



Finance Committee Report

City of Newton In City Council

Monday, September 11, 2023

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

Also Present: Councilor Bowman and Downs

City staff present: Commissioner of Parks, Recreation and Culture Nicole Banks, Chief Financial Officer Maureen Lemieux, Comptroller Stephen Curley, Senior Financial Analyst Perry Rosenfield, Senior Financial Analyst Connor Roach

#305-23 Acceptance of a donation from the Garden City Preservation Society

HER HONOR THE MAYOR requesting authorization to accept and expend the sum of nine hundred forty-eight dollars and fifty-five cents (\$948.55) from the Garden City Preservation Society. The City will use these funds to support the Parks, Recreation and Culture Department's ongoing beautification work in Newton Centre.

Action: **Finance Approved 8-0**

Notes: Commissioner of Parks, Recreation and Culture Nicole Banks presented the Council with the request to authorize and expend the sum of nine hundred forty-eight dollars and fifty-five cents (\$948.55) from the Garden City Preservation Society.

Commissioner Banks explained to the Council that the City will use these funds to support the Parks, Recreation and Culture Department's ongoing beautification work in Newton Centre.

Councilor Noel motioned to approve which passed 8-0.

#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.

Action: **Finance Denied Motion to Approve Subject to Second Call 3-4-1 (Councilors Humphrey, Malakie, Oliver and Noel Opposed, Councilor Gentile Abstaining)**

Notes: Chief Financial Officer Maureen Lemieux presented the attached presentation to the Committee 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.

Topics discussed in the presentation include recent financial developments for the City in Overlay Surplus, Overlay & ATB Interest Funding, Free Cash FY 2024, Projected Revenue and Expense Forecast (FY 2025 – FY 2034), and an overview of the Establishment of the proposed Operations Booster Stabilization Fund.

Ms. Lemieux continued to explain to the Committee that the Operations Booster Stabilization Fund would allow the City some relief on the pressures of City finances, such that the City can boost funding for NPS operations while maintaining the current pension funding schedule. Ms. Lemieux also went through the administration's list of Commitment to Newton Public Schools FY2024 Budget Initiatives. She explained that the request to set up this Operations Booster Stabilization fund would enable the City to add further funding to the NPS Budget starting in FY2025.

Ms. Lemieux told the Committee that the goal of this fund is for it to be depleted at its end. It is not the administration's intent to have this remain as a permanent stabilization fund. The intent is to use this money to soften the impact of the required pension appropriation increases for the next 8 years, while still getting the pensions funded, and still be able to give money to the Newton Public Schools.

Ms. Lemieux expressed to the Committee that she and her team were very conservative when formulating this forecast with regard to the interest earned. She added that she believes this plan will provide the greatest benefit to the City out of all the potential options the administration looked at.

City Comptroller Stephen Curley noted to the Committee that every action for this Stabilization Fund must come from a recommendation from the Mayor, and then voted by the City Council. A 2/3 vote of the City Council is required to establish a Stabilization Fund, and a 2/3 vote is also required to do anything with the money once the fund is established. If established, the fund must stay open for at least 3 years before it can be closed. If, for example, the Mayor decided that next year, she did not want this Stabilization Fund anymore, it would remain open for 3 years. If an appropriation from the fund was not put forward in the Mayor's future budget or in a docket request by the Mayor during the fiscal year, this money would sit in the Stabilization Fund and continue to earn interest.

Councilors asked the following questions:

Q: If we allocate the \$5.5 million from the ATB Interest account, does that mean that this account is not needed anymore?

A: Yes, it would not be needed anymore. It would ultimately go to \$0. The docket item itself asks for \$5,513,000 and some change. What we are being asked to do is take the \$5,513,000 and transfer this to the booster fund. The change, which will be a few hundred dollars left over, will not be

carried forward into next year, and at that point the account will cease to exist.

Q: Referring to slide 16 of the FY24-FY29 Booster Presentation, is the \$26 million not accumulating cash in FY24 because the following numbers are all interest?

A: It is not all interest. In the first two years, it is all interest. In year three, the fund will start to use some of the principal. It was also noted that there is variability.

Q: Is 70/30 (70% of allocated funds to NPS, 30% of allocated funds to close the City's annual budget gap) the split in terms of spending?

A: That is the intent.

Q: There are some that might say take the \$26 million and allocate it all to the schools this year. In the way this was presented, this is impossible because of the City's obligations to the pensions, and this proposal would help the City generate money off these obligations. Is this correct?

A: Yes, that is correct.

Q: Why didn't the administration seriously consider using the \$26 million to fund short-term Maintenance projects in the City's buildings?

A: The administration has re-introduced these projects in the CIP. Josh Morse, the Commissioner of Public Buildings came up with a comprehensive list of 143 items. These 143 projects do not represent projects that need to be taken care of right away, and the administration feels it's not the best use of the money.

Q: Do the projections presented in the Financial Forecast earlier this month reflect this Booster Stabilization Fund?

A: Yes, everything that was presented in the Forecast reflects the Booster Stabilization Fund.

Q: Is there an opportunity to use any of these funds on any additional one-time projects besides the school projects that were referenced?

A: The \$26,000,000 will not be looked at as one-time funds. All this money would be put into this stabilization fund, and it would be generating interest and will be getting pulled out each year. Free cash and future declarations of overlay surplus will always be looked to for one-time funds. The City is constantly trying to look at the different issues and tries to prioritize which ones need to move forward.

