

CITY OF NEWTON, MASSACHUSETTS
FINANCIAL MANAGEMENT GUIDELINES

Adopted January 22, 2008

The government of the City of Newton exists to provide quality community services to residents, businesses and visitors to the Garden City. Governmental services that benefit all or substantially all community stakeholders are financed principally from the local property tax and accounted for in the City's General Fund. Business-like services that benefit distinct segments of the population are financed principally from user fees and charges and are accounted for in special revenue funds.

Budgets are used for planning and accountability purposes for all City funds. Formal fixed budgets, recommended by the Mayor and adopted by the Board of Aldermen, are used for all governmental and business-like services, and nothing in this document is to in any manner restrict the Mayor's authority and responsibility to allocate financial resources in the manner in which he determines best meets the needs of the City, and the Board of Aldermen's authority and responsibility to pass upon those financial allocations.

Financial planning: It is the policy of the City to update annually the City's General Fund multi-year financial forecast. Based upon consensus revenue and expenditure assumptions for existing service levels, revenue estimates will be developed by the City's senior financial management team (Chief Administrative Officer; Chief Budget Officer; Treasurer/Collector; Chair of the Board of Assessors; Assistant Superintendent of Schools for Finance and Planning; and the Comptroller of Accounts). Revenue estimates and expenditure assumptions for the annual budget will be developed by the Chief Budget Officer.

The multi-year forecast shall include actual revenue and expenditures for the last five complete fiscal years; the current year budget; and complete operating and capital expenditure and revenue projections for the next five fiscal years, and shall be structured around major revenue and expenditure classifications in the City's accounting system chart of accounts.

The annual five-year forecast shall be submitted to the Mayor for his review, modification and approval not later than 60 days after the conclusion of each fiscal year. Not later than 120 days after fiscal year-end, the Mayor shall submit the five-year financial forecast to the Board of Aldermen with such modifications as he deems appropriate. In accordance with state law, not later than 60 days prior to the fiscal year-end, the Mayor will submit a recommended annual operating budget to the Board of Aldermen for the ensuing fiscal year. The Board of Aldermen will adopt the budget within 45 days of receipt and the adopted budget will become effective on the first day of the new fiscal year.

Revenue budgeting: While General Fund revenue financial forecast estimates are expected to capture 99% of total expected revenue for the year, the Mayor is solely responsible for the revenue estimates contained in the annual budget which the Mayor submits to the Board of Aldermen.

- Property taxes – The City expects to annually levy property taxes up to the statutory limit imposed by Proposition 2 ½ . Projected new growth will be estimated at the median annual new growth rate for the trailing 5 year period, and the allowance for exemptions and abatements will be budgeted at between 1% and 5% of the gross property tax levy.
- Motor excise taxes – Motor vehicle excise taxes will be estimated based upon the prior year actual total plus the average annual rate of growth over the trailing five year period.
- Hotel room occupancy taxes – Hotel room occupancy taxes will be estimated based upon the prior year actual total plus the average annual rate of growth over the trailing five year period.
- Inspectional services permits – Inspectional services permit income will be estimated based upon the median annual revenue for the trailing five year period.
- Investment income – Investment income will be estimated based upon the prior year actual revenue, adjusted for the Treasurer/Collector’s forecast of interest rate changes over the next twelve month period.
- All other local non-tax revenue – Revenues from charges for services; penalties and fines; and in-lieu-of-taxes will be estimated based upon the prior year actual revenues, adjusted for any proposed change in fee/fine schedules, and/or non-recurring prior year revenue collections.
- Unrestricted state and federal aid – State “Cherry Sheet” aid will be estimated based upon the most recent information posted on the Massachusetts Department of Revenue website, or, in the absence of any such information, the Mayor’s best estimate of the probable amount of such state assistance for the next fiscal year. All other state and federal aid will be estimated based upon actual revenues for the most recent fiscal year, adjusted for any known changes in reimbursement policies and rates.
- Transfers from other funds – Reimbursements to the General Fund for the administrative and support services provided to other self-supporting funds will be based upon an annual analysis of the estimated value of such administrative and

support services to the other funds. Under no circumstances shall the dollar amount of any reimbursement exceed the estimated value of services provided by the General Fund to the other self-supporting funds, in accordance with state law.

- Free Cash – Free Cash may be used as a financing source for the operating budget to the extent that the total amount being used can reasonably be expected to be available for support of the following year’s budget. However, it is not expected to serve as a recurring source of budget financing.
- The Mayor and the Chief Budget Officer may use any other method of estimating the above revenues for the annual budget if they deem it appropriate, and may allocate Free Cash in a manner that the Mayor, with the approval of the Board of Aldermen, deems to be in the best interest of the City.

Expenditure budgeting - It is a goal of the City to develop expenditure budget estimates that will be sufficient to address not less than 100% of projected operating requirements of the various departments of the City for the next fiscal year.

