

FY2022 Budget Analysis by Revenues and Expenditures

Projected Revenue - Fiscal Year 2022

The financial impact to the City of Newton's revenues when the pandemic began in the fourth quarter of Fiscal Year 2020 (April, May and June 2020) due to the economic shutdown was swift and significant. These revenue reductions impacted FY2021 and will persist into FY2022.

Prior to COVID-19, the City had been receiving revenues of more than \$75 million annually from sources that have been impacted by the pandemic. These include revenues from the Commonwealth such as State Education Aid (a.k.a., Chapter 70) (\$25M) and Unrestricted Government Aid (\$6.4M). Other revenue sources for the City derive from expenditures by people in hotels and restaurants (Rooms & Meals Tax Revenues (\$4.5M)), on new vehicles (Motor Vehicle Excise Tax Revenue (\$13.5M)), and shopping in village centers and driving in Newton (Parking Meter Collections (\$1.3M) and Parking Violation Tickets (\$1.3M)). Interest rates which decrease in down economic cycles are also impacted (Interest Income (\$3.0M)). The shadow of the pandemic will continue to have a negative impact on many of these revenue sources with a projected reduction in anticipated revenue from these sources approximating \$7 million in FY2022.

The City of Newton has been extremely fortunate with the amount of funding we expect to receive from the American Rescue Plan Act (ARPA). These funds must be used *“for the provision of government services to the extent of the reduction in revenue. . . due to the COVID-19 public health emergency”* and *“to respond to the public health emergency. . . or its negative economic impacts.”*

Although we are once again forecasting significantly less revenue in FY2022 than we would have expected in “normal” times from these revenue sources (\$6.7 million less), the proposed City of Newton Budget is still increasing. The FY2022 Budget is \$462.7 million, \$23.2 million or 5% greater than the FY2021 Budget. The \$462.7 million in revenues reflect the decision we made to utilize \$4.6 million of the City's ARPA funding to augment our projected revenue supporting the vulnerable, recovering and reopening, and building a better future with strategic investments.

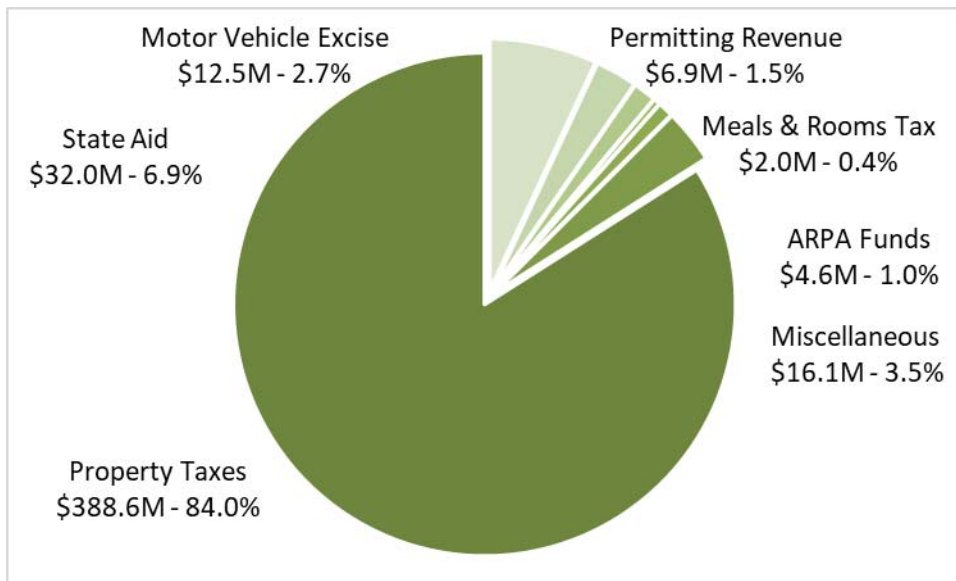
Rainy Day Stabilization Fund

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 requiring a significant expenditure. More specifically, these funds may be utilized to assist in addressing cyclical declines in operating revenues, generally resulting from economic factors outside the City's control, or an unusually large expenditure resulting from such things as a catastrophic weather event. The funds remain segregated to prevent the reserves from being depleted for other city needs, and to demonstrate that resources are being set aside for extraordinary and unforeseen revenue disruption or catastrophic expenditure.

Through collaboration with the City Council's Finance Committee, the Comptroller, members of the City Council, and the Warren and Fuller Administration, the fund has reached its goal of 5% of the total operating budget. The current fund balance totals approximately \$22.1 million. The Mayor has submitted a docket item to the Honorable Council in conjunction with this budget document to transfer \$1 million from Free Cash to the Rainy Day Stabilization Fund to maintain this 5% balance.

One of the most important recommendations that the Fuller Administration has made throughout the financial uncertainties of the past year is the maintenance of the 5% balance in the City’s Rainy-Day Reserve Fund. Although we have experienced unprecedented and tremendously uncertain times, we knew it was important to maintain this fund. It is our hope that we are beginning to emerge from this crisis and will do so with this fund intact so that we can absorb any reductions in state aid and revenues, catastrophic weather events, and most notably, the economic impact of a surge in new variants of the coronavirus.

Projected FY2022 Revenue Sources - \$462.7 M

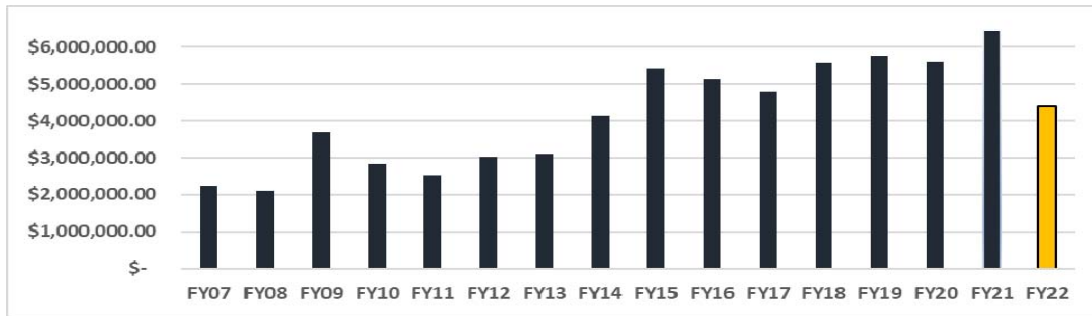


Property Tax Revenue

Property Taxes (typically 83% of revenue) will again this year account for a higher percentage of the City’s revenue budget (84%), as a result of the COVID-19 impact which lowers other revenue sources.

Proposition 2½, passed by the citizens of the Commonwealth in 1980, requires that the annual increase of the tax levy for the City of Newton must not exceed 2½ percent of the prior year’s tax levy, in addition to the total amount attributable to taxes raised from new real property growth and redevelopment. FY2022 property tax revenue is estimated to total \$388.6 million. This includes a 2.5% increase over last year, as well as a projection of close to \$4.8 million from “new growth or redevelopment,” an increase of 1.28%. The 30-year average annual increase of growth and redevelopment as a percent of the tax levy is 1.3% for Newton. This year we have adjusted the projection downward only slightly as a result of the lingering impact of COVID-19. In addition, Newton voters passed both an operating override and two debt exclusion overrides in 2013 to fund the Angier and Cabot school buildings. The additional property taxes resulting from the debt exclusion vote amounts to \$3.1 million of the property tax revenue in FY2022.

Projected FY2022 Revenue from New Growth and Redevelopment - \$4.8M



Senior Tax Deferral Program

Mayor Fuller and the City Council collaborated in 2019 to expand the eligibility for older residents to delay paying their property taxes to allow more seniors to be able to afford to stay in Newton.

Under the Commonwealth’s Clause 41A, older residents may be able to delay payment of their property taxes. A property tax deferral does not discharge the tax obligation. Instead, it defers payment until the resident sells the property or passes away. A deferral allows older residents to use resources that would go to pay taxes to defray living expenses with the goal of enabling older residents on modest and oftentimes fixed incomes to stay in our City by delaying payment of real estate taxes. Taxpayers who qualify may defer all or part of their taxes.

The income limit set by G.L. c. 59, sec. 5, cl. 41A in 1991 is \$40,000. In 2004, recognizing increases in the cost of living in the Newton area, the City of Newton was granted Home Rule legislation to allow a new upset limit of \$60,000. Although the City had the greatest number of participating homeowners (64 in FY2018) in the Commonwealth, Mayor Fuller requested additional Home Rule legislation to once again increase the upset limit of income in order to enable our older residents to remain in their homes as long as they are able.

Following the approval of Home Rule legislation, the City increased the income limit for participation in this program to \$86,000. As a result of these changes, last year 71 older residents were approved for a waiver, more than we have had in any year in the past decade. As of May 5, 2021, 65 residents have qualified for a deferral, and we are in the process of conducting title searches or income verification for 15 more. Of note, the deadline to file an application was April 1, 2021.

To reiterate, this is a “tax deferral” program. Eventually, the City will collect all taxes owed on these properties with interest accrued based on the Federal Reserve Discount Rate as of June 30th of each year that taxes were deferred.

Economic Development - New Growth & Redevelopment

Mayor Fuller is focused on continuing to assist Newton businesses weather and rebound from the economic disruption brought about by the pandemic. To that end, the City provided a total of \$610,000 in small business recovery grants to 54 brick and mortar establishments in this past fiscal year.

In addition, the City worked to expedite and facilitate the ability of Newton restaurants to expand their premises for outdoor dining service in their parking lots and on street parking spaces in front of their

establishments. In partnership with Newton Community Pride, the City has created village center outdoor communal dining spots, Newton Al Fresco, for restaurant patrons to enjoy take-out meals.

