



Finance Committee Report

City of Newton In City Council

Tuesday, May 23, 2023

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

Also Present: Councilors Bowman, Leary, Downs, Lucas, Albright and Crossley

City staff present: Comptroller Steve Curley, Deputy Chief Operating Officer Jonathan Yeo, Director of Assessing Jim Shaughnessy, Deputy Director of Human Resources Francoise Charlot, Human Resources Director Michelle Pizzi O'Brien, Energy Coach Liora Silkes, Director of Community Engagement & Inclusion Hattie Kerwin Derrick and Co-Directors of Sustainability Ann Berwick and Bill Ferguson, Chief Financial Officer Maureen Lemieux, Payroll Manager Allison Quach, Manager of Financial Planning and Analysis Perry Rosenfield, and Senior Financial Analyst Connor Roach

#127-23 Appropriate \$10,000,000 from FY22 Free Cash

HER HONOR THE MAYOR requesting authorization to appropriate and expend ten million dollars (\$10,000,000) in FY22 Free Cash for the Lincoln-Eliot Elementary School construction project.

Committee of the Whole Held 24-0 on 05/03/23

Committee of the Whole Approved 6-0-10 (Councilors Gentile, Grossman, Kalis, Krintzman, Laredo, Malakie, Markiewicz, Oliver, Wright, Albright abstaining and Councilors Baker, Downs, Kelley, Leary, Lipof, Norton not voting) on 05/10/23

City Council voted to refer item to the Finance Committee 15-8 (Councilors Bowman, Crossley, Downs, Greenberg, Humphrey, Leary, Norton and Ryan opposed) on 05/15/23

Action: Finance Approved 2-1-4 (Councilor Malakie opposed and Councilors Gentile, Grossman, Oliver and Kalis abstaining and Councilor Norton not voting)

#154-23 Transfer \$1,750,000 to the Rainy-Day Stabilization

HER HONOR THE MAYOR requesting authorization to transfer the sum of one million five hundred thousand dollars (\$1,500,000) from Acct #0110498-579400 Reserve for Snow & Ice Removal and the sum of two hundred fifty thousand dollars (\$250,000) from June 30, 2022 Certified Free Cash to Acct# 5900-1040 Rainy Day Stabilization Fund.

Action: Finance Motion to Approve Failed 1-3-3 (Councilors Humphrey, Noel and Gentile opposed and Councilors Oliver, Malakie and Grossman abstaining and Councilor Norton not voting)

Note: Maureen Lemieux, Chief Financial Officer joined the committee to discuss items #127-23 and #154-23. The Chair noted that item #127-23 has been discussed at prior meetings and asked Ms. Lemieux to introduce item #154-23.

Ms. Lemieux explained that when the administration was first contemplating going to the Retirement Board regarding pushing the full funding date for the pension system out to 2032, they wanted to make sure it would not jeopardize the City's bond rating. She further explained that Moody's opinion was that the City needs to be very cautious of the City's reserves and Newton has reserves that are on the low side in the opinion of Moody's. This request would help the City move the Rainy Day Stabilization increase to 6% of the City's budget.

Councilors made the following comments:

A Councilor noted their concern regarding moving additional funds to the Rainy Day Stabilization Fund and believes this would not negatively affect the City's bond rating. These funds along with the overlay surplus could be put in an unrestricted reserve account so that they can earn interest. Moody's should be in favor of this due to that fact it would still be in a reserve account and it would be unrestricted.

A proposed budget resolution has been filed requesting the Mayor to increase the allocated free cash amount to supplement the FY 24 budget from \$1.5 million to \$2.1 million and that the \$600,000 increase be used to help fund the operating costs of the Newton Public Schools. It was expressed that the \$600,000 should not be tied to the \$10 million for Lincoln-Eliot. The Lincoln-Eliot project should still be bonded and that money should be moved to a separate account to earn interest that could potentially be more than the \$600,000. The attached back-up gives insight into these numbers.

Concerns were raised regarding receiving funding items too late for the City Council to discuss fully and the Council is forced to rush through these discussions.

Some Councilors noted their approval of the \$10 million to Lincoln-Eliot due to the fact that interest rates could change and the City should not rely on putting these funds in a separate account and risk not having the funds for the Newton Public Schools. By not bonding this \$10 million it will free up the \$600,000 the City would otherwise have to pay in interest payments each year.

