



Finance Committee Agenda

City of Newton In City Council

Thursday, September 14, 2023

The Finance Committee will hold this meeting as a virtual meeting on Thursday, September 14, 2023, at 7:00 pm. To view this meeting using Zoom use this link: <https://newtonma-gov.zoom.us/j/83014516402> or call 1-646-558-8656 and use the following Meeting ID: 830 1451 6402

Items scheduled for discussion:

- #306-23 Establish and Appropriate funds to an Operations Booster Stabilization Fund**
HER HONOR THE MAYOR requesting authorization to Establish an “Operations Booster Stabilization Fund” to pay for a portion of the annual general fund appropriations for the City’s pension system; appropriate the sum of \$20,500,000 Overlay Surplus as declared by the City’s Board of Assessors to the Operations Booster Stabilization Fund; and transfer the sum of \$5,513,000 from Acct 01C10701-576300 Appellate tax Board Interest and Penalties Fund to the Operations Booster Stabilization Fund.
Finance To Meet On 9/11/23

Respectfully submitted,

Rebecca Walker Grossman, Chair

The location of this meeting is accessible and reasonable accommodations will be provided to persons with disabilities who require assistance. If you need a reasonable accommodation, please contact the city of Newton’s ADA Coordinator, Jini Fairley, at least two business days in advance of the meeting: jfairley@newtonma.gov or (617) 796-1253. The city’s TTY/TDD direct line is: 617-796-1089. For the Telecommunications Relay Service (TRS), please dial 711.



RUTHANNE FULLER
MAYOR

City of Newton, Massachusetts
Office of the Mayor

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Telefax (617) 796-1113

TDD (617) 796-1089

E-mail rfuller@newtonma.gov

August 21, 2023

Honorable City Council
Newton City Hall
1000 Commonwealth Avenue
Newton Centre, MA 02459

Dear Councilors:

I respectfully submit a docket item to your Honorable Council requesting authorization for three significant initiatives. The combination of these three initiatives will create an "Operations Booster Stabilization Fund" with an initial balance of \$26 million to be used to augment general fund pension appropriation increases, enabling the City to not only fully fund the pension system by FY2032, but to also "Boost" school and municipal budgets during that same period.

1. Establish an "Operations Booster Stabilization Fund" to pay for a portion of the annual general fund appropriations for the City's pension system, known as the Newton Retirement System Funding Schedule;
2. Appropriate the sum of \$20,500,000 Overlay Surplus as declared on this date by the City's Board of Assessors to the Operations Booster Stabilization Fund; and
3. Transfer the sum of \$5,513,000 from Acct 01C10701-576300 Appellate Tax Board Interest and Penalties Fund to the Operations Booster Stabilization Fund.

1. Establish the Operations Booster Stabilization Fund

The Operations Booster Stabilization Fund, including interest proceeds earned throughout the next eight years from investment income, will be utilized in conjunction with the General Fund appropriation to provide funding necessary to comply with the Newton Retirement Board Funding Schedule, thereby enabling the City to "Boost" appropriations to the Newton Public Schools, as well as other departments, while continuing to move toward full funding of the pension system. It is our intent and expectation that this fund will be depleted over the course of the next eight years when we anticipate that the City will attain full funding of the pension system.

Currently, the Newton Retirement Board has approved a funding schedule that increases by 6.6% per year through Fiscal Year 2032, the year we are projected to attain full funding. We will continue this funding amount and funding schedule. To meet this funding schedule, we will increase funding by 5.0% each year from the General Fund and utilize funds from this "Booster" Fund to supplement the remaining 1.6% annual increase. In so doing, we will be able to repurpose the value of the 1.6% to allow us to fund necessary operational needs. We intend to appropriate 70% of the "savings" generated by this fund to the Newton Public Schools each of the next years.

2. Appropriate \$20,500,000 from Overlay Surplus to the Operations Booster Stabilization Fund

On June 27, 2023, the City of Newton was notified that Eversource had withdrawn their Appellate Tax Board Filings for Fiscal Years 2012 through 2020. They declined to withdraw their appeals for FY2021 and FY2022.

