CITY OF NEWTON

IN BOARD OF ALDERMEN

COMMITTEE OF THE WHOLE MEETING REPORT

WEDNESDAY, JANUARY 11, 2006

Present were Ald. Baker (President), Weisbuch, Lennon, Albright, Linsky, Johnson, Burg, Hess-Mahan, Salvucci, Sangiolo, Gentile, Harney, Coletti, Samuelson, Danberg, Parker, Mansfield, Schnipper, Vance, Fischman, Lipof and Lappin

Briefing provided by Sandy Pooler on the development of the budget, capital expenditures and financing of Newton North High School.

The Design Review Committee is the formal body that has the legal authority to advise on design for public building projects. The Board of Aldermen does not get involved until there is a request for site plan review under section 5-58 of our ordinances. The Aldermen also do not formally get involved unless there is a request for funding and there has been a request for funding for the architects to move through the schematic design phase.

The Board of Aldermen's formal role is a very limited one in that the Board waits for the Mayor to propose and then it responds. There will be an attempt to find a role for the Board of Aldermen to be involved and to communicate with the Executive Department some of its preferences and concerns. This process is a new process and it will allow an early opportunity for the Board of Aldermen to be active participants and to advise the Executive Office and the School Committee about some of the issues that are of concern to the Board.

Sandy Pooler provided two presentations. The first gives a high-level overview of the budget. A review of what has been done so far.

Overview of the General Budget

The budget process has been a little slower this year then it has been in the past. The reasons include the fact that the city is switching over to a new budget system, moving from Pentamation to Finance Plus. Finance Plus is not fully operational yet.

The first step in the budget process is to give the Departments their budget targets and we are about a week away from that. None of the dollar figures have gone out yet, so we cannot talk about how cuts will affect departments at this time.

The City will have about $6.7 million worth of revenue in the coming year based on revenue figures from December. The Governor will soon submit his budget and at that point, we will have revised local aid numbers. Mr. Pooler would not speculate as to what those numbers will be, but was confident that there would be some new numbers. Mr. Pooler will provide a new forecast when that happens.

Alderman Yates asked why are free cash funds going down?

Mr. Pooler responded that we are trying to reduce our reliance on free cash.

The anticipated increase in revenues for next year is about 2.72% over FY2006.

The other area were these numbers might change is that there is federal aid coming from rebates on the Medicare program because of the new drug benefit. These new numbers will be worked into the forecast when the Executive Office has them. Mr. Pooler believes the picture will be brighter but does not have all the figures for health costs.

There have been large increases in Energy costs this year and that will be reflected in FY2007 as well. $400,000 of our new growth revenue has been set aside to put towards energy costs. This year the City will need that and more. Funds will be redistributed within departments and some of our free cash may be needed to meet the energy needs. The City has experienced increases in energy costs in all of the major categories. Most of the increase is because of the post Katrina phenomenon. The natural gas market has gone completely out of control. The good news is that prices have peaked and in the last three weeks, it has come down substantially. All of the numbers presented are probably worst-case scenarios.

Health and benefits right now are a big question mark. There are some preliminary numbers in from Tufts Healthcare and we are still waiting for the numbers from Harvard, which should be in by the end of the month. Healthcare has been one of the biggest budget busters lately. A positive sign is that the Tufts numbers have come in better than they have in the past few years. This is a result of the increases in co-pays over the last few years as well as through employee education including wellness programs. The Canadian Drug program has also helped to save money.

Wages by contract include an increase on the city side of 1% starting in FY07. That will account for about $465,000.

What is not built in at this point, because of the issues with the software, is what the School Department refers to as turnover savings. This is the effect of having people retire and then hiring a person at a lower level. The wage impact will change somewhat with the addition of this information.

Debt will be going up $200,000 in accordance with our long-term funding plan to keep it at 3% of our overall budget. The target is to spend 6.7 million dollars on debt, which we have committed to in the past as well as the difference between what we actually owe and the 3% target we have been putting into the debt reserve. This will be built up so that we can pay for the high schools and other capital projects around the city.

Pensions will be going up $322,000. This is a fairly good increase and reflects that the stock market is doing well and that the retirement board has done well.

Overlay will go up about $100,000 reflecting the fact that we keep the same percentage of our revenue - 1.4%.

Miscellaneous items will go up by $250,000.

These numbers reflect just the City Departments. Built in costs will top out at $3.4 million.

Based on the numbers that we have now, there will be about $2 million deficit on the city side. Worse case we have a $1.4 million gap to close at this point.

The Mayor has not made a formal allocation to the School Department yet, but it is expected to happen soon. The School Committee will then do its job with the allocation and their process. They will come out with a report that will include their forecasts. They have not come out with a preliminary budget yet and it will be about another month before they do that.

Q: The School Committee has announced that they have an $880,000 deficit because of energy issues. How are we going to prepare for the fact that only half way through the year they have identified this amount and we still have another half year to go?

A: Mr. Pooler has been in contact with Sandy Guryan from the School Department to discuss this matter. Amounts set aside from new growth will help to address the issue, but there will be other things that will have to be done in terms of operations both on the school and city side. Funds will need to be reallocated both at the schools and city departments. At some point, some supplemental funds will have to be found in order to close the gaps. Mr. Pooler has been talking with departments to find ways to save energy. Things will have to be done on four our five different fronts to make sure that we can close the gap. The municipal energy deficit will be in the same range as the schools.

Q: How much of a deficit will the School Department be facing in the coming fiscal year?

A: The School Department must provide that answer.

Q: Do we have any contracts outstanding and are they represented in this number? On the school side, are they going back into negotiations again?

A: All the contracts that are settled expire on June 30, so we will be going into contract negotiations with our unions starting this spring. For FY07 that number will not go up based on those contracts. We have made certain assumptions about what those contracts will cost and that is already reflected in our departmental budgets.

Q: Was the assumption made that everything that is in the budget this year just moves forward? That there will be no program cuts and no new initiatives?

A: Yes.

Financing the Newton North Project

The focus was on the range of costs given by the estimator, how can the city meet those costs and what is the impact of that on our operating budget and our capital spending, and how does the whole thing work together.

The key thing to keep in mind is that the City starts out with a debt reserve. The City has received some reimbursements for our middle school building programs earlier than was expected. Those funds were put into a debt reserve so that a piggy bank could be built. This amounted to a couple of million dollars a year. The idea was that in 2001 we were spending about 3% of overall revenue on debt – about $6 million. If you spend 3% on debt then you had 97% to spend on schools and city. A plan was built to insulate that 97% from the increased costs of debt once we started borrowing and selling permanent debt for North and South. A key to the plan was that once old debt was paid you could shift any balance to debt reserve for future years. You draw down this piggy bank when you sell the permanent debt. What is different in this plan is that if $250,000 of new growth revenue is added on top of the other money that is already committed, we can then fund the increased costs that the estimators have given us.

The old program plus $250,000 of new growth gets laddered up every year. The assumptions built into this plan are that when we sell bonds we bond for 20 years, we are going to by 5% interest on those bonds. It also assumes that the school building assistance program is going to reimburse us somewhere between nothing in terms of the additional costs over $104 million and 50% of those additional costs. The other assumption in this plan is that we will get a 50% reimbursement for any future school building plans that we have going down the road. The new regulations state that the reimbursement rate will be 50% for a city like Newton.

In 2006, the city has about $9.5 million in the debt reserve. Each year the City has done a great job of putting money into the debt reserve and building up that piggy bank. The key thing with the debt reserve is that at some point as all of the final debt for North and South is sold, we are going to be spending more than 3% of our revenue each year on debt, so we are going to have to draw down the piggy bank. Even though we will be spending more than 3%, the effect on the operating budget is 3% is coming out of the operating budget and the rest is coming out of the debt reserve so we protect

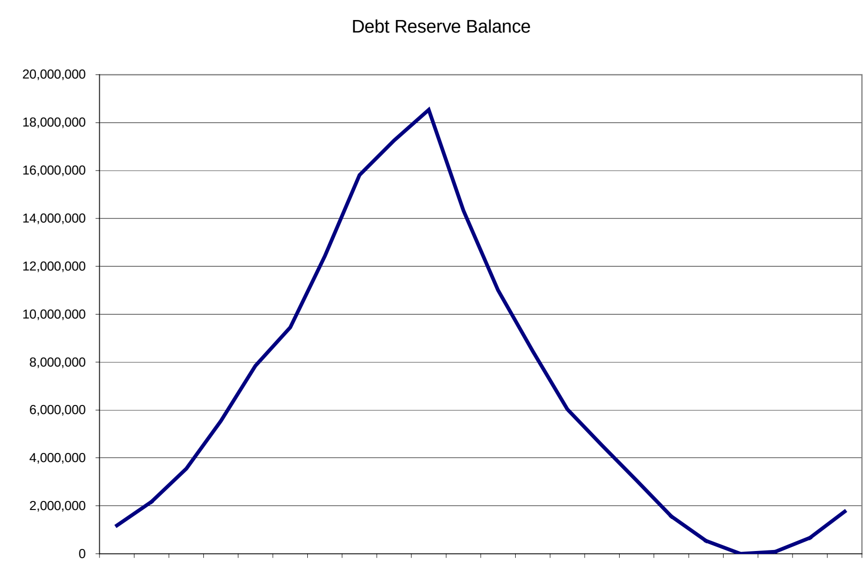


Chart provided by Mr. Pooler

all the other city departments and School Departments from the increase in debt costs.

We have already started to sell some of our permanent debt because the school building program has changed its reimbursement program. The program has already given us $26 million for Newton South and so we have retired that same amount for South. The amount that we will have to sell down the road is much less than we originally anticipated and we are selling another $10 million of that debt in February.

Mr. Pooler noted that he is committed to try and get rid of that debt as quickly as possible and to do it in a way that keeps the whole plan solvent and the key to solvency is that you never go below zero in how much money is in the debt reserve. If you go below zero that means you have to take money away from the general fund operating budget over and above the 3% in any one year. The whole reason for this plan is not to do that - there should be no effect on the operating budget.