A Councilor noted that they may propose a resolution to add an additional \$600,000 to pay for all of the school department's tier 1 funding needs, which would include needs for the middle schools.

It was noted that the City is in this position because the override failed and the Mayor's solution for the \$10 million will give a continuous source of revenue for 30 years.

Regarding the above point, one Councilor noted that even if the \$600,000 is made available this year, that does not mean future Mayors will choose to allocate those funds to the Newton Public Schools.

It was noted that if the plan is chosen to bond the \$10 million and move the free cash funds along with additional surplus funds totaling approximately \$20 million to an unrestricted account, that can earn interest and can be revaluated each year. The City can chose later if they would want to pull the \$10 million instead of bonding it.

Ms. Lemieux explained that when the override did not pass, they had to find the best solution to still fund the schools. The administration feels that the solutions that they have put before the Council are a good plan. She also noted that their philosophy is to look for long-term solutions and this is a long-term solution to give the \$600,000 for the schools.

Councilor Humphrey motioned to approve item #127-23 which passed 2-1-4 with Councilor Malakie opposed, Councilors Gentile, Grossman, Kalis and Oliver abstaining and Councilor Norton not voting.

Councilor Kalis motioned to approve item #154-23 which failed 1-3-3 with Councilors Humphrey, Noel and Gentile opposed, Councilors Oliver, Malakie and Grossman abstaining and Councilor Norton not voting.

The Chair put both items on second call for when they are discussed by the full City Council. Item #127-23 will be discussed by the full City Council, next week during the budget process and item #154-23 will be discussed at the next regularly scheduled meeting of the City Council on June 6th.

The remainder of this report will be posted on June 2nd to the City's website.

The Committee adjourned at 11:30 pm.

Respectfully submitted,

Rebecca Walker Grossman, Chair

MODEL #1: Constant Annual Yield

*** this analysis is no guarantee of future results

Year	Annual Yield 6.00%	2/3 Drawdown 4.00%
	Starting Balance \$10,000,000	
1	\$10,616,778	(\$424,692)
2	\$10,939,698	(\$437,610)
3	\$11,160,508	(\$446,443)
4	\$11,329,072	(\$453,186)
5	\$11,465,771	(\$458,654)
6	\$11,580,955	(\$463,261)
7	\$11,680,612	(\$467,248)
8	\$11,768,518	(\$470,764)
9	\$11,847,215	(\$473,912)
10	\$11,918,494	(\$476,764)
11	\$11,983,667	(\$479,371)
12	\$12,043,723	(\$481,773)
13	\$12,099,427	(\$484,001)
14	\$12,151,383	(\$486,080)
15	\$12,200,078	(\$488,028)
16	\$12,245,907	(\$489,861)
17	\$12,289,198	(\$491,593)
18	\$12,330,225	(\$493,234)
19	\$12,369,219	(\$494,793)
20	\$12,406,377	(\$496,280)
21	\$12,441,871	(\$497,700)
22	\$12,475,845	(\$499,059)
23	\$12,508,430	(\$500,362)
24	\$12,539,737	(\$501,615)
25	\$12,569,866	(\$502,820)
26	\$12,598,904	(\$503,981)
27	\$12,626,930	(\$505,102)
28	\$12,654,014	(\$506,186)
29	\$12,680,220	(\$507,234)
30	\$12,705,603	(\$508,250)
Avg		-\$482,995

MODEL #2: Assumes Investment in "laddered" Money Market Fund (0% Equity, 0% Fixed, 100% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	1.6% Drawdown (assumes constant drawdown)
		Starting Balance \$10,000,000	
1	3.00%	\$10,304,160	(\$330,566)
2	4.25%	\$10,420,152	(\$334,287)
3	5.49%	\$10,672,548	(\$342,384)
4	5.01%	\$10,877,309	(\$348,953)
5	5.06%	\$11,091,693	(\$355,831)
6	4.78%	\$11,277,816	(\$361,802)
7	4.64%	\$11,450,579	(\$367,344)
8	5.82%	\$11,767,726	(\$377,518)
9	3.40%	\$11,796,604	(\$378,445)
10	1.61%	\$11,609,492	(\$372,442)
11	1.01%	\$11,354,850	(\$364,273)
12	1.37%	\$11,147,119	(\$357,609)
13	3.15%	\$11,145,759	(\$357,565)
14	4.73%	\$11,326,969	(\$363,379)
15	4.36%	\$11,467,435	(\$367,885)
16	1.37%	\$11,257,644	(\$361,155)
17	0.15%	\$10,913,388	(\$350,111)
18	0.14%	\$10,578,566	(\$339,369)
19	5.00%	\$10,780,416	(\$345,845)
20	0.09%	\$10,444,278	(\$335,061)
21	0.06%	\$10,115,485	(\$324,513)
22	0.03%	\$9,794,007	(\$314,200)
23	0.05%	\$9,484,705	(\$304,277)
24	0.32%	\$9,210,823	(\$295,491)
25	0.93%	\$9,001,359	(\$288,771)
26	1.94%	\$8,888,776	(\$285,159)
27	2.06%	\$8,788,464	(\$281,941)
28	0.35%	\$8,537,332	(\$273,885)
29	0.05%	\$8,267,717	(\$265,235)
30	2.02%	\$8,171,044	(\$262,134)
Avg	2.41%		-\$333,581