Additionally, finishing touches including final paving are scheduled to be completed in June 2021 for the village center makeovers in both West Newton and Newtonville. The investment of \$12.7 million in these two projects focused specifically on enhancing the village character and experience by shoppers and diners by providing a safer, more walkable and bikeable, and more aesthetic environment to be complemented by improved lighting and the addition of street trees and sidewalk furniture.

The focus of zoning redesign in the upcoming year will concentrate on how best to assure our village and commercial centers remain healthy and thriving into the future. Great effort will be taken to hearing from residents, businesses, property owners, and other interested stakeholders on how our future village centers should be designed.

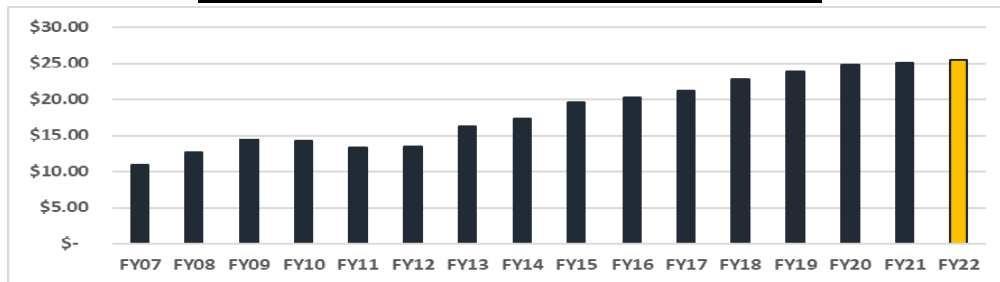
We are continuing to advocate, monitor, and move forward major transportation related initiatives including Mass DOT’s Needham Street reconstruction, the MBTA’s Greenline and Commuter Rail station upgrades, up to 16 new “blue bike” share stations located throughout the City, and completing the designs for Pettee Square in Upper Falls, the Commonwealth Carriageway greenway in Auburndale, and the Washington Street redesign trial between West Newton and Newtonville.

State Education Aid - Chapter 70

Governor Baker signed into law the Student Opportunity Act on November 26, 2019, the most significant statewide update to the education funding formula since its inception in 1993. The bill, passed before COVID-19, is intended to infuse an additional \$1.5 billion annually into the state’s education aid over the next seven years, as well as to increase funding to school districts for transportation, school construction and renovation, and special education.

The bulk of the new funding has been directed to school districts with the highest concentrations of low-income students, thereby aiming to close achievement gaps and provide opportunity for all students in the Commonwealth. Although the State is grappling with the financial impacts of COVID-19, based on the Governor’s FY2022 Budget submittal, the City of Newton is scheduled to receive \$25,492,106 in FY2022 Chapter 70 State Education Aid, an increase of \$363,390 over the final approved FY2021 grant of \$25,128,716.

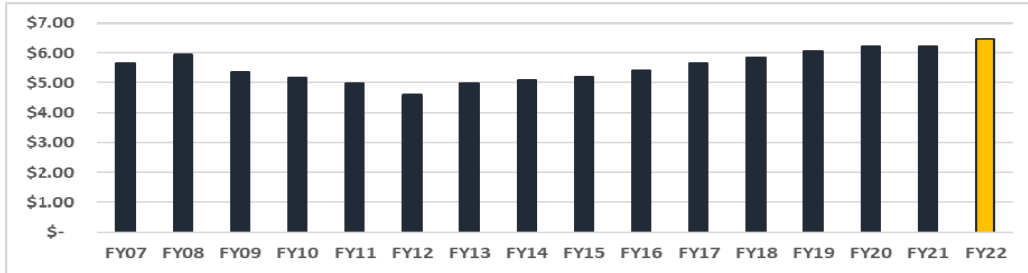
Projected FY2022 Chapter 70 State Education Aid
Governor’s Budget Increase of \$363.3K (1.45%)



Unrestricted General Government State Aid

Throughout the COVID-19 pandemic, Governor Baker has maintained his commitment to municipalities throughout the Commonwealth. Even in the midst of the pandemic, the final FY2021 Unrestricted General Government State Aid (UGGA) for this current year was level-funded as compared to FY2020 (\$6.24 million). Again, demonstrating his commitment to municipalities, the Governor has proposed an increase in UGGA of 3.5%, or \$218,412, for a total grant of \$6,458,786.

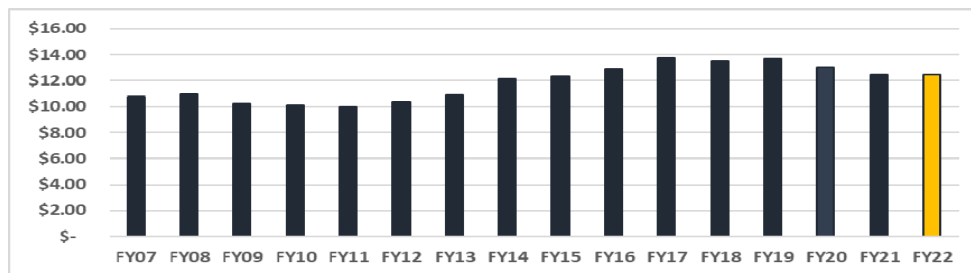
Projected FY2022 Unrestricted General State Aid Governor's Budget Increase of \$218.4K (3.5%)



Motor Vehicle Excise Tax Revenue

Massachusetts residents who own and register a motor vehicle annually pay a motor vehicle excise tax for the privilege of road use and those tax revenues go to the treasury of the local community. The amount of excise tax levied on each motor vehicle is \$25 per one thousand dollars of valuation. Over the past decade, total excise tax revenue has fluctuated from a low of just over \$9.5 million in FY2011 (following the Great Recession) to just over \$13.6 million in FY2017. Recognizing the significant impact of COVID-19 on so many people in Newton and their ability to buy a new car, we reduced projected FY2021 excise tax revenue by \$1 million. We expect this deleterious financial impact to continue through FY2022 as well as increased car prices and a shortage of new-vehicle inventory, and consequently, have maintained a level funded projection.

Projected FY2022 Revenue from Excise Taxes – \$12.5M



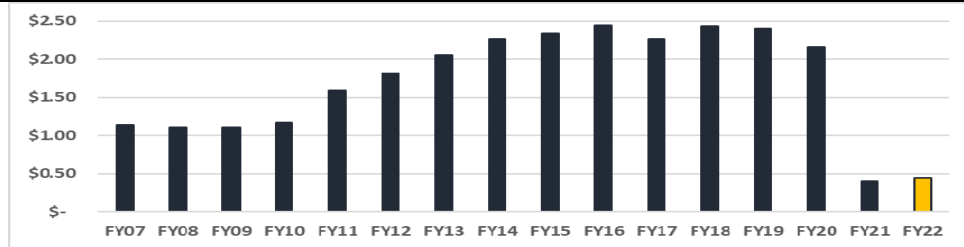
Hotel Room Occupancy Tax

The Commonwealth of Massachusetts has a state room occupancy excise tax rate of 5.7%. In addition, a city or town may adopt a local option room occupancy tax rate of not more than 6%. The Board of Aldermen of the City of Newton voted to accept the local option on October 7, 1985. As a result of the acceptance of this local option, the City of Newton has received more than \$2 million of Hotel Room Occupancy Tax Revenue in each of the past eight years prior to the pandemic.

However, almost immediately following the onset of the coronavirus pandemic, the hospitality industry began to experience unprecedented cancellations of conferences, vacations, weddings, etc. In early

September 2020, the Boston Globe reported that revenue per available room, a key industry metric, declined in August across the Boston metropolitan area by about 76 percent compared with the same period in 2019. COVID-19 has continued to wreak havoc on the hotel industry. Consequently, we reduced our FY2021 forecast down to approximately \$300K and have budgeted \$450K in FY2022 in the hope that this industry will begin to recover.

Hotel Room Occupancy Taxes--FY2021 Forecast: \$300,000 – FY2022 Budget: \$450,000

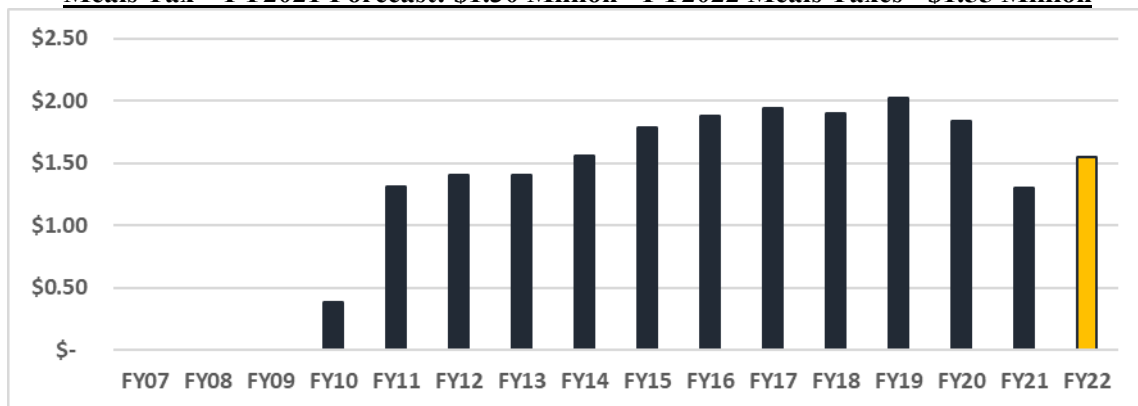


Meals Tax

The Commonwealth of Massachusetts imposes a sales tax on meals sold by or bought from restaurants or any restaurant part of a store. The tax is 6.25% of the sales price of the meal. Additionally, a local option meals tax of 0.75% may be applied. In October 2009, the City of Newton adopted the local option effective January 1, 2010. This decision had provided the City with a steady revenue stream of approximately \$1.9 million.