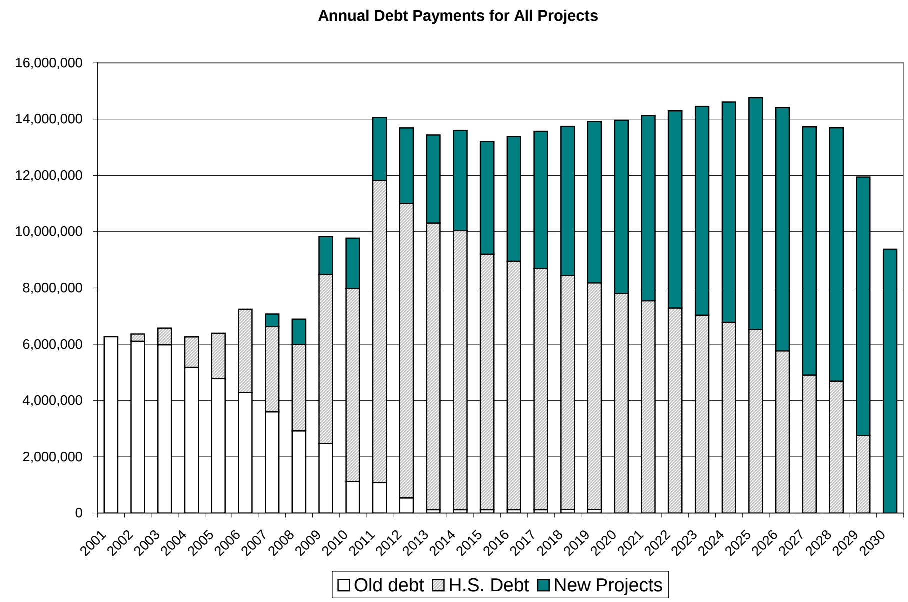


Chart provided by Mr. Pooler

Starting in 2001, we had annual debt costs of just over $6 million per year. By 2010, we will have almost no debt left from previous projects. In the meantime, the debt costs for the new high school project begin to ramp up and get pretty big and then over time they decrease. The structure of the debt we sell is that in the first year the debt is high and then every year it goes down a bit until you pay it off. The dark bars represent new debt. In this case $4.5 million of new debt each year for other new projects around the city. We wanted to build in enough capacity to borrow for other things including DPW equipment, fixing the

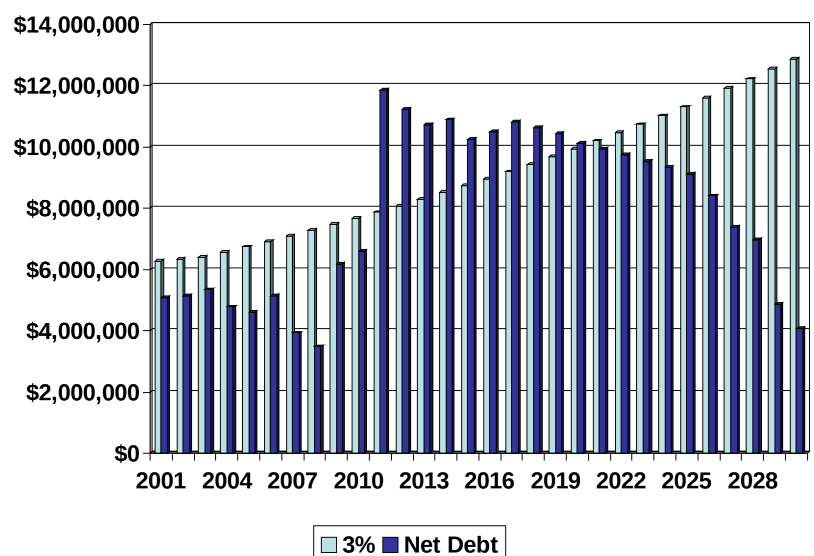


Chart provided by Mr. Pooler

firehouses, etc. Half will go to the School Department for their capital needs. Over time, the total amount that we will be paying for debt across the city is $14 million dollars but it will be switching over time from the high school to other things and then by 2030 we will be spending $8 - $9 million on debt. All of which will not impact the operating budget.

Do all these figures rely on getting additional state reimbursement? Yes.

Our net debt costs during the early years of the project show that we can put money into the debt reserve and in the later years we are paying out of it.

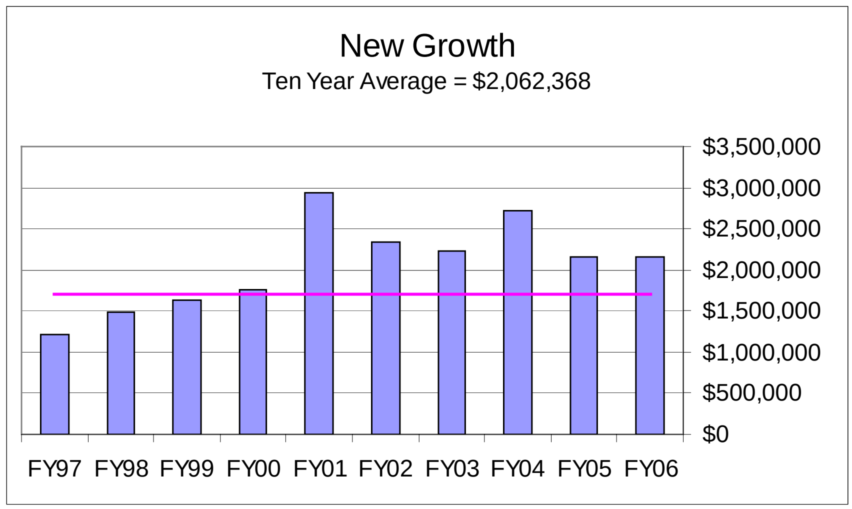


Chart provided by Mr. Pooler

New growth revenue comes from yearly building that goes on in the city, such as a new commercial building or a new house, or someone renovating an existing structure. We can capture that over and above the 2.5% that we can grow each year. As long as there is new building, there will be some new growth. We have consistently used the figure of $1.7 million of new growth over the last few years. If that figure should go over $1.7 million, it will affect the free cash numbers and some of that money can be directed toward capital spending.

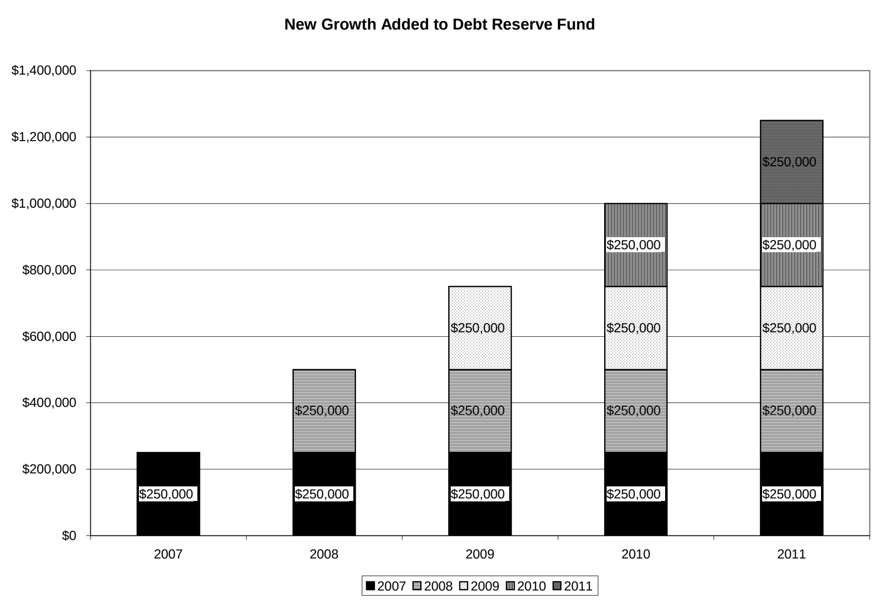


Chart provided by Mr. Pooler

In FY07, we will take $250,000 of that new growth and divert into capital. We will continue to do this each year and it will grow to $6 million for capital by 2030, while still placing $1.7 million each year into the operating budget.

Alderman Coletti asked if it was optimistic to thing that you will have level growth over the next 30 years?

Sandy Pooler responded that there are cycles that can affect new growth but we have had fairly consistent new growth. Occasionally we have big projects come in and from time to time we can capture that money. Over time $250,000 each year is not a lot of money each year out of new growth and over time we should be able to sustain that.

He also reminded the Aldermen that the city will not have to borrow the full amount up front. We can get up to 75% reimbursement as the project goes along.

Alderman Colletti as why not rededicate some of the hotel and motel tax for capital projects not for the operating budget?

Sandy Pooler responded that we have come to rely on this revenue for the operating budget. If we could increase it, we could use this new money for capital. It would be a great idea to dedicate a new revenue stream to something like capital.

Aldermen Johnson asked how we can take a funding proposal that worked in 2003 for $86 million and have it work for $160 million?

Mr. Pooler responded that the major things that have changed include the length of bonds, which do make a difference. In the current model, the length of time for the bonds is 20 years, compared with 16 years in the previous plan. If we can sell less than 20-year bonds, I will do that, but I think it is important to build a plan that you can count on going forward. The other major difference is the addition of this new growth money. By 2030, we will be at 4.5%, which is still less than 5%, which is what most other communities are doing.

Alderman Lappin asked how much new growth is there?

Mr. Pooler responded that looking back at the history will be helpful and we will get that information to you. The City of Newton real estate market has been more resilient than other Boston area cities and towns. We will have to all become comfortable with a number.

Alderman Lappin then stated that fuel costs have had to grab some of this money this year. What about the future?

Mr. Pooler responded that we should see some relief on energy prices post Katrina.

Aldermen Lappin then asked how can we borrow $35 million with this plan when we could not have done more than $3 million last year?

Mr. Pooler responded that when you place a larger stream of money into the debt reserve over time you get to leverage more money up front. By adding the new growth, it gives us more of a cushion to leverage that money and borrow more money.

Alderman Hess-Mahan stated that the bond rates are low right now and they vary over time. What assumptions are you making about the rate in your model?

Mr. Pooler stated that he was assuming a 5% rate on our bonds. We have consistently sold below 5%. As a long-term estimate, it is a reasonable estimate over that period of time.

Alderman Hess-Mahan asked how does an extra $250,000 translate into $24 million?

Sandy Pooler would like to set up another session to provide the detail for each year. Sandy believes this to be a valid, serious plan.

Alderman Hess-Mahan asked that assuming we sign a contract in 3 years for $140 million, when does it get paid off?

Mr. Pooler responded that the assumption is that it will be paid off in FY2030.

Alderman Parker asked that if you add $250,000 each year over the course of the plan by the last year of the plan you are moving $50 million a year from property tax revenues to debt payment. Is that correct?

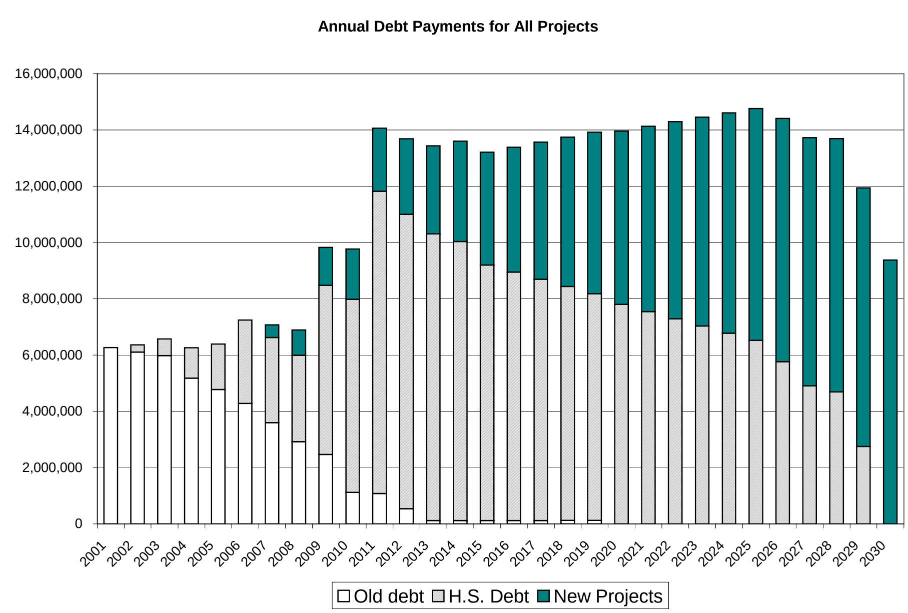
Mr. Pooler responded that he has not run the series out, but it sounds right.

