Monday, Oct. 6, 2025

Mayor's Newton Update

I'm sharing with you excerpts from the City of Newton Long-Range Financial Plan & Five-Year Financial Forecast FY2027-FY2031 that Chief Financial Officer Maureen Lemieux and I delivered to the City Council tonight.

Click here to read the entire Long-Range Financial Plan and Forecast and Click here to read the entire Capital Improvement Plan (CIP) FY2027-FY2031 that Chief Operating Officer Jonathan Yeo prepared.

CURRENT SITUATION

Moody's credit opinion in January 2025 summarized Newton's financial situation aptly. They stated that the City of Newton's financial situation is very strong and awarded us their highest rating of triple Aaa. They noted that we benefit from a strong and diverse economy within the greater Boston metro area with high resident income over 200% of the U.S. median. (More ahead on the economic headwinds now facing Greater Boston.) They applauded our healthy financial position bolstered by exceptional, diligent and forward-looking fiscal management. They expected our financial operations to remain stable, pointing to conservative budgeting of expenditures in line with revenue growth and our aggressive funding of the pension plan with a full funding date of fiscal 2032.

In terms of financial challenges, Moody's noted three for the City of Newton: (1) revenue raising constraint under the Proposition 2 ½ tax levy limit, (2) above-average tax burden for residents compared to other Massachusetts communities, and (3) a largely built out city with limited new growth potential from development.

Moody's concluded by suggesting that Newton's finances would remain strong as long as we have a strong economy, taxpayer support, strong fiscal management, and a sustained commitment to addressing long-term liabilities.

The **Boston Federal Reserve** is cautious about Greater Boston's economic outlook. In September 2025, the Boston Federal Reserve deemed the outlook mixed as consumer spending flattens, tariff uncertainty persists, and economic activity edges up only slightly with mixed results across industry sectors. Commercial real estate is still weak. Employment is down slightly while prices increased modestly. House prices in New England continued to rise at an above-average pace compared with U.S. house prices. Sentiment remained either pessimistic or guarded; the Consumer Confidence Index for New England

decreased 8 percent in August 2025 from one year earlier. Projections show the Massachusetts economy is expected to grow at roughly a 2 percent annual pace in the third and fourth quarters of 2025.

We are mindful of **Federal policies** which present challenges to the State and Greater Boston's financial outlook and to that of our residents. The health care, biotech/life sciences and higher education sectors are vitally important to our region and each of them are under pressure from funding decisions in Washington, D.C. The Commonwealth, for example, is regularly among the top three states for National Institutes of Health (NIH) and National Science Foundation (NSF) funding and typically the top recipient in the country in per capita terms. Federal funding of $22 billion accounts for more than 25% of the State Budget. Federal funding to the State government for healthcare, human services, education, transportation, support for low-income residents, and climate initiatives have been cut and more cuts are expected. An alert in mid-September warned that the U.S. House of Representatives Appropriations Committee is aligning with the President's proposal to cut school districts' Title I (support for low-income students) by approximately 25% and eliminate Title II (support for teacher professional development) and Title III (support for English learners) funding; these cuts would represent a loss of $440,000 for the Newton Public Schools. Concerns about federal funding and economic uncertainty along with high interest rates are casting a shadow on investments.

We also know that **Massachusetts** faces a series of challenges and risks. The cost of living is high, with housing and energy particularly notable. Transportation infrastructure is challenged. Massachusetts has seen weaker job growth than other parts of the country, as well as slower population growth. Data indicates a sustained outmigration of young and high-income residents. Concerns about taxes and regulations in the Commonwealth are growing.

Both the Massachusetts Municipal Association (MMA) and the Metropolitan Area Planning Council (MAPC) are reporting on the financial challenges facing all 351 cities and towns in the Commonwealth. They are suggesting that **municipalities are facing a "perfect storm"** with historic fiscal pressures. These include on the expense side rising costs and shrinking state aid in "real" inflation adjusted terms. On the revenue side, they highlight the prohibition against almost all sales and income taxes by cities and towns combined with a 2.5% cap on property tax increases from Proposition 2 1/2.

