Finance Committee Report

City of Newton
In City Council

Monday, March 9, 2020

Present: Councilors Grossman (Chair), Malakie, Humphrey, Kalis, and Noel

Absent: Councilors Gentile, Ciccone and Norton

Also Present: Councilor Ryan

City staff present: Chief Financial Officer Maureen Lemieux, Comptroller Sue Dzikowski, Commissioner of Public Works Jim McGonagle, Assistant Superintendent Liam Hurley and Director of Planning & Sustainability for the School Department Stephanie Gilman

Referred to Programs & Services, Public Facilities, and Finance Committees

#167-20 Authorization to submit an SOI to the MSBA for Countryside School

SUPERINTENDENT OF SCHOOLS requesting authorization to submit a Statement of Interest (SOI) to the Massachusetts School Building Authority (MSBA) for consideration of funding for a ~~renovation/addition~~ replacement, renovation or addition of Countryside Elementary School, designated as the highest priority for a major project before Franklin Elementary School designated as the second highest priority.

Programs & Services Approved as Amended 6-0

Public Facilities Approved as Amended 5-0

Action: Finance Approved as Amended 5-0

Note: Assistant Superintendent of Newton Public Schools Liam Hurley and Director of Planning and Sustainability Stephanie Gilman presented the request to submit a Statement of Interest (SOI) to the Massachusetts School Building Authority (MSBA) for the Countryside Elementary School as highest priority and Franklin Elementary School as second highest priority. Mr. Hurley explained that the SOI is only the first step of the process and this does not commit the City to anything. Additionally, Mr. Hurley explained that the application is due by April 8, 2020 but the outcome will not be known until December 2020. The time it takes for a new school to be built is approximately 5 to 6 years out from project funding. Mr. Hurley explained that he will not know the full scope of the project, including design, until the feasibility phase is complete for both projects. Additionally, he explained that the goal is to replace the Countryside building because the existing building is in a wetland buffer zone.

The committee asked the following questions.

Q: Does the School Department have any idea if these projects will be chosen by the MSBA this year?

A: Mr. Hurley explained that the City is still in the project close out phase for Cabot, which makes it less likely for Newton to be chosen by the MSBA for another project. Other communities that have 100 year old buildings are also applying for these projects, which also plays a factor in the decision making process.

Ms. Lemieux explained that the MSBA process was revamped as a result of Newton North. When the program was revamped Newton was able to mobilize very quickly and successfully receive MSBA funding for Angier and Cabot. Other communities were not ready to apply for this program at the time, which is why Newton was able to get two projects accepted at that time. Since then, communities have had plenty of time to figure out how the process works so there is now more competition. But it is still important to apply every year.

Q: Is submitting two projects hurting the chances of being accepted for any funding?

A: Mr. Hurley explained that a municipality can apply for as many projects as they would like but there needs to be a priority established.

Q: What has the City learned from past submissions that will be implemented this time to give Newton a better chance?

A: Mr. Hurley explained that the key factors the MSBA looks at are the condition of the building and enrollment. At this time the enrollment at the elementary schools is going down but now that Northland has passed that will be factored into the enrollment. Additionally, Mr. Hurley explained that the reason for not being accepted in the past is not because of mistakes that were made but based on the factors they look at and the needs of other communities.

Q: If the Countryside building does get replaced, will it be replaced on the current site outside of the wetland buffer zone? Additionally, could the current site be used for playing fields?

A: Ms. Gilman explained there is about 3 ½ acres that are not within the buffer zone that the building could be replaced on. Mr. Hurley added that both of these questions would be determined through the feasibility stage of the project. Additionally, Mr. Hurley explained that he believes that it would be more difficult to renovate the existing building than to replace it because of the wetland buffer zone. But part of the MSBA process is to do an analysis of the existing building. Mr. Hurley added that with any of the upcoming school projects the department is looking to make them as sustainable as possible.

The docket item was amended to allow for the replacement, renovation or addition at Countryside as shown below.

"<u>SUPERINTENDENT OF SCHOOLS</u> requesting authorization to submit a Statement of Interest (SOI) to the Massachusetts School Building Authority (MSBA) for consideration of funding for a ~~renovation/addition~~ replacement, renovation or addition of Countryside Elementary School, designated as the highest priority for a major project before Franklin Elementary School designated as the second highest priority."

