist in developing a multi-year Capital Improvement Plan to utilize these funds in an efficient manner. BETA's Pavement Management Program allows for prioritization of streets utilizing a Cost Benefit Value (CBV) Report. The CBV is a data driven analysis to prioritize roadway repairs based on a number of factors (traffic volumes, cost to repair/maintain, suggested repair technique, roadway rating, etc). Development of this CIP will allow for coordination with utility projects and forecasting future network ratings.

Energy Costs / Utilities

Furthering the City's environmental sustainability position continues to be a key objective and will require a comprehensive approach that goes beyond counting kilowatt hours. The City takes a holistic view of sustainability to ensure the roads are designed as "complete streets", safe for all modes of non-motorized transportation, that buildings are constructed to meet stringent energy codes, and that the declining tree population trend is reversed – all with the purpose of safeguarding the future long term environmental sustainability of the City and its neighborhood vitality.

The City of Newton is actively engaged in energy initiatives on several fronts. Energy efficiency and solar energy projects implemented over the last three fiscal years will save the city more than \$1 million per year and over \$20 million in the course of the next 20 years. Currently, the city is involved in plans for Phase 3 of the solar projects and Phase 4 of the energy efficiency projects that will expand on these savings. The City developed a list of 30 sites on City owned properties as possible locations throughout the City for future solar projects. After initial review, this list has been reduced to 21 sites and subject to more detailed review

and community input as we go through the site selection process. Changes in the Commonwealth's solar incentive programs could further limit the number of projects that will be financially feasible.

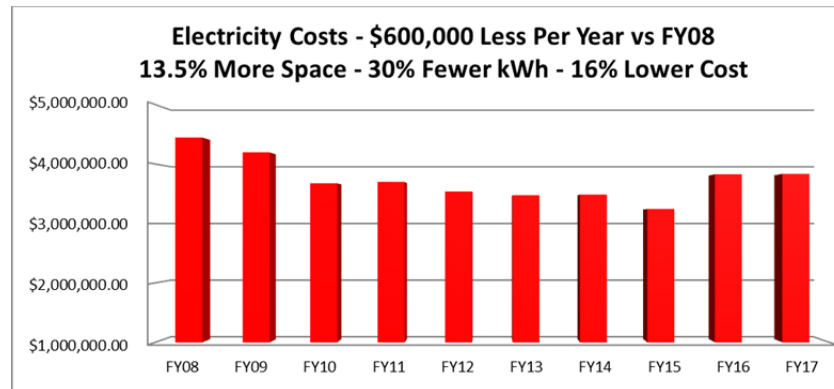
The City of Newton has received \$1,900,000 in energy rebates from Eversource and National Grid for energy efficiency projects implemented from 2014 through 2017, as well as \$934,000 from the State Green Communities program during a similar time period. This enabled the City to convert to LED street lighting, convert city buildings and schools to LED lighting, and convert floors 1-4 at North High School to high efficiency LED lighting.

The City has been using an electricity broker/advisor to get the best possible electricity prices in what has become a more complex and higher priced market than it was just a few years ago. Consequently, the City was able to enter into a new three year electricity contract that begins on December 1, 2017 and will save \$170,000 per year compared to the current contract. The City has also been adding green energy to its own supply mix by purchasing additional Class 1 Massachusetts Renewable Energy Credits.

Additionally, Newton is getting paid to manage its electricity demand through a contract with a vendor who will pay us an estimated \$87,450 per year beginning June 1, 2018 for participating in the ISO-NE demand response program. This program requires the City to reduce electricity demand in key buildings during peak system electricity demand periods. Relative to our natural gas supply and costs, Newton has also entered into a contract for natural gas supply that ensures that the City gets low stable gas supply rates and a reliable gas supply for the next two heating seasons. Our cost of gas energy will be dropping by 19% when we start a new two year contract with a gas supplier on November 1, 2017. This will save \$192,000 per year in gas costs compared to our current costs.