MODEL #3: Assumes Investment US Treasuries (0% Equity, 97% Fixed, 3% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	3.2% Drawdown (assumes constant drawdown)
		Starting Balance \$10,000,000	
1	13.87%	\$11,479,080	(\$368,258)
2	-7.67%	\$10,260,538	(\$329,167)
3	22.94%	\$12,549,125	(\$402,586)
4	1.54%	\$12,340,834	(\$395,904)
5	9.79%	\$13,209,297	(\$423,765)
6	14.62%	\$14,850,906	(\$476,429)
7	-7.86%	\$13,247,886	(\$425,003)
8	16.33%	\$15,156,495	(\$486,233)
9	5.50%	\$15,525,988	(\$498,087)
10	14.71%	\$17,473,058	(\$560,550)
11	0.40%	\$16,982,336	(\$544,807)
12	4.40%	\$17,199,369	(\$551,770)
13	2.88%	\$17,149,250	(\$550,162)
14	2.04%	\$16,952,763	(\$543,859)
15	10.03%	\$18,190,489	(\$583,566)
16	19.54%	\$21,497,188	(\$689,648)
17	-10.78%	\$18,600,912	(\$596,733)
18	8.21%	\$19,590,190	(\$628,470)
19	15.71%	\$22,270,631	(\$714,460)
20	2.88%	\$22,206,922	(\$712,417)
21	-8.83%	\$19,612,061	(\$629,171)
22	10.43%	\$21,128,757	(\$677,828)
23	1.24%	\$20,715,082	(\$664,557)
24	0.68%	\$20,191,598	(\$647,763)
25	2.74%	\$20,104,893	(\$644,982)
26	0.04%	\$19,467,713	(\$624,540)
27	9.41%	\$20,756,747	(\$665,894)
28	11.00%	\$22,492,938	(\$721,592)
29	-4.29%	\$20,826,034	(\$668,117)
30	-17.23%	\$16,839,032	(\$540,210)
Avg	4.81%		-\$565,551

MODEL #4: Assumes Investment in Balanced Fund (72% Equity, 25% Fixed, 3% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	5.9% Drawdown (assumes constant drawdown)
		Starting Balance \$10,000,000	
1	10.32%	\$11,082,339	(\$650,764)
2	-1.42%	\$10,523,064	(\$617,923)
3	32.32%	\$14,148,482	(\$830,810)
4	16.34%	\$16,079,947	(\$944,228)
5	25.97%	\$20,128,175	(\$1,181,943)
6	23.78%	\$24,569,124	(\$1,442,719)
7	12.62%	\$26,677,099	(\$1,566,501)
8	-2.66%	\$24,656,027	(\$1,447,822)
9	-7.54%	\$21,654,177	(\$1,271,551)
10	-12.49%	\$18,063,753	(\$1,060,718)
11	20.04%	\$21,250,000	(\$1,247,817)
12	8.40%	\$22,116,557	(\$1,298,702)
13	3.79%	\$21,925,084	(\$1,287,459)
14	11.37%	\$23,528,327	(\$1,381,602)
15	6.13%	\$23,887,101	(\$1,402,670)
16	-21.75%	\$18,003,400	(\$1,057,174)
17	15.40%	\$20,191,755	(\$1,185,676)
18	12.29%	\$21,896,798	(\$1,285,798)
19	5.17%	\$22,026,750	(\$1,293,429)
20	11.69%	\$23,713,645	(\$1,392,484)
21	20.37%	\$27,905,223	(\$1,638,617)
22	11.92%	\$30,045,785	(\$1,764,313)
23	0.82%	\$28,778,228	(\$1,689,881)
24	8.16%	\$29,784,975	(\$1,748,998)
25	15.79%	\$33,362,677	(\$1,959,084)
26	-3.49%	\$30,502,943	(\$1,791,158)
27	24.44%	\$37,342,299	(\$2,192,770)
28	15.32%	\$41,556,866	(\$2,440,253)
29	18.89%	\$47,958,564	(\$2,816,166)
30	-17.86%	\$37,473,347	(\$2,200,465)
Avg	8.80%		-\$1,469,650