This was to provide the School Department with the ability to replace the existing building, if renovating the existing building is not a possibility.

Councilor Noel motioned to approve the item as amended, which passed unanimously.

Referred to Public Facilities and Finance Committees

#166-20 **Requesting ordinance amendments for enforcement of sidewalk obstruction**
HER HONOR THE MAYOR requesting an amendment to Chapter 17, Section 23; Chapter 25, Section 3 and Chapter 26, Section 14 of the Revised City of Newton Ordinances to add defining language, provide enforcement and establish fines for violations of the sidewalk obstruction ordinance.
Public Facilities Approved 5-0
Action: **Finance Approved 5-0**

Note: Commissioner of Public Works, Jim McGonagle, presented the request for an amendment to Chapter 17, Section 23; Chapter 25, Section 3 and Chapter 26, Section 14 of the Revised City of Newton Ordinances to add defining language, provide enforcement and establish fines for violations of the sidewalk obstruction ordinance. Commissioner McGonagle explained that the department receives about 200 complaints a year, usually this is bushes blocking passage for a portion or all the sidewalk. Approximately 10% to 20% of the offenders are non-compliant which causes ADA issues and there was an intersection where sight lines were severely impacted. The proposed changes will allow the Public Works Department to send out a written warning and after 30 days there will be $50 per day fine.

The Committee asked the following questions.

Q: Has there been any consideration for someone who does not have the means to fix the violation?

A: Commissioner McGonagle explained the it's not the majority of the cases that are non-compliant. The Senior Center does have a program that can help seniors that are in violation. The goal is not to fine people but to have the obstructions taken care of.

Q: How does the sidewalk ordinance differ from the snow ordinance?

A: Commissioner McGonagle explained that snow is something that impacts everyone immediately, bushes that grow into the sidewalk do so over a longer period of time. Also, the obstruction at play in this ordinance emanates from private property impeding the public way (for example, a bush on private property that is growing into the sidewalk and makes it impassable), which is different than when snow falls on the sidewalk. The sidewalk ordinance is complaint driven.

Q: Is there a way to shorten the 30 days that the resident is given to comply with the ordinance?

A: Commissioner McGonagle explained that the City needs to give the resident time to deal with the violation. Additionally, there needs to be time for the department to send the letters out to residents.

Q: Could the department use door hangers, like the ones that are used for the snow violations?

A: Commissioner McGonagle explained that this is a possibility to give residents a warning and then send the usual letter.

Q: Does the ordinance include cars that overhang on to the sidewalk?

A: Commissioner McGonagle explained this ordinance will cover any sidewalk obstruction and that this issue comes up on construction sites. Additionally, he explained that the police currently can be notified when a vehicle overhangs onto the sidewalk and will ticket the owner of the car.

Q: Who will be enforcing the ordinance?

A: Commissioner McGonagle explained that enforcement will fall under the purview of the Public Works Department. Additionally, if this becomes too burdensome for the department the Commissioner would come back to the Committee for another solution.

The Committee made the following comments.

It would be good to hear from the Commissioner, in a year, to see how the enforcement is going and if there is any way to make the 30 day time period shorter.

Councilor Kalis motioned to approve, which passed unanimously.

#164-20 **Approval of an Intermunicipal Agreement for brine making equipment**
HER HONOR THE MAYOR requesting the approval of an Intermunicipal Agreement for brine making equipment with the Town of Brookline, which is allowed under the provisions of Section 4A of Chapter 40 of the Massachusetts General Laws.

Action: **Finance Approved 5-0**

Note: Commissioner of Public Works Jim McGonagle presented the request for the City to enter an Intermunicipal Agreement for brine making equipment with the Town of Brookline. Commissioner McGonagle explained that Newton owns its own brine maker. Brine is another way to reduce the amount of salt on the streets and allows the City to go out and pretreat the streets 24 to 48 hours before an event. Additionally, brine uses less salt, the brine stays where it is put and does not end up in the gutter. The City has been using brine for two years now. The Town of Brookline was considering buying their own brine maker. The Commissioner approached them about sharing the cost to operate Newton's brine maker. The brine maker makes about 2,000 to 3,000 gallons an hour and the department only use about 8,000 gallons to pretreat the entire city. If this agreement works, then the Town of Brookline would also split the cost of replacement. The overall agreement is good for both municipalities. Additionally, Commissioner McGonagle explained that the agreement was drafted by Newton's Law Department and has gone back and forth between the two municipalities' law departments. The agreement allows the City to backout with 30 days' notice.