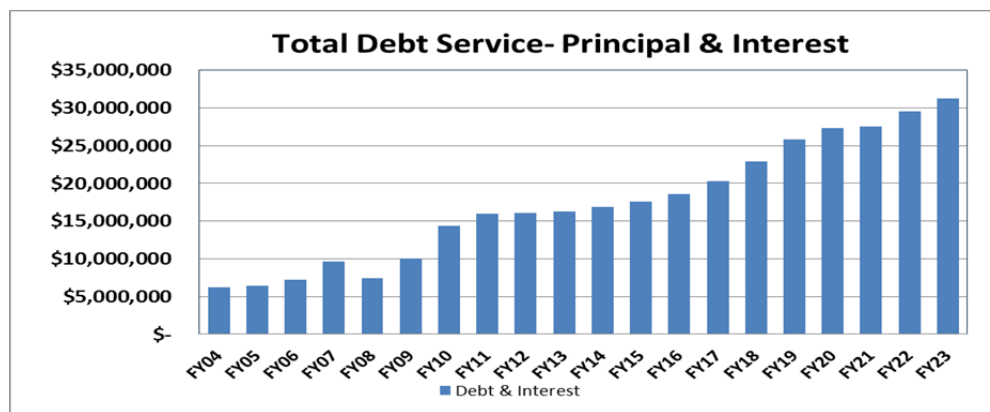
Energy efficiency and management is also a priority in new construction. Newton has designed and constructed some of the most energy efficient schools in the State to replace the Angier, Zervas and Cablot elementary Schools. Newton was awarded \$110,000 in energy efficiency rebates for the Angier School under the utility energy efficiency programs. The Angier School received the LEED Gold rating by the U.S. Green Buildings Council. It is anticipated that the Zervas School, which opened for the 2017-2018 school year will receive the LEED Silver rating.

Finally, Newton is embarking on a city wide municipal electricity aggregation program. This will provide Newton residents and businesses options to purchase greener electricity for use in their homes and businesses. All Newton electricity customers will be offered several options under this program to green up their electricity supply by selecting from a menu of choices that includes varying amounts of renewable energy in their electricity purchase. This renewable energy will come from Massachusetts or New England based renewable energy projects. These choices will be at varying prices with higher percentages of green energy costing slightly more. Customers will be able to choose one of these green energy options, an option with no additional green energy, or to stay with Eversource or another supplier. This program is being developed by the Mayor's Office and the City's Co-Director of Sustainability. This program is in development and it is expected that it will be available to Newton residents and businesses by Fall of 2018. Educating Newton residents and businesses about the options will be a point of emphasis in the program so that customers fully understand the choices available to them.