- Salaries and wages – It is the practice of the City that (A) budgeted salary and wage appropriations will be sufficient to fund all full-time and permanent part-time positions identified in each department’s table of organization and schedule of full and permanent part-time personnel, at the appropriate union contract or salary schedule rates for the new fiscal year. It is a goal of the City that General Fund employee salaries and wages that are expected to be funded in full or in part from funds other than the General Fund will be included in both the table of organization and schedule of full-time and permanent part-time personnel with an identification of the projected sources of financing for any reduction made in the appropriation for such employees. It is the practice of the City that, in the event that salary rates are not known at the time that the budget is being prepared, all salary and wages will be budgeted at current rates and provisions will be made for future wage and salary increases in a separate wage reserve appropriation. It is the practice of the City that salaries and wages will be budgeted based upon the exact number of pay periods for the fiscal year. It is a goal of the City that public safety overtime will be budgeted at levels sufficient to meet the median annual requirements for the trailing five year period, adjusted for any extraordinary and non-recurring overtime requirements (i.e. overtime to cover significant staff vacancies that have now been filed) or such other method as the Chief Budget Officer determines.
- Employee benefits – It is the practice of the City that funding will be included in each department operating budget for the projected cost of providing contributory health, life, dental and Medicare payroll taxes for all eligible employees at the benefit rates expected for the new fiscal year.

- Pension contribution – To the extent required by state law, the annual contribution to the defined benefit contributory retirement fund shall not be less than the annual required contribution (ARC) prescribed by the Retirement Board’s actuary, and the annual appropriation for non-contributory retirement benefits will be the benefit estimate of the Retirement Board.
- Energy and utilities – It is a goal of the City that funding for energy and utility needs of the various departments of the City will be included at consumption levels estimated by the various departments and at consistent unit prices estimated to be reasonable by the Chief Budget Officer.
- Debt service – It is the practice of the City that appropriations for interest and principal will be the amounts certified by the Treasurer for the repayment of General Fund current issued debt and any debt service on new permanent and/or temporary debt that can be reasonably estimated by the Treasurer.
- State and county charges – It is the practice of the City that the appropriation for “Cherry Sheet” assessments will be the most recent estimates posted on the Massachusetts Department of Revenue website, or, in the absence of such information, 2 ½ % greater than the current year assessment and charge total.
- Judgments and settlements – It is the practice of the City that the annual appropriation for self-insured liability claims and settlements will not be less than the median annual expenditure for this purpose for the trailing five year period, adjusted for any other factors that may impact the actual amount required.
- Snow and ice control – The City may make the annual appropriation for snow and ice control purposes in an amount that will not be less than the median annual expenditure for this purpose for the trailing five year period. It is the policy of the City that, after Free Cash is certified, the Mayor will seek an appropriation of funds into snow and ice accounts in amount equal to the difference between the amount of the trailing five year average expenditure on snow and ice and the amount already in the accounts.
- Capital outlay and improvements – It is the practice of the City that the difference between budgeted debt service and a minimum of 3% of total estimated revenues for the year will be budgeted for future capital outlay and improvements; and, additionally, it is the practice of the City that the sum of anticipated revenue from Massachusetts School Building Authority debt service reimbursements for school projects will be dedicated to capital financing.

- Budget Reserve – It is the practice of the City that, in order to provide for extraordinary and unforeseen revenue and expenditure contingencies, a Budget Reserve contingency will be included in the General Fund budget. It is a recommendation that the amount of the reserve be increased to an amount equal to 0.5% (one half of one percent) of total estimated revenue.
- Each of the foregoing goals, policies and practices in these guidelines is subject to the Mayor's responsibility to request the appropriation of funds in a manner and in amounts which he determines best meets the needs of the City of Newton and the Board of Aldermen's authority to approve them.

Property tax allowance for abatements and exemptions -- The Board of Assessors is required by law to include a provision for real and personal property tax exemptions; valuation abatements; and personal property tax uncollectibles in the annual tax levy. It has been their practice to provide 1.0% - 1.5% of the gross annual tax levy for these purposes and is determined annually by the Board of Assessors. They may base their determination upon prior year experience and risk exposure for the new fiscal year, or such other method as they deem appropriate. In addition, it has been the practice of the Board to maintain a reserve from prior year Overlay Surplus balances not less than \$1.1 million for extraordinary and unforeseen abatement experience. It is expected that the allowance will be at the upper end of the range in revaluation years. At least annually, the Board of Assessors analyzes the balance in all outstanding abatement and exemption reserves and makes an overlay surplus declaration for any balance(s) which exceed the sum of uncollected personal property taxes and pending abatement claims for that fiscal year's reserve at such times as it determines to be appropriate. The Overlay Surplus shall be available for appropriation by the Mayor and Board of Aldermen. To the extent that any overlay surplus balance remains unappropriated at June 30th, it will be closed to Free Cash.