Mr. Parker asked if Mr. Pooler could do a set of charts with the plan B assumptions so that they can be compared?

Mr. Pooler responded that all of the charts are built with Plan A assumptions and that he can build a set of charts with plan B assumptions for comparisons.

Alderman Danberg asked what happens in the crossover years?

Mr. Pooler responded that in FY01, we had $6.2 million of actual debt that year. We were getting $1.18 million in reimbursement from SBA for those middle school projects. The net debt we had to pay that year was $5 million. Because we had decided to carry the $6 million, we put the $1.18 million into the piggybank. And the piggy bank is growing. We are sitting on $9.5 million that will carry us forward.



Alderman Danberg asked when does debt payment on Newton South kick in?

Mr. Pooler responded that the first time we incurred debt cost was FY2002. We paid the interest on the Bond Anticipation Notes for the design for North and South. By 2006 we were paying interest and principle cost on bonds issued for South.

Alderman Danberg asked if option A includes the borrowing of $23 million?

Mr. Pooler stated that it did.

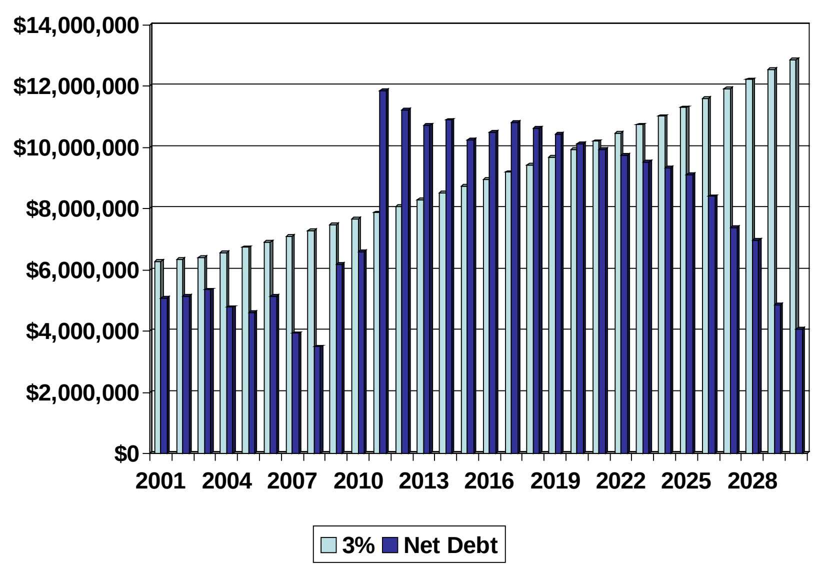
Ald. Gentile asked if any thought had been given to approaching the colleges within Newton about voluntarily increasing their payment in lieu of taxes if they were assured that any increase in their voluntary payment would go to pay for a new high school.

Mr. Pooler responded that this has not been built into the plan, as it is not a source of revenue that the city can count on. If we could get the money, so much the better, but it is problematic to count on that kind of revenue in any way. The colleges are covered by the Dover Amendment, so there is no reason that they have to contribute.

Ald. Gentile proposed putting together a well-thought out presentation to the colleges and asking them if they would voluntarily consider helping the City by a moderate increase in their payment that the city could pool together to help offset the costs, so the City would not have to rely on the $250,000 each year from new growth. Ald. Gentile felt that it was certainly worth asking or considering this option.

Mr. Pooler stated that it has not been done to date but he does take the point.

Ald. Mansfield stated that it is difficult to get this kind of very complex, very thought out new information and be able to understand it, digest it and ask intelligent questions about it in one night. This is not a criticism, but there are probably questions that he cannot formulate and ask at this time. It seems one of the reasons this information is difficult to understand and digest is because it is based on a number of assumptions. Some of the assumptions are very clearly stated and some of them remain unstated. However, those that are stated are

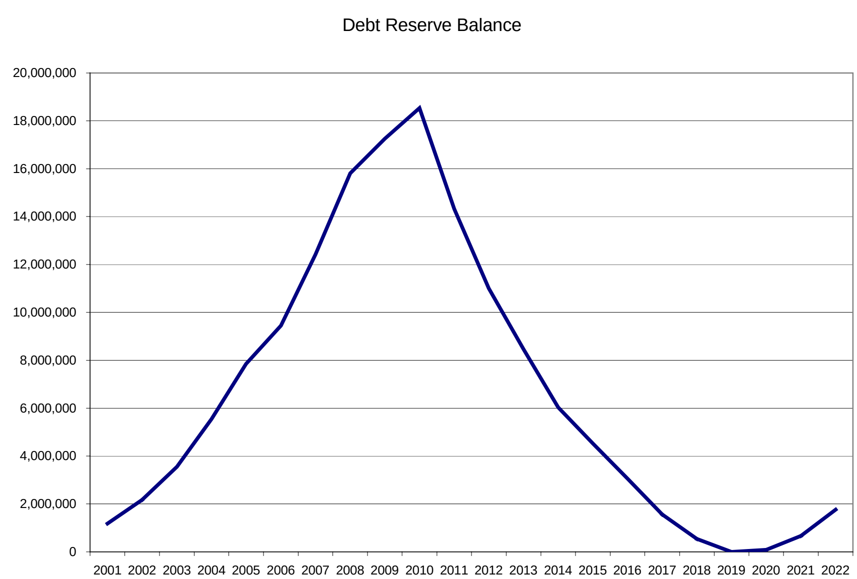


not necessarily under our control, so that when an assumption is stated and we go and derive charts and projections with that assumption I think it is also necessary to change the assumption and see what happens at this stage of the analysis. It is sometimes difficult to interpret the definitions and understand what is being referred to in some of these cases. If you look at the assumptions made on the second slide, it includes an assumption of a 5% interest rate on bonds. What happens if you look at 6% or 7% interest rate, what then does that do to the analysis? Secondly, looking at the 3% net debt overlay table, it assumes that 3% is put aside for debt for 25 years and there is an increasing slope curve on the figure starting around $6,000,000 and ending around $13,000,000. It seems to make an assumption about what the city's budget is going to do. It assumes that it is at least going to double from now until 2030 because the 3% is fixed; it is not as if the 3% is going up as well.

Mr. Pooler explained that the 3% goes up as the budget goes up. The total dollar amount goes up as your revenue goes up as your budget goes up and 3% of that goes up.

Ald. Mansfield stated there is an assumption that the budget is doubling. However, if you look at what you gave us in the FY'07 analysis, which is only the last couple of years, it shows about a $7,000,000 increase per year and that in 25 years would go to $175,000,000 not $250,000,000 which would be a doubling of our present budget. It looks to me that you are expecting our budget is going to increase faster and faster as we go along, is that correct.

Mr. Pooler replied that no, there is a constant rate of increase. It is something close to 3%, which is what the base line increase in our budgets has been. If you use the rule of 72, which tells you how long something at a constant rate takes to double, you divide 72 by an assumed rate, which is 3, it takes 24 years for something to double, so that is about the same timeline we are talking about.

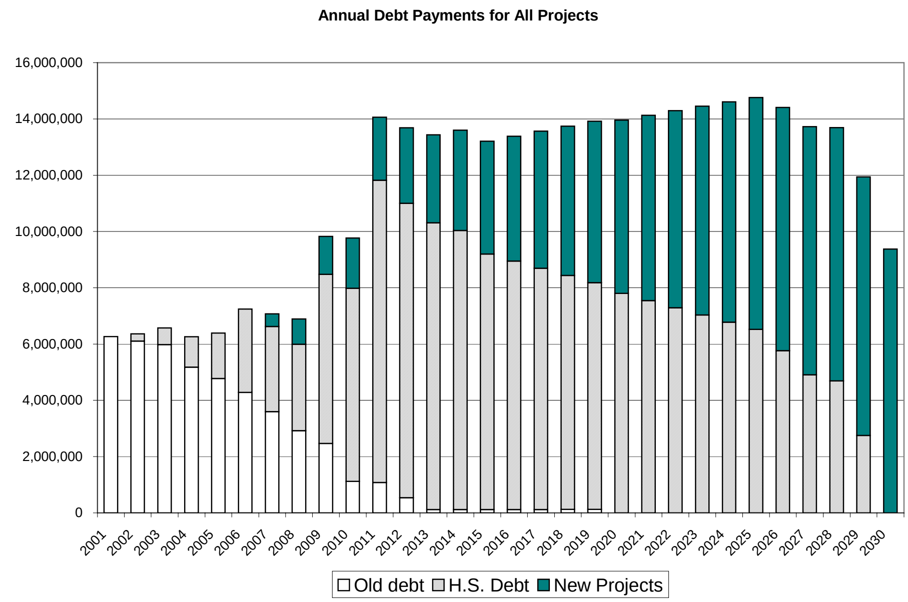


Ald Mansfield is not certain that it is a realistic assumption. Going back to the previous chart and the one before, as that curve dips down I believe that you said that the important thing is that it does not go below zero because then we would be in a deficit situation. If you look at it carefully, it looks like the software does not allow it to go below zero and it flattens at zero. Mr. Pooler assured Ald. Mansfield that he could make it go to zero, if interest rates were 10% it would go below zero. Ald.

Mansfield inquired why the debt reserve balance does not go beyond 2022 since the financing plan goes out to 2030.

Mr. Pooler replied that after 2022 it just keeps going up kind of forever. At that point, you have finished having to draw down to cover your excess debt costs for the high schools and there is enough surplus money that it just keeps growing forever.

Ald. Mansfield developed an interpretation; if you look at the white bars in the lower left hand corner showing financing capital funding other than high school it is around $6 million down to $5 million annually over the past few years. In this plan, that is represented going forward by the dark bars, correct.



Mr. Pooler stated that it is debt that was issued years ago. The dark bars represent what is going forward. This is debt that had been issued that the city is legally obligated to pay. This is the projection if we continue to issue new debt for other things.

Ald. Mansfield pointed out that it does not get back up to that $6,000,000 level until about 2019, which means that we are not going to be able to afford other capital things for 12 to 15 years from now according to this chart.