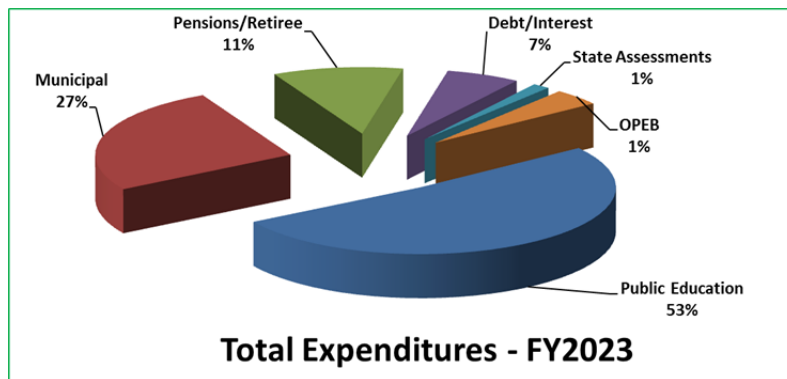
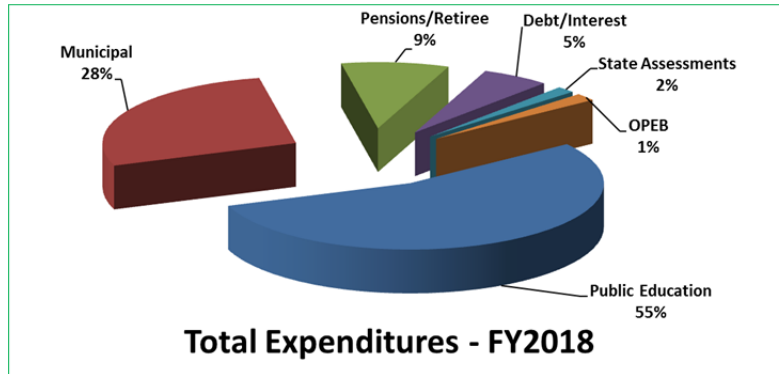
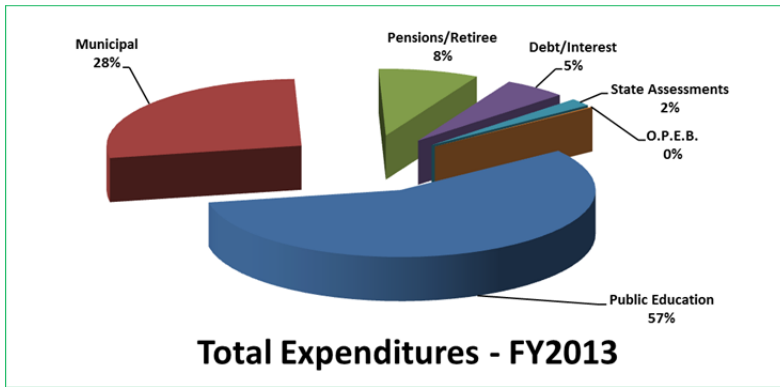
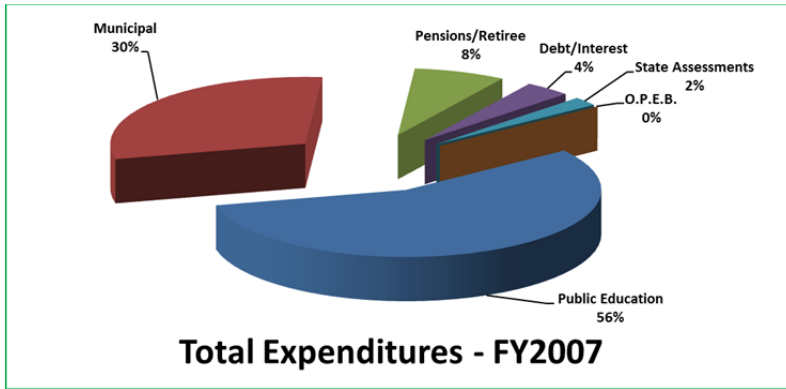
Debt Service

This Five Year Financial Forecast is the counterpart and is directly linked to the FY2019-2023 Capital Improvement Plan. With the continued completion of several long term capital projects such as the Zervas Elementary School, and Station #3 and Fire Headquarters, the City has now shifted focus toward the Cabot Elementary School, as well as the transformation of the Aquinas building into a Pre-K School and Horace Mann Elementary School into a Community Center. In July of 2016, largely in part due to the City’s double, Triple A bond rating, the administration was able to refund more than \$85 million of 2008 and 2009 General Obligation Bonds. This action will generate total savings of approximately \$13 million over the remaining life of the refunded bonds.



Projected FY2019 – FY2023 Expenditures by Functional Element

Additionally, as is evident from the comparative charts below, the financial commitment to Public Education in the City of Newton has remained strong over the years and will continue to grow as the City addresses capital needs. Pensions/Retiree Benefits will continue to consume more of the City’s resources as they have increased from 7% in FY2008, to approximately 9% in FY2018 and 11% by FY2023. It should be noted that every effort is being made to maintain the proportionality of “Municipal Expenditures”, by increasing known annual operating expenditures with each successive budget. This is a very important fact, if the City is to deliver core City services and invest in much needed infrastructure improvements. Finally, as is always true, it is critical that the City of Newton continue to strive to strike a balance between the many needs and desires of the community and its available resources.



Projected FY2019 - FY2023 Needs by Functional Element

As has been mentioned several times within this report, this five year financial forecast is meant to be a guide in the development of the Municipal Operating Budget for next year and beyond. Consequently, the FY2019- FY2023 Projected Needs by Functional Element shown below summarizes the projected "needs" based on current enrollment projections, investment income trends, etc. Therefore, if enrollment continues to grow at the projected rates, the Newton Public Schools will need approximately 3.5% additional funding each year, while retiree benefits are expected to require an additional 8% each year. This forecast should be used as an indication of trends and is meant to depict the areas where the Administration will face challenges in the years ahead. The Administration will continue to strive to increase revenues wherever possible, zero base budgets and implement performance management techniques to control spending.