Eversource had been appealing their assessed value from the City of Newton (as well as Boston, Brookline, Cambridge, and Springfield) since FY2012. Eversource had lost cases with Boston and Springfield but had continued to withhold payment and appeal to higher courts. In April 2022, the City received full payment of the principal and interest for Fiscal Years 2013 through 2022 from Eversource, totaling approximately \$12.7M. However, we were required to hold these funds in reserve until the appeal process was resolved.

The Eversource withdrawal of their appeals for FY12 – FY20 has enabled the Board of Assessors to declare more than 80% of the \$12.7M Eversource payment as surplus. (Funds are still being held for the remaining appeal of 2021 and 2022.) Additionally, as cases have resolved, and the ATB filing deadline of August 1 has passed, the Board of Assessors has been able to declare a surplus of \$20,500,000.

3. Transfer \$5.5 million from ATB Interest & Penalties Account to Operations Booster Stabilization Fund

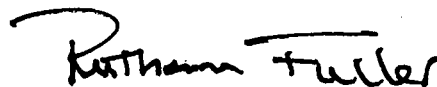
In addition to the funds held in the Overlay Account, there is \$5.5M held in the Appellate Tax Board (ATB) Interest & Penalties Account. The State allows municipalities to have a single overlay reserve (rather than requiring a separate overlay balance for each particular year) to cover the costs of potential abatements.

The Board of Assessors has determined that \$11M is the appropriate level to keep in the Overlay account for both abatements and any interest and penalties. Therefore, we no longer need an ATB Interest & Penalties Account and an additional \$5.5M is now available.

Attached you will find an analysis of the Operations Booster Stabilization Fund over the next eight years as well as the financial benefits it will provide to the Newton Public Schools and the City of Newton while we attain full funding of our Pension System in FY2032.

We look forward to discussing this important work with you. Thank you for your consideration of this matter.

Sincerely,



Ruthanne Fuller
Mayor

	Free Cash from FY18	Free Cash from FY19	Free Cash from FY20	Free Cash from FY21	Free Cash from FY22	Free Cash from FY23**
Revised Revenue Budget	\$ 394,361,438	\$ 412,457,674	\$ 429,629,606	\$ 436,050,274	\$ 463,823,290	\$ 478,981,145
Actual Revenues	\$ 404,965,063	\$ 424,438,459	\$ 435,779,981	\$ 447,324,111	\$ 493,466,882	\$ 499,323,238
Difference	\$ 10,603,625	\$ 11,980,785	\$ 6,150,375	\$ 11,273,837	\$ 29,643,592	\$ 20,342,093
Use of Fund Balance*	\$ 30,798,742	\$ 29,223,016	\$ 27,524,518	\$ 26,197,906	\$ 32,141,560	\$ 50,219,125
Revised Operating Budget	\$ 425,160,180	\$ 441,680,690	\$ 457,154,124	\$ 462,248,180	\$ 495,964,850	\$ 529,200,270
Actual Expenses	\$ 404,843,437	\$ 420,437,201	\$ 433,674,874	\$ 437,829,563	\$ 466,305,286	\$ 493,930,373
Encumbrances carried forward	\$ 17,714,513	\$ 18,773,007	\$ 17,729,941	\$ 19,121,129	\$ 26,642,603	\$ 30,274,964
Unobligated Balance	\$ 2,602,230	\$ 2,470,482	\$ 5,749,309	\$ 5,297,488	\$ 3,016,961	\$ 4,994,933
Free Cash Certified for following 7/1	\$ 11,909,715	\$ 11,706,532	\$ 7,381,282	\$ 12,931,618	\$ 28,860,460	~\$22M estimate
DETAIL OF FIGURES OF NOTE:						
City Turnback	\$ 2,601,881	\$ 2,468,955	\$ 5,748,833	\$ 5,297,252	\$ 3,016,841	\$ 4,994,705
School Turnback	\$ 349	\$ 1,527	\$ 476	\$ 236	\$ 120	\$ 228
Unobligated Balance Turned Back	\$ 2,602,230	\$ 2,470,482	\$ 5,749,309	\$ 5,297,488	\$ 3,016,961	\$ 4,994,933
City Revised Operating Budget	\$ 182,379,095	\$ 190,343,079	\$ 200,861,281	\$ 205,189,188	\$ 221,401,219	\$ 244,909,220
School Revised Operating Budget	\$ 219,850,596	\$ 231,383,410	\$ 238,065,689	\$ 244,455,563	\$ 254,508,285	\$ 261,552,696
Special Appropriations	\$ 22,930,489	\$ 19,954,201	\$ 18,227,154	\$ 12,603,429	\$ 20,055,346	\$ 22,738,354
Revised Operating Budget:	\$ 425,160,180	\$ 441,680,690	\$ 457,154,124	\$ 462,248,180	\$ 495,964,850	\$ 529,200,270