Mr. Pooler does not believe that interpretation is right. He has another chart that shows if the city starts borrowing $4.5 million this year and continues to inflate that we assume that each year we will borrow a little bit more and we will have the capacity to borrow a little bit more and a little bit more for other debt projects around the city. Eventually what you can borrow does get higher. What this represents is what you have to pay back, annual debt service costs, as opposed to how much you are borrowing every year. It is an important distinction. These are debt service payments and the amount that you can actually borrow starts at $4,500,000 under this model and continue to rise just as it has in previous plans. If we are setting aside a stream of money for capital, at some point we have $6,000,000 going regularly towards capital. You can use it to borrow and you can borrow for many things that way but you do not have to borrow. One of the advantages of dedicating part of this new growth revenue is that we could just spend $250,000 one year on cash and just buy something. We have never really been able to do that because we have always relied on free cash to kind of catch up with us at the end of the year. I do think one of the advantages of this plan is that we will be able to borrow for other things or we can just dedicate some of this new growth money straight into just buying things. I think that is something to consider down the road. I think in the short run we are going to have to borrow for a bunch of things because we need to catch up but I think eventually we may tradeoff some of the borrowing for direct cash payments.

Ald. Mansfield asked if we have been setting aside $1.7 million for the annual operating budget since at least FY'01. Yes, it was either $1.5 or $1.7 million. Ald. Mansfield also questioned whether the city has been taxing to the limit. Mr. Pooler responded that it has been taxing to the limit. Ald. Mansfield asked where the rest of the new growth money went.

Mr. Pooler explained that the city does not spend any more money; we just decrease the amount we estimate we are getting from other sources. If we had an extra $500,000 in new growth one year, I would reduce the revenue estimate from building permits, parking tickets, motor vehicle excise or any number of things in order to keep the budget in balance. What I always have to hit in the revenue forecast when we set the tax rate is what the Board passed as an expenditure budget. They always have to come out the same, so if one source is up another source comes down. It happens all of the time with other sources, sometimes motor vehicle taxes are higher than thought than something else is reduced and vice versus, than that money becomes free cash. Ald. Mansfield asked if we put that aside that $250,000, for something else we are not going to be able to reduce those other sources.

Mr. Pooler stated that the city would maintain those other sources at the same level that we originally forecast when we passed the budget. We will not then generate the free cash from that at the end of the year that we otherwise would have. This is the amount of free cash since FY'97. One of the things that we have been trying to do is reduce the amount of free cash in the budget and eventually to get it to zero. We have brought it down the last couple of years by $500,000 a year and we want to continue to do that until we do not use any free cash in the operating budget. Mr. Pooler thinks that by reducing our reliance on free cash in the operating budget that $500,000 in those first few years will more than offset the initial amount that we are taking that we are not generating by using the new growth revenue. He thinks it is an important commitment to keep doing that and get rid of free cash in the operating budget. We will still have some free cash for other things.

Ald. Albright clarified that the plan is to decrease the free cash over time and to rely on this new system for capital. She felt that it was important to make that explicit. We are not going to be using free cash, we are going to be relying on the new system to get capital for windows, boilers and so forth.

Mr. Pooler explained that the new system will allow us to borrow for that and it will also give us the possibility of just saying this year we are not going to use that new growth for future borrowing we are just going to buy $250,000 worth of something this year and not borrow for it. There will tradeoffs that way over time but at least we will have dedicated revenue stream that we know is going to capital.

Ald. Albright is aware that Mr. Pooler has been working on reducing the reliance in the budget on free cash and using new growth as the revenue stream for capital projects. Mr. Pooler has projected out the operational budget over three years to get the 3% but she wondered if he had looked at the revenue and the increase to see what effect drawing out this stream of cash will have on the operational budget over time. She also questioned if we are going to have enough money to support the budget over the next thirty years without new growth.

Mr. Pooler reiterated that it is his belief that we are going to continue to have that $1.7 million built in and that is what the city has always done. The city has never used all of its new growth to build our operating budgets.

Ald. Albright is not so much concerned about what is being drawn out this year. She is concerned about the piece that Ald. Vance was talking about where you are not only drawing out the new growth you are drawing out that revenue stream, which is essentially old growth. You are going from 3% to 4.5% and you are drawing that money out of what would have been operating budget and putting it into a capital stream. Therefore, there is less money to support the operating budget as it grows over time. She questioned whether Mr. Pooler had projected out the ability to support the operating budget.

Mr. Pooler responded that we have to be realistic about where we should spend the money that we have and look at whether we are spending enough on capital. If you agree that we are not spending enough on capital, we need to divert a percentage of that money into capital allocations.

Ald. Albright felt that it becomes important to become very explicit about the future of the operating budget, as we are drawing out some of the revenue that we have been relying on for growth in the operating budget. We are putting it in capital, which may be a great policy decision but you are making some assumptions about what is going to happen to the operating budget over time. It is going to have to be constrained.

Mr. Pooler stated that the issues we have had around operating budgets are not defined by $250,000 a year. Either we have had to make other changes or not. Either we have gotten more state aid or not. We do not live and die on $250,000 a year when we are putting together our budgets.

Ald. Albright clarified that it is not the $250,000 but the 1.5% overall that you are adding each year. It is that piece she is interested in seeing. Perhaps Mr. Pooler could do a projection and show the Board what the implications would be over thirty years on the operating budget, which would give some sense of what that would mean to the budget. It is not just the $250,000 that is being drawn out that is making the difference in this plan from the charts in 2003; it is the changes in assumptions that have been made. The one that we talked about is going from 16 years to 20 years and there may be other assumptions that changed from that plan three years ago until now. Ald. Albright would like all assumptions and the changes of the funding plan shown so that she can understand everything not just the lengthening of the borrowing.

Ald. Weisbuch voiced his concern about Newton South High School and the inequities that arise when we are spending so much money on one high school. He asked that as we go forward if Mr. Pooler could take into account or take into consideration the policy concern of having so much money in the city in one high school. A number of people have approached him and indicated that the existing high school in the south needs continuing funding on various projects. He is worried that as we move forward that those projects might not get due attention. Ald. Weisbuch asked Mr. Pooler to be creative and break his plan to come up with three scenarios that if they happened over the next twenty to thirty years would put the city in significant trouble. Plan A is borrowing up to $4.5 million dollars per year for existing projects and he asked Mr. Pooler to come up with two or three ideas right now that might bust the scenario, for example a natural disaster.

Mr. Pooler responded that supposed he could do a list of terribles but he is not sure if that really gets us anywhere. You have to make some reasonable assumptions and he feels what is responsible is to make reasonable assumptions. You can play with them some, as Ald. Mansfield suggested, such as what if you go up a little bit here or there then what happens but he would plan on what if the apocalypse happens. It is not how he would do a long-term plan.

Ald. Weisbuch clarified that he did not mean far-reaching disasters but something, which is a reasonable event that could happen in the city. Perhaps someone with a little bit more experience might turn to what has happened in the past that if that happens again or there is some sort of disaster that would than cause serious problems to the plan. Mr. Pooler offered to talk to Ald. Weisbuch about what he thought should be looked at and see if there is a way to model that because there should be some what ifs included. Mr. Pooler thought that the thing to do is to try to model those in a way that is realistic within a range of probability.

Ald. Linsky asked if the annual borrowing, under each scenario, either $4.5 or 3.5 million is out in real dollars or in absolute dollars going forward. In each case, that amount will increase over time. He believes the model has something like 2 or 2.5% going forward in each case, so we start at that number and go up. If you look at the year 2030, which is presumably the first year in this chart that it is all relative to new projects, which is based on either the $4.5 or the $3.5 million, where would the next lines go in the years following 2030?

Mr. Pooler explained that the city could continue to borrow at that same pace or at that point, all of the North and South debt would be paid. He did not go beyond to think what might happen next but he is sure you could then borrow more money than what is on the 2030 line. He did not ever do the exercise to say okay, can you then borrow $10 or $12 million. At that point, the city would be putting about $12 million dollars aside at 3%. The City would have $12 million dollars from there and another $6 million in new growth. The City would have $18 million dollars a year available for capital at that point, which could either be spent directly or borrowed for future projects.

Ald. Salvucci stated that from the inception of this program, somewhere in the neighborhood of 18 months, the price has risen from $104 million to $160 million. He questioned how much the cost would increase before we broke ground on the project in two years and if anything was added for inflation to that point in time. In addition, it is his understanding that when a contractor puts a bid in for this project the city cannot hold them to the bid, which in a sense makes this a cost plus job. He would like it verified whether this is true and if that is the case, how can we ever put a number on this project and come up with real numbers to pay for it.

Mr. Pooler believes that in terms of the dollar figures the $160,000,000 was the high end of the range and in fact what the cost estimators said was the most likely increase was a 37% increase, which is in the range of $37 or $40 million dollars increase, so that would be about $140,000,000. He suggested Ald. Salvucci ask the cost estimators the questions of the timing and ask them and the architects about how the construction laws work. It is Mr. Pooler understands that it is not a cost plus situation.

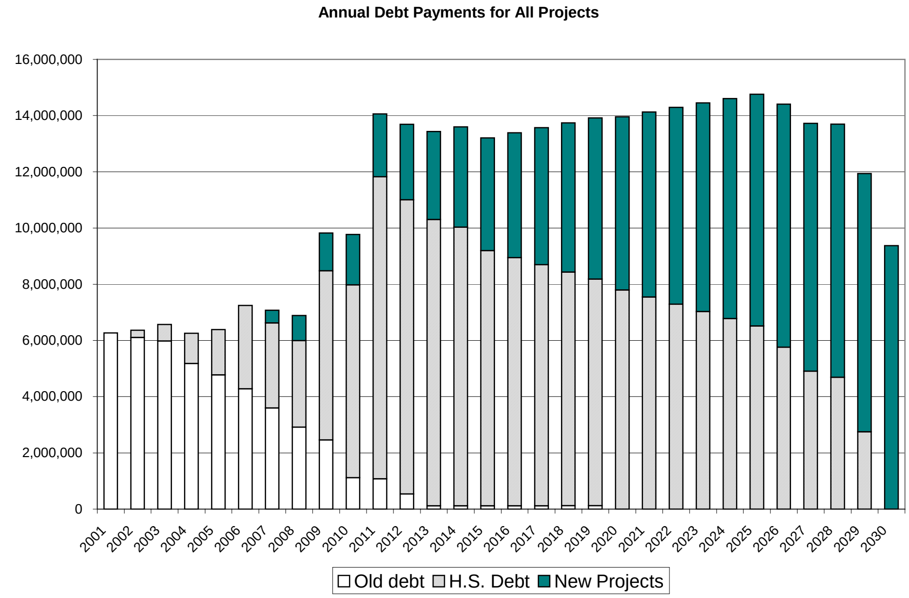
Ald. Salvucci is not suggesting that either but if you stop and think about if you cannot hold the contractor to his bid price that means he can add on anytime he chooses. If that is the case, it becomes a cost plus job. President Baker thought that the Board would be able to address and assess what that means at the next meeting.

Ald. Sangiolo asked if the request for a 5% reduction in department budgets will continue and whether that was built into the estimate in the operational budget of being able to sustain and live within the $1.7 million dollars of new growth every year. Mr. Pooler stated that is not a base assumption. Ald. Sangiolo inquired whether the intent is not to ask the departments to continue to cut and have we reached a level where we think we are the lean mean operating machine that can continue as is.