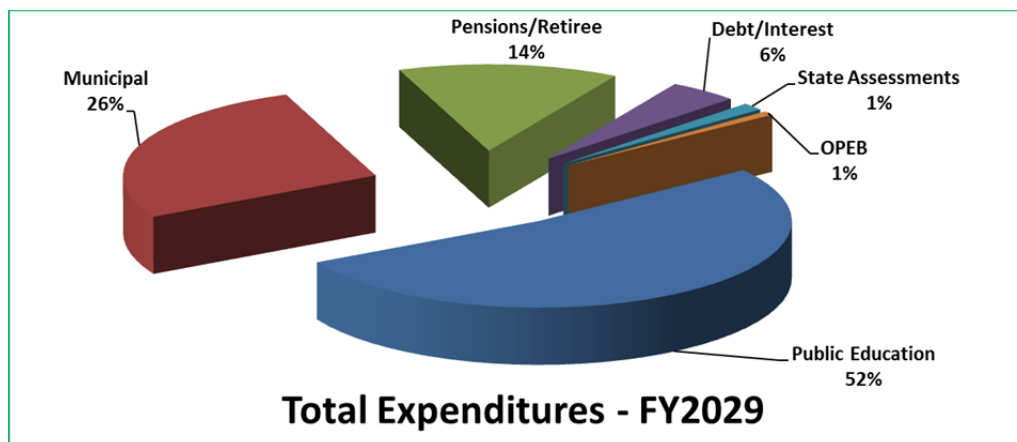
City of Newton, Massachusetts
Five Year Projected Expenditure Needs by Functional Element
FY2017 Actual/FY2018 Budget/FY2019 through FY2023 Forecast

EXPENDITURES	<BUDGET>		<-----FORECAST----->				
	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Education	\$ 211,266,878	\$ 219,136,487	\$ 227,220,264	\$ 235,172,973	\$ 243,404,027	\$ 251,923,168	\$ 260,740,479
% Increase		3.72%	3.69%	3.50%	3.50%	3.50%	3.50%
\$ Increase		\$ 7,869,609	\$ 8,083,777	\$ 7,952,709	\$ 8,231,054	\$ 8,519,141	\$ 8,817,311
Debt Service	\$ 20,283,394	\$ 22,918,195	\$ 25,831,703	\$ 27,307,189	\$ 27,547,412	\$ 29,581,911	\$ 31,241,918
% Increase		12.99%	12.71%	5.71%	0.88%	7.39%	5.61%
\$ Increase		\$ 2,634,801	\$ 2,913,508	\$ 1,475,486	\$ 240,223	\$ 2,034,499	\$ 1,660,007
Pensions & Retiree Benefits	\$ 33,397,815	\$ 36,212,054	\$ 39,865,146	\$ 43,140,433	\$ 46,711,100	\$ 50,597,052	\$ 54,855,301
% Increase		8.43%	10.09%	8.22%	8.28%	8.32%	8.42%
\$ Increase		\$ 2,814,239	\$ 3,653,092	\$ 3,275,288	\$ 3,570,667	\$ 3,885,951	\$ 4,258,249
State Charges	\$ 6,143,354	\$ 6,206,582	\$ 6,392,779	\$ 6,584,563	\$ 6,782,100	\$ 6,985,563	\$ 7,195,130
% Increase		1.03%	3.00%	3.00%	3.00%	3.00%	3.00%
\$ Increase		\$ 63,228	\$ 186,197	\$ 191,783	\$ 197,537	\$ 203,463	\$ 209,567
Transfers to Other Funds	\$ 3,940,124	\$ 150,000	\$ 175,000	\$ 200,000	\$ 250,000	\$ 300,000	\$ 350,000
% Increase		-96.19%	16.67%	14.29%	25.00%	20.00%	16.67%
\$ Increase		\$ (3,790,124)	\$ 25,000	\$ 25,000	\$ 50,000	\$ 50,000	\$ 50,000
Municipal Expenditures	\$ 105,094,868	\$ 110,690,419	\$ 114,354,896	\$ 119,508,347	\$ 123,790,276	\$ 128,447,238	\$ 133,249,890
% Increase		5.32%	3.31%	4.51%	3.58%	3.78%	3.74%
\$ Increase		\$ 5,595,551	\$ 3,664,477	\$ 5,153,451	\$ 4,281,928	\$ 4,656,963	\$ 4,802,652
TOTAL EXPENDITURE FCST							
FY19 - FY23 BUDGET	\$ 380,126,434	\$ 395,313,737	\$ 413,839,788	\$ 431,913,506	\$ 448,484,915	\$ 467,834,932	\$ 487,632,718
		4.00%	4.69%	4.37%	3.84%	4.31%	4.23%