MODEL #1: Constant Annual Yield

*** this analysis is no guarantee of future results

Year	Annual Yield 6.00%	2/3 Drawdown 4.00%
	Starting Balance \$25,000,000	
1	\$26,541,945	(\$1,061,731)
2	\$27,349,244	(\$1,094,024)
3	\$27,901,271	(\$1,116,107)
4	\$28,322,679	(\$1,132,964)
5	\$28,664,427	(\$1,146,634)
6	\$28,952,389	(\$1,158,153)
7	\$29,201,529	(\$1,168,120)
8	\$29,421,295	(\$1,176,911)
9	\$29,618,038	(\$1,184,781)
10	\$29,796,235	(\$1,191,909)
11	\$29,959,167	(\$1,198,427)
12	\$30,109,307	(\$1,204,432)
13	\$30,248,567	(\$1,210,003)
14	\$30,378,459	(\$1,215,199)
15	\$30,500,196	(\$1,220,069)
16	\$30,614,768	(\$1,224,652)
17	\$30,722,995	(\$1,228,981)
18	\$30,825,562	(\$1,233,084)
19	\$30,923,047	(\$1,236,984)
20	\$31,015,943	(\$1,240,700)
21	\$31,104,677	(\$1,244,249)
22	\$31,189,614	(\$1,247,647)
23	\$31,271,075	(\$1,250,906)
24	\$31,349,343	(\$1,254,036)
25	\$31,424,664	(\$1,257,049)
26	\$31,497,259	(\$1,259,953)
27	\$31,567,324	(\$1,262,756)
28	\$31,635,035	(\$1,265,465)
29	\$31,700,549	(\$1,268,085)
30	\$31,764,008	(\$1,270,624)
Avg		-\$1,207,488

MODEL #2: Assumes Investment in "laddered" Money Market Fund (0% Equity, 0% Fixed, 100% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	1.6% Drawdown (assumes constant drawdown)
		Starting Balance \$25,000,000	
1	3.00%	\$25,760,399	(\$826,415)
2	4.25%	\$26,050,381	(\$835,718)
3	5.49%	\$26,681,370	(\$855,961)
4	5.01%	\$27,193,272	(\$872,383)
5	5.06%	\$27,729,233	(\$889,577)
6	4.78%	\$28,194,541	(\$904,504)
7	4.64%	\$28,626,446	(\$918,360)
8	5.82%	\$29,419,314	(\$943,796)
9	3.40%	\$29,491,510	(\$946,112)
10	1.61%	\$29,023,731	(\$931,105)
11	1.01%	\$28,387,126	(\$910,683)
12	1.37%	\$27,867,798	(\$894,022)
13	3.15%	\$27,864,397	(\$893,913)
14	4.73%	\$28,317,421	(\$908,446)
15	4.36%	\$28,668,588	(\$919,712)
16	1.37%	\$28,144,111	(\$902,887)
17	0.15%	\$27,283,470	(\$875,276)
18	0.14%	\$26,446,415	(\$848,423)
19	5.00%	\$26,951,040	(\$864,612)
20	0.09%	\$26,110,695	(\$837,653)
21	0.06%	\$25,288,712	(\$811,283)
22	0.03%	\$24,485,017	(\$785,500)
23	0.05%	\$23,711,763	(\$760,693)
24	0.32%	\$23,027,059	(\$738,727)
25	0.93%	\$22,503,398	(\$721,928)
26	1.94%	\$22,221,939	(\$712,898)
27	2.06%	\$21,971,160	(\$704,853)
28	0.35%	\$21,343,329	(\$684,712)
29	0.05%	\$20,669,292	(\$663,088)
30	2.02%	\$20,427,611	(\$655,335)
Avg	2.41%		-\$833,953