<u>The Committee asked the following questions.</u>

Q: In the case of an extreme snow emergency, will there be enough brine for both municipalities?

A: Commissioner McGonagle explained that this is not a concern. Brookline has the same amount of tankage that Newton does, with half of the roads to cover.

Q: Is the brine making equipment stationary?

A: Commissioner McGonagle explained the City bought a trailer-mounted unit so that it would be mobile because of the two yards that Newton has to travel between. When Brookline needs the equipment, they will come pick it up and bring it back to Brookline.

Q: Does brine settle and what is the shelf life?

A: Commissioner McGonagle explained that brine does not settle because it is a 23.3% saltwater solution. At that percentage the salt stays suspended. Additionally, Commissioner McGonagle explained that the shelf life is indefinite, if it does not evaporate.

Q: Could the City sell the excess brine to other municipalities?

A: Commissioner McGonagle explained that this is a possibility but between the two communities, in an average winter, this would be difficult.

Councilor Kalis motioned to approve, which passed unanimously.

#102-20 **Request for a discussion on the vacancy of the LGBTQ+ Liaison**
<u>PROGRAMS AND SERVICES COMMITTEE</u> requesting a discussion on whether the Administration intends to fill the recently vacated position of LGBTQ+ liaison and whether a replacement would be compensated or uncompensated.

Action: **<u>Finance Held 5-0</u>**

Note: Councilor Holly Ryan presented the request for a discussion on whether the Administration intends to fill the recently vacated LGBTQ+ liaison position. Councilor Ryan explained that she held the position, for two years, before running for a seat on the City Council. Additionally, Councilor Ryan explained her duties in this role including her relationship with residents, business owners and future residents of Newton. Also, she would work with the police, fire, schools, Parks & Rec and houses of worship to find ways to be more welcoming to the LGBTQ+ community. Councilor Ryan was also doing trainings, especially with Parks & Rec about Crystal Lake and Gath pool when the public accommodation ordinance was passed in Newton and the state-wide legislation regarding the use of bathrooms. Councilor Ryan explained that she is still fielding questions from Newton residents and other communities have an LGBTQ+ liaison as a paid full-time position. Councilor Ryan does not believe this needs to be a full time position in Newton at this time but should be paid.

The Committee asked the following questions.

Q: Was the position funded when Councilor Ryan held it?

A: Councilor Ryan explained she did this on a volunteer basis and was not paid. The hours varied week by week and she also performed tasks outside of the liaison position.

Q: Is this position funded for next year?

A: Maureen Lemieux, Chief Operating Officer, explained that this position is not funded for next year. Additionally, she added that the Commissioner of Health and Human Services, Deborah Youngblood, works with several different Health and Human Services organizations regarding this matter. In the Mayor's Office, Dana Hanson's role is Community Engagement and Inclusion and since Councilor Ryan left the office, they have done a lot of work on inclusion. For future discussions Deborah Youngblood, Dana Hanson and possibly a representative from the Human Rights Commission should be included.

Q: If this is not a full-time position, could the position be shared with a surrounding community?

A: Councilor Ryan explained that most surrounding communities already have this position established. In some other communities, this position is put together with another position. For example, the job could be as the Mayor's Aide and the LGBTQ+ liaison.

Q: Could the position be held by an ally?

A: Councilor Ryan felt that this position should be held by someone in the LGBTQ+ community, in part because that person would be speaking for the LGBTQ+ community, and also because community members working with the liaison would feel more comfortable working with a member of the LGBTQ+ community, among other reasons.

Q: Currently who is taking on the role in the school department and is there a protocol for parents of children and children that want to transition?