Funding Pensions by FY2030 - Balancing the Budgets

Perhaps the greatest financial challenge that the City will face in the preparation of the annual budgets through the year FY2030 will be that of absorbing the appropriation increases associated with the goal of fully funding pensions in that timeframe. This plan will require an annual growth rate of 9.6%, or several million dollars each year. There are several strategies that will need to be employed in order to accomplish this.

This five year financial forecast has been prepared as a “Conservatively Aggressive Roadmap” for the next five years. Revenues have been projected “Conservatively”, while Expenditures have been projected “Aggressively”. Opportunities exist for additional Revenue from New Growth/Redevelopment, Chapter 70 , Permitting Fees, and Interest Income. Similarly, opportunities exist for reductions in expenditure projections for Compensation, Health Insurance, Utilities, and Interest on Debt Service. The city must continue to refine and institute strong fiscal responsibility using the zero-based budgeting process while maintaining efficient allocation of resources in order to develop balanced, viable, sustainable budgets.



Sustainable Budget Strategy

In order for the City’s budget and financial plan to remain sustainable, City Leaders must remain steadfast in their determination to balance revenue and expenditures while addressing infrastructure needs, providing for the functions of government, fully funding all liabilities, and developing and maintaining an appropriate level of reserves. Achieving these benchmarks are attainable as long as the City remains committed to and disciplined in its resolve to settle collective bargaining agreements that maintain parity between revenue and expenditures, follows the planned funding schedules for pension and O.P.E.B. liabilities, and remains vigilant in its oversight of every hard earned taxpayer dollar that has been entrusted to it in order to provide the level of municipal services that the people of Newton expect and deserve. By following these steps, the city will be able to attain its goal of becoming a livable, sustainable, model city for the 21st century.

The following pages contain Revenue Projections and Projections by Functional Element for the following time periods:

FY2013 – FY2017 Actuals

FY2018 Budget

FY2019 – FY2023 Forecast

City of Newton, Massachusetts
Annual General Fund Revenue

GENERAL FUND REVENUE	←----- ACTUAL ----->					<BUDGET>	←----- FORECAST ----->				
	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Real Estate Tax Revenue	\$ 247,254,734	\$ 255,856,303	\$ 277,381,501	\$ 289,650,737	\$ 301,098,407	\$ 326,821,940	\$ 342,542,631	\$ 355,045,386	\$ 367,680,730	\$ 380,834,066	\$ 394,315,506
Excise Tax Revenue	\$ 10,382,197	\$ 10,914,807	\$ 12,196,691	\$ 12,353,468	\$ 12,903,047	\$ 13,125,000	\$ 13,500,000	\$ 13,635,000	\$ 13,771,350	\$ 13,909,064	\$ 14,048,154
Hotel Room Tax	\$ 1,814,792	\$ 2,051,414	\$ 2,218,759	\$ 2,330,724	\$ 2,444,007	\$ 2,493,132	\$ 2,300,000	\$ 2,323,000	\$ 2,346,230	\$ 2,369,692	\$ 2,393,389
Meals Tax - 0.75%	\$ 1,403,261	\$ 1,407,803	\$ 1,557,737	\$ 1,786,617	\$ 1,880,428	\$ 1,918,224	\$ 1,956,589	\$ 1,995,721	\$ 2,035,635	\$ 2,086,526	\$ 2,107,391
Payments In Lieu of Taxes	\$ 477,395	\$ 255,547	\$ 355,596	\$ 268,057	\$ 251,922	\$ 200,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000	\$ 180,000
Interest/Divident Income	\$ 244,319	\$ 167,201	\$ 190,647	\$ 205,203	\$ 345,221	\$ 525,000	\$ 600,000	\$ 500,000	\$ 300,000	\$ 300,000	\$ 300,000
License/Permit-ISD,Fire,H&HS	\$ 5,011,251	\$ 7,565,365	\$ 6,448,540	\$ 6,351,923	\$ 8,821,902	\$ 6,630,243	\$ 6,224,150	\$ 6,494,150	\$ 6,490,150	\$ 6,487,150	\$ 6,487,150
Parking Meter Receipts	\$ 1,325,000	\$ 1,681,650	\$ 1,709,300	\$ 1,773,597	\$ 1,527,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Parking Violations	\$ 1,675,117	\$ 1,572,867	\$ 1,459,059	\$ 1,429,088	\$ 1,488,744	\$ 1,225,000	\$ 1,400,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000	\$ 1,350,000
Medicare D/SPED Medicaid	\$ 1,814,072	\$ 1,662,557	\$ 1,201,165	\$ 1,290,511	\$ 1,738,458	\$ 1,475,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Water/Sewer Gen'l Fund Adm	\$ 1,429,518	\$ 1,640,260	\$ 1,983,994	\$ 2,088,882	\$ 2,441,457	\$ 3,234,065	\$ 3,314,917	\$ 3,397,790	\$ 3,482,734	\$ 3,569,803	\$ 3,659,048
Premium from Sale of Bonds	\$ 131,379	\$ 590,740	\$ 650,998	\$ 828,328	\$ 3,693,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other/Miscellaneous Revenue	\$ 7,412,572	\$ 9,990,705	\$ 8,572,909	\$ 9,446,840	\$ 9,320,788	\$ 5,687,533	\$ 5,450,143	\$ 5,338,657	\$ 5,357,865	\$ 5,389,578	\$ 5,405,008
REVENUE FROM CITY OPERATIONS	\$ 295,357,219	\$ 315,926,896	\$ 329,803,974	\$ 347,955,277	\$ 359,757,296	\$ 364,835,138	\$ 380,468,429	\$ 393,259,703	\$ 405,994,695	\$ 419,475,878	\$ 433,245,647
REVENUE FROM STATE AID											
Unrestricted Gen'l State Aid	\$ 4,970,628	\$ 4,970,628	\$ 5,088,123	\$ 5,229,226	\$ 5,417,478	\$ 5,870,797	\$ 5,958,859	\$ 6,048,242	\$ 6,138,965	\$ 6,231,050	\$ 6,324,516
Chapter 70 State Education Aid	\$ 13,504,221	\$ 16,173,153	\$ 17,403,779	\$ 19,617,930	\$ 20,226,057	\$ 22,647,802	\$ 23,789,852	\$ 24,789,852	\$ 25,789,852	\$ 26,789,852	\$ 27,789,852
TOTAL REVENUE FROM STATE AID	\$ 21,143,781	\$ 22,491,902	\$ 24,847,156	\$ 25,643,535	\$ 26,806,207	\$ 28,518,599	\$ 29,748,711	\$ 30,838,094	\$ 31,928,817	\$ 33,020,902	\$ 34,114,368
OPERATING REVENUE	\$ 316,501,000	\$ 338,418,798	\$ 354,651,130	\$ 373,598,812	\$ 386,563,503	\$ 393,353,737	\$ 410,217,140	\$ 424,097,797	\$ 437,923,512	\$ 452,496,780	\$ 467,360,015
	5.91%	6.93%	4.80%	5.34%	3.47%	1.76%	4.29%	3.38%	3.26%	3.33%	3.28%
EXTRAORDINARY INCOME/RESERVES											
Stark Street Settlement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
New Falls Settlement In Lieu of	\$ 73,059	\$ 62,256	\$ 66,555	\$ 65,450	\$ 72,233	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000	\$ 60,000
School Building Assistance	\$ -	\$ -	\$ 5,685	\$ 3,460	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Stabilization Fund	\$ 4,800,000	\$ 2,700,000	\$ 2,140,111	\$ 89,386	\$ 550,939	\$ 400,000	\$ 300,000	\$ 200,000	\$ 100,000	\$ -	\$ -
Free Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000	\$ 1,500,000
Overlay Surplus	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL EXTRAORDINARY INCOME/RESERVES	\$ 2,762,256	\$ 2,212,351	\$ 158,296	\$ 623,172	\$ 2,433,076	\$ 1,960,000	\$ 1,860,000	\$ 1,760,000	\$ 1,660,000	\$ 1,560,000	\$ 1,560,000
TOTAL REVENUE	\$ 319,263,256	\$ 340,631,149	\$ 354,809,426	\$ 374,221,984	\$ 388,996,580	\$ 395,313,737	\$ 412,077,140	\$ 425,857,797	\$ 439,583,512	\$ 454,056,780	\$ 468,920,015
% Increase	5.12%	6.69%	4.16%	5.47%	3.95%	1.62%	4.24%	3.34%	3.22%	3.29%	3.27%