Q: If there were more interest to be earned in any given year within this continuum, what is the current intent as to how to spend those dollars?

A: Because this is a Stabilization Fund, any interest earned on these funds will go right back into this fund. Hopefully around FY30, the City would look at the amount of interest earned, and then perhaps lower for a year how much we will need to increase the general fund budget to go towards the pension fund. The goal will always be to deplete this Stabilization Fund, and to use as much interest as it can gain over time to soften the increases associated to getting to full funding for the pensions.

Q: What are the constraints on this money going forward if we approve this? Is it guaranteed to go to these sources if the Mayor potentially changed her mind in a few years, or if we get a new Mayor who is not supportive of this plan?

A: If this money is approved, the utilization of this fund will come back to the City Council for any appropriations.

Q: Are there any legal restraints in place on this money such that it can only be used for the intended purpose before us right now?

A: No, there is not, other than the stated purpose of the fund in the Council Order. As said before, it will still need to go in front of the Council if the Mayor wanted to do anything else with this money.

Q: Could the Mayor close the Stabilization Fund after 3 years on her own, or does this also require City Council approval?

A: This will also require City Council approval.

Q: What are some other Stabilization Funds that the City is routinely using now?

A: The City only has the Rainy Day Stabilization Fund and the Capital Stabilization Fund, neither of which support the day-to-day operations of the city.

Q: Around June 2022, we approved the transfer of \$4,600,000 in Eversource interest money to a separate account. Does this account cease to exist after this is approved, and was there also additional interest money from Eversource in the overlay account?

A: The \$4,600,000 is the bulk of what makes up the ATB interest account. So out of the \$5,500,000 that is proposed to be transferred, \$4,600,000 of this is what was moved there. It was never in the overlay account.

Q: What is now the current balance of the Overlay Account? What should that balance be optimally?

A: It is about \$11,000,000, which is very close to where it should be.

Q: There are two Eversource cases still out there. How much of this \$11,000,000 is related to these cases?

A: It is believed that Eversource is going to drop those cases, so we did not keep a lot of money in the Overlay Account for those two cases. The City has not received notification as of now, but we expect these cases to go away.

Q: In terms of interest income going forward, what is the interest variance projected to be in the fiscal year that we are in, and how is the City thinking about projecting that budget line item for the FY25 budget and the next few years after that?

A: In the FY24 Budget, there was only \$2,500,000 as a budgeted number for interest income. It is anticipated based on how everything has been going up to this point in the fiscal year that the City will have a very healthy variance in our actuals to what was budgeted. Hopefully \$4,500,000 will be budgeted for interest income next year. The plan is not to become dependent on this as a revenue stream, as it is not going to last. We currently projected interest income to be decreasing about half a million dollars a year, and then eventually stabilizing at \$2,500,000.

Q: Was there no way to start the benefits of this Stabilization Fund in FY24?

A: The budget for FY24 has already been established. It was decided that doing anything in FY24 was not appropriate, and that is why we decided to start in FY25.

Q: It was mentioned earlier that the interest has been projected in a conservative manner, but if there were any reason interest rates did not meet expectations, at what point would the plan be re-adjusted going forward and what actions would be taken?

A: If that were the case, it would probably be in tenths of percentages that would need to be adjusted.

Q: With Mr. Curley earlier explaining that there needs to be a 2/3 vote from the City Council to do anything with these funds in future years, if there was potentially any disagreement among the Council, would these funds then just sit in this account if not passed?

A: The administration will want to work with the City Solicitor's office and get more language in this Council order.

Q: But is it constrained by State Law with regards to the 2/3 Vote?

A: Yes, but it is key that the purpose is tight, so what gets approved will be able to take effect.

Q: Would it be an option for the Council, or maybe a few members from the Finance Committee, to come back to the administration understanding that cliff funding in any way of one-time funds would

be rejected, but if the Committee had a unified suggestion on how to structure this spending, would the Mayor listen?

A: The administration is always open to listening to suggestions. Whether or not in the end there would be an agreement is undetermined.

Q: What was the urgency for putting this item up now?

A: The hope was to have this item presented in front of the whole City Council at the next meeting, which is September 18th, and to have this plan in motion for the end of September. This year probably represents the highest interest rate that will be earned, so the idea was to set up this fund as early as possible so it can earn the maximum amount of interest possible.

Councilors made the following comments:

Councilors made the comment that the interest earned on the \$26,000,000 is a relatively small amount over time, and that this sum is not going to be generating additional revenues in any significant way. Rather it will offset inflation over a longer period to some degree, but not necessarily pulling in money that did not exist. Councilors stressed that this will not be an investment that will raise large amounts of money.

Councilors expressed concerns that in real terms, with interest rates considered, when you divide this up into 8 years, the City will lose money on this deal, and there will be less money in real terms at the end of this proposed 8-year period than the City began with.

Councilors expressed opinions that another way to boost operations through savings would be to invest this into upfront projects on both the City side and NPS side. It was stated by Councilors that they believe that investing in upfront and transitional projects on a 1-to-2-year period would be a better way to save money for the city on an annual basis.

Councilors expressed the desire for more collaboration with Council members on this when creating the framework for the plan. It was stated that in the opinion of some Councilors, this plan should be continued to be worked on with more input from the Council.