A: There is a program that runs through Health and Human Services. Councilor Ryan explained that there is a protocol that has been in place for 10 years. This lays out what the principal, teachers, and school nurses' role is.

The Committee asked for a job description for the role and to see some examples of how other communities handle this position. The Committee would like to take this up again when Deborah Youngblood, Dana Hanson and possibly a representative from the Human Rights Commission can join the discussion.

Councilor Humphrey motioned to hold item #102-20, which passed unanimously.

Chairs Note: *The Chief Financial Officer and the Comptroller presented the committee with an overview on municipal bonds.*

Note: Chief Financial Officer Maureen Lemieux and Comptroller Sue Dzikowski presented the committee with an overview on municipal bonds. Ms. Dzikowski explained what municipal and general obligation bonds are and that overview along with the Long Term Debt Account Group Schedule of Bonded Debt is attached to this report.

Ms. Dzikowski gave an example of the most recent bond issued. The face value of the bond was approximately $39 million, which was for several projects.

Ms. Lemieux explained that to determine the City's borrowing, she begins with the long-range plan that is given to the City Council in October. There is a 10-year schedule which projects where the City's expected revenues will land. The levy limit has increased by the full 2 ½% allowed in the past 30 years. Property taxes make up approximately 83% of the City's revenue. Ms. Lemieux explained it is important that the City carries debt and that the City maintains its infrastructure. Even if the City has all the funds to pay for a certain project up-front, it still makes more sense to bond the, because the benefits of a new project will be enjoyed over a long period of time and not just by the current taxpayers. The long-range plan then informs the Capital Improvement Plan and the priorities for the City.

Additionally, Ms. Lemieux explained that the City can structure their debt differently than a private resident. The City can choose to pay the same amount of principal each year and then the interest is calculated on how much principal is still owed. The rating agencies say that debt should be 5% to 7% of the budget but Ms. Lemieux explained that she would prefer the debt to stay at around 5% of the total budget.

Ms. Lemieux calculates what the City should be selling and what the interest rates could be, which can change in the market. Additionally, Ms. Lemieux explained she has to make sure the projects to be bonded are approved by the full Council by November to be able to sell the bonds in January 2020 or early February 2020 because that is the best time for the City to be selling bonds. The Moody's opinion (attached to this report) is rated on four different categories, which are economy and tax base, finances, management and debt and pensions. Moody's sends questions to the City each year so that the City is prepared for a discussion on these topics. Ms. Lemieux explained at the end of this year's discussion that the City will still be in a good place regarding bond rating. The City was not bonding a large amount this year, which does play a part in the rating. From the bond rating, the City figures out how they will structure the bond. Ms. Lemieux explained that the bonds that were sold this fiscal year were determined by what the City will actually spend this year.

Ms. Lemieux explained that in the long-term she starts with a 4% interest rate as the model but when looking at the next year that number tends to decrease. This year was around the lowest interest rate the City has seen, which was approximately 2%. Since the City is a AAA community the City receives a premium from the bidder, which is cash up front. Ms. Lemieux explained before the Municipal Modernization Act of 2015 she was able to take the cash as a general fund revenue. Now the cash must be put to reduce what the City is selling in the bond sale or take the premium and use it towards other projects. That's when Ms. Lemieux would break up the premium and apply the premium to reduce the borrowing for certain projects. This year the City received approximately $4 million in premiums, which means the City only bonded approximately $34 million. There were 10 year bonded projects that were completely paid off because of the premium. The rest of the premium were put towards projects that was not originally planned to be sold this year.

The committee adjourned at 9:31 p.m.

Respectfully submitted,

Rebecca Walker Grossman, Chair

General **obligation bonds**, issued to raise immediate capital to cover expenses, are supported by the taxing power of the issuer.

Although buying municipal bonds is **low-risk**, they are not entirely without risk. If the issuer is unable to meet its financial obligations, it may fail to make scheduled interest payments or be unable to repay the principal upon maturity. To assist in the evaluation of an issuer's creditworthiness, ratings agencies (such as Moody's Investors Service and Standard & Poor's) analyze a bond issuer's ability to meet its debt obligations and issue ratings from 'Aaa' or 'AAA' for the most creditworthy issuers to 'Ca', 'C', 'D', 'DDD', 'DD', or 'D' for those in default.