COVID-19 has also decimated the restaurant industry. Approximately 3,600 or 20% of all restaurants across the Commonwealth have permanently closed. Restaurants that were able to provide “outdoor seating” through the warmer months last year saw hibernations, temporary closures, and permanent closures as the winter months progressed. As we look forward to a reopening of the economy, and a “relaxation” of COVID-19 restrictions, we are optimistic that we will see a rebounding of this industry which is so vital to the success of our village centers and commercial corridors. The rate of the rebound is still uncertain so we have increased our FY2022 Meals Tax projections slightly compared to FY2021.

Meals Tax – FY2021 Forecast: \$1.30 Million - FY2022 Meals Taxes - \$1.55 Million

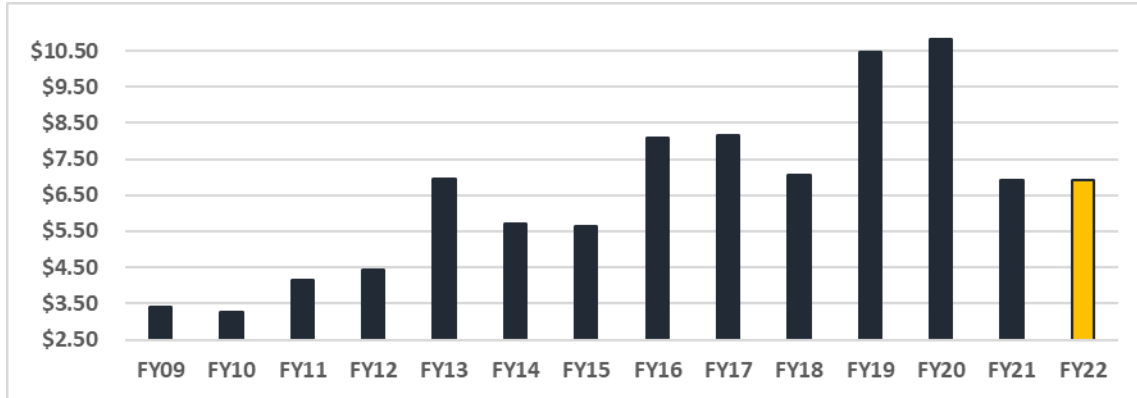


Revenue from Building Permits

Permitting and licensing activity is influenced heavily by the economy. Although the Northland project was approved by both the City Council in 2019 and Newton voters in 2020 and while there are some very large projects in the special permit process currently, the coronavirus pandemic has and will continue to impact new permits and licenses. Although FY2021 Building Permit Revenue is running

higher than budget, it is running significantly less than FY2019 and FY2020. Therefore, we have taken a conservative approach with this account.

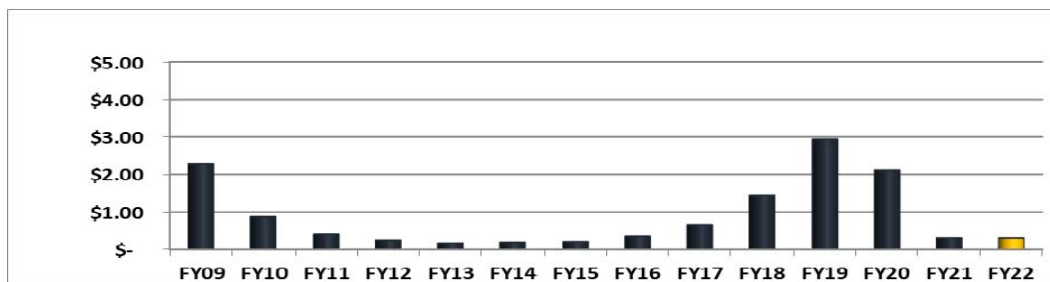
Projected FY2022 Revenue from Building Permitting - \$6.9M



Revenue from Interest Income

Interest income earned on the City’s financial cash reserves and investments has been as low as \$200,000 during the past decade when interest rates reached a record low of 0.25 percent in December 2008. In late April 2020, the Federal Reserve Bank decided in response to COVID-19 to lower the Federal Funds Rate to that historical low of 0.25 percent. The Fed also signaled that they expected rates to remain at these historic lows until 2023. With interest rates as low as they have ever been, we adjusted this revenue stream down significantly to \$300,000 for FY2021. In mid-March 2021, the Federal Reserve indicated that there are no interest rate hikes likely through 2023. Therefore, we have level funded FY2022 Interest Income.

Projected FY21 Revenue from Interest on Investments - \$300K

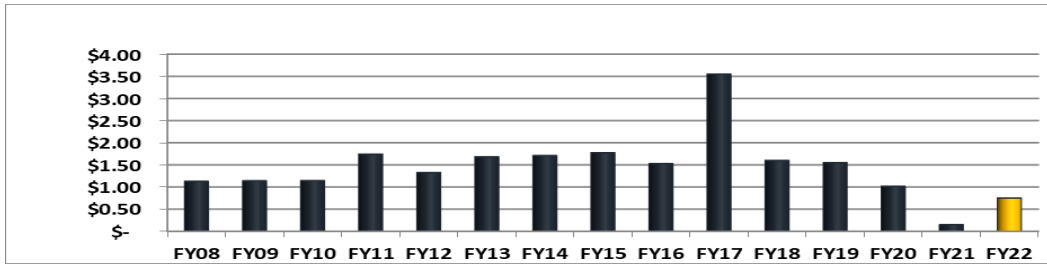


Revenue from Parking Meters & Parking Violations

Parking meters were first installed in the 1930s in an effort to instill some order to the chaos of street parking. Charging promotes turnover to regulate the use of a scarce and valuable resource – curb space in dense areas. Many municipalities charge increased fees at popular parking places to encourage employees and longer-term patrons to park a little further away.

Although the City has been installing new smart meters, we made a conscious effort not to “enforce” our parking policies during COVID. As we emerge from the pandemic, we hope that our village centers will once again thrive and we will once again enforce our parking restrictions.

Revenue from Parking Meter Receipts
FY2021 Current Forecast - \$150 K – FY2022 Budget - \$750 K (\$ Millions)



Enforcement of parking policies has a direct correlation with revenues from Parking Violations. Therefore, we have increased this revenue source accordingly.

Revenue from Parking Violations
FY2021 Current Forecast - \$150 K – FY2022 Budget - \$700 K (\$ Millions)



Revenue from Medical and Retail Marijuana Establishments

The City of Newton receives two streams of money from stores selling marijuana. The City approved as a local option a three percent tax collected by the State from adult recreational sales (non-medical marijuana) that comes to the City and goes into the general fund to support our operating budget. An additional three percent of revenues from both medical and recreational retail marijuana sales may, to repeat, may, come to us as a community impact fee if agreed to as part of a Host Community Agreement (HCA). These HCA funds must be used to address the public health, safety, education, administrative, infrastructure and other effects or impacts by the marijuana establishment on the City and our municipal and school programs, services, personnel and facilities.

As this is an emerging industry with significant uncertainty about the level of the funding stream, the Administration will be conservative in budgeting this new source of revenue. Knowing that the funds may be limited to only five years per establishment and that we may see a shake-out in the number of stores and fluctuations in the level of sales, we will lean to using the funds for one-time expenditures rather than ongoing operating expenses. While we will be inclined to fund new initiatives, the funds may also be used for current ones, especially if the City is facing economic pressures, as we are this year.

Since the development of the HCA and through April 15, 2021, the one existing medical marijuana establishment, Garden Remedies, has provided the City of Newton with more than \$825,000 in funds from its Host Community Agreement. Further information is provided in the HCA section of this budget document where all revenues and related expenditures are tracked in a transparent manner.

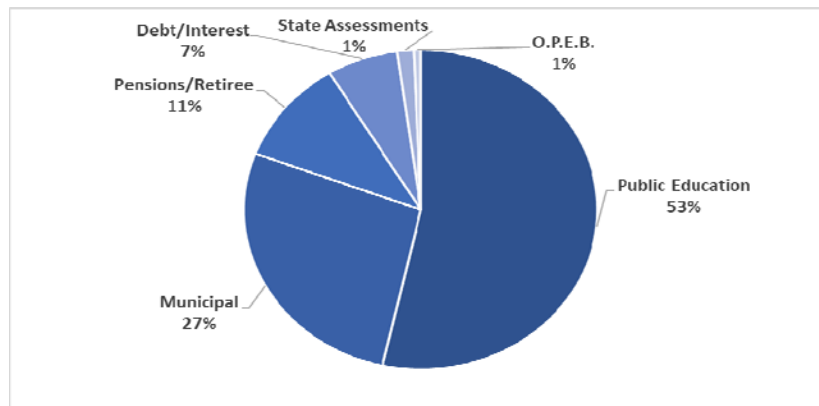
We are projecting an increase in marijuana revenues for FY2022 in part because we expect a number of additional stores to open this fiscal year.

Projected Expenditures – Fiscal Year 2022

To ensure that expenditures do not exceed revenues, the Administration projects revenues conservatively while simultaneously moving toward developing expenditure budget estimates sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year. Although the City has made significant progress in budgeting anticipated expenditures sufficiently, much remains to be done. Therefore, the FY2022 municipal budget includes a significant commitment again to funding increases in maintenance of buildings and infrastructure, as well as increased funding to bolster the City’s snow and ice control budget, rainy day reserves, and pension and retiree health care liabilities.