We add to Moody's assessment, the Boston Federal Reserve's outlook, and headwinds from Federal policies our following analysis specifically about **Newton**:

- As a fully built-out City preparing budgets within the confines of Proposition 2 ½, our revenues will continue to grow only modestly.

- While we have invested heavily – hundreds of millions of dollars in the past two decades – the previous underfunding of capital, maintenance and retiree liabilities, continue to weigh heavily on us. We have much work ahead – more school buildings to renovate, a significant update to police headquarters needed, and a lot of roads to pave, especially lightly traveled ones in neighborhoods. (Notably, our analysis shows that we need to double our paving budget (which is approximately $2.7 million of the $9.5 million we set aside annually for all our street and sidewalk projects) to reach our preferred condition level.) We have necessary and quite

expensive investments ahead in our stormwater system to control phosphorus and to prevent flooding. Both our pension and retiree health care long-term liabilities require significant funding for the next 20 years.

- While we have made, and will continue to search for, cost efficiencies on cityside operations (with technology and AI providing unique opportunities), cost reductions are likely limited as we are lightly staffed (a main cost driver) and needs outpace our current capacity.

- Finally, rising costs within the Newton Public Schools (which accounts for almost 65% of all total City spending) are far outpacing the growth in our revenue streams.

LOOKING AHEAD

This Long-Range Financial Forecast projects out ten years from Fiscal Year 2027 through Fiscal Year 2036. These next ten years are pivotal because of the critical need and important decision to fund fully the City's significant pension liability by FY2032 and then use a significant portion of those monies to fund the City's retiree health care or OPEB liabilities through the 2030s and into the mid-2040s with full funding of retiree healthcare liabilities achieved by approximately 2045.

Property Tax and New Growth Revenue Assumptions

We built this forecast by first looking at revenue projections. The first key assumption is that real and personal property taxes will increase by 2.5% annually as allowed under Proposition 2 ½. The second key assumption is an average annual growth rate of 1.3% for our projected additional tax revenues resulting from new growth and redevelopment. Thus, we are projecting an increase in property tax and new growth property tax revenues of 3.8%. These property Taxes make up 83% of the City of Newton's annual general fund revenues.

Revenue from Excise Taxes, Building Permits and Interest Income

Property Taxes make up 83% of the City of Newton's annual general fund revenues. The other 17%, or approximately $93 million, derives from State Aid, Motor Vehicle Excise Taxes, Building Permits, Interest Income, and other miscellaneous revenues. These revenues do not necessarily increase at the same rate as property taxes. In fact, we only project a 2.5% annual increase in State Aid.

Notably, Motor Vehicle Excise Taxes, Building Permits, and Interest Income revenue streams have not only recovered since the pandemic but have demonstrated sustained higher levels over the past two or three years. We have used this information to increase our forecast in these areas for the next fiscal year, thus creating a higher rate of growth for the FY2027 ordinary revenue (4.4%). In FY2028, we forecast that these three categories — Motor Vehicle Excise Taxes, Building Permits, and Interest Income — will stabilize and remain relatively flat rather than continue to grow. As a result, the average annual growth rates in ordinary revenues beginning in FY2028 and extending through FY2031 are 3.4%.

Ordinary Revenue and Total Revenue Projections

All these assumptions combine to lead to a projection of Total Ordinary Revenue growth from the FY2026 Budget of $538 million to approximately $641 million by FY2031, consisting of a projected 4.4% growth in Ordinary Revenue in FY2027 followed by an average annual growth rate in Ordinary Revenue of approximately 3.4% over the next four years.