When governments or governmental institutions need funding to finance certain projects that serve a civic purpose, they will issue municipal bonds (or **Munis**) as a way to supplement revenue for these public projects. The different types of institutions that issue these bonds are states, towns, cities, counties, school districts, hospitals, transportation authorities, universities and colleges, housing projects, road and highway authorities, water districts, and power districts.

Municipal bonds are debt securities issued by these organizations to bondholders. In other words, the bondholders are lending the issuing institutions a loan that is expected to be paid back at face value at a certain date. The date that the debt is supposed to be paid back is the **maturity date**. The face value, or **par value**, of the bond is the amount of the bond when it is issued.

To entice investors to buy a bond, and thus lend money to these institutions, issuers pay interest on the bond. An extra benefit of this interest is that it is **usually exempt from federal income taxes** and sometimes local and state taxes as well. This interest is usually paid every six months until the date of maturity, when the face value of the bond is paid back to the bondholder. The annual rate of interest paid on the bond is known as the **coupon**.

An investor is not always buying an initial issue of a bond at its face value, or par amount. Usually, the investor is looking in the bond market to buy a municipal bond that might not be sold at the amount it was issued. **The value of the bond that is bought or sold at a given period of time is the price of the bond.** Depending on the state of the economy and the bond market, the price of the bond could go for more or less than the actual amount of the bond. The **price of a bond** is expressed in cents on the dollar. For instance, if a $10,000 bond was selling for $9,500 then the price of bond would be 95.

The **yield**, or yield to maturity, is the rate of interest a bondholder will be paid **when taking into account the price paid for the bond as well as the length**

of time until date of maturity. When an investor is interested in purchasing municipal bonds, the **yield** is a more important indicator of potential returns than the coupon or interest rate.

A **bond premium** occurs when the price of the bond has increased in the secondary market due to a drop in market interest rates. **A bond sold at a premium to par has a market price that is above the face value amount.**

The total **bond premium** is equal to the market value of the bond less the face value. For instance, with a 10-year bond paying 6% interest that has a $1,000 face value and currently costs $1,080 in the market, the **bond premium** is the $80 difference between the two figures.

The **bond premium** is the present value of both the future interest payments and the maturity amount ***minus*** the bond's undiscounted maturity amount. In short, the bond market is very efficient. *If a bond's actual interest payments will be greater than the interest payments expected by the market, the bond will sell for more than the bond's maturity amount. If the bond's interest payments will be lower than the interest payments expected by the market, the bond will sell for less than the bond's maturity amount. The difference (premium or discount) is computed by discounting all of the future cash amounts.*

Paying a small premium is not unusual. Remember that the premium is directly related to the higher interest amounts you will be receiving. If the bond purchase will result in a large premium, you should investigate whether the bond is **callable** and its call price. The call price may limit the amount of premium that you are willing to pay.

MOODY'S INVESTORS SERVICE

CREDIT OPINION
7 February 2020

Rate this Research

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Newton (City of) MA

Update to credit analysis

Summary

Newton (Aaa stable) has a large and wealthy tax base that benefits from its proximity to Boston, MA (Aaa stable). The city has a diverse economy including institutional presence. The city's financial position will likely remain stable over the near term due to strong fiscal management although reserves will remain below regional and national peers for the highest rating category. The debt burden is average and the city is committed to addressing its unfunded pension and OPEB liabilities over the medium term.

Credit strengths

» Sizeable, wealthy and diverse tax base with favorable location and institutional presence

» Strong fiscal management including multi-year forecasting, adherence to formalized debt and reserve policies and plans to fully fund pension liability by 2030

» History of taxpayer support for general overrides and debt exclusions to the tax levy limit

Credit challenges

» Limited ability to raise property taxes under Proposition 2 ½

» Large long term liabilities for pensions and OPEB

Rating outlook

The stable outlook reflects our expectation of continued financial stability due to conservative five year budget forecasting and capital improvement plan as well as adherence to comprehensive financial reserve and debt policies. The outlook also incorporates the ongoing strength in the city's tax base and economy.