Along with the Newton Public Schools, the City must remain committed to our long-term financial health and not being disciplined in our expenditures. This includes three areas in particular: (1) settling collective bargaining agreements that maintain parity between growth in revenue and expenditures, (2) following the planned funding schedules for pension and retiree health care (a.k.a., OPEB) liabilities and (3) remaining vigilant in committing to and managing other municipal and school expenditures, both large and small. Fiscal Year 2022 expenditures will total \$462.7 million and are invested as follows:

Projected FY2022 Appropriations Budget - \$462.7 Million



Commitment to Our Students

During the current academic year, 2020 – 2021, the City of Newton provided much needed financial and administrative support to the Newton Public Schools. With the management help of the City’s Public Buildings Department and financial support from Federal and State funding that went to the City, the City provided a total of approximately \$10 million to NPS - \$4.7 million for heating, ventilation and air conditioning (HVAC) upgrades and \$5.3 million for PPE, testing, other safety/health initiatives, and to replace lost school revenues. This involved a very intensive, close collaboration between the City and NPS.

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 our community. Therefore, the Mayor again has made a significant commitment to NPS in the City’s Fiscal Year 2022 Operating Budget. This year in particular we are committed to helping our students after such a challenging year for learning during the pandemic.

The FY2022 budget is based upon a return to a full in-person learning model for all staff and students.

This coming academic year of 2021-2022, the Newton Public Schools is projected to serve close to 12,550 students in an integrated preschool, fifteen elementary schools, four middle schools, two high schools, and alternative high school programs. The FY2022 Superintendent’s Proposed Budget is \$253,207,930, and includes a \$10.06 million increase, 4.1% over the FY2021 budget of \$243,145,343. Salaries and benefits make up 87% of this proposed budget.

The COVID-19 global pandemic has been one of the most unprecedented and challenging events of all our lives. The impact of COVID-19 on so many fronts for NPS students, families, teachers and staff cannot be underestimated. Teachers and staff overnight had to transform face-to-face teaching and learning into virtual settings, an endeavor never before undertaken. This has led to educational, operational and financial challenges for NPS. Simultaneously, the City as a whole, and NPS as our largest department, grapples with declining revenues and additional expenses associated with COVID-19.

We will continue to closely monitor and assess our educational and financial situation in the coming year and will work with our NPS partners to address the highly complex challenges that we face.

While the rate of change has been incredible, what will remain constant is the City of Newton’s and the Newton Public Schools’ commitment to serve all students, and that is ensured with this budget. Whatever school looks like in Newton in the fall, we will continue our commitment to meeting the academic, social and emotional needs of our children and to supporting our teachers and educators who do this important work.

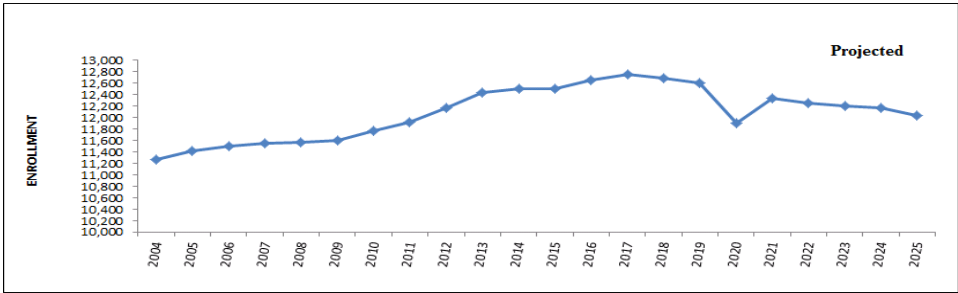
Student Enrollment Trends

The Newton Public Schools system-wide K-12 enrollment of 11,910 students in the 2020-21 year is a decrease of 701 students from the previous year. This is the third year of a decline in enrollment. Notably, this year’s precipitous drop was much larger than expected and predominantly attributable to the COVID-19 pandemic trends seen statewide in public schools.

The projected K-12 enrollment in 2021-22 of 12,338 students assumes many students returning, but not to pre-pandemic levels. We believe the impact on enrollment due to COVID is likely to have a lingering effect.

Several elementary schools are no longer experiencing enrollment pressure while some elementary schools continue to be enrolled at capacity. Newton’s secondary schools are expected to be enrolled at capacity for the next five years. Detailed enrollment information is found in the [Enrollment Analysis Report](#) and [Enrollment Planning and Class Size Report](#).

Public Schools – Historical and Projected Enrollment Trends



Long-Range School Facilities Planning

Prior to COVID-19, Newton's successful capital investments in school facilities had significantly improved the district's ability to create favorable class sizes, implement full-day kindergarten in 2019-20, reduce widespread school crowding, and improve space for districtwide programs for diverse learners. Detailed information about our [Building Projects and Long-Range Facilities Plan](#) can be found online.

Due to COVID-19, all major capital projects were placed on hold during the 2020-21 school year, with the exception of a three-classroom addition at Oak Hill Middle School. This addition is proceeding on schedule and will be available to students in September 2021.

Two important projects, the Newton Early Childhood Program (NECP) (currently at 150 Jackson Road but scheduled to move to the former Horace Mann Elementary School) and the new Lincoln-Eliot Elementary School at 150 Jackson Road, have been delayed during the pandemic. The former Horace Mann building at 687 Watertown Street was set to begin construction this past summer of 2020 to house the NECP. However, given the dramatic impact on City revenues and expenses brought about by COVID-19, we made the difficult decision to postpone the bidding and construction of this project before committing to the \$13 million in total NECP project costs. This in turn meant that we needed to also pause the Lincoln-Eliot project at 150 Jackson Road, which was in the design phase.

We are pleased to report that with the delivery of this municipal budget and supplemental capital improvement plan, we have made the decision to resume these two crucial school building projects.

Although our two current projects have been delayed as described above, we are pleased to report that on April 14, 2021, the Massachusetts School Building Authority (MSBA) Board of Directors voted to invite the Countryside Elementary School into the Eligibility Period of the MSBA's core grant program.

The MSBA process is broken into eight modules, the first of which is the Eligibility Period. Additional information about the MSBA Eligibility Period requirements can be found on their website at [MSBA Eligibility Period Prerequisites](#). An overview of the entire eight module MSBA process, from Eligibility Period to Project Closeout, can be found at [MSBA Module Overview](#).

While the invitation into the MSBA's Eligibility Period is a step forward for the Countryside project, the project is anticipated to take many years to complete and will require planning and study as well as decisions about funding sources before construction would begin.

Despite the fact that MSBA funding is unlikely, the Franklin Elementary School project is equally important to Countryside. The two schools had been co-ranked as top priorities for MSBA consideration in past submittals. A feasibility study will be started in FY2022-2023 to evaluate program, enrollment, space/facility options, and costs. Like the non-MSBA portion of the Countryside project costs, the source of funds for the Franklin project is not determined at this point.

Newton Public Schools completed in November 2020 a feasibility study at Horace Mann Elementary School to assess existing conditions and space use, and to help develop a long-range space plan for a possible future addition to complement the major renovations already made to the existing building. The report's conceptual plan calls for an addition off the rear of the current gymnasium. The City will undertake a more detailed feasibility analysis, including review of enrollment projections, beginning in

FY2022-FY2023. The funding source for detailed design and construction is not determined at this point.

The system's two oldest schools, Underwood and Ward, will reach their centennials this decade. Both schools have low enrollment, outdated and undersized facilities, are located on small NPS properties, with districts that are adjacent to each other. In early 2020 NPS began an in-house evaluation of the two schools, but that was put on hold due to the pandemic. While NPS may pick up this evaluation, the CIP includes feasibility study money in the FY2024-FY2025 time frame.

City Investments in Education

The NPS budget of \$253 million is supplemented by more than \$34 million funded by the City in the municipal operating budget but are education related costs. These municipal costs for education include school building debt service, pension and retiree health care for certain school employees, school health and school nurse services, school crossing guards, school property insurance, removal of solid waste and recyclables from schools, snow and ice control at school locations, as well as school building water and sewer charges.

Commitment to Municipal Services

Salaries and Compensation

This Administration is deeply grateful to the 950 municipal employees of the City who are working to support the vulnerable, recover and reopen, and build a better future. The costs of salaries, compensation, and health benefits for the City's current employees are 70% of the municipal operating expenditures (excluding retiree pensions, retiree health benefits, debt service, and state assessments) and are consequently the single most important cost element in the municipal budget.

When the Administration was tasked a year ago with making the very difficult decisions of reducing the current FY2021 department expenditure budgets, one of the places that we had to evaluate was personnel. Funding the appropriate number of employees to provide City services, keep Newton safe, improve streets, sidewalks, and mobility as well as public buildings and infrastructure, cultivate economic, artistic and cultural development, plan for Newton's future, make Newton more "all age" friendly, address climate change, and provide appropriate financial and administrative staff to support the operations of the City continues to be a critical priority.

Although the FY2021 budget contained no layoffs or furloughs of permanent, full-time employees, we eliminated many historically vacant positions (11) and made the difficult decision to put many other vacancies on hold for either a year (7) or six months (4). Thus, we began FY2021 with 19 fewer full-time equivalents in the budget, after moving forward with only the 4.5 most strategic and necessary hires.