Councilors expressed the opinion that this plan has a lot of logic to it, but also raised concerns regarding the legal restraints and protections to the schools to ensure the money will still be there if priorities were to change in future years. Councilors noted that the City Solicitor should also be looking at the language and legal constraints for Councilors to have full clarity regarding restrictions on this money.

It was stated that as understood by some Councilors, the proposed legal purpose of this stabilization fund would be pensions spending, not school spending. The only school spending associated with this plan is a promise outside of the legal directives of the fund, to use the

savings associated with the pension's appropriation.

It was expressed that some Councilors still have many questions about the plan. Because of this, it was expressed that this should be given more time for Councilors to fully understand the specifics of the plan, and it should not be approved at this time because of this. Councilors raised concerns that they need to commit right now to spending this money over 8 years.

Some Councilors expressed the opinion that although some have a better financial understanding about these kinds of proposals, it doesn't seem to be the best option to try and formulate and edit aspects of the proposal on our own as a Council. It was expressed that although Councilors might not always agree with the Chief Financial Officer's approach, they are the financial expert and it seems appropriate to follow their suggestions. It was expressed by some Councilors that the plan makes sense, and they feel confident in voting this item out tonight.

Some Councilors expressed the opinion that this proposal should be brought up in front of the Committee of the Whole, and more Councilors need to be brought in to discuss this proposal.

It was suggested that Ms. Lemieux continue to work with the law department and city solicitor to tighten the language of the Council order after hearing the opinions of Councilors tonight, which she stated she will continue to do in the next coming days.

Councilor Humphrey motioned to hold the item, which was denied 3-3-1 (Councilors Grossman, Kalis and Norton Opposed, Councilor Noel Abstaining and Councilor Gentile Not Voting).

Councilor Norton motioned to approve subject to second call, which was denied 3-4-1 (Councilors Humphrey, Malakie, Oliver and Noel Opposed, Councilor Gentile Abstaining)

**Respectfully submitted,
Rebecca Walker Grossman, Chair**

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 accept and expend nine hundred forty-eight dollars and fifty-five cents (\$948.55) from the Garden City Preservation Society to support the Parks, Recreation and Culture Department's ongoing beautification work in Newton Centre.

Under Suspension of Rules
Readings Waived and Approved
DRAFT

(SGD) CAROL MOORE
City Clerk

(SGD) RUTHANNE FULLER
Mayor



RUTHANNE FULLER
MAYOR

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Office of the Mayor

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September 15, 2023

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

Councilors:

I respectfully submit additional information today as you contemplate the vote that you will take on Monday evening, September 18, at the City Council meeting regarding the Operations Booster Stabilization Fund.

I want to begin by being clear that the establishment of this fund will enable the City to appropriate more funding to the Newton Public Schools over the next eight years than otherwise would be possible. It is clear to me that to support the students in the Newton Public Schools and to continue Newton's tradition of academic excellence and educational equity requires our continued financial support.

More broadly, the City Council is voting primarily on boosting funding for Newton Public School's operations with important secondary financial benefits that relieve pressure on the City of Newton's finances and free up general funds to assist the City with fully funding the pension system over the next eight (8) years. The entire amount of the Operations Booster Stabilization fund, plus all interest earned during the next eight years, will be transformed into *ongoing* funds to support the Newton Public Schools and our general fund position.

More specifically, per the attached amended Council Order, the NPS budget allocation will be increased by an amount equal to seventy percent of 1.6% of the City's annual general fund increase in pension appropriations. The remaining thirty percent of 1.6% of the City's annual general fund increase in pension appropriations will be used to relieve pressure on the City's general fund.

This financial strategy allows us to increase the allocation to the Newton Public Schools for each of the next eight years, from FY2025 through FY2032, from an increase annually of 3.5% to approximately 3.7%. In FY2032, these funds (estimated to be \$5.5 million) will become part of the NPS base budget when the FY2033 allocation is expected to return to a 3.5% overall increase. By state statute, the Newton School Committee has the responsibility to determine how to spend these additional monies if the City Council approves my Administration's request for the Operations Booster Stabilization Fund.

I have listened carefully to suggestions from members of the City Council regarding the importance for funds for the many one-time capital and infrastructure needs we have in the City and in the Schools.

We are anticipating a large (approximately \$22 M) Free Cash certification this fall. Because the Free Cash will be unusually large this year, we have the ability to make important additional investments in areas such as roads and school facilities. Our one-time Free Cash Funds will be able to be used for more than just our immediate one-time needs. After using \$1.5 million as a general revenue source for next year's operating budget and reserving funds for potential snow removal costs, legal settlements and other one-time needs, we will have significant funds available. The remaining Free Cash will be used for one-time, non-recurring expenditures such as road paving, infrastructure investments, and facility improvements.

Once Free Cash has been certified, I will come forward to address our important concerns. Each use of Free Cash will come before the City Council for approval in the course of FY2024.

I am submitting an amended Council Order for the Operations Booster Stabilization Fund as you prepare for your deliberations. Within this Council Order, we have further clarified that the purpose of the Operations Booster Stabilization Fund shall be to boost funding for Newton Public School's operations, to relieve pressure on the City of Newton's finances, and to free up general funds to assist the City with fully funding the pension system over the next eight (8) years. This is accomplished by: (1) Increasing the funding of the Newton Public Schools budget each year for the next eight (8) years in an amount equal to seventy percent of 1.6% of the City's annual general fund increase in pension appropriations; and (2) Transferring into the general fund each year for the next eight (8) fiscal years an amount equal to thirty percent of 1.6% of the City's annual general fund increase in pension appropriations.