Ordinary Revenue growth will be supplemented by two additional sources of funding. First, there are increases in debt excluded property tax revenues as we continue to build, and thus bond, the Countryside and Franklin Elementary Schools. Second, monies are available from "Proceeds from the NPS Stabilization Fund." As a result, Total Revenue — including debt excluded revenue and proceeds from the NPS Stabilization Fund — is projected to increase by 4.7% in FY2027, declining to 3.8% in FY2028 and further to 3.4% by FY2031.

Importantly, the additional debt exclusion revenues can only be used to fund the debt service on the two elementary school building projects, Countryside and Franklin. The NPS Stabilization Funds can support the operating costs of NPS. While use of the NPS Stabilization Fund is a very attractive source, we must be very careful not to create a financial cliff (and subsequent layoffs) when the Stabilization Funds run out.

Forecast for the Newton Public Schools Operating Budget

Funding the Newton Public Schools is extraordinarily important as supporting our children and their education is a bedrock value. Additionally, the Newton Public Schools is by far our largest department and expenditure line item. Although enrollments have declined and are expected to continue to do so based on projected demographic trends, we recognize that our students of all ages are still negatively impacted by the coronavirus pandemic and social and emotional needs are increasing.

This forecast has been developed with a careful analysis of revenues as well as an understanding of the needs to fund municipal departments, pay debt service, and contribute to pension and retiree healthcare obligations. This analysis allows a one-year total increase of 5.0% for the NPS FY2027 operating budget (including monies from the NPS Educational Stabilization Fund), and not less than a 3.5% increase to the NPS FY2028 – FY2036 operating budgets.

Notably, the FY2027 increase in spending for the Newton Public Schools is higher than both the increase in Ordinary Revenues and Total Revenues and is significantly higher than the increase in the city-side department budgets. In other words, spending for NPS is prioritized.

Based on this forecast, NPS can expect a 5.0% increase for the next school year (FY2027); however, NPS has no promise of, nor should they expect, more than a 3.5% increase in the following nine years in line with the City of Newton projected revenues.

Integral to this Long-Range Financial Plan is the utilization of the NPS Educational Stabilization Fund. With the support of the City Council, the Fuller Administration appropriated a total of $24 million of one-time funds into on-going support to bolster operations for the Newton Public Schools. Without additional

funding, it is projected that the Fund will be depleted by FY2030.

This forecast assumes investing an additional $10 million of one-time funds in the NPS Educational Stabilization Fund to extend the life of the fund through FY2032, the projected year of full funding of the Pension System. With the injection of an additional $10 million into the Fund, this forecast assumes funding from the NPS Stabilization Fund for the school district increases each year by the same rate as the increase in the operating budget appropriation through FY2032. After that, in FY2033, this forecast assumes that we can eliminate funding from the NPS Stabilization Fund and instead replace that funding source with funding from the pension appropriation as the Pension liability will be fully funded which frees up sufficient monies to support NPS and the elimination of the NPS Stabilization Fund.

Concerns about the Newton Public Schools Operating Budget

We are very supportive of the Newton Public Schools and the education of our children. This is the highest priority for the City of Newton.

However, we are concerned about the expectations of the Newton Public Schools regarding the future level of funding. The first example of such high expectations is seen in the Newton Public Schools' Fiscal Year 2026 Superintendent's Proposed Budget from earlier this year. This multi-year financial forecast by NPS indicates the need for an FY2027 appropriation that is 7.1% more than the approved FY2026 Budget of $292,963,623 when the FY2026 additional Health Insurance costs are included. This is a cause for concern as the City simply cannot afford that level of spending.

Similarly, a second example of an NPS spending plan gives us concern. Several times the Superintendent has presented five different budget scenarios with varying levels of increases in funding to the NPS Budget, title "*A Tale of Five Budget Models*."

