



Ruthanne Fuller
Mayor

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November 22, 2023

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

Newton School Committee
Newton Education Center
100 Walnut Street
Newton, MA 02460

Dear Members of the Newton School Committee and City Council,

As negotiations continue between the Newton School Committee and the Newton Teachers Association, questions have been raised about the City's priorities and finances. Some have suggested, for example, that the Fuller Administration has been underfunding the Newton Public Schools, too conservatively managing the City's finances, and not taking enough advantage of one-time funds to support ongoing NPS operations.

How we use financial resources including the annual City budget, one-time funds (e.g., Free Cash and Overlay Surplus), federal COVID relief funds, and recent city revenue spikes from interest income have all been scrutinized, sometimes including incorrect or incomplete information.

As the Chief Financial Officer for the City, I have put this information together to ensure that everyone has access to the facts.

The information shows how we carefully and transparently managed our City finances during a period of tremendous uncertainty (in both revenues and expenses) and inflationary pressures in the last few years. We deliver balanced budgets that fund immediate services & programs and long-term financial obligations in a responsible manner so that the City continues to receive the highest rating possible from Moody's Investment Services, a triple Aaa.

The information shows we have consistently prioritized funding for the bedrock of our community, the education of our children. Please know that 89% of the cost of running the Newton Public Schools is for the compensation of teachers, staff and educators; the cost of school systems and their excellence is fundamentally about people.

We invested in NPS at every opportunity:

- 82% of CARES Funding - \$6.4 M of a total of \$7.8 M
- 32% of ARPA Funding - \$20.4 M of \$63.6 M
- 70% of FY2023 Free Cash - \$16.3 M of \$23.4 M appropriated
- Operating Budget Increases – Averaging 3.65% per year under this Administration, and a \$44M, or 19.5%, increase over a 5-year period
- More than \$200M in NPS capital building projects

Below are details on how we invest in our largest department, the Newton Public Schools.

NPS Budgets – FY2021, FY2022, FY2023, and FY2024

The Fuller Administration has increased the budget for the Newton Public Schools every single year.

<u>Fiscal Year</u>	<u>NPS Budget</u>	<u>\$ Increase</u>	<u>% Increase</u>
FY2019	\$227,560,263	\$ 8,423,777	3.8%
FY2020 (Pre-Pandemic)	\$236,372,312	\$ 8,812,049	3.9%
FY2021 (Early Pandemic)	\$243,145,343	\$ 6,773,031	2.9%
FY2022	\$253,207,930	\$10,062,587	4.1%
FY2023	\$262,070,208	\$ 8,862,278	3.5%
FY2024 (Initial)	\$271,842,665*	\$ 9,772,457	3.7%

*The final FY2024 budget reflects a transfer of NPS Retiree Health Insurance Costs (a.k.a., OPEB) (\$3,187,252) to the City Budget with the full support of the School Committee, adjusting the NPS budget to \$268,655,413. NPS will no longer be at risk for unanticipated increases in this account.

The data shows that under the Fuller Administration, NPS spending has increased by more than \$44 million in the last five years. This represents an average annual increase of 3.65%. The total increase of 19.5% budget over this five year period shows the compounding effect, so that the average increase can also be seen as 3.9%.

We think the needs of the students have increased so significantly, the academic and emotional/social recovery for so many students from the pandemic is wide and deep, and the increasing number of classrooms and support for inclusion of students with special needs in our district fully justifies the increase in funding. It's accurate that enrollment has dropped by more than 1,000 students or 8%, but our students need and deserve full support so they can achieve their full potential.

We have said often, the Newton Public Schools are the bedrock of our community. We have consistently funded the Newton Public Schools at levels that matches our commitment to children. Approximately 65% of the total City budget goes towards the Newton Public Schools, including costs picked up by Municipal Departments (e.g., School Nurses are part of the City's Health and Human Services Department).

Mayor Fuller also showed her commitment to funding education by leading the initiative to increase the operating budget for NPS by asking voters to support an operating override in March 2023.

Federal CARES Funding

At the beginning of the pandemic, the City of Newton received \$7,838,462 from the Federal Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), enacted on March 27, 2020.