In summary, I am fully committed to achieving a sustainable financial plan that supports our students, our residents and our property owners. We will invest in our roads and buildings. Simultaneously, we are committed to achieving full funding of our pension system by Fiscal Year 2032.

To repeat, this plan directs more funding to the Newton Public Schools than would otherwise be possible, while helping our financial position, and retaining the pension funding schedule and the full-funding date.

Thank you for your consideration of this matter.

Sincerely,



Ruthanne Fuller
Mayor

CITY OF NEWTON

IN CITY COUNCIL

, 2023

In accordance with the recommendation of the Finance Committee through its Chair Rebecca Walker Grossman, it is hereby ORDERED:

- I. That there shall be a stabilization fund established under Massachusetts General Laws Chapter 40, Section 5B, called the "Operations Booster Stabilization Fund". The purpose of the Operations Booster Stabilization Fund shall be to relieve pressure on the City of Newton's finances, boost funding for Newton Public School's operations, and free up general funds to assist the City with fully funding the pension system over the next eight (8) fiscal years by: 1. Funding the Newton Public Schools budget each year for the next eight (8) fiscal years in an amount equal to seventy percent of 1.6% of the City's annual general fund increase in pension appropriations ; and 2. Transferring into the general fund each year for the next eight (8) fiscal years an amount equal to thirty percent of 1.6% of the City's annual general fund increase in pension appropriations.

Any alteration of the purpose of the Operations Booster Stabilization Fund set forth herein shall require a two-thirds (2/3) vote of the City Council.

- II. That the sum of five million five hundred thirteen (\$5,513,000) be and is hereby transferred from the Appellate Tax Board Interest and Penalties Fund and the sum of twenty million five hundred thousand (\$20,500,000) dollars is appropriated from the Overlay Surplus as declared by the City's Board of Assessors to the Operations Booster Stabilization Fund.

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

Under Suspension of Rules
Readings Waived and Adopted

EXECUTIVE DEPARTMENT
Approved:

(SGD)
City Clerk

(SGD) RUTHANNE FULLER
Mayor

Operations Booster Stabilization Fund
as Proposed by
Mayor Ruthanne Fuller



City Council Finance Committee
September 11, 2023

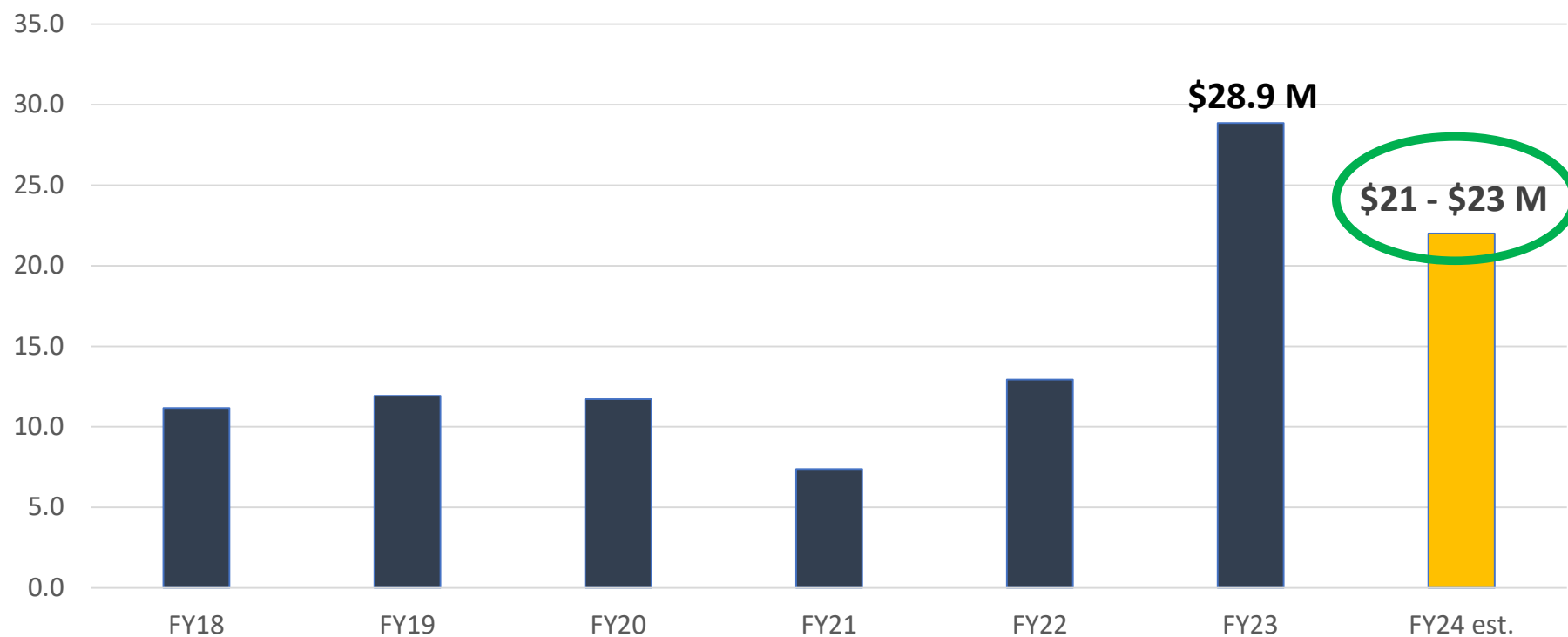
Recent Financial Developments - Overlay Surplus & Free Cash