"*A Tale of Five Budget Models*"

- "Cuts & Reductions" with a 3.65% increase in funding
- "Level Service – Maintain Status Quo" with a 5.05% increase in funding
- "Level Service Plus – Stabilize and Include Minimal Restorations" with a 6.1% increase in funding
- "Level Service + Restoration – Invest in Targeted Strategic Resources and Restorations from Five Years of Reductions" with an 8.0% increase in funding (Note: The NPS Budget has increased annually every year; there have been no reductions in funding)
- "Thrive Budget – Visionary and Programmatic Improvements" with a 9.0% increase in funding

Three of the five budget models for NPS and percent increases are either difficult or unattainable. We have included them here to highlight challenges ahead for the school district without either an infusion of additional revenues or a

restructuring of the trajectory of NPS expenditure growth. While we can responsibly forecast a total increase of 5.0% to the Newton Public Schools for FY2027, thereafter we can only commit to a 3.5% increase.

Forecast for the City Department Operating Budgets

This forecast also allows for a total increase to City department budgets of 4.09% in FY2027 (notably less than the 5.0% increase to the Newton Public Schools as NPS is prioritized) and then not less than a 3.5% increase to the FY2028 – FY2031 Municipal Department Budgets.

Free Cash

We are ever mindful that Free Cash should be restricted to paying one-time expenditures, funding capital projects, or replenishing other reserves, and not to supplement current-year departmental operations.

Forecast for Pensions and Retiree Healthcare (OPEB)

Funding our long-term liabilities (Pensions and Retiree Healthcare (OPEB)) must remain a priority for the City. Therefore, this forecast assumes increasing the Pension appropriation by 6.6% annually for the next six years, in line with the funding schedule approved by the Newton Contributory Retirement System Board of Trustees. The Forecast provides only modest increases in the percentage appropriated for OPEB, with a significant increase starting in FY2033.

Forecast for Debt Service

This forecast recognizes the importance of investment in our capital infrastructure. We will continue to move forward with our current major school building projects, Countryside and Franklin Elementary Schools, both with the funding approved by our voters via the debt exclusion overrides in March 2023. Any additional major building projects will require debt exclusion overrides by our voters as this forecast envisions only sufficient debt service for the ordinary investments in capital infrastructure (e.g., fire trucks, DPW equipment, and smaller capital projects like boiler and roof replacements).

Further, although not part of the general fund forecast, the City must address the new Charles River water quality standards regarding stormwater-related phosphorus load reductions as required by our Massachusetts Municipal Separate Storm Sewer Systems (MS4) General Permit. Completion of the number of projects, their associated complexity and cost, along with community impacts such as construction disruption and staff labor resources, as currently required, is not feasible. While the City is in the process of submitting an alternative schedule request to the EPA, we recognize that significant investments will need to be made in this area and stormwater fees will have to increase dramatically. We are also mindful that increased stormwater investments to protect against flooding are required.

MANAGING WITH FINANCIAL CONSTRAINTS

Future Administrations will need to manage carefully the annual budgets and long-term commitments to personnel costs, debt service, municipal and NPS expenditures, and new initiatives. The City by law must always have a balanced

budget. Simultaneously, we must balance the current needs of all departments along with capital investments while addressing long-term liabilities. Certainly, revenues may be higher (or lower) than expected throughout the next decade; costs may be lower. Our City Department Heads and the Superintendent will need to look continuously for ways to generate savings by delivering services more efficiently. They must also consider carefully any new initiatives and propose reallocation of funds and/or modifications of service levels or the schedule for delivery. This will require difficult decisions to be made.

The Levers

The City has quite a few levers to pull to address these challenges. We have utilized several of these levers in the past in Newton. We will likely need to use quite a few, if not all of them, in the future.

These levers include:

- Instituting more efficiencies. For example, we have loved our elementary school neighborhood model with 15 schools today, a decrease from 22 in years past. With declining enrollment, this model may need to continue to be adjusted. Our two oldest school buildings that need to be reconstructed are proximate to each other and have the smallest enrollments of all 15 elementary schools. One of them only has enough students to have one classroom in two of its grade levels.