Cash management and investments – Absent legal and/or contractual restrictions, City operating cash will be pooled, with ownership information maintained in the City's accounting system. All investment income on temporarily idle cash will be credited to General Fund revenue, unless legal authority exists to allocate the investment income to another fund. Investment income earned on pooled cash will be allocated quarterly based upon month end cash balances and Massachusetts Municipal Depository Trust (MMDT) month end interest rates.

Investments will be limited to those authorized by state law and City investment policy.

General ledger cash and investment totals are reconciled to the Treasurer's records and supporting bank statements on a monthly basis.

Risk management – The City purchases commercial insurance for only those risk exposures that can not be effectively managed and financed internally.

- Property insurance – Commercial insurance, including terrorism coverage, is purchased for all City buildings and their contents. Coverage is provided for scheduled locations only, subject to a deductible of \$100,000 per loss event. Insured values are adjusted annually for both improvements to the structures and an estimate of the increase in replacement values. Property insurance premiums are currently financed from an inter-fund transfer from the City's Building Insurance Fund.
- Vehicle insurance – The City retains vehicle risk exposure for all vehicles, except Parks and Recreation automobiles and vans used to transport members of the public. The cost of the Parks and Recreation vehicle insurance premium is financed from the Recreation Activity/Classes Revolving Fund. Staff of the City Law Department manages all vehicle claims, and settlements are paid from an annual appropriation in the Law Department budget.
- Liability insurance – The City retains all public liability risk exposures, except for retirement system fiduciary liability, for which the Retirement Board purchases commercial insurance coverage through a state-wide insurance pool, and special events for which commercial liability insurance is required by law or contract. It is the practice of the City that staff of the City Law Department manages all liability claims, and settlements are paid from an annual appropriation in the Law Department budget.
- Crime/employee dishonesty – Individual fidelity bonds are purchased for the City Treasurer/Collector, Deputy Treasurer/Collector and City Clerk, as required by state law. A fidelity bond is also purchased for the Chief Procurement Officer in accordance with local ordinance. All other employees of the City are covered under a blanket honesty bond, subject to deductibles of \$5,000 and \$10,000 per loss.
- Workers' Compensation – It is the practice of the City that: (A) The City retains all Workers' Compensation and public safety employee injured on duty risk exposures; (B) The City's Human Resources and Law Departments are responsible for claims administration; (C) Public safety employee injured on duty compensation is paid from the Police and Fire Department operating budgets; (D) Workers' Compensation benefits for non-public safety employees and police and fire medical bills are paid from the City's Workers' Compensation Self-Insurance Fund; (E) The City contracts annually for an actuarial valuation of the Workers' Compensation fund liability and a determination of the required annual contribution to the self-insurance fund.

- Group health insurance - The City offers group health benefits to employees, regularly working 20 or more hours per week and to retirees. The City retains the full risk associated with health benefits coverage, subject to a \$250,000 annual limit on individual claims, which is covered through a commercial excess insurance policy. The City contracts with Harvard-Pilgrim Health and Tufts Health plans for claims administration services. Health benefit self-insurance premiums are established annually by the City, at a level expected to cover the full cost of paid claims; incurred but unreported claims; claims administration; excess insurance premiums; and a reserve for extraordinary and unforeseen claims experience. The target claims reserve is two months of average paid claims. Employees and retirees currently contribute 20% of the cost of coverage and the City funds the balance. All self-insured group health insurance activity takes place in a Group Health Insurance Fund, for which individual fund balances are maintained for each benefit plan option.

- All of the foregoing are the present practices of the City.

Official and officer compensation: The City expects to maintain compensation policies designed to attract and retain the most qualified officials and officers possible. Management level employees will be expected to maintain the highest level of professional competency during their employment with the City. To this end, it will be the policy of the City to provide resources for ongoing professional training and staff development.

- Elected officials – In accordance with the requirements of the City Charter, compensation for the Mayor, members of the Board of Aldermen, and School Committee is established by ordinance. Elected official compensation is generally subject to review by a Blue Ribbon Compensation Committee, every five to ten years.

- Management and non-union employees – The salaries of all Newton Public School management and non-union employees are determined by a vote of the School Committee. All municipal management and non-union employee salaries, except for the City Clerk/Clerk of the Board of Aldermen, are governed by a pay plan approved by the Mayor and subject to funding by the Board of Aldermen. The salary of the City Clerk/Clerk of the Board of Aldermen is established by ordinance, as required by law. The salaries of all municipal employees are published in the annual budget.

Procurement: In order to demonstrate that City resources are being used in an effective and efficient manner, the City expects to make maximum use of competitive bids and proposals for the purchase of goods and services.