The FY2022 Budget includes the restoration of most of the positions put on hold last year, required positions for the Finance/Payroll Reorganization, as well as strategic positions to maintain a continuity of operations and to provide social, emotional, and mental health support for our vulnerable residents, particularly as we begin to emerge from the crisis of the coronavirus pandemic.

- New Full-Time Positions
 - Human Resources – Deputy Director
 - Public Buildings Department – Building Custodian
 - Health & Human Services – School Nurse – Brown Middle School

- Positions with Increased Hours
 - Planning Department Part-Time Planner – additional .24 FTE
 - Inspectional Services Division – Seasonal Leaf Blower Compliance Inspector - added
 - H & HS Community Health Program Coordinator – additional .4 FTE

- New Full-Time Positions – Financial Services Department
 - Manager, Financial Planning & Analysis
 - Assistant Manager, Financial Planning & Analysis
 - Assistant Manager/Compliance, Payroll

Improving Payroll and Financial Services

While we have recognized for some time that the areas of Payroll and Financial Services needed additional staff, we focused our efforts and funding on other key areas in the delivery of services to the residents of this good City such as transferring all our financial services to MUNIS and launching a comprehensive new permitting and management information system. This year Mayor Fuller has made a commitment to address this area of significant need.

In March 2021, we engaged the services of CliftonLarsonAllen (CLA), the City’s outside Auditing Firm, to conduct an assessment of the financial areas of the City. The CLA consulting arm focused on:

- Payroll Related Processes,
- Financial Capabilities and Organizational Structure,
- Financial Reporting and Analysis Capabilities,
- Segregation of Duties in Payroll

Upon completion of this Assessment in early May 2021, CLA presented their findings and recommendations to the Mayor. These findings include the recommendation that the City establish a Financial Services Department consisting of a Payroll Division and a Financial Planning and Analysis (FP&A) Division, with both divisions reporting to a Director/Chief Financial Officer. CLA also recommends increasing the staffing levels so the City of Newton has sufficient capacity to do these important functions sustainably. As part of this budget process, Mayor Fuller has docketed a plan to disband our current Financial Information Services Department and to establish a Financial Services Department in its place.

The Payroll Division will be responsible for:

- (1) Manage the City’s computerized payroll system in accordance with Federal, State, and City regulations, policies and procedures.
- (2) Ensure the accurate and timely processing of weekly, semi-monthly, and other payrolls.
- (3) Ensure compliance with federal, state, and local payroll, wage, and hour laws.

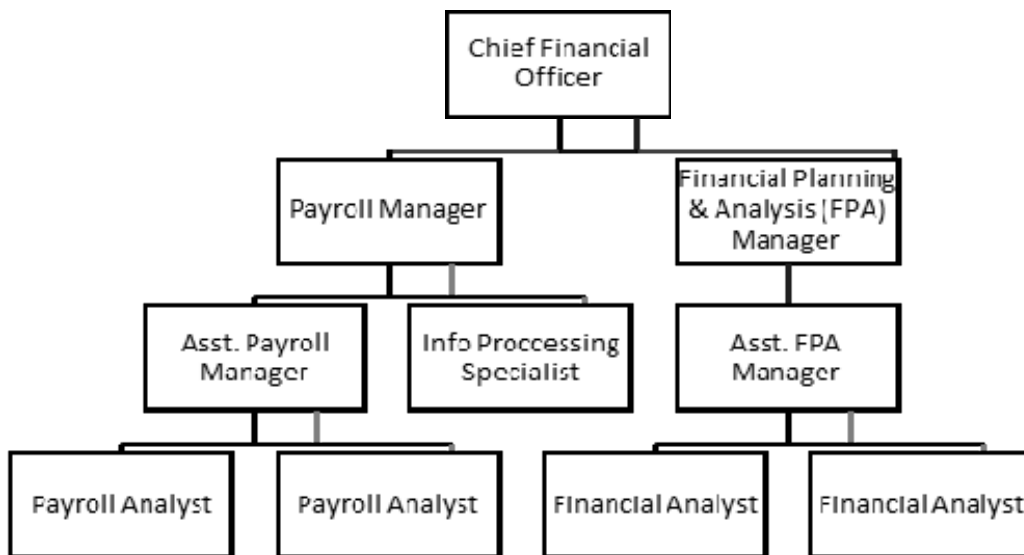
- (4) Process garnishments, child support payments, benefit adjustments, annual leave payments and all other payroll related adjustments in accordance with federal and state regulations.
- (5) Manage the payment and reporting of federal and state withholding taxes and the preparation of related reports. (W-2's and all related reports).
- (6) Provide assistance and advice to all departments, payroll representatives, and employees on payroll policies and procedures.

In order to accomplish this work, CLA recommends that the division be staffed with five employees consisting of a Payroll Manager, Assistant Manager, Senior Payroll Analyst, and two Payroll Analysts.

The Financial Planning and Analysis (FP&A) Division will be responsible for:

- (1) Manage the timely and accurate development and preparation of the annual long-range financial plan.
- (2) Manage the timely and accurate development and preparation of the annual operating budget.
- (3) Manage the timely and accurate development and preparation of the capital improvement plan and the supplemental capital improvement plan.
- (4) Analyze financial data to inform the strategic decision-making process.

In total, it is recommended the Financial Services Department be a nine-person department. We expect several key members of our staff will transfer to this new department, and we will utilize several key vacancies to hire new staff who will bring the knowledge and expertise that the City requires. It is our expectation that this organization will result in the creation of three new full-time equivalent positions during FY2022. The three positions in the current Financial Information Systems Department will be transferred here, one position (Financial Analyst) will be transferred from the Mayor's Office, and two positions (Capital Analyst and Payroll Analyst) will be transferred from DPW. The organizational chart is provided below:



Health Insurance Benefits

The City provides health insurance benefits for more than 8,600 people. This includes approximately 2,550 active employees and their dependents and more than 2,840 retirees and their spouses.

The City has been able to provide excellent health benefits at a reasonable cost by being self-insured. The costs of a self-insured program fall into three main areas: (1) the actual cost of claims, (2) the administrative fees charged by the health insurance carriers, and (3) an “Excess Policy” or “Stop Loss Policy” for catastrophic claims. Rather than paying “premium” rates, the City works with its two 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.

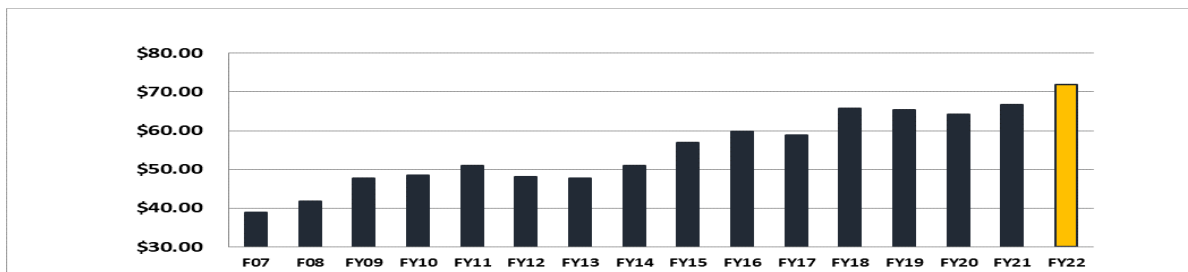
As a result of the COVID-19 pandemic and the virtual elimination of elective procedures for many months, we have seen less of an increase in our actual cost of claims in our current Fiscal Year 2021 than we might have otherwise expected. We are now projecting approximately \$68 million in total costs of claims rather than the \$70 million we were projecting a year ago. We have consulted our health insurance carriers and will work with them as they try to project the increase in elective procedures as physical distancing guidelines are relaxed, vaccinations increase and elective procedures are performed more regularly.

The FY2022 total cost of the City’s Health Insurance is projected to approximate \$72 million comprised of the following:

- City portion of Active Municipal Employees (including Utility employees) \$11.5M
- City portion of Municipal Retirees \$12.2M
- School Department portion of Active School Employees \$26.5M
- School Department portion of School Retirees \$ 7.5M
- Contributions from Active Employees and Retirees \$14.0M

As of March 31, 2021, the City’s Group Health Self-Insurance Fund has reserves of just over \$19 million which is the equivalent of slightly more than 14 weeks of paid claims. Although the City’s fund balance policy is 1.5 to 2 months of paid claims, because of the change in Stop Loss coverage and the uncertainties associated with COVID-19, this balance is in line with prudent financial controls in this period.

FY2022 Total Cost of Health Insurance Program ≈ \$72M



Retiree Benefits: Pensions and Healthcare

The City's long-term pension and retiree health insurance obligations currently exceed \$1 billion. Our employees earn two types of compensation — current and deferred. Salaries and other forms of current compensation (e.g., health insurance) are received by employees during their employment. Deferred compensation is received after the employee retires and only when vesting and age requirements have been met.

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

The City's commitment to funding long-term retiree obligations, – specifically pensions and OPEB – following sound financial policies and developing conservative budgets and forecasts will be key factors in the City's ability to maintain the Aaa rating it has earned from Moody's Investors Service. Commitment to fully funding the long-term retiree liabilities is also critical to maintaining the City of Newton's financial sustainability.

Pensions

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

Notably, the teachers of the Newton Public Schools are not a part of the City of Newton Retirement plan. Rather, they are part of the Massachusetts Teachers Retirement System and the City is not “responsible” for their pensions. However, other school employees (e.g., aides, custodians and secretaries) are part of the City's plan. In the City of Newton Contributory Retirement Plan, school employees make up 42% of the active employees and account for slightly more than 20% of the unfunded liability.