Mr. Pooler stated that clearly, we always want to be as efficient as possible and we always need to look at how our departments are operating. The City has definitely been hit with substantial increases in the last few years, such as health insurance, that really have been extraordinary and we need to get a handle on those things. The City has taken some positive steps to do that but ultimately whatever the scenario is we have as much money as the taxpayers give us to spend and we have to live within that restraint.

Ald. Sangiolo’s understanding is that we are taking the $250,000 every year out of the new growth and that it is new growth plus the old growth from the years previous. We are hitting what we would rely on for our operational budget. For the next meeting she asked that Mr. Pooler come up with a five-year forecast for the Board, which includes whatever contracts and contract negotiation assumptions built into it, in order to understand what the impact is going to be on operational budget.

Ald. Fischman pointed out that the annual debt payment chart looks like the capital costs are dropping every year from 2001 to 2008, going from approximately $6 million down to $3.5 million and he thought Mr. Pooler clarified it to say that was really payment and was not the actual cost itself that was the debt portion. The assumption is that every year throughout this cycle you are adding $3.5 to $4 million in new projects. Each year since Ald. Fischman has sat on the Board the capital costs get slowed down and in the past two or three years operational costs have been needed and the money available for capital is somewhere between $1.5 to $2 million. As you go out in the cycle, which is assumed to be a 20 to 30 year cycle, allocating $3.5 to $4 million in each of those years at what point do you run into the fact that you really have not been doing the improvements needed. In one, 2 years, 4, or 5 years from now we are faced with spending $9 or $10 million to catch up. You said you could take $250,000 from free cash from growth and use that in that year. Ald. Fischman is aware that $3.5 to $4 million every year adds up to $120 million plus over a 20-year period but is it really enough and why should we assume that $3.5 million is going to be enough.



President Baker clarified two things. One is that Mr. Pooler has heard a number of questions that may lead him to amplify his prior memorandum and to take some of the information he has presented and put it back into another document so that the Board can digest the second version. President Baker felt the first version was helpful but thought a second version would be helpful, as well. The central question that has come up, which the Board has to really assess, is by committing this level of revenue what are we doing to the operating budget going forward and what are we doing to our ability to pay for other capital projects other than this one going forward. Those are sort of the issues that cooked around in a number of the questions the Board had and there is still some degree of uncertainty about what those implications are. Implicit in these questions are that the Mayor, if he carries forward, is going to come to this Board with funding requests that are built around the assumption that a new high school is one that we can afford. The Board needs to understand what affording means in terms of all of those other things that we just discussed operating budget and other capital expenditures. As far as two weeks from now, the Board is going to be focusing almost exclusively on Newton North. There are some projects or leftovers with Newton South, which the Board does not want to lose sight of, which have been mentioned.

Ald. Coletti would like Commissioner Parnell to revise a timeline that was sent out but did not have some very important points on it, such as when appropriation requests were going to come in and other critical things that needed to happen. It would be helpful to have the timeline before the next time meeting.

President Baker apologized for not mentioning that Ald. Johnson has access to some software that will help take some of the information and give us a critical path analysis. The analysis would be a useful tool to figure out what the Board of Aldermen needs to be doing and at what time to make decisions that move this process along in a fair and expeditious way.

Ald. Lipof made a motion to move out of Committee of the Whole and adjourn the Board meeting.

City of Newton Capital Financing Plan

Presentation to Board of Aldermen

January 11, 2006

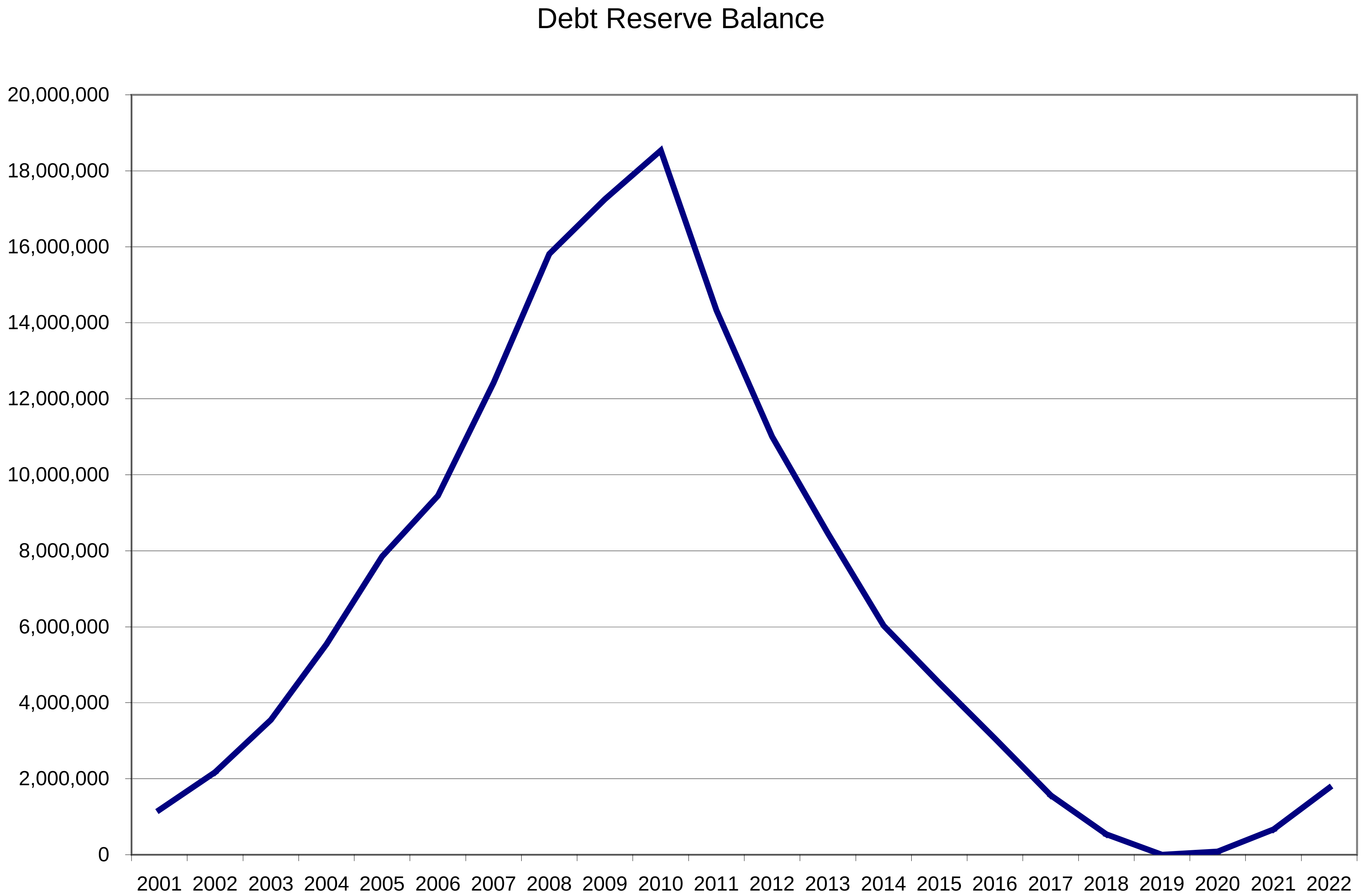
Assumptions

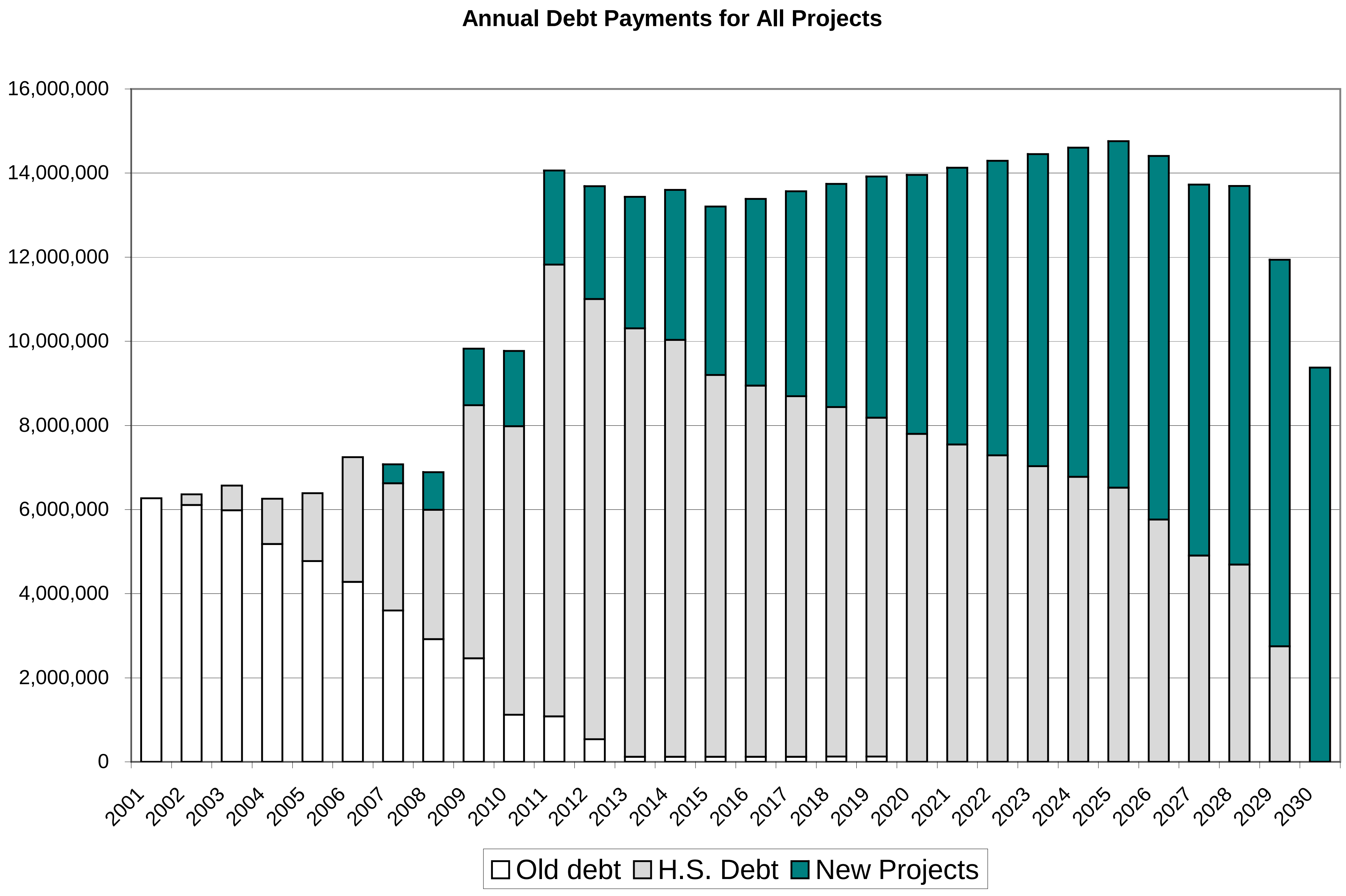
- Maintain the basic structure of previous funding plans:
  - Put funds into a debt reserve in early years
  - Spend 3% of revenue on debt
  - Use debt reserve in later years to pay debt costs above 3% of revenue
- Supplement that plan with $250,000 of New growth tax revenue