Capital Planning: The City acquires, constructs and maintains a range of capital assets for purposes of providing governmental and business-like services. In accordance with the requirements of the City Charter, the Mayor annually prepares a five-year capital improvement plan, whose objective is to identify and prioritize financing sources for needed capital outlay improvements.

Capital outlay and improvements with a value of \$500,000 or more, along with those financed with capital grants and/or debt will be accounted for in a Capital Project Fund. Capital outlay and improvements with a value of less than \$500,000, but which are expected to require replacement annually, will be accounted for within the operating budget of the appropriate department. Non-recurring capital outlay and improvements with a value of less than \$500,000 will be accounted for by department in the special appropriation sub-fund of the appropriate City fund. In order to accumulate resources for future capital needs, a Capital Stabilization Fund will be maintained, with such separate sub-funds as the Mayor and Board of Aldermen shall agree to be necessary in order to effectively plan for future capital needs.

In order to spread the cost of capital improvements over the generations of Newton stakeholders expected to benefit from the improvements, debt financing is expected to be the principal financing source for major capital improvements. Debt maturity terms will not exceed the expected life of the capital asset being financed. Debt service for capital improvements benefiting all or the majority of the stakeholders of the City is to be financed from General Fund resources. Debt Service for water and sewer (including storm-water projects) will be financed from special revenue fund resources and debt service for eligible community preservation fund projects will be financed from Community Preservation Fund resources.

At least 3% of General Fund revenue, plus all Massachusetts School Building Assistance grant reimbursements, will be dedicated to capital improvement financing. To the extent that annual debt service requirements are less than this sum, the difference will be appropriated to the City's Capital Stabilization Fund for future capital financing.

All of the foregoing is a reflection of existing practice.

Financial Reporting: The accounting records of the City will be maintained such that financial statements and supporting schedules can be prepared in accordance with the City's budgetary basis of accounting; the requirements of the Commonwealth of Massachusetts Departments of Revenue and Education; and generally accepted accounting principals for state and local governments.

The Board of Aldermen, through an Audit Sub-Committee of the Board's Finance Committee, shall make arrangements for an independent annual financial audit of the City's financial statements and accounts, which is expected to be presented no later than 180 days after the end of the City's fiscal year. Copies of the City's audited Comprehensive Annual Financial Report, Federal Single Audit Report, and Management Letter will be posted on the City's website.

Quarterly budgetary-basis financial reports, in a format requested by the Mayor and the Finance Committee of the Board of Aldermen, will be rendered within 30 days after the close of each fiscal quarter, with the exception of year-end, when a complete budgetary basis annual financial report shall be presented within 60 days of the end of the fiscal year. A complete copy of the budgetary-basis annual financial report will be posted on the City's website. More frequent financial reports will be rendered as needed in order to assure that the mayor and Board of Aldermen are made aware of unanticipated results of financial operations.

Free Cash – Free Cash represents the accumulated difference between General Fund revenues and expenditures, on a cash basis of accounting. It is a goal of the City that Free Cash is not expected to be a recurring source of financing for either the operating or capital budget of the City. It is a goal of the City that the primary purpose of Free Cash is to serve as a financing source for third tier budget contingencies (revenues or expenditures) that are not provided for in either operating Department or Budget Reserve appropriations of the annual General Fund budget, and to hedge against reductions in annual state aid distributions to the City. The target amount of free cash is 1% - 3% of General Fund revenue. The City recognizes that the target amount of Free Cash is significantly less than national norms, however, the target level is considered prudent, given the stability of our revenue sources and the following recommendations contained in this document:

- General Fund Revenues budgeted at 99% of what actual collections are expected to be.
- Free Cash is not expected to serve as a recurring operating or capital budget financing source.
- Employee salaries and wages budgeted in full within annual operating budgets and provision is made for expected collective bargaining and salary scale adjustment in a separate wage reserve.
- Legal claims and settlements, budgeted at the median annual expenditure level for the trailing five year period, with backup reserve capability in the Liability Self Insurance Fund.

- Snow and ice control appropriated at the median annual expenditure level for the trailing five year period, with backup reserve capacity in the appropriated Budget Reserve (contingency).
- Separate funded self insurance funds maintained for Group Health and Workers' Compensation liability exposures.
- A Budget Reserve (revenue and expenditure) contingency of 0.5% of total revenues is included in the annual operating budget to meet recurring extraordinary and unforeseen requirements.
- The property tax serves as the City's primary source of revenue and revenues from this source are not as economically sensitive as revenues from sales and wage taxes.
- Property taxes are payable in quarterly installments, with delinquencies assessed penalties of 14% per annum, which provides the City with a source of regular and stable cash flow.
- It shall be the practice of the Mayor to inform the Board of Aldermen whenever these guidelines, goals, policies and practices need to be modified in a particular instance.