Five Year Financial Forecast

City of Newton, MA

City of Newton, Massachusetts
Five Year Expenditure Forecast - by Functional Element

	FY2013 - FY2017 Actual					FY2018 Budget	FY19 through FY23 Forecast				
	-----ACTUAL-----						-----FORECAST-----				
	FY13	FY14	FY15	FY16	FY17		FY19	FY20	FY21	FY22	FY23
EXPENDITURES											
Education	\$ 176,950,191	\$ 187,701,909	\$ 195,853,428	\$ 203,983,821	\$ 211,266,878	\$ 219,136,487	\$ 227,220,264	\$ 235,172,973	\$ 243,404,027	\$ 251,923,168	\$ 260,740,479
% Increase		6.1%	4.3%	4.2%	3.6%	3.6%	3.7%	3.5%	3.5%	3.5%	3.5%
\$ Increase		\$ 7,276,463	\$ 10,751,718	\$ 8,151,519	\$ 8,130,393	\$ 7,869,609	\$ 8,083,777	\$ 7,952,709	\$ 8,231,054	\$ 8,519,141	\$ 8,817,311
% of Total Budget		55.8%	55.8%	55.3%	55.6%	55.4%	54.9%	54.4%	54.3%	53.8%	53.5%
Debt Service	\$ 16,262,237	\$ 16,910,530	\$ 17,552,884	\$ 18,595,065	\$ 20,283,394	\$ 22,918,195	\$ 25,831,703	\$ 27,307,189	\$ 27,547,412	\$ 29,581,911	\$ 31,241,918
% Increase		4.0%	3.8%	5.9%	9.1%	11.5%	12.7%	5.7%	0.9%	7.4%	5.6%
\$ Increase		\$ 206,964	\$ 648,293	\$ 642,354	\$ 1,042,181	\$ 2,634,801	\$ 2,913,508	\$ 1,475,486	\$ 240,223	\$ 2,034,499	\$ 1,660,007
% of Total Budget		5.0%	5.0%	5.0%	5.3%	5.8%	6.2%	6.3%	6.1%	6.3%	6.4%
Pension & Retiree Benefits	\$ 25,835,950	\$ 27,501,760	\$ 29,199,509	\$ 31,235,486	\$ 33,397,815	\$ 36,212,054	\$ 39,865,146	\$ 43,140,433	\$ 46,711,100	\$ 50,597,052	\$ 54,855,301
% Increase		6.4%	6.2%	7.0%	6.9%	7.8%	10.1%	8.2%	8.3%	8.3%	8.4%
\$ Increase		\$ 483,318	\$ 1,665,810	\$ 1,697,749	\$ 2,035,977	\$ 2,814,239	\$ 3,653,092	\$ 3,275,288	\$ 3,570,667	\$ 3,885,951	\$ 4,258,249
% of Total Budget		8.2%	8.3%	8.5%	8.8%	9.2%	9.6%	10.0%	10.4%	10.8%	11.2%
State Charges	\$ 5,722,550	\$ 5,783,939	\$ 5,875,034	\$ 6,113,282	\$ 6,143,354	\$ 6,206,582	\$ 6,392,779	\$ 6,584,563	\$ 6,782,100	\$ 6,985,563	\$ 7,195,130
% Increase		1.1%	1.6%	4.1%	0.5%	1.0%	3.0%	3.0%	3.0%	3.0%	3.0%
\$ Increase		\$ 218,594	\$ 61,389	\$ 91,095	\$ 238,248	\$ 63,228	\$ 186,197	\$ 191,783	\$ 197,537	\$ 203,463	\$ 209,567
% of Total Budget		1.7%	1.7%	1.7%	1.6%	1.6%	1.5%	1.5%	1.5%	1.5%	1.5%
Transfers to Other Funds	\$ 7,625,408	\$ 7,738,524	\$ 3,420,693	\$ 4,529,138	\$ 3,940,124	\$ 150,000	\$ 175,000	\$ 200,000	\$ 250,000	\$ 300,000	\$ 350,000
% Increase		1.5%	-55.8%	32.4%	-13.0%	-2526.7%	16.7%	14.3%	25.0%	20.0%	16.7%
\$ Increase		\$ 726,357	\$ 113,116	\$ (4,317,831)	\$ 1,108,445	\$ (3,790,124)	\$ 25,000	\$ 25,000	\$ 50,000	\$ 50,000	\$ 50,000
% of Total Budget		2.3%	1.0%	1.2%	1.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%
Municipal Expenditures	\$ 84,925,936	\$ 90,940,552	\$ 98,781,568	\$ 104,136,734	\$ 105,094,868	\$ 110,690,419	\$ 114,354,896	\$ 119,508,347	\$ 123,790,276	\$ 128,447,238	\$ 133,249,890
% Increase		7.1%	8.6%	5.4%	0.9%	5.1%	3.3%	4.5%	3.6%	3.8%	3.7%
\$ Increase		\$ 3,509,663	\$ 6,014,616	\$ 7,841,016	\$ 5,355,166	\$ 5,595,551	\$ 3,664,477	\$ 5,153,451	\$ 4,281,928	\$ 4,656,963	\$ 4,802,652
% of Total Budget		27.0%	28.2%	28.3%	27.6%	28.0%	27.6%	27.7%	27.6%	27.5%	27.3%
TOTAL EXPENDITURES & TRANSFERS	\$ 317,322,272	\$ 336,577,214	\$ 350,683,116	\$ 368,593,526	\$ 380,126,434	\$ 395,313,737	\$ 413,839,788	\$ 431,913,506	\$ 448,484,915	\$ 467,834,932	\$ 487,632,718
\$ Increase	\$ 12,421,359	\$ 19,254,942	\$ 14,105,902	\$ 17,910,410	\$ 11,532,908	\$ 15,187,303	\$ 18,526,051	\$ 18,073,717	\$ 16,571,409	\$ 19,350,017	\$ 19,797,786
% Increase	4.07%	6.07%	4.19%	5.11%	3.13%	4.00%	4.69%	4.37%	3.84%	4.31%	4.23%
POTENTIAL GAP	\$ 1,940,984	\$ 4,053,935	\$ 4,126,310	\$ 5,628,458	\$ 8,870,146		\$ (1,762,649)	\$ (6,055,709)	\$ (8,901,403)	\$ (13,778,152)	\$ (18,712,703)