Overlay & ATB Interest Funding

☐ Overlay Surplus declared by Board of Assessors	\$20.5 M
☐ ATB Interest released	\$ 5.5 M

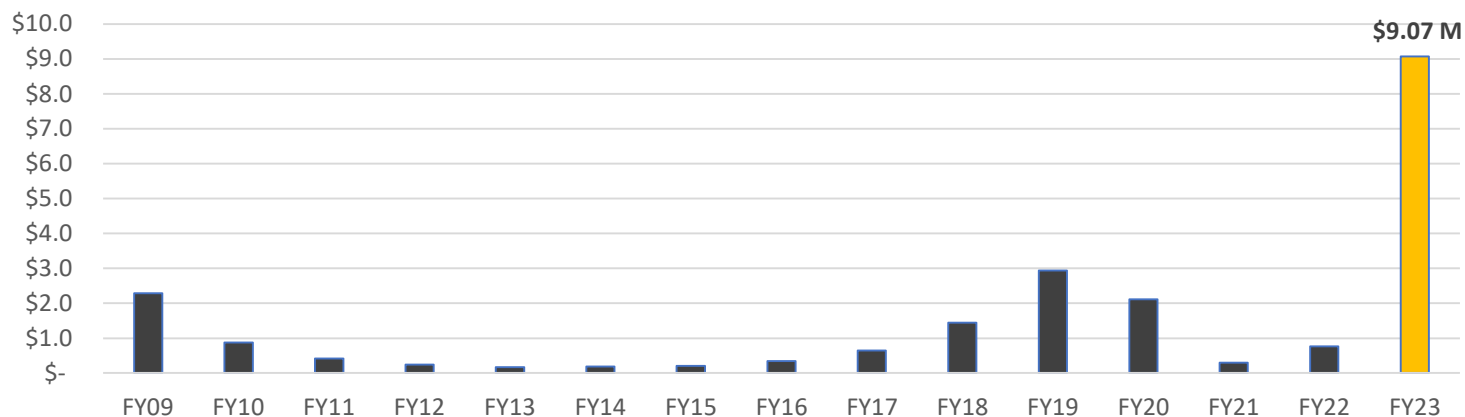
Operations Booster Fund - \$26.0 M

Free Cash (\$ Millions) FY2024 Forecast \$21 - \$23 M



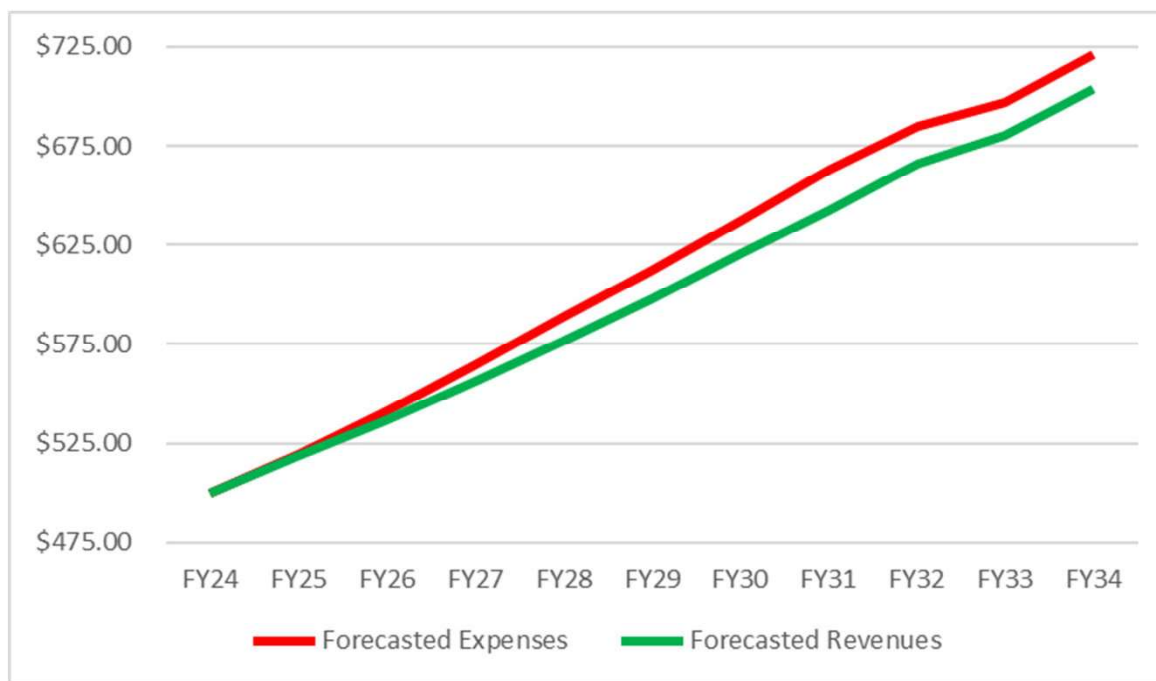
Sources of FY2024 Free Cash

- FY2023 Carry Forward – Retroactive Wages, Legal Settlements \$5.4 M
- FY2023 Interest Income – Actual to Budget Variance \$8.4 M