Factors that could lead to a downgrade

» A multi-year trend of operating deficits leading to a decline in available reserves

» Increased reliance on free cash appropriations to balance operating budgets

» Material increase in the debt burden

» Failure to reduce the unfunded pension liability over the medium term

Key indicators

Exhibit 1

Newton (City of) MA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$22,317,333	$22,317,333	$26,237,044	$26,237,044	$30,026,625
Population	87,675	88,317	88,479	88,994	88,904
Full Value Per Capita	$254,546	$252,696	$296,534	$294,818	$337,742
Median Family Income (% of US Median)	244.0%	251.4%	250.4%	250.4%	250.4%
Finances					
Operating Revenue ($000)	$347,913	$373,457	$426,285	$442,866	$461,493
Fund Balance ($000)	$35,518	$54,644	$63,493	$64,087	$68,590
Cash Balance ($000)	$69,077	$81,212	$88,975	$89,558	$93,947
Fund Balance as a % of Revenues	10.2%	14.6%	14.9%	14.5%	14.9%
Cash Balance as a % of Revenues	19.9%	21.7%	20.9%	20.2%	20.4%
Debt/Pensions					
Net Direct Debt ($000)	$216,517	$260,150	$284,825	$297,287	$290,505
3-Year Average of Moody's ANPL ($000)	$526,163	$527,267	$557,706	$574,780	$587,875
Net Direct Debt / Full Value (%)	1.0%	1.2%	1.1%	1.1%	1.0%
Net Direct Debt / Operating Revenues (x)	0.6x	0.7x	0.7x	0.7x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.4%	2.4%	2.1%	2.2%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.4x	1.3x	1.3x	1.3x

Source: Moody's Investors Service and issuer's audited financial statements

Profile

Newton is located seven miles west and borders the City of Boston (Aaa stable). The city has a population of about 89,000 and a tax base that is primarily residential but benefits from a diverse commercial presence.

Detailed credit considerations

Economy and Tax Base: City benefits from strong valuation growth, high wealth and diverse economy

Newton's tax base and economy will likely remain stable over the near term due to continued valuation growth, a strong economy and high resident wealth and incomes. The $30 billion tax base (2019-20 equalized value) is the third largest in the commonwealth. Certified equalized value increased 14.4% from 2017 to 2019, bringing the six year compound annual growth rate to 5.5%. From 2019 to 2020 assessed value increased 4.3% indicating continued steady growth over the near term. City management is committed to increasing the availability of affordable housing by mandating affordable units at many of the new residential developments in progress throughout the city.

Pending major development includes the Riverside transit oriented project located on the MBTA's green line that will include office, retail, hotel and housing. Newton benefits from its prime location neighboring Boston. The local economy is bolstered by favorable access to public transportation and major regional roadways, as well as institutional presence which includes Boston College (Aa3 stable). There is also a large healthcare presence, including Newton-Wellesley Hospital, a member of Partners HealthCare System (Aa3 stable). Resident wealth and incomes are strong, as indicated by the very strong $337,742 equalized value per capita and $177,386 median family income which is 189% and 251% of commonwealth and national medians, respectively. In addition, the city's unemployment rate of 1.7% (November 2019) is well below Massachusetts' rate of 2.3% and the 3.3% national rate.

Financial Operations and Reserves: Stability likely to continue given conservative management and history of taxpayer support

The city's financial position will remain stable over the near term due to conservative budgeting and strong fiscal management. Historically, the city has also benefited from added revenue flexibility provided by taxpayers support of general overrides and debt exclusions from the tax levy limits of Proposition 2½. The city's financial reserves, while stable, are notably smaller than those of other Aaa rated cities both in Massachusetts and nationally.

Fiscal 2019 audited finances reflect balanced operations with a solid $4.4 million operating surplus due to positive variance in revenues and expenditures. The operating results increased available fund balance to $68.6 million representing 14.9% of revenues.

The fiscal 2020 budget increased by $17.8 million representing 4.3% growth from the prior year driven by increases in salaries, benefits and pension contributions. The budget includes a tax levy increase to the limit and appropriation of only $1.5 million of free cash. Eight months through the fiscal year, revenues are trending positive and expenditures are on budget.