Prior to the 2008 downturn in the economy, the total funded actuarial accrued pension liability was approximately 67%. However, as a result of the dramatic drop in the value of the stock market experienced by the fund in the years of the “Great Recession” combined with the increased life expectancy of Americans, the total funded actuarial accrued liability fell to a low of 50.8% but has now finally begun to increase slightly and is approximately 56% as of January 1, 2021. Unfortunately, Newton continues to lag many of the surrounding communities in percent funded for this significant liability.

Maintaining our full funding schedule of 100% by FY2030 will remain one of the highest priorities for the Fuller Administration.

These funding gaps matter. Newton's employees, like all Massachusetts public employees, do not pay into, nor do they receive, Social Security in their retirement. Police officers, firefighters, and other Newton employees depend on their pensions for income in their retirement. The funding gaps also

matter because if a greater portion of Newton’s budget is needed to fund commitments to retirees that were made years ago, funds available for current services may be impacted.

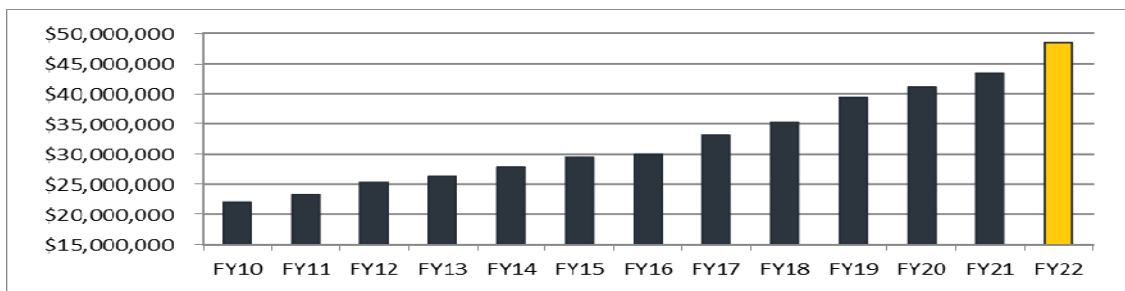
The challenge lies in proactively managing tax revenues, operating expenditures, capital investments and retiree benefit expenses while maintaining a Aaa credit rating. The magnitude of the pension and healthcare liabilities and the complexity of the issue as well as changes in accounting requirements require the City of Newton to focus on long-term financial sustainability by creating a financial strategy that extends through FY2030 and beyond.

Last year following the onset of the financial impact of the coronavirus pandemic, Mayor Fuller met with the Newton Contributory Retirement Board of Trustees and requested a one-time lower adjustment in the funding schedule (\$1.4 million or 4.8% less than required by the funding schedule).

On April 22, 2020, the members of the Newton Retirement Board approved the following motion unanimously: Vote to have the City’s Actuary prepare the 1/1/20 valuation report using a funding schedule that changes the FY2021 line item increase from 9.6% to 4.8% (all other assumptions remaining the same). This vote of the City of Newton Contributory Retirement Board of Trustees maintains anticipated full funding of the City’s unfunded pension liability by FY2030 while full funding of the City’s OPEB (Other Post-Employment Benefits) liability is anticipated by the year 2045.

The FY2022 Budget for pension funding reflects the Fuller Administration’s deep commitment to funding our pension liability. The FY2022 appropriation includes the usual 9.6% annual increase as well as an additional 4.8% for a total increase of 14.4% over last year, thus resuming the prior approved FY2022 funding amount.

FY22 Pension and Municipal Retiree Health Care - \$48.2M



Retiree Health Insurance or OPEB

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

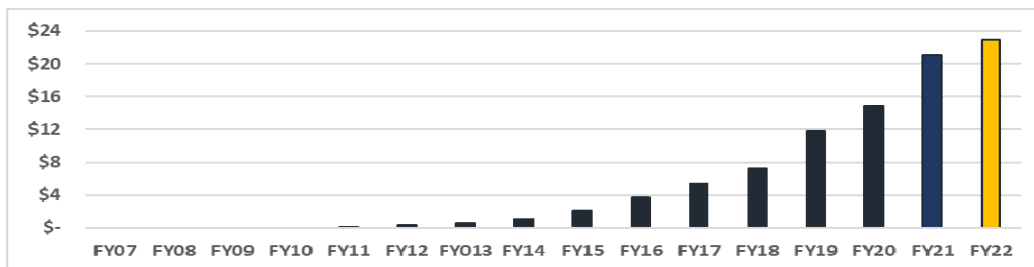
In 2004, the Government Accounting Standards Board (GASB) instituted a requirement that all city, county and state governmental entities “recognize” the cost of OPEB benefits, provide information about the actuarial liabilities, and report such liabilities on their financial statements.

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

The FY2014 Budget included the implementation of a funding schedule for the City’s OPEB liability for the first time by appropriating approximately \$200,000 or 2.5% of the salary for all newly insured employees beginning July 1, 2012, with the expectation that this percentage would increase gradually over time. Additionally, it was anticipated that as the City brought on more and more new employees, this funding method would cause the appropriation to grow exponentially. For the first time in several years, the Fuller Administration increased the percentage in the FY2019 Budget from 3.25% to 3.50% for newly insured employees beginning July 1, 2012 and increased the percentage further to 3.6% in the FY2020 budget. As a result of the financial impact of COVID-19, the Administration made the decision not to increase this percentage in FY2021. The Fuller Administration is now resuming its prior practice and has increased the percentage to 3.65% for FY2022. It is important to note that the City should be setting aside approximately 8% of the salary of all employees.

Due to the continued addition of employees covered using this financial strategy as well as the increased percentage, the March 31, 2021 value of the OPEB liability trust fund totaled \$20.4 million (an increase of \$7.2 million over the March 31, 2020 value).

Projected OPEB Trust Fund Value (June 30, 2021 - \$21m)



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. As Newton is setting aside a very small portion of its liability, the City’s policy is primarily pay-as-you-go for the next ten years.

As a result of a change in how OPEB obligations are now calculated under GASB 74/75, all Other Post-Employment Benefit Plans that operate on a “pay-as-you-go” policy must value their plan using a 20-year municipal bond index rate. The current “Go-bond” rate dropped from 3.5% for plan year ending June 30, 2019 to 2.21% for plan year ending June 30, 2020. This change in the discount rate resulted in a \$190 million increase to the City’s unfunded liability which now approximates \$870 million.

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

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

The Fuller Administration remains committed to the funding strategy of investing significantly in the pension system liabilities for the next nine years until full funding, still currently projected in the year 2030. Then the City of Newton will begin significant investments in the retiree health care or OPEB liability so all of the City's retiree costs will be fully funded by FY2045. Even with the COVID-19 financial repercussions, this strategy is still intact.

Investing in Capital Infrastructure

One of the top priorities for the Fuller Administration is to maintain and improve the City of Newton's infrastructure. The school buildings, police and fire stations, parks, libraries, roadways, and emergency and public works vehicles are some of the many assets that require regular replacement and maintenance to continue to meet the needs of this active city. In order to plan funding for these projects, the City of Newton has created a Capital Improvement Plan, updated semiannually, that provides a five-year outlook for capital investments.

The FY2022-FY2026 Capital Improvement Plan (CIP) is a mission and risk-based prioritized list of investments in the capital assets of the City of Newton. The CIP addresses infrastructure needs, reflects community values, supports city operations, programs and services, and exemplifies sustainable financial, accessibility and environmental best practices. The prioritization plan was developed by thoroughly evaluating the City's capital needs, the vision and goals of each department along with the services they will provide over the coming years, and Mayor Fuller's overarching goals. This results in a plan put into a financial context by which to evaluate investments over the next five years.

As detailed in the Coronavirus Pandemic section of this document, the Administration is in the process of assessing the needs (both operating and capital) of the City and will determine how best to utilize ARPA funds to augment our prior plans. The Supplemental FY2022-FY2026 CIP provides updated funding plans for projects, schedules and funding.

Debt Service

Capital assets with a life expectancy of ten 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 full and fair cash value of the property in Newton). The City's current (October 2020) equalized valuation is just slightly more than \$32.2 billion, which means that the current statutory debt limit is just over \$1.6 billion. The City's current outstanding principal of bonded debt is significantly lower and approximates \$362 million or 23% of the City's debt capacity.

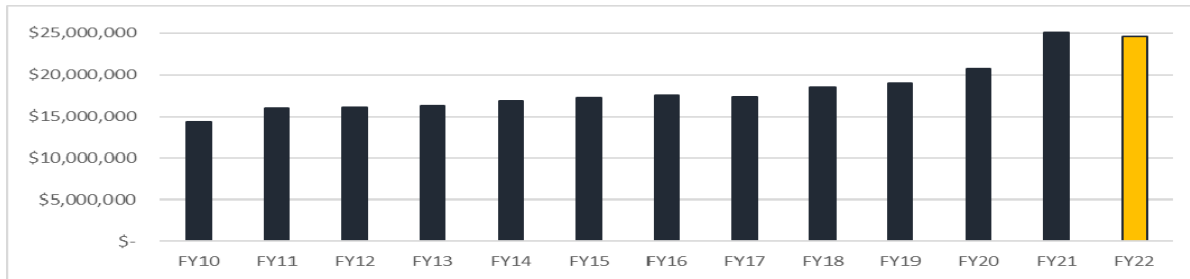
In conjunction with the state statutory debt limit, the City of Newton has developed its own financial policy of limiting debt service on long-term bonded debt to between 4.0% and 7.5% of the annual General Fund budget. General Fund Debt service, which includes both principal and interest, totals 5.3% of the Fiscal Year 2022 General Fund Budget.