Assumptions

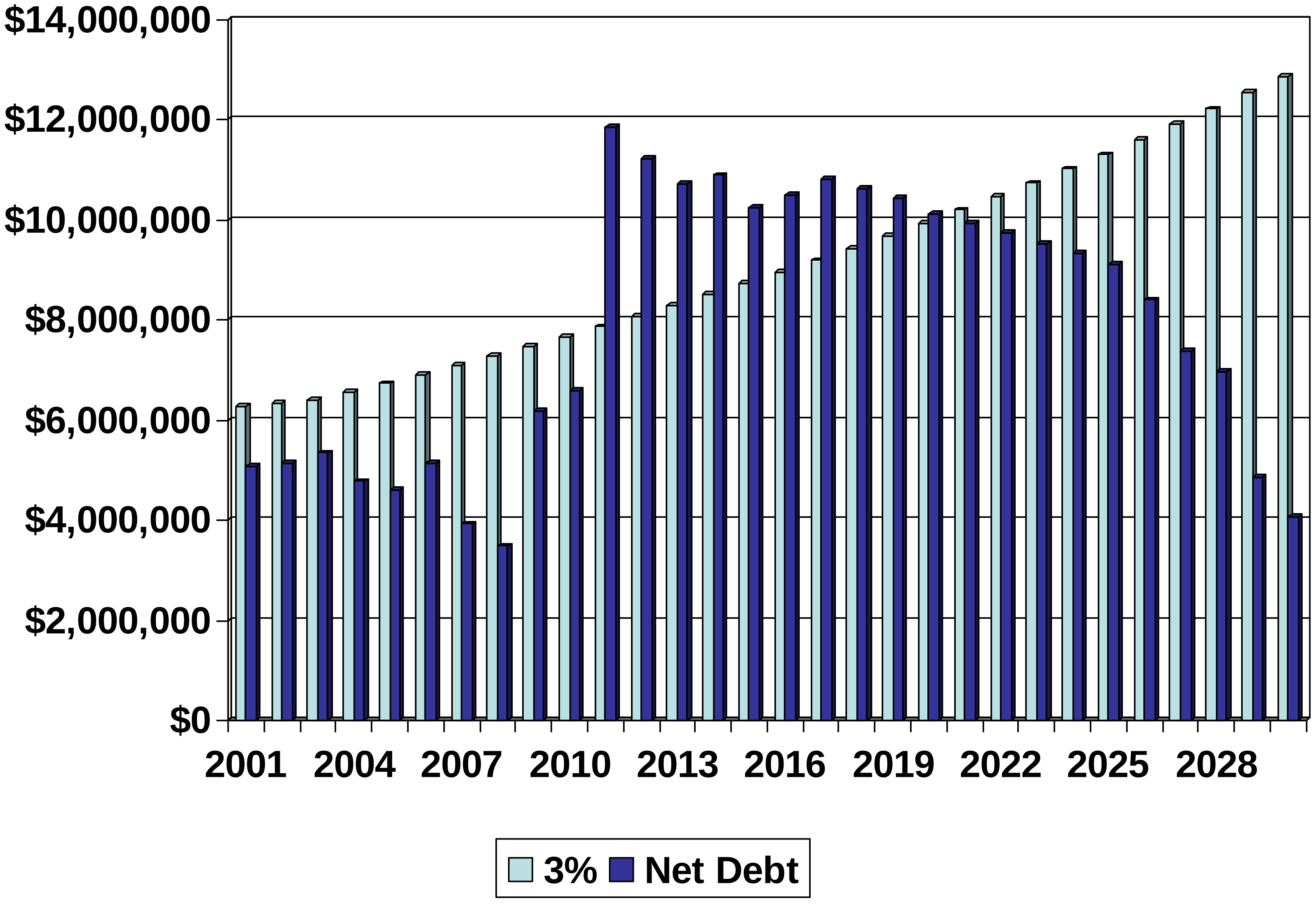
(continued)

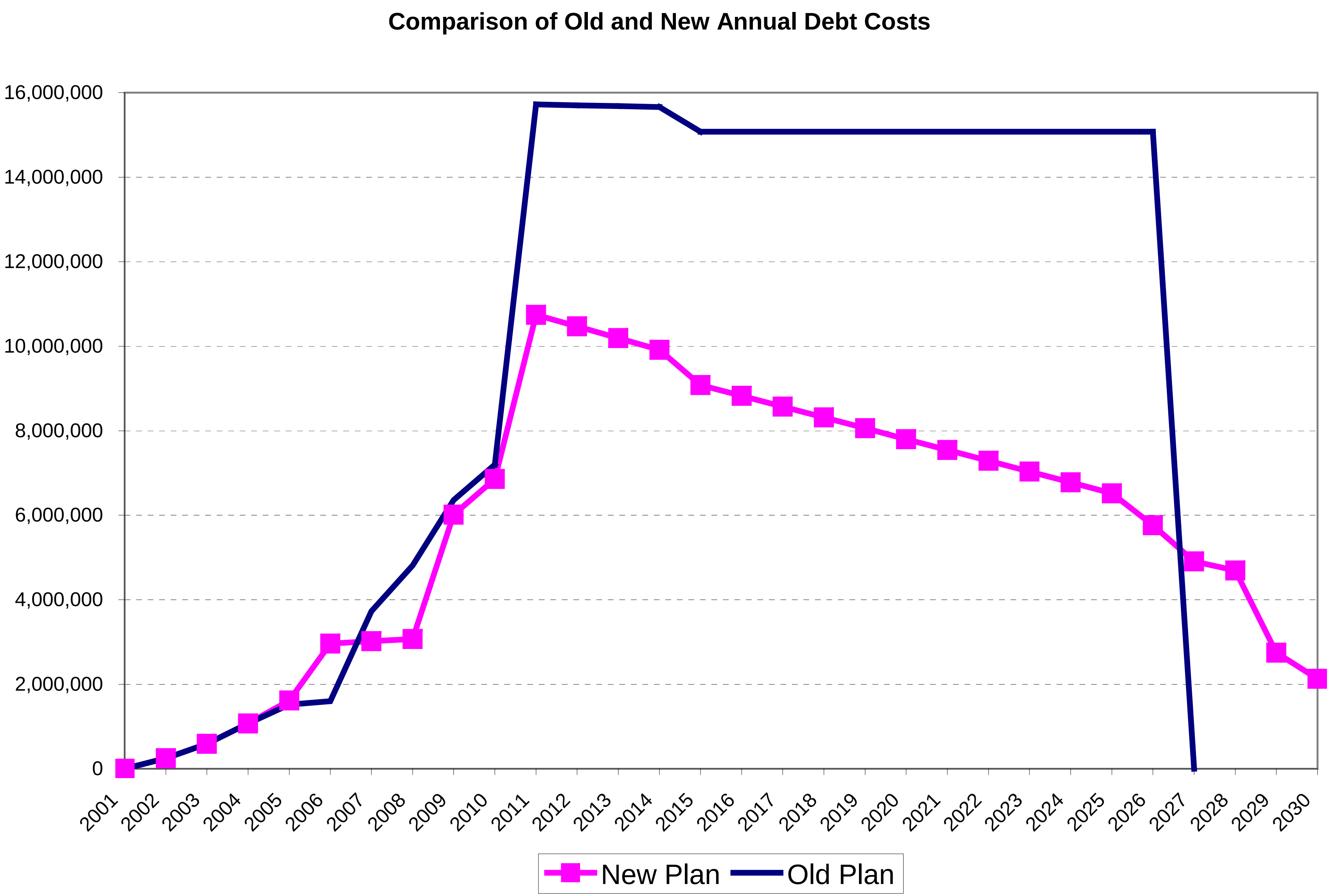
- 20 Year bonds
- 5% interest rate on bonds
- School Building Assistance reimbursement for NNHS will be between zero and fifty percent of costs above $104.5 million
- School Building Assistance reimbursement for future school capital projects will be 50%


Debt Reserve Balance
20,000,000
18,000,000
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022



Annual Debt Payments for All Projects
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
Old debt
H.S. Debt
New Projects

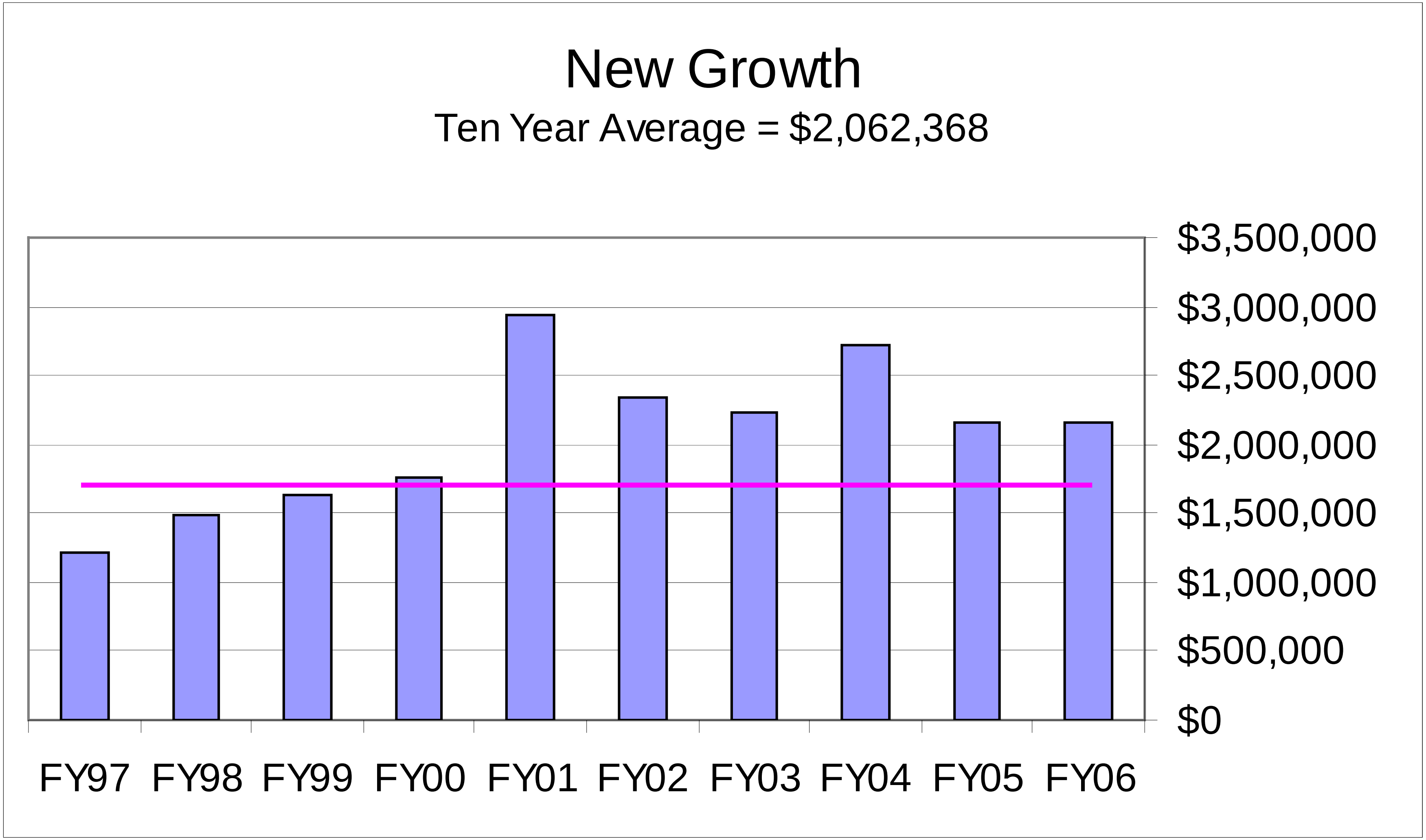

$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
2001
2004
2007
2010
2013
2016
2019
2022
2025
2028
3%
Net Debt