While the 2021 budget is still in progress, management is not anticipating any major changes from prior years. The budget will likely increase by another $17 million or so with the school department budget expanding by 3.5%. Going forward, we expect budget growth to be driven, in part, by the city's commitment to improve funding of its pensions by increasing contributions by 9.6% per year.

LIQUIDITY

Cash and investments at the end of fiscal 2019 totaled $93.9 million representing 20.4% of revenues.

Debt and pensions: Average debt burden and large but well planned for long term liabilities

The city's direct debt burden of 1.1% of equalized value and 0.7 times revenues will remain manageable due to the city's comprehensive capital plan, debt exclusions, and adherence to a debt management policy. The overall debt burden, which incorporates the considerable overlapping debt of the regional transportation, water and wastewater systems, is 2.5% of equalized value. The capital improvement plan (FY2021-25) totals $352 million which is an increase from $245 million last year.

DEBT STRUCTURE

The entire debt portfolio is fixed rate. Amortization is slower than average with 49% of principal to be retired over the next ten years. Fiscal 2019 debt service totaled $24 million representing 5.2% of revenues.

DEBT-RELATED DERIVATIVES

The city is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The city's unfunded pension and retiree health care (OPEB) liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The city participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis with additional deposits to an OPEB trust. The table below summarizes the city's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

Unfunded Pension and OPEB liabilities exceed debt

	Amount ($ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	461,493		
Reported Unfunded Pension Liability	334,801	72.55%	7.25%
Moody's Adjusted Net Pension Liability	581,399	125.98%	4.22%
Reported Net OPEB Liability	638,827	138.43%	3.87%
Moody's Adjusted Net OPEB Liability	609,022	131.97%	4.14%
Pension Contribution	28,336	6.14%	-
Pension Tread Water Gap [1]	(8)	0.00%	-
OPEB Contribution	22,211	4.81%	-
Net Direct Debt	311,692	67.54%	-
Debt Service	24,082	5.22%	-
Total Fixed Costs	74,630	16.17%	-

[1] A negative pension tread water gap reflects pension contribution in excess of the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A positive tread water gap reflects the opposite.

Source: Moody's Investors Service and issuer's audited financial statements

The city's 2019 pension contributions slightly exceeded tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the city participates experience returns on assets that fall short of their assumptions, the city's required pension contribution will increase.

The city maintains an OPEB trust with assets of $11.8 million and the city's unfunded OPEB liability is larger than its pension burden. Management's goal is to fully fund its pension obligations by no later than 2030, and then work to decrease the OPEB liability over time.

Fiscal 2019 fixed costs, comprised of pensions, OPEB, and debt service, represented a manageable 16.2% of operating revenues. Return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

ESG Considerations

Environmental considerations

Warmer temperatures, increased precipitation, and rising sea levels are affecting Newton and its surrounding communities and have contributed to the need for improvements to the city's stormwater drainage system which are ongoing and included in the city's long-term capital plan. In response to climate change, city management has developed a comprehensive climate action plan that puts the city on a path to being carbon neutral by 2050. Actions to reduce the city's greenhouse gas emissions include promoting clean, renewable electricity production and consumption, advancing green building construction, and rehabilitating existing buildings.

Social considerations

Social considerations are not a currently material to the city's credit profile. The city does face an absence of affordable housing which management is addressing by requiring affordable units in new developments.

Management and governance

The city's strong fiscal management and governance are reflected in its conservative budgeting and proactive, long-term financial planning including a five year budget forecasting and capital planning guided by formalized debt and reserve polices. In fiscal 2017, the city adopted a debt management policy that limits annual debt service in the General Fund to between 4% and 7.5% of the budget.

Massachusetts cities have an Institutional Framework score of "Aa", which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Newton (City of) MA

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$30,026,625	Aaa
Full Value Per Capita	$337,742	Aaa
Median Family Income (% of US Median)	250.4%	Aaa
Notching Factors:[2]		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	14.9%	A
5-Year Dollar Change in Fund Balance as % of Revenues	7.5%	A
Cash Balance as a % of Revenues	20.4%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	6.9%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Notching Factors:[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.1%	Aa
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.0%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.3x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication
Source: US Census Bureau, Moody's Investors Service

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