In FY22, we received \$29.6M over budgeted revenues. The main drivers were the Eversource/NStar personal property tax payment (\$7.2M personal property tax, \$4.6M interest) as well as other prior year tax payments coming in higher than normal. This brought our Property Taxes in at \$13.1M over budget and Interest and Penalties in at \$5.1M over budget. SPED Medicaid reimbursements came in about \$1.8M higher than budgeted. Licenses and Permits also had a record year and came in at \$4.2M over budgeted. There was also a \$2.1M payoff of a deferred Pilot program (unbudgeted), as well as a few other revenue sources coming in over budget, but also some categories under budget.

In FY23, we received about \$20.3M over budgeted revenues. The main drivers were \$8.4M in interest/investment income over budget as interest rates skyrocketed from the prior years' rates. We also received about \$5M more in Property Taxes over budget, as the result of prior year taxes being paid. Licenses and Permits had a another record year, exceeding the budgeted revenues by \$4.6M. Meals, Hotels and Cannabis taxes also came in \$1.7M over budgeted revenues.

Free Cash is determined by a multitude of things, but excess revenues and turned back money from the Operating budget are the key drivers. Accounts Receivable, Deferred Revenues, and cash deficits in other accounts (i.e. Grant accepted, meaning we can spend funds, but the City was not in receipt of that Cash at year end) also play a major roll in determining the Free Cash

*Use of Fund Balance includes the use of Free Cash, Overlay Surplus and Fund Balance Reserved for Encumbrances carried forward to balance the Operating Budget. For example, FY19's Use of Fund Balance figure is a combination of the \$17.7M of encumbrances carried forward from FY18 plus \$11.4M used in Free Cash

**FY23 Figures in RED will change as we work through the year end close process

information

Susan Albright <salbright@newtonma.gov>

Sat 8/19/2023 9:43 AM

To: Stephen Curley <scurley@newtonma.gov>

Cc: Rebecca Walker Grossman <rwgrossman@newtonma.gov>; Deborah J. Crossley <dcrossley@newtonma.gov>

Good morning Steve,

The Mayor's announcement of her new plan has stirred up a lot of interest in the budget again. There are two pieces of information that we really need. The first is with respect to ARPA, the second about free cash.

1.
 - a. How much of the ARPA money is left unboligated if any?
 - b. home much of the ARPA money is unspent?
 - c. How much of that unspent ARPA ,money is to projects that have not yet begun?
2. Free Cash
 - a. Are you able to provide us a spreadsheet of where the free cash came from? We know that the Mayor held out about 6 million from last year's free cash to drop to this year but what caused the rest of the free cash?I'm fairly certain that the Council will want to understand how we generated so much free cash.

Are you able to get us this information and by when?

Thanks for your help with this,
Susan

Susan Albright, President
Newton City Council
Councilor-at-Large, Ward 2

RE: information

Stephen Curley <scurley@newtonma.gov>

Tue 8/22/2023 8:25 AM

To: Susan Albright <salbright@newtonma.gov>

Cc: Rebecca Walker Grossman <rwgrossman@newtonma.gov>; Deborah J. Crossley <dcrossley@newtonma.gov>

Hi Susan,

In FY20, we came in about \$6.1M over budgeted revenues. Current Year taxes actually came in under budget by \$2.2M, while prior year taxes collected \$4.5M, bringing property taxes in over budget by \$2.3M net. Motor Vehicle came in \$500K under budget, as well as Hotel and Meals combining for another \$500K under budget. Licenses and Permits came in about \$4.5M over budget as we saw a lot of work being done during the pandemic as people spent time at home. At that point, it was the highest licenses and permits we have likely ever been.