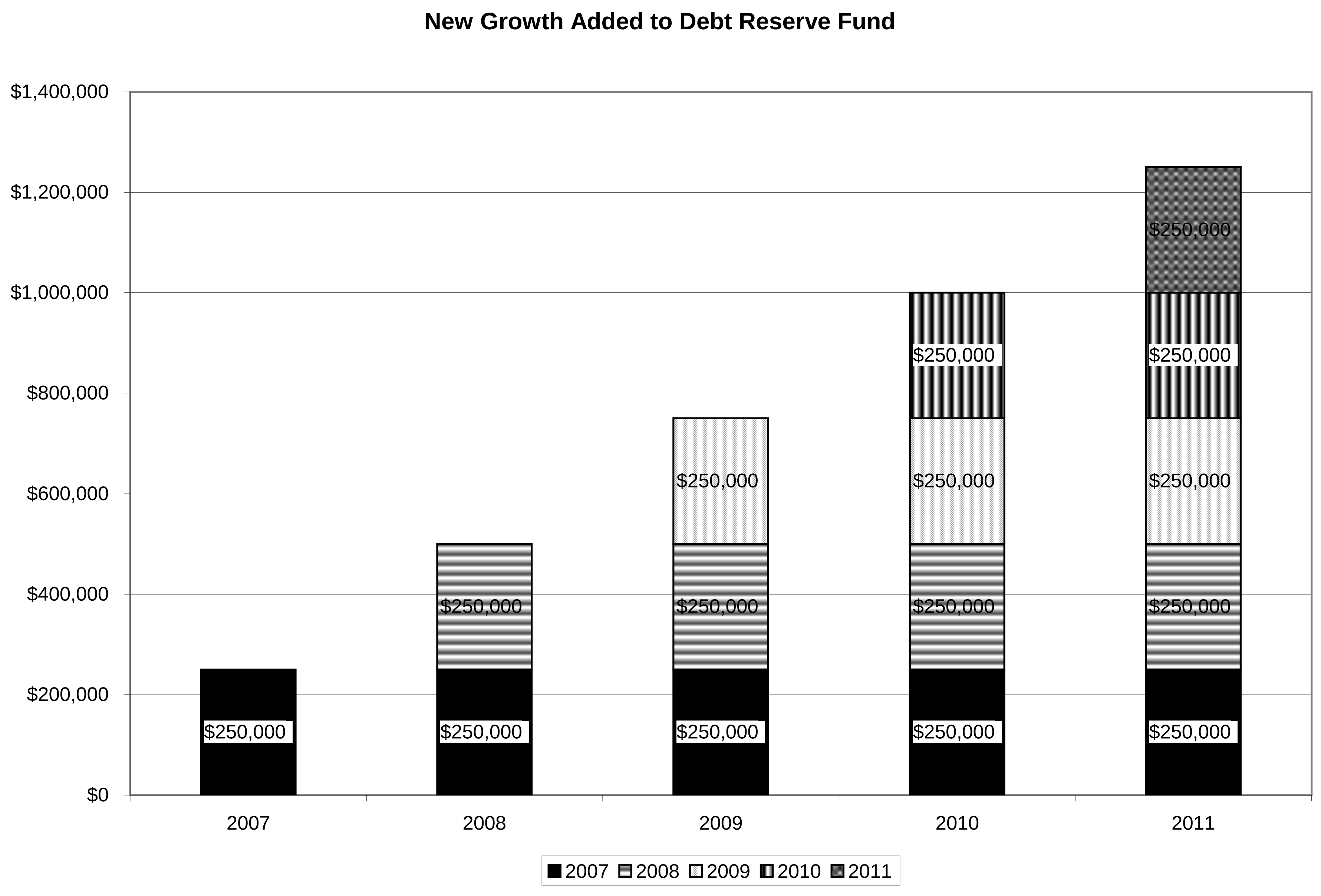


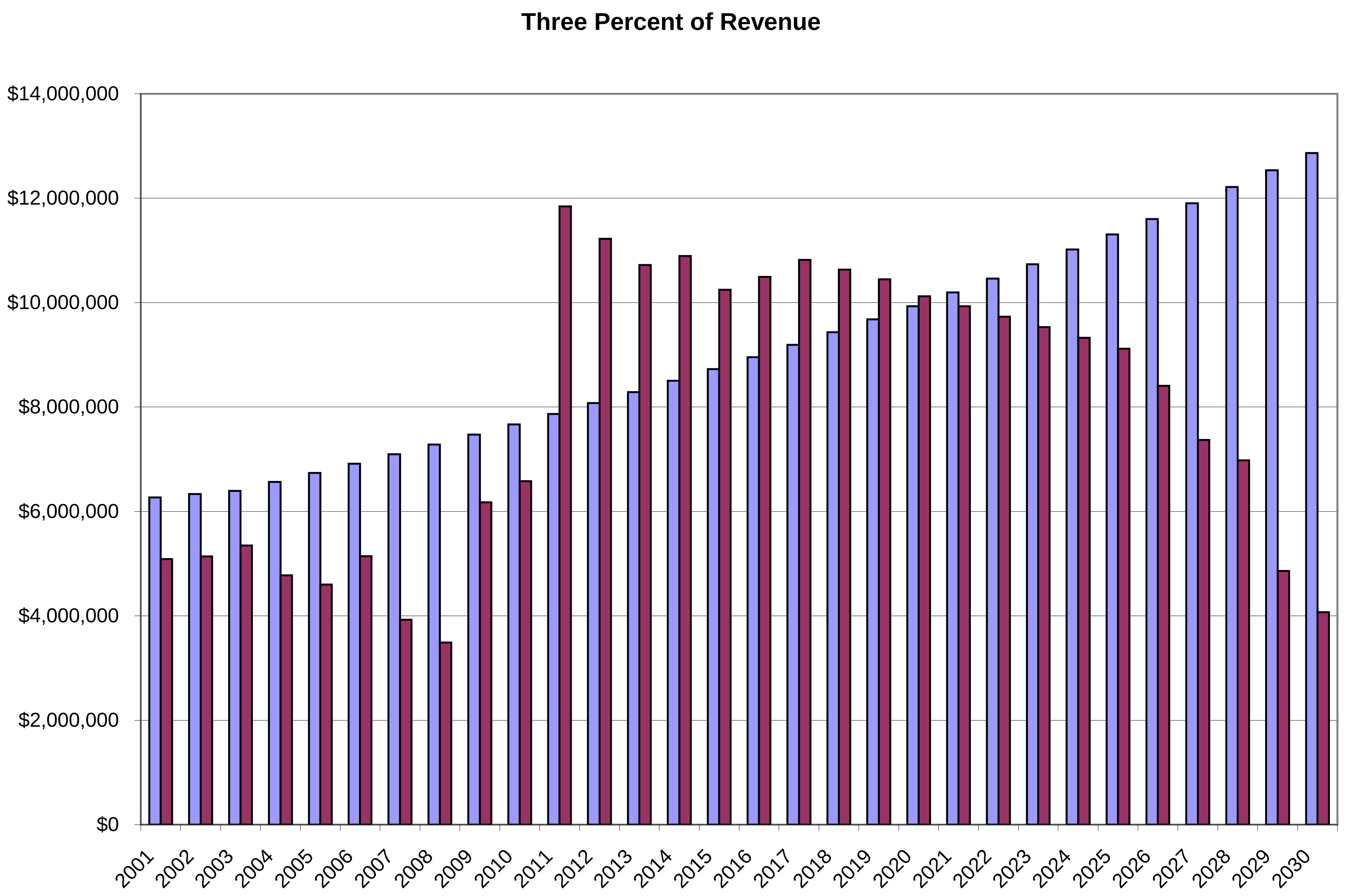
Comparison of Old and New Annual Debt Costs
16,000,000
14,000,000
12,000,000
10,000,000
8,000,000
6,000,000
4,000,000
2,000,000
0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
New Plan
Old Plan

New Growth Tax Revenue

- New Growth is additional property taxation of new buildings or renovations to existing buildings
- As long as there is new building happening in the City, there will be new growth revenue
- As has been the case in past budgets, the first $1.7 million of new growth each year will go to the operating budget
- Therefore, the amount of new growth revenue available at the time the City adopts a budget will not change.


New Growth
Ten Year Average = $2,062,368
$3,500,000
$3,000,000
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
FY97
FY98
FY99
FY00
FY01
FY02
FY03
FY04
FY05
FY06


New Growth Added to Debt Reserve Fund
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
$250,000
2007
2008
2009
2010
2011
2007 2008 2009 2010 2011