FY2025 – FY2034 Projected Revenue & Expense Forecast

Projected General Fund Revenues & Expenses FY25 – FY34 Long Range Plan September 5, 2023



Projected GAP Grows to \$19.9 M in FY2031

Our Pathway Forward

Operations Booster Stabilization Fund

Operations Booster Stabilization Fund
Allows us to Accomplish 3 Things Simultaneously

Relieve Pressure on City Finances

so that we can

Boost Funding for NPS Operations

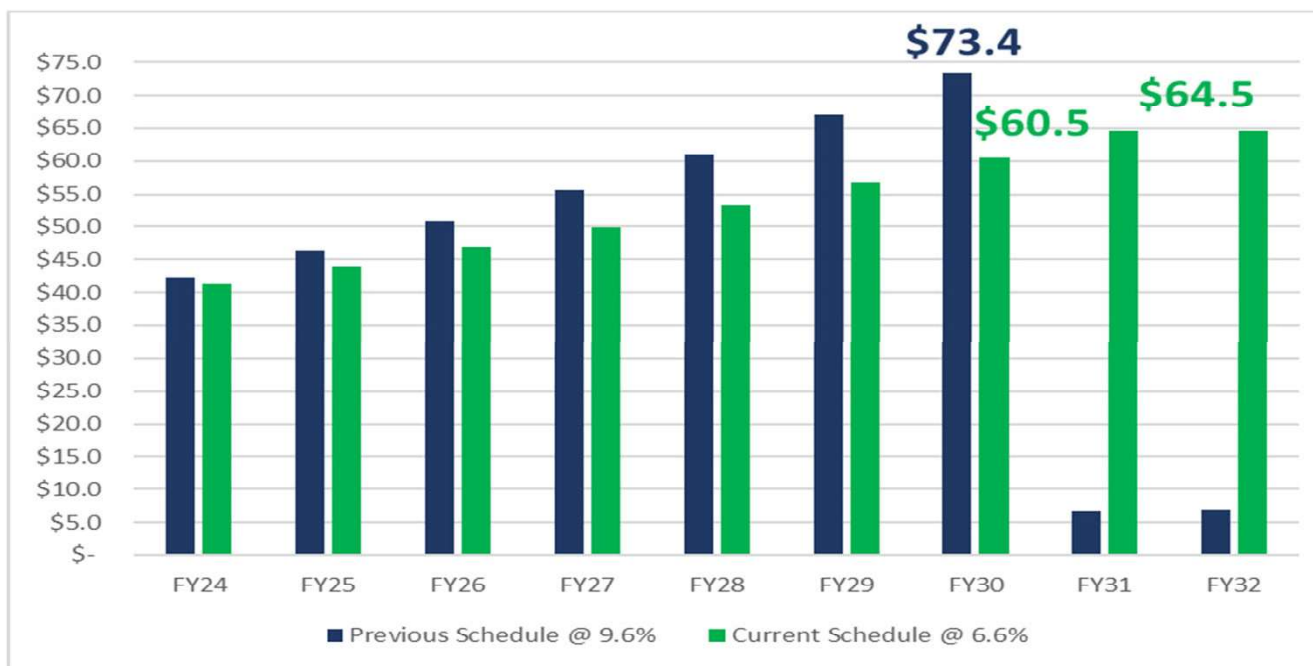
while

Maintain Current Pension Funding Schedule

Relieving Pressure on City Finances

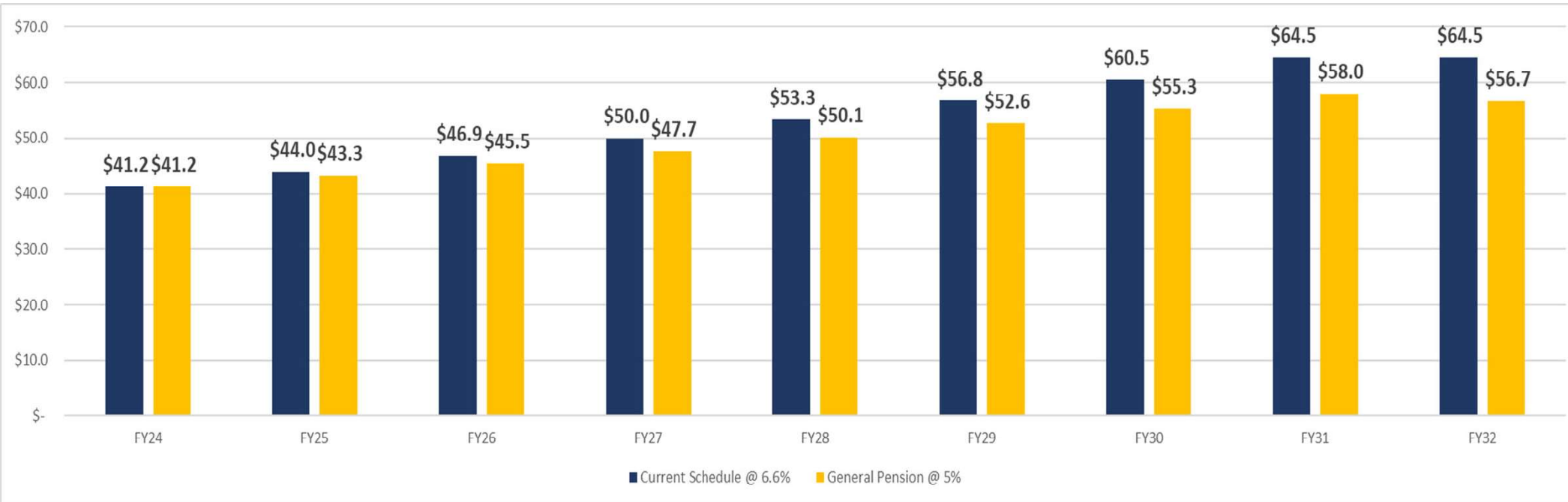
Comparison of Pension Funding Schedules

(\$ millions)



Request to Relieve Pressure on City Finances

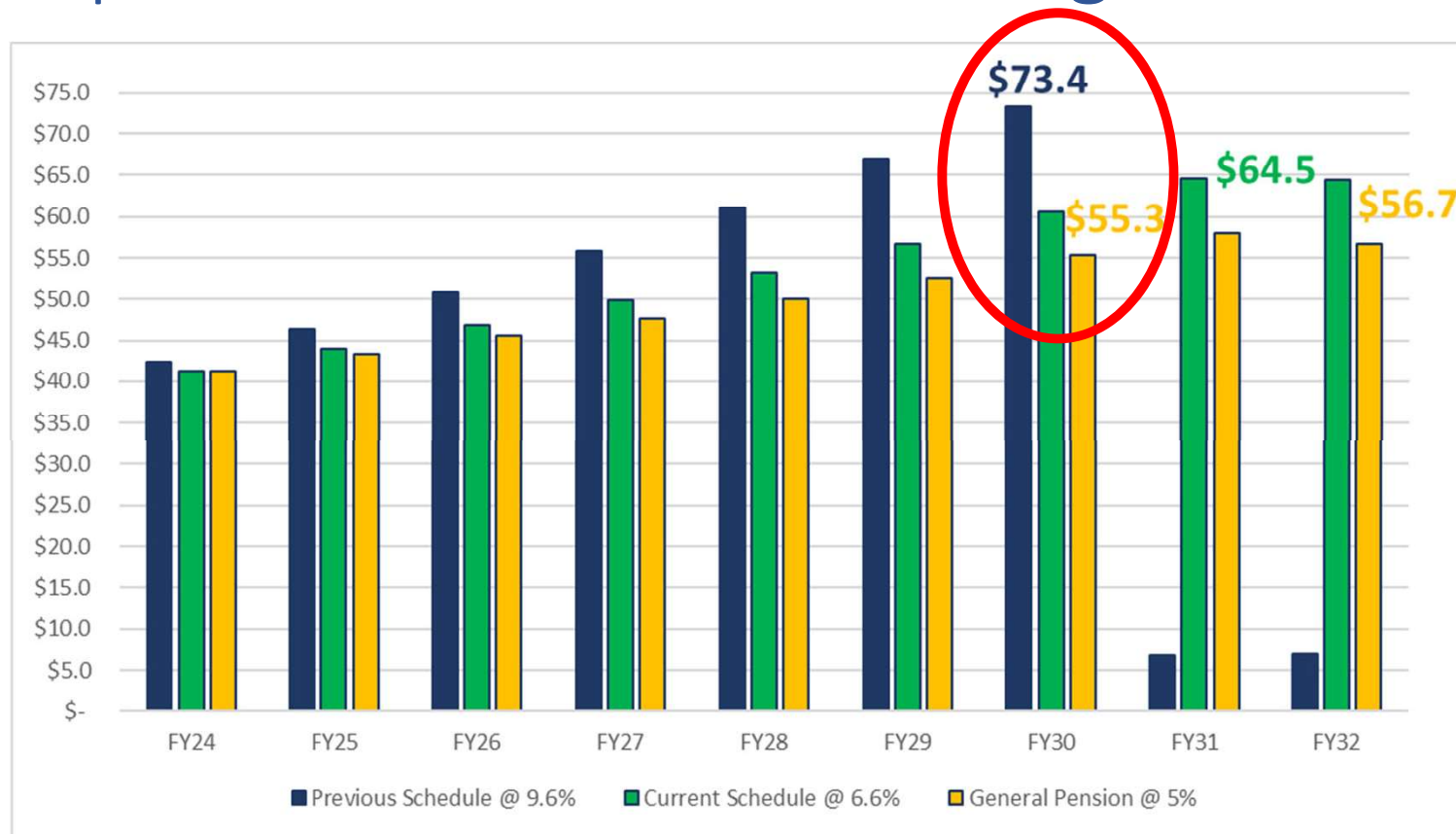
(\$ millions)