In FY21, we came in about \$11M over budgeted revenues. This was largely made up of old Property tax revenues and associated interest coming in at \$5.1M over budget, and \$800K more in Motor Vehicle than budgeted. We were above budget in Licenses and Permits by about \$2.1M, which the following year the Administration then budgeted the Permits to be higher than what came in in FY21, but as I mention below, they blew well past that increased budget figure. We were below budget in items like Hotel tax, Charges for Service, and fines by a combined \$1.5M as some items took longer to bounce back from Covid.

In FY22, we came in almost \$30M over budgeted revenues. We had the unique year of the NStar payment (\$7.2M personal property tax, \$4.6M interest) as well as other old tax payments. This brought our Property Taxes in at \$13.1M over budget and Interest and penalties in at \$5.1M over budget. These two accounts sort of go hand in hand when old taxes are paid off, higher penalties and interest are also collected. Property taxes are budgeted for current year taxes and restricted through the calculation related to prop 2.5.

Also in FY22, SPED Medicaid reimbursements came in about \$1.8M higher than budgeted, which typically it comes in around the budgeted figure. Licenses and Permits also had a record year and came in at \$4.2M over budgeted. There was also a payoff of a deferred Pilot program (\$2.1M unbudgeted), as well as a few other things coming in over budget, but also some categories under budget.

Steve

From: Susan Albright <salbright@newtonma.gov>

Sent: Monday, August 21, 2023 1:50 PM

To: Stephen Curley <scurley@newtonma.gov>

Cc: Rebecca Walker Grossman <rwgrossman@newtonma.gov>; Deborah J. Crossley <dcrossley@newtonma.gov>

Subject: Re: information

Thank you Steve - this is very helpful. One more question for you.

There is so much more revenue than Maureen projected. Has this been a common occurrence? Has it happened in the last several years?

Susan Albright, President
Newton City Council
Councilor-at-Large, Ward 2

From: Stephen Curley <scurley@newtonma.gov>

Sent: Monday, August 21, 2023 11:53 AM

To: Susan Albright <salbright@newtonma.gov>

Cc: Rebecca Walker Grossman <rwgrossman@newtonma.gov>; Deborah J. Crossley <dcrossley@newtonma.gov>

Subject: RE: information

Hi Susan,

For ARPA:

- A. There is \$25,238.98 that is unobligated at this time. There is also \$575,000 set aside in a Contingency account with no specific projects tied to them. There may be other items that the Executive Office is discussing that I'm not aware of for these funds.
- B. To date, there is \$21,359,467.25 in unexpended, unencumbered funds and \$8,845,446.71 in funds encumbered in Contracts and Purchase Orders for various projects.
- C. Of the \$21.4M that is unexpended, unencumbered funds, \$10.3M is for projects that do not have any expenses or encumbrances tied to them. That does not mean that the projects have not yet begun, but it means there has not been anything paid, or in a contract.

For Free Cash:

- A. It is difficult to put a spreadsheet together with where I am in the close process for Free Cash. I cropped an image of my quick calculation that I sent to Maureen that is the basis for Free Cash, but there are still a lot of moving parts at this time. The General Fund is the last piece of work for the Year-End close so there is still a bit of movement to it.

Hi Maureen,

My quick Free Cash Estimate is around \$22.5M. It could change maybe about \$500K each way, but don't picture it being off by much more than that.

Its basically:

Undes FB:	54,634,416
(A/R):	(22,789,054)
Def Rev:	(8,790,977)
Deficits other funds	(500,000) This is a complete estimate, but should be general ball park based off of history

Estimate Free Cash: \$22,554,385

All of these figures will move slightly when reclassing stuff to GF, reconciling receivables with Treasury, and getting grant revenues that we can accrue back.