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 the Fiscal Year 2014 Budget. 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 take 2 to 3 years to fully implement.
- **Capital outlay and improvements:** It is the practice of the City to issue a minimum of \$3.5 million in bonds for capital improvements annually; financing for the associated debt service will come from the General Fund. A minimum of 5% of the annual General Fund operating budget will be budgeted for capital outlay and improvements.
- **Free Cash:** Free Cash represents the accumulated difference of unrestricted funds between General Fund revenues and expenditures, on a cash basis of accounting. The City expects to generate a limited amount of Free Cash which comes from unanticipated actual revenues in excess of revenue estimates (including overlay surplus), unexpected unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year.
- **Utilization of Free Cash:** 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 will be used to replenish Reserve Funds depleted in the previous year. Third, a minimum of forty percent (40%) of the remaining certified Free Cash will be put in the Rainy Day Stabilization Fund until the Rainy Day Stabilization Fund reaches its target level. Fourth, any additional Free Cash will be used for one-time, non-recurring expenditures. In unusual economic circumstances, an additional portion of Free Cash may be used for the ensuing year's school or municipal operating budget.
- **Inclement Weather Stabilization Reserve:** The Administration intends to establish 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.

- **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 2016) equalized valuation is approximately \$26 billion, which means that the current statutory debt limit is approximately \$1.3 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.