Annual General Fund Relief to be Re-Purposed

\$0M \$0.7M \$1.4M \$2.3M \$3.2M \$4.2M \$5.2M \$6.5M \$7.8M

Comparison of Pension Funding Schedules

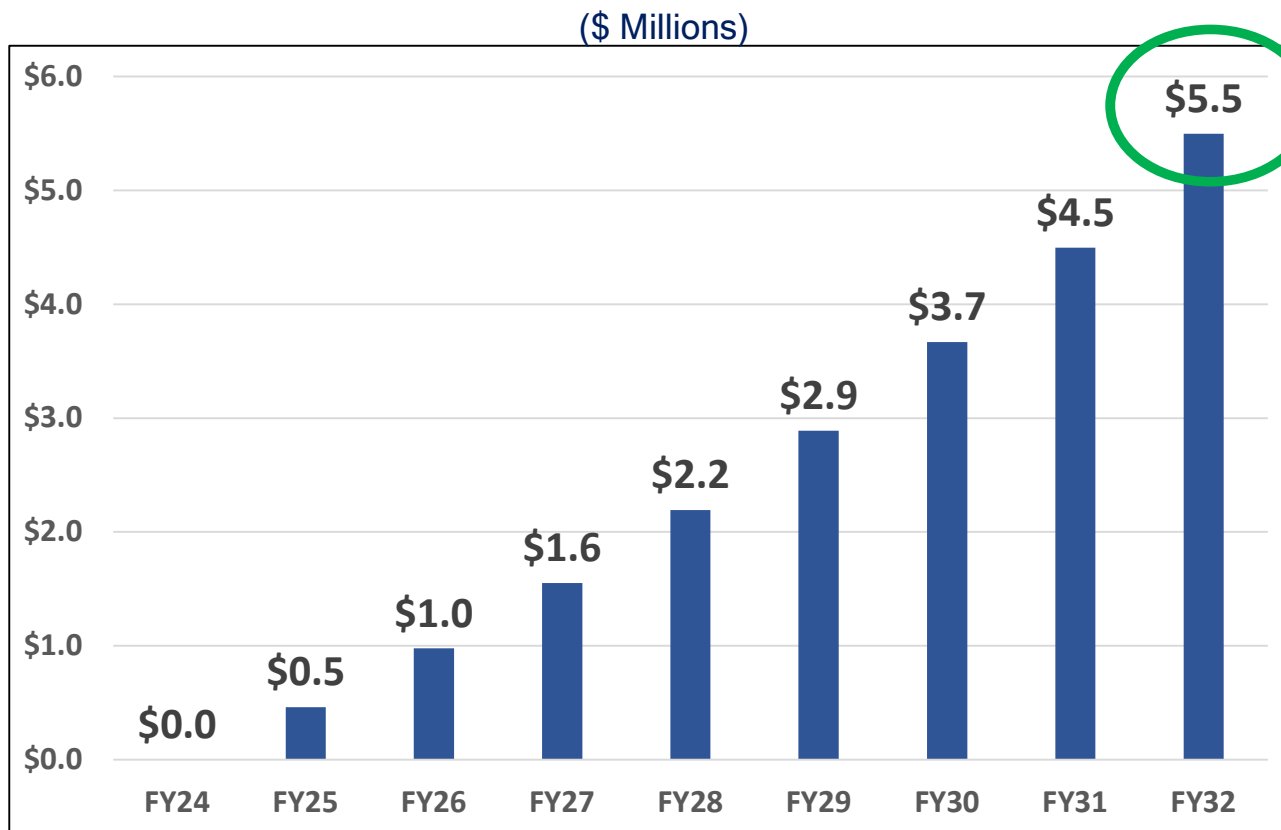


Supporting the NPS Budget

Commitment to Newton Public Schools FY2024 Budget Initiatives

	<u>One-Time</u>	<u>Permanent</u>
<input type="checkbox"/> \$10 M Free Cash - reduce Lincoln-Eliot required debt service		\$ 600,000
<input type="checkbox"/> \$1.4 M “Bridge Grant” increase cost of out-of-district placements	\$1,400,000	
<input type="checkbox"/> \$580 K Free Cash - NPS legal settlements	\$ 580,000	
<input type="checkbox"/> Extended pension system full-funding date by 1 year to free up funding for Horace Mann add/reno – debt service budget		\$ 1,300,000
<input type="checkbox"/> Reduced Medicare Part B Expenses for NPS in FY2024		\$ 650,000
<input type="checkbox"/> Transferred \$3.182 M OPEB costs from NPS budget, saving 2% incr/yr		\$ 60,000++
<input type="checkbox"/> Allocated \$410,000 ARPA funds for FY24 NPS facility maintenance projects	\$ 410,000	
<input type="checkbox"/> TOTAL FY2024 ONE-TIME AND PERMANENT BUDGET ENHANCEMENTS	\$ 2,390,000	\$ 2,610,000
<input type="checkbox"/> Additional Medicare Part B reduction of \$325,000 in FY2025		\$ 325,000
<input type="checkbox"/> Transferred \$3.182 M OPEB costs from NPS budget, saving 2% incr/yr		\$ 60,000++
<input type="checkbox"/> TOTAL FY2025 PERMANENT BUDGET ENHANCEMENTS	\$ 2,390,000	\$ 2,995,000

Newton Public Schools Additional Funding Operations Booster Stabilization Fund



Additional Funds to NPS \approx \$21.7 M

Operations Booster Stabilization Fund
Allows us to Accomplish 3 Things Simultaneously

Relieve Pressure on City Finances

so that we can

Boost Funding for NPS Operations

while

Maintain Current Pension Funding Schedule

Discussion