MODEL #3: Assumes Investment US Treasuries (0% Equity, 97% Fixed, 3% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	3.2% Drawdown (assumes constant drawdown)
		Starting Balance \$25,000,000	
1	13.87%	\$28,697,699	(\$920,646)
2	-7.67%	\$25,651,345	(\$822,917)
3	22.94%	\$31,372,813	(\$1,006,466)
4	1.54%	\$30,852,086	(\$989,761)
5	9.79%	\$33,023,242	(\$1,059,413)
6	14.62%	\$37,127,264	(\$1,191,074)
7	-7.86%	\$33,119,714	(\$1,062,508)
8	16.33%	\$37,891,237	(\$1,215,582)
9	5.50%	\$38,814,971	(\$1,245,217)
10	14.71%	\$43,682,646	(\$1,401,376)
11	0.40%	\$42,455,839	(\$1,362,019)
12	4.40%	\$42,998,423	(\$1,379,425)
13	2.88%	\$42,873,124	(\$1,375,406)
14	2.04%	\$42,381,909	(\$1,359,647)
15	10.03%	\$45,476,223	(\$1,458,915)
16	19.54%	\$53,742,970	(\$1,724,119)
17	-10.78%	\$46,502,280	(\$1,491,832)
18	8.21%	\$48,975,475	(\$1,571,174)
19	15.71%	\$55,676,577	(\$1,786,151)
20	2.88%	\$55,517,306	(\$1,781,041)
21	-8.83%	\$49,030,152	(\$1,572,928)
22	10.43%	\$52,821,892	(\$1,694,570)
23	1.24%	\$51,787,705	(\$1,661,393)
24	0.68%	\$50,478,995	(\$1,619,408)
25	2.74%	\$50,262,233	(\$1,612,454)
26	0.04%	\$48,669,284	(\$1,561,351)
27	9.41%	\$51,891,868	(\$1,664,734)
28	11.00%	\$56,232,345	(\$1,803,980)
29	-4.29%	\$52,065,086	(\$1,670,291)
30	-17.23%	\$42,097,579	(\$1,350,525)
Avg	4.81%		-\$1,413,877

MODEL #4: Assumes Investment in Balanced Fund (72% Equity, 25% Fixed, 3% Money Mkt)

*** Analysis of past performance is no guarantee of future results last 30 years as proxy for future returns (uses

Year	Annual Yields	Annual Yield Range -21.75% to 32.32%	5.9% Drawdown (assumes constant drawdown)
		Starting Balance \$25,000,000	
1	10.32%	\$27,705,848	(\$1,626,910)
2	-1.42%	\$25,935,099	(\$1,522,930)
3	32.32%	\$34,444,727	(\$2,022,622)
4	16.34%	\$38,760,172	(\$2,276,029)
5	25.97%	\$48,120,522	(\$2,825,676)
6	23.78%	\$58,349,335	(\$3,426,320)
7	12.62%	\$62,991,259	(\$3,698,898)
8	-2.66%	\$57,882,814	(\$3,398,926)
9	-7.54%	\$50,510,126	(\$2,965,996)
10	-12.49%	\$41,820,451	(\$2,455,731)
11	20.04%	\$48,836,375	(\$2,867,712)
12	8.40%	\$50,490,550	(\$2,964,846)
13	3.79%	\$49,727,068	(\$2,920,014)
14	11.37%	\$53,029,228	(\$3,113,919)
15	6.13%	\$53,515,431	(\$3,142,470)
16	-21.75%	\$40,052,922	(\$2,351,940)
17	15.40%	\$44,592,697	(\$2,618,519)
18	12.29%	\$48,038,489	(\$2,820,859)
19	5.17%	\$48,017,943	(\$2,819,653)
20	11.69%	\$51,384,025	(\$3,017,312)
21	20.37%	\$60,146,010	(\$3,531,823)
22	11.92%	\$64,454,546	(\$3,784,823)
23	0.82%	\$61,447,995	(\$3,608,276)
24	8.16%	\$63,302,965	(\$3,717,202)
25	15.79%	\$70,604,162	(\$4,145,934)
26	-3.49%	\$64,277,574	(\$3,774,431)
27	24.44%	\$78,379,830	(\$4,602,527)
28	15.32%	\$86,931,149	(\$5,104,668)
29	18.89%	\$100,024,716	(\$5,873,533)
30	-17.86%	\$77,905,980	(\$4,574,702)
Avg	8.80%		-\$3,252,507