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. Further, the City includes annual appropriations within the operating budget, the CIP, the Community Preservation Act as well as the use of Free Cash to accomplish additional infrastructure improvements.

The City also leverages funding from the State and Federal government to pay for capital improvements. Funding sources range from the Massachusetts School Building Authority and the State Chapter 90 infrastructure funds to the Massachusetts Transportation Improvement Program 3 (TIP) and federal Community Development Block Grant (CDBG) funds. Private developers also provide mitigation funds that help pay for such improvements as street, sidewalk and traffic signal improvements, undergrounding of utilities, and water and sewer upgrades. The Fuller Administration will continue to utilize these different funding strategies, as well as ARPA funds as allowed, to further improve the City’s infrastructure.

As a result of COVID-19, the Administration was careful and conservative, and consequently did not sell any bonds during Fiscal Year 2021; therefore, the FY2022 budget for debt service will be slightly less than FY2021.

General Fund Projected FY2022 Debt Service - \$24.6M



FY2022 Budget Initiatives

The FY 2022 Budget is designed, first, to help support the vulnerable. This includes our younger and older residents, and people who are more vulnerable due to their financial circumstances or the impact of systemic racism. We are making meaningful investments in the Newton Public Schools as well as:

- Supporting residents of all ages who are shouldering the weight of isolation, anxiety and depression by bolstering Health and Human Services and Senior Services by almost a half million dollars in additional funding. This allows us to provide additional support for mental health counseling and intervention, mental health court sessions, substance use initiatives, suicide prevention, early diagnosis and support for youth, an additional school nurse, and support for our older residents, including connections to food resources, and restarting in-person programs and continuing the virtual ones.
- Taking meaningful actions to build a more equitable and inclusive community with \$250,000 in funding for a Diversity, Equity and Inclusion initiative.

SUPPORT THE VULNERABLE				
Account Description	FY20 Budget	FY21 Budget	FY22 Budget	INCR OVER FY21
MAYOR'S OFFICE - DIVERSITY, EQUITY, INCLUSION INITIATIVE	\$ -	\$ -	\$ 250,000	\$ 250,000
HEALTH & HUMAN SERVICES - GRANTS	\$ 20,000	\$ 20,000	\$ 50,000	\$ 30,000
H & HS - INCREASED HOURS COMM HEALTH PROG COORD	\$ -	\$ -	\$ 25,000	\$ 25,000
H & HS MENTAL HEALTH SERVICES - COUNSELING	\$ 262,800	\$ 262,800	\$ 382,800	\$ 120,000
H&HS - SUBSTANCE USE AND MENTAL HEALTH	\$ 45,000	\$ 55,000	\$ 200,000	\$ 145,000
H & HS - ADDITIONAL SCHOOL NURSE	\$ -	\$ -	\$ 75,000	\$ 75,000
SENIOR SERVICES - INCR HOURS - RECEPTIONIST	\$ -	\$ -	\$ 25,000	\$ 25,000
SENIOR SERVICES-CONSULTANTS	\$ -	\$ -	\$ 50,000	\$ 50,000
SENIOR SERVICES - PROGRAMMING	\$ 10,000	\$ 10,000	\$ 35,000	\$ 25,000
TOTAL	\$ 337,800	\$ 347,800	\$ 1,092,800	\$ 745,000

This Budget is designed, secondly, to recover and reopen. We will move forward again by restoring funding and returning City of Newton services and activities which were curtailed by the pandemic and pay for added expenses that are a direct result of the pandemic as well as the significant increase in our contract for our trash and recycling.

Funding for many line items across departments shrank last year. This Budget restores that funding. A few of the notable areas where we are now able to restore funding include police cruisers, our Beautification program, the Memorial Day Parade for 2022, and monies for pensions, budget reserves and snow and ice removal.

We also address new needs that are a result of COVID-19 such as expanding digital resources in the Library and adding a custodian to help with our additional cleaning needs.

RECOVER, REOPEN AND RESTORE APPROPRIATIONS				
Account Description	FY20 Budget	FY21 Budget	FY22 Budget	INCR OVER FY21
CURRENT YEAR BUDGET RESERVE	\$ 500,000	\$ 400,000	\$ 500,000	\$ 100,000
POLICE - CRUISERS	\$ 350,000	\$ -	\$ 350,000	\$ 350,000
VETERAN SERVICES-MEMORIAL DAY PARADE, MAY 2022	\$ 15,000	\$ -	\$ 15,000	\$ 15,000
MAIN LIBRARY - DIGITAL COLLECTIONS	\$ 660,000	\$ 645,000	\$ 700,000	\$ 55,000
TOTAL	\$ 1,525,000	\$ 1,045,000	\$ 1,565,000	\$ 520,000

This Budget is designed, thirdly, to make critical investments in Newton’s future and build a better Newton, rather than simply return to the old normal. We will spur economic development and invest in a Newton that is more livable, more vibrant, more green, more inclusive, and more sustainable. We increase funding in key areas beyond where we were last year and higher than where we were in Fiscal Year 2020 before the pandemic.

The FY2022 Budget provides for substantial increases to improve our playgrounds, athletic fields and parks, and tree canopy. We significantly increase funding for paving roads and calming traffic. We provide funding to implement our Climate Action Plan and, for the first time ever, we fund for the full year an Energy Coach to help guide us all in using less and greening the rest. We support our land use and planning efforts with more resources; the goal is to provide more analysis and to engage more residents in the zoning and development decisions so together we create the Newton we want. In our Inspectional Services Department, we add funding for a seasonal inspector who will proactively enforce the new leaf blower and landscaper registration program. We fund more repairs and better maintenance of our City buildings. We address new needs that have emerged during the pandemic, for example, by expanding digital resources in the Library. We support our employees and our ability to do financial planning and analysis with additional personnel in Human Resources and a reorganized Financial Services Department.

BUILD A BETTER FUTURE				
Account Description	FY20 Budget	FY21 Budget	FY22 Budget	INCR OVER FY21
MAYOR'S OFFICE - CLIMATE ACTION PLAN IMPLEMENTATION	\$ -	\$ -	\$ 40,000	\$ 40,000
PLANNING - CONSULTANTS - LAND USE AND ZONING	\$ 50,000	\$ 70,000	\$ 225,000	\$ 155,000
PUBLIC BUILDINGS - GENERAL REPAIRS & MAINTENANCE	\$ 350,000	\$ 350,000	\$ 400,000	\$ 50,000
PUBLIC BUILDINGS - "UNDER \$75K" PROJECTS	\$ 200,000	\$ 150,000	\$ 250,000	\$ 100,000
ISD - SEASONAL LEAF BLOWER COMPLIANCE INSPECTOR	\$ -	\$ -	\$ 25,000	\$ 25,000
DPW - PAVING	\$ 700,000	\$ 700,000	\$ 1,200,000	\$ 500,000
DPW TRANSPORTATION - PAVEMENT MARKINGS	\$ 275,000	\$ 225,000	\$ 300,000	\$ 75,000
DPW TRANSPORTATION - TRAFFIC CALMING	\$ 175,000	\$ 175,000	\$ 350,000	\$ 175,000
DPW CONSTRUCTION VEHICLES	\$ 350,000	\$ 200,000	\$ 420,000	\$ 220,000
PARKS,REC,CULTURE - PUBLIC GROUNDS MAINTENANCE	\$ 575,000	\$ 575,000	\$ 700,000	\$ 125,000
PARKS,REC,CULTURE - ATHLETIC FIELDS	\$ 75,000	\$ 75,000	\$ 250,000	\$ 175,000
PARKS,REC,CULTURE - PLAYGROUNDS	\$ 150,000	\$ -	\$ 225,000	\$ 225,000
PARKS,REC,CULTURE - FORESTRY TREES/TREE SVCS	\$ 570,000	\$ 500,000	\$ 700,000	\$ 200,000
PARKS,REC,CULTURE - FORESTRY OVERTIME	\$ 135,000	\$ 100,000	\$ 150,000	\$ 50,000
PARKS,REC,CULTURE - FORESTRY SEASONAL WAGES	\$ 20,000	\$ -	\$ 20,000	\$ 20,000
SUBTOTAL	\$ 3,625,000	\$ 3,120,000	\$ 5,255,000	\$ 2,135,000
SPECIAL APPROPRIATIONS				
POLICE TRAINING INITIATIVES	\$ -	\$ -	\$ 300,000	\$ 300,000
IT - POLICE COMPUTERS & TECHNOLOGY FOR OTHER DEPTS	\$ -	\$ -	\$ 172,400	\$ 172,400
SPECIAL APPROPRIATIONS	\$ -	\$ -	\$ 472,400	\$ 472,400
TOTAL	\$ 3,625,000	\$ 3,120,000	\$ 5,727,400	\$ 2,607,400

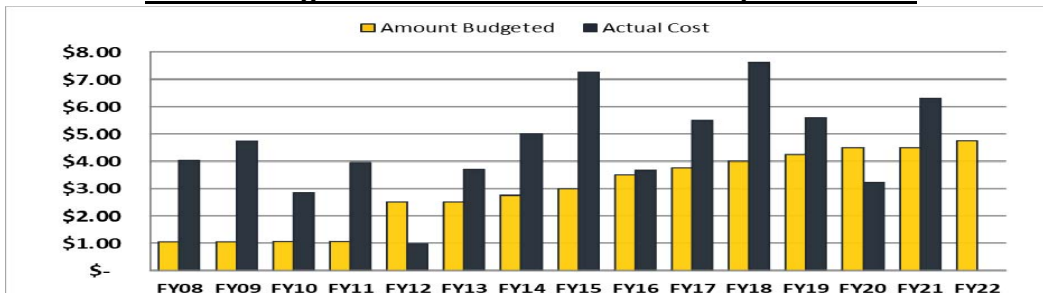
Removal of Snow and Ice

The policy of the Fuller Administration has been to increase the annual amount appropriated for the removal of snow and ice and to address the cost of other significant storm damage until the appropriation equals the average cost of the previous seven years. This target average is \$5.2 million.