- Evaluating continuously outsourcing and insourcing programs and services for savings and improvements.

- Deciding whether to reduce the scope and scale of current operations.

- Considering whether to slow down the increase in funding of retiree benefits. We did this two years ago to help fund a school project. We could consider it again but that keeps Newton in the basement on retiree funding levels and increases the overall costs to Newton's taxpayers. Importantly, the Newton Retirement Board is independent and has full authority over the funding decision on pensions.

- Acknowledging that any new major capital project from new school buildings to an overhaul of police headquarters will require a vote by our residents for a debt exclusion override so we do not use more operating funds to pay the debt service for the new buildings.

- Negotiating collective bargaining agreements that maintain parity between revenue growth and growth in compensation and benefits, especially as compensation accounts for 88% of the NPS budget and 70% of the cityside department budgets.

- Supporting new housing – houses, condominiums, and apartments – and new commercial development to increase revenues on an ongoing basis.

- Asking voters to consider operating overrides and doing this more regularly, especially in inflationary periods, to preserve services and to have smaller operating overrides that may be more acceptable. That is what the Town of Arlington does. Arlington's model calls for an operating override every 4 to 5

years with general government operating budgets growing slightly less than the school budget, while continuously maintaining its financial health against future fiscal shocks with a strong bond rating.

- Modifying Proposition 2 ½ or increasing options for additional City taxesby working with the state legislature.

We should think about pulling these levers right now and using many of them sooner rather than later.

IN CLOSING

In closing, we in the City of Newton, despite inflation, economic challenges and a pandemic, have proven strategies and a lot of experience in balancing and managing our Budget so we can address three community goals simultaneously:

- First, moving forward sustainably to make Newton greater, better and more beautiful, focusing on excellent schools, first-rate public safety, better and safer streets, sidewalks and mobility, caring support for those struggling, top notch services and programs for older residents, outstanding and responsive services, beautiful parks, playgrounds and conservation areas, plentiful recreation, art and cultural opportunities, vibrant villages, proactive actions to address housing, transportation, economic development and climate resiliency, and continued acceleration of key capital projects.

- Second, protecting the City's financial strength and budgetary flexibility so we can face evolving risks and unpredictable financial conditions, such as pandemics, economic downturns, inflationary cycles, dramatic weather events and the loss of federal or state funding.

- Third, fulfilling long-term obligations that we have not yet funded sufficiently, including the $744 million dollars of unfunded pensions and retiree health care liabilities.

We are so grateful to our residents and business people who provide the funding to support the community, to our City Councilors who analyze every funding decision and vote on each one, to our School Committee members who guide the spending decisions for the schools, and to our City and School staff who do the hard work daily of serving the people who live, work and go to school here.

Despite our challenges, we are filled with confidence in Newtonians and Newton. Our community is overflowing with people who willingly give of their time and talents to help each other, give back, and move us forward. Our team manages our finances carefully, balancing our current needs with future obligations. We are able to present a Long-Range Financial Plan and Five-Year Financial Forecast that is comprehensive, forward looking, financially stable, and fiscally disciplined. Our debt load remains stable. We fund our pension liability in full in six years. We grow our expenditures in line with our steady, stable and modestly increasing revenues, prioritizing spending for NPS operations. No financial cliff looms. Low and manageable budget gaps are projected.

For the City's finances to remain sustainable, we must remain steadfast in our determination to balance the annual operating budget that provides programs and services our residents need and want, while addressing infrastructure needs,

offering fair wages and benefits, fully funding all liabilities from debt service to pensions to retiree health care in an appropriate time frame, and developing and maintaining an appropriate level of reserves for economic downcycles, dramatic weather events and other unpredictable lightning bolts such as a pandemic. The City's voters may still need to be asked to make important investment decisions for new larger capital projects and/or expansions of City or School programs.

We are honored to have served as your Mayor and Chief Financial Officer, Ruthanne Fuller and Maureen Lemieux.