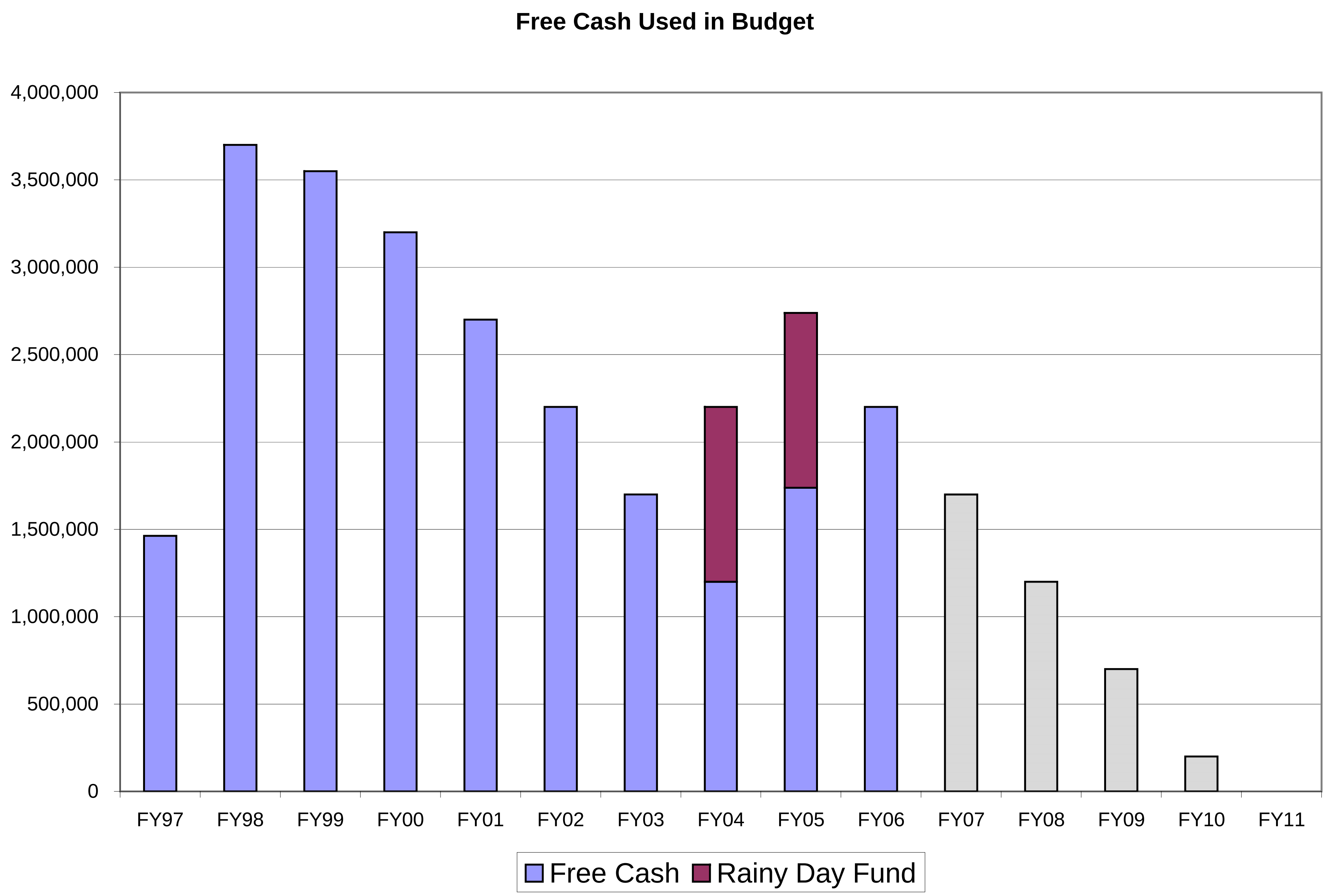


Three Percent of Revenue
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030

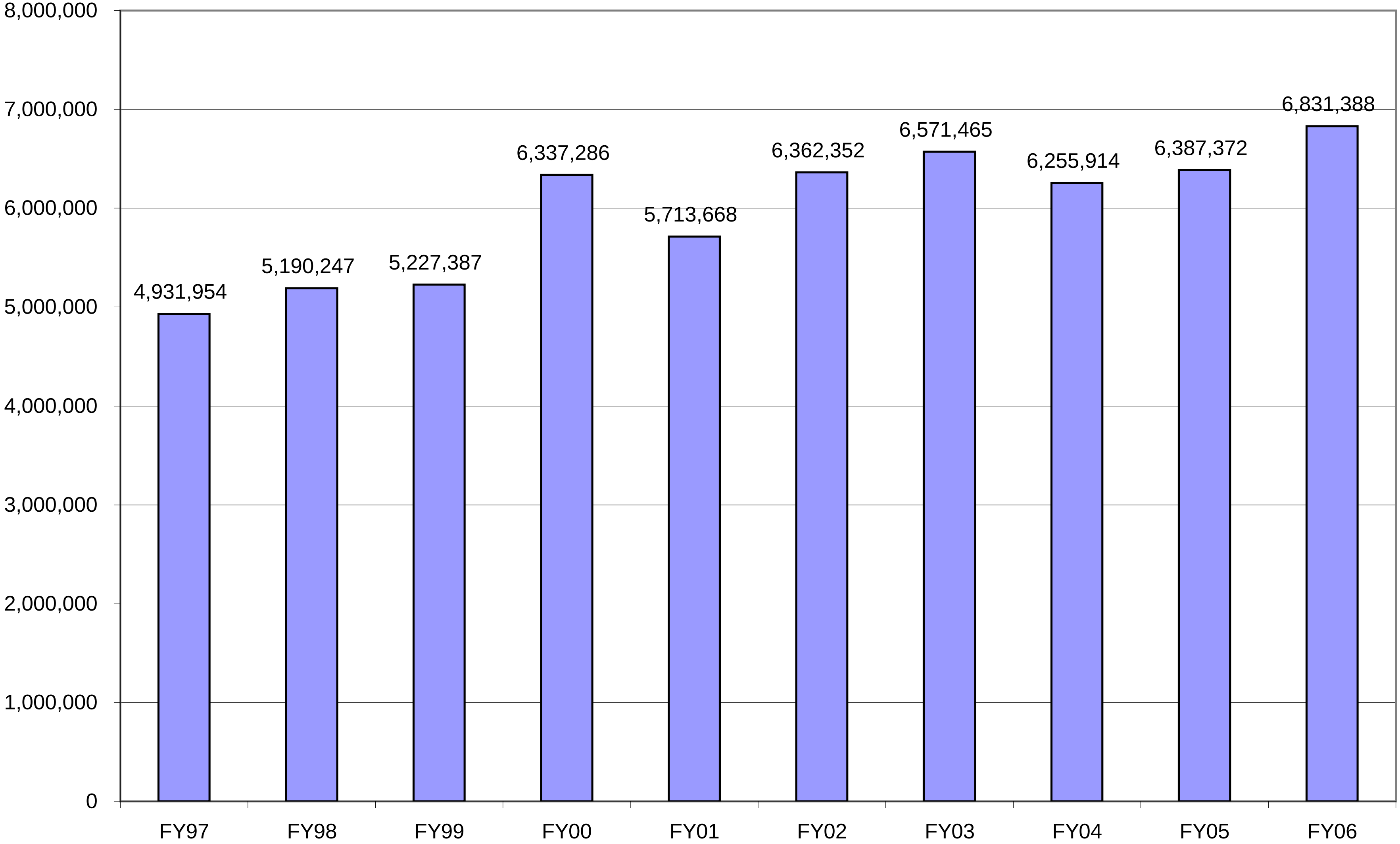
Review of Options

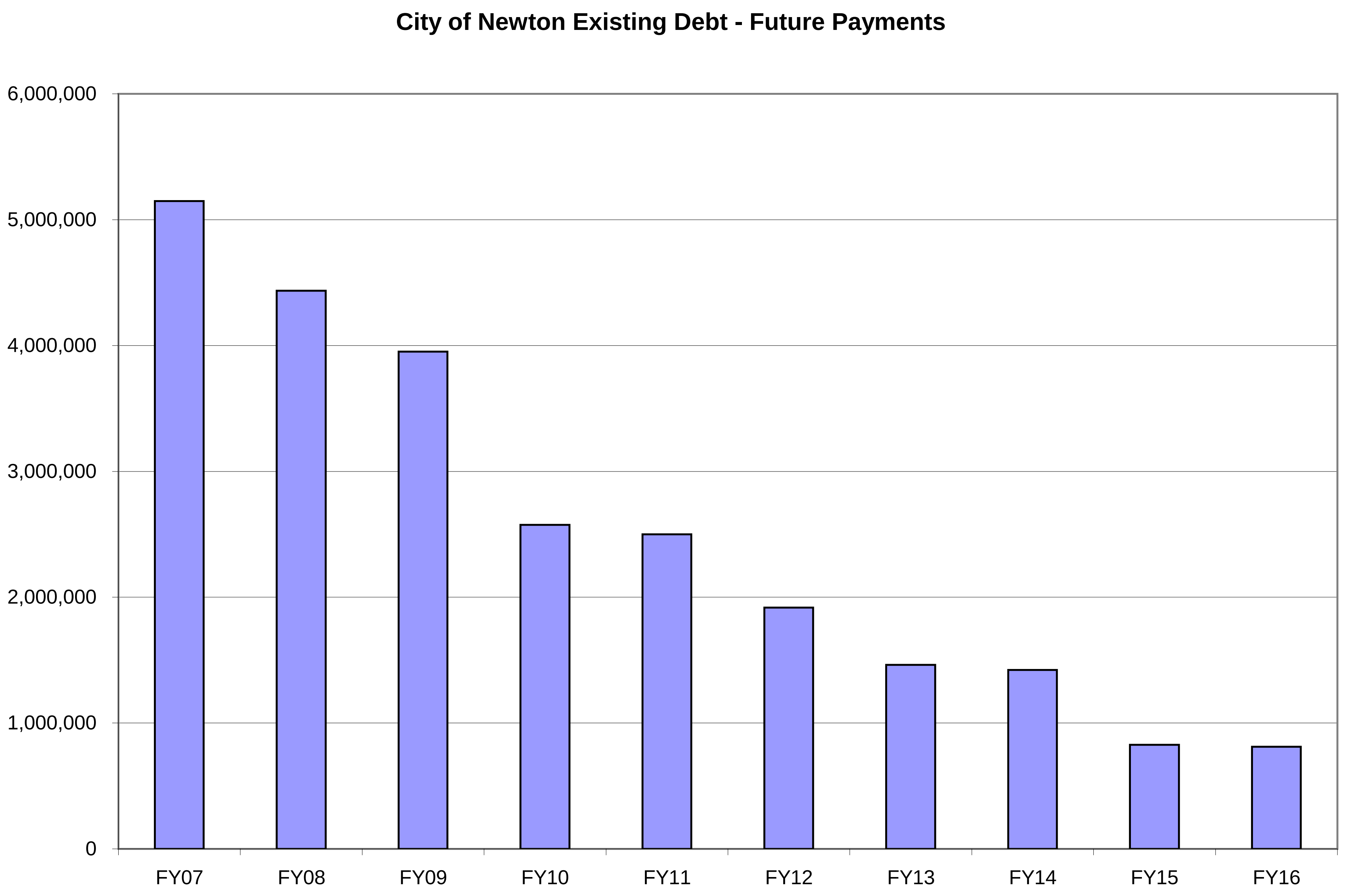
- **Plan A. State pays 50% of increased costs**
- City borrows an additional $23.9 million for NNHS
- State matches this amount
- City allocates $250,000 of New Growth to capital
- City can borrow $4.5 annually for other projects

- **Plan B. State does not pay any additional costs**
- City borrows an additional $35 million
- City allocates $264,000 of New Growth to capital
- City can borrow $3.5 million annually for other projects


Free Cash Used in Budget
4,000,000
3,500,000
3,000,000
2,500,000
2,000,000
1,500,000
1,000,000
500,000
0
FY97
FY98
FY99
FY00
FY01
FY02
FY03
FY04
FY05
FY06
FY07
FY08
FY09
FY10
FY11
Free Cash
Rainy Day Fund

City of Newton General Fund Debt Payments




City of Newton Existing Debt - Future Payments
6,000,000
5,000,000
4,000,000
3,000,000
2,000,000
1,000,000
0
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16