Although, the intent had been to increase the FY2021 appropriation by \$250,000, as a result of the necessary COVID-19 expenditure adjustments, and for the first time in the past ten years, we level funded this expenditure in the amount of \$4.5 million (\$3 million in the DPW Budget and \$1.5 million in the Comptroller's Reserve for Snow & Ice Removal).

Notably, this year, we have allocated a \$250,000 increase in the Public Works budget for Snow and Ice Removal, thus bringing our total FY2022 budget for this expenditure to \$4.75 million. In the next few years, we will reach our target for this appropriation in the operating budget, assuming the cost of removal stays stable.

FY2022 Budgeted Reserves for Costs of Snow/Ice Removal



Solid Waste and Recyclables

The Sustainable Materials Management Division manages trash, recycling, yard waste, and household hazardous waste generated by residents through curbside collection and drop-off collection at the Newton Resource Recovery Center. Trash and recycling services for municipal buildings are also in this division's purview.

In FY2020, the residential trash and recycling generated grew by 3% and 0.7%, respectively, over FY2019 as a result of more time spent at home due to the pandemic. Through March FY2021, there has been an increase in trash and recycling generation of 6.7% and 5.4%, respectively, compared to pre-pandemic FY2019. Compared to FY2019, yard waste generated in FY2020 increased by 16.6% and through April FY2021 has increased by 78.7%. The Sustainable Materials Management Division is anticipating a continued increase of trash, recycling, and yard waste generation in FY2022 compared to prior years due to lifestyle and economic shifts for residents resulting from the pandemic.

The processing cost of recyclables increased from \$60/ton in FY2019 to \$89/ton in FY2020 as a new contract took effect. This significant increase is a result of global shifts in supply and demand for recyclable commodities. Prior to 2018, China had been purchasing 40% of the world's recycling. In 2018, the China National Sword policy placed import restrictions on recyclables that effectively banned imports of scrap plastics and paper. An increased demand for higher quality recyclables has also increase operational costs in collection and sorting of single stream recycling. As other overseas buyers were sought and domestic markets have opened up, pricing has leveled out, but the commodity value of the recovered materials is still recovering. The \$89/ton cost is a cap on the price and will adjust as recyclable commodity values increase.

As a result of increased tonnage and these significant worldwide events, the Solid Waste/Recyclable collection and disposal budget has increased by more than \$1.1 million.

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

Newton's Public Works Department through its Utilities Division supplies all water distribution and provides all sewer operations to more than 32,000 households, institutions, and business, and maintains stormwater drainage systems throughout more than 300 miles of roadways. While Newton purchases its water from the Massachusetts Water Resources Authority (MWRA) and sends its sewage to the MWRA treatment facility at Deer Island, the City owns all the pipes, drains, and infrastructure in the city required to supply these critical 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 these Enterprise Funds, 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.

Notably, this FY2022 Budget calls for Water, Sewer and Stormwater rates not to increase. As our reserves in these Enterprise Funds are strong and the financial needs of so many are high, we can strategically continue to move all projects forward this fiscal year without increasing the rates that we charge for these three invaluable systems.

Water Enterprise Fund

The City of Newton has been identifying, evaluating and improving Newton's water main distribution system for many years. In 2016, the Newton Fire Department was rated a Class 1 agency, the highest possible ranking from the Insurance Service Organization (ISO), in part because of improvements made to water flow and water pressure through the fire hydrants. (The ISO grades on a point system, with fire department operations accounting for 50 percent of the rating, fire flow or available water supply 40 percent of the grade, and dispatch operations constituting 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 1870s, 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. This required the 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 pipes installed circa World War II. FY2022 will be the sixth year of this twenty-year water main repair, replacement, 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. It shows graphically, by pipe type, how much replacement is required annually. The results of the analysis indicate that the City should be renewing approximately 4 to 5 miles of water main pipe per year.

In addition, a risk-based ranking system was developed for integrating and managing the water system pipe assets. The ranking takes into account the consequence of failure of the pipe and the probability of its failure. Consequence of failure reflects 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 (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, cleaning and cement lining.

Improvements to the City's major water storage facility, the Waban Hill Covered Reservoir in Chestnut Hill built in 1891, will be done during the FY 2021-FY2022 period. A Large Meter Replacement program is also scheduled over the next five years to change out 125 larger water meters to assure accuracy and reduce maintenance costs.

More detailed information on the City's water system infrastructure plan can be found in the City's FY2022-FY2026 Capital Improvement Plan.

Sewer Enterprise Fund

Prior to the development of the City's comprehensive strategic plan for the improvement of the sewer infrastructure, 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 seeps into the sewer pipes through cracks and other imperfections). Inflow and infiltration had been costing the City in excess of \$5 million per year. Furthermore, back-ups in the sewer lines due to insufficient capacity combined with the additional groundwater/stormwater resulted in sewer surcharges/overflows from some manholes in the streets and parks.

The City developed a 10-year program to address systematically the approximately 300 miles of sewer mains and related manhole structures. The program began 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. Sewer work in each project area is generally completed over a two-year period. As a result of the financial benefits of recent lower MWRA sewer assessment increases for Newton than most other MWRA communities, the funding and schedule for this program had been accelerated.

The City's program is now in Year 8 with all eleven project areas expected to be completed in 2026. At that time, the City will reassess the asset priorities, maintenance needs, and set further targets for I&I reduction, perhaps focusing on service laterals to homes.

The Utilities Division has recently completed a study of all 11 sewer pump stations that are critical for system reliability. The study identified a series of needed improvements that will be funded and completed over the next five years.

More detailed information on the City's sewer system infrastructure plan can be found in the City's FY2022-FY2026 Capital Improvement Plan.

Stormwater Enterprise Fund

Like many communities, Newton's storm water system is old and we face challenges related to storm water quantity and quality, system maintenance and upgrades, and localized flooding. In 2006, the City became one of the first communities in Newton England to institute a Storm Water Fee to fund necessary improvements.

While the City has completed localized drainage repairs, the Department of Public Works Utilities Division has developed a comprehensive plan to identify and address storm water needs throughout the City and the associated funding to accomplish this work. This includes addressing the National Pollutant Discharge Elimination System (NPDES) MS4 Permit, which is mandated for all communities by the EPA, which took effect on July 1, 2018 and has increased requirements for maintaining and improving storm water quality. Finding a way to mitigate the impact of stormwater runoff is paramount to the long-term sustainability of local waters including the Charles River. In FY2022 the City will undertake the dredging of City Hall ponds, design work on the Bulloughs Pond dam repair, complete the Illicit Discharge and Detection Elimination Investigations in the Laundry Brook Drainage Basin, and complete the second phosphorous inactivation treatment in Crystal Lake.

Sustainable Budget Strategy

To summarize, a well-managed, fiscally-sound City of Newton is essential to provide exceptional teaching and learning to almost 12,340 students, deliver top-notch city services to our residents and people who work here, help our residents and businesses rebound, and make important updates to our infrastructure. Similarly, we must ensure our tax dollars are being used in an effective and accountable manner. Perhaps most importantly, we must make smart and sustainable financial decisions to create the funding for thoughtful investments in Newton's future and to weather difficult economic cycles or unanticipated crises like a pandemic. 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.

In order for the City's budget and finances to remain sustainable, we must remain steadfast in our determination to balance the annual operating budget while addressing infrastructure needs, provide services our residents need and want, fully fund all liabilities from debt service to pensions to retiree health care, and develop and maintain an appropriate level of reserves for economic downturns, dramatic weather events and other unpredictable events.

The COVID-19 pandemic has certainly been a dramatic, unpredictable event. The first reported death in the United States occurred on February 29, 2020. Last year when we delivered the FY2021 budget to the Honorable City Council on May 11, 2020, we reported that more than 67,500 Americans had perished with COVID-19. This year as we deliver the FY2022 budget on May 12, 2021 that number has escalated to more than 575,000 American lives. Our world has changed dramatically in the past year. Physical distancing, isolation, quarantine, unemployment, and uncertainty have all become a way of life in these unprecedented times.

The role that our municipal government has served during this health pandemic and will continue to serve as we begin to emerge from this health, financial, social, emotional, and educational crisis is critical. We have worked diligently to propose a FY2022 City of Newton Budget that is responsive to the needs of our community and reflects the financial challenges that the City faces and funding opportunities we have.

Although we are hopeful that we are on the verge of emerging from the circumstances of this past year, we have a tremendous amount of work to do as we recover, rebound, and rebuild. So many of us have missed so much during these 14 months – the milestones of birthdays, weddings and graduations and the pleasures of an afternoon at Fenway or a Sunday dinner with extended family. So many could not comfort loved ones in a hospital or come together collectively to mourn at a funeral. Many have suffered from anxiety over how to keep safe and stay healthy, frustration about getting a vaccine for ourselves or a loved one, loneliness as we physically distance from friends and colleagues, distress as our children learn remotely, and worry as jobs disappear, unpaid bills mount, and keeping food on the table or a roof over our head becomes difficult.

We will carefully evaluate the many needs within our community and the guidelines for investing the ARPA funds. We will be judicious in our deliberations, transparent on our decision making and ensure that every investment that we make will be in the best interest of the people of this good City.