Steve

- B. To give you a bit of explanation on why the Free Cash number is a quite a bit higher than historical norms:
- a. Undesignated Fund Balance is the fund balance amount from the prior year plus revenues, minus expenses and encumbrances, plus the unused Free Cash. The numbers that follow help to explain the UFB figure.
 - b. We spent/obligated \$4.9M less than the FY23 General Fund operating budget
 - c. We took in \$20.1M in revenues in excess of estimated Revenues, largely made up of the following:
 - i. Took in \$4.6M in licenses and permits over budgeted
 - ii. Got \$446K in Opioid funds, unbudgeted
 - iii. Took in \$2.4M in Property Taxes (RE and PP) over budgeted
 - iv. Took in \$513K in Motor Vehicle Excise taxes over budgeted
 - v. Took in \$1.7M in Meals, Hotels, and Cannabis taxes over budgeted
 - vi. Took in \$8.4M in investment income/interest revenue over budgeted
 - vii. Took in \$744K in Intergovernmental revenue over budgeted

Again, a lot of these numbers are not quite final as we still work our way through the closing of the Fiscal Year, but they are all relevant ball park figures.

I wouldn't want to have a conversation about how much Free Cash was actually generated until we have our Free Cash certified by the DOR in early to mid-October.

Thanks,
Steve

Stephen Curley | Comptroller | Ex-Officio Member NRB
Comptroller's Office | City of Newton
1000 Commonwealth Ave, Newton, MA 02459
617-796-1301

From: Susan Albright <salbright@newtonma.gov>
Sent: Saturday, August 19, 2023 9:44 AM
To: Stephen Curley <scurley@newtonma.gov>
Cc: Rebecca Walker Grossman <rwgrossman@newtonma.gov>; Deborah J. Crossley <dcrossley@newtonma.gov>
Subject: information

Good morning Steve,

The Mayor's announcement of her new plan has stirred up a lot of interest in the budget again. There are two pieces of information that we really need. The first is with respect to ARPA, the second about free cash.

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- Are you able to get us this information and by when?

Thanks for your help with this,
Susan

Susan Albright, President
 Newton City Council
 Councilor-at-Large, Ward 2



To: Finance Committee
From: Council President Albright
Date: September 7, 2023
RE: Background on Free Cash

Since the Mayor announced her proposed long term funding plan for the overlay funds, I have heard many questions about the extraordinary amount of free cash both this year and last. I think that facts are better than rumors, so I asked Mr. Curley to prepare information for the Council on the history of free cash. My emailed questions and his responses are attached.

At first, we had an email exchange regarding the free cash projected for this year and then I asked him to follow up with a chart on the history of free cash. I also asked him to explain the anomalies if possible. I offer this information (my email exchange with our Comptroller and the subsequent exhibit he developed on the 5 years history) as additional back up for the Finance Committee as they deliberate the Mayor's plan under this docket item, #306-23 Establish and Appropriate funds to an Operations Booster Stabilization Fund

CITY OF NEWTON

IN CITY COUNCIL

DRAFT

ORDERED:

That, in accordance with the recommendation of the Finance Committee through its Chair Rebecca Walker Grossman, authorization to Establish an “Operations Booster Stabilization Fund” to pay for a portion of the annual general fund appropriations for the City’s pension system; appropriate the sum of twenty million, five hundred thousand dollars (\$20,500,000) Overlay Surplus as declared by the City’s Board of Assessors to the Operations Booster Stabilization Fund; and transfer the sum of \$5,513,000 from Acct 01C10701-576300 Appellate tax Board Interest and Penalties Fund to the Operations Booster Stabilization Fund is hereby approved as follows:

FROM:	Overlay Surplus (0001-3220).....	\$20,500,000
	ATB Interest and Penalties..... (0110701-576300)	\$ 5,513,000
TO:	Operations Booster Stabilization Fund (5910-490001).....	\$26,013,000

Under Suspension of Rules
Readings Waived and Approved
DRAFT

(SGD) CAROL MOORE
City Clerk

(SGD) RUTHANNE FULLER
Mayor

Date: _____