We quickly used this funding primarily for the Newton Public Schools, focusing over 80 percent of our CARES funding (\$6.4 million of our \$7.8 million appropriation) on NPS. We used \$4.9 million to improve the ventilation systems in all school buildings to get students back in the classrooms, almost \$1.0 million on the health and safety of our educators, staff, and students through COVID-19 medical screenings and testing, and another approximately \$500,000 on tents for outdoor learning, and reconfiguration of space for physical distancing and other physical distancing strategies in our schools.

Federal ARPA Funding

During the pandemic, the largest federal pandemic package was the American Rescue Plan Act of 2021 (ARPA) from which the City of Newton received \$63.6 million. Congress intended these stimulus funds to be used for the recovery of all elements of a community - those thrown out of work to those who kept working in person, the young to the old, the City and schools, businesses and non-profits, and those disproportionately impacted by Covid-19.

All of Newton came together to craft a plan for the utilization of these funds. Community meetings and listening sessions, open office hours, calls, emails and letters, City Councilors, School Committee members, community groups, residents, business owners and non-profit leaders weighed in to help guide our investments.

With ARPA, we have invested heavily in our students and schools, our COVID response, and in affordable housing and human services. We moved forward with one-time infrastructure investments – from roads and traffic calming to village centers and commercial corridors, and police facilities to multiple elementary school buildings. We supported the recovery of small businesses, restaurateurs and artists. We helped the youngest users of our Library and the oldest residents of our City by accelerating the design of NewCAL. We improved our parks, athletic fields, playgrounds and recreation facilities as well as added more trees.

We dedicated \$20.4 million of the \$63.6 million to NPS. Altogether, we have dedicated \$20.4 million (32%) of the ARPA funds and \$6.4 million (82%) of the CARES funds, for a total of \$26.8 million (38%) of our combined ARPA and CARES funds committed to the needs of NPS. We made these decisions knowing that the Newton Public Schools also received directly from the federal government Elementary and Secondary School Emergency Relief (ESSER) funds another \$5,620,178.

Specifically, we have allocated the following ARPA funds for Schools & Students working closely with the NPS Administrations:

➤ Sustaining the NPS Operating Budget (FY2022 \$2.48M, FY2023 \$1.62M, FY2024 \$1.0 M)	\$5,180,000
➤ \$1,500 Appreciation Stipend to all School Employees (prorated for part-timers) for their dedication to Public Health, Public Service, and Public Education	\$3,240,000
➤ Covid Antigen Test Kits for NPS	\$ 76,100
➤ NPS Classroom Air Quality Monitoring Devices, Air Purifiers, Medical Supplies, and Wi-Fi Hotspots	\$ 820,000
➤ COVID Related Projects, Ventilation, and New Space for Specialized NPS Programs	\$1,510,000
➤ NPS Technology	\$1,050,000
➤ NPS Elementary Reading Curriculum	\$2,000,000
➤ Newton North Synthetic Turf Field at Albermarle	\$2,200,000
➤ Newton South Synthetic Turf Field Replacement Supplemental Funding	\$ 332,000
➤ Horace Mann Elementary School Playground Equipment	\$ 250,000
➤ High School Field Lights NNHS & NSHS	\$1,400,000
➤ Countryside Elementary Reno/Replacement Feasibility Study	\$1,250,000
➤ Lincoln Eliot Elementary School – Schematic Design	\$ 350,000
➤ Horace Mann Elementary School – Feasibility Study	\$ 100,000
➤ Franklin Elementary School Feasibility Study	\$ 100,000
➤ Ward & Underwood Elementary Schools – Facility Consultants	\$ 100,000
➤ NPS School Building Maintenance Projects, Summer FY2024	\$ 410,000
➤ Underwood Elementary Roof Repair	\$ 42,000
TOTAL ARPA FUNDS DEDICATED TO NPS	\$20,410,000

Additional Funding Initiatives for NPS

To free up funding to move forward with the Horace Mann Elementary School building addition/renovation, we worked collaboratively with the Newton Retirement Board and the City Council to increase the base pension on

which retiree COLA’s are calculated and to extend our pension system full-funding date by one additional year. This provided \$775,000 to cover the debt service expected for the Horace Mann Elementary School building.

We restructured our health insurance plans to continue access to excellent health care and a high level of plan designs while also implementing cost-saving measures for both our retirees and for the City and NPS, resulting in a decrease in Medicare Part B Reimbursement expenses for NPS in FY2024 of \$650,000 and an additional savings of \$325,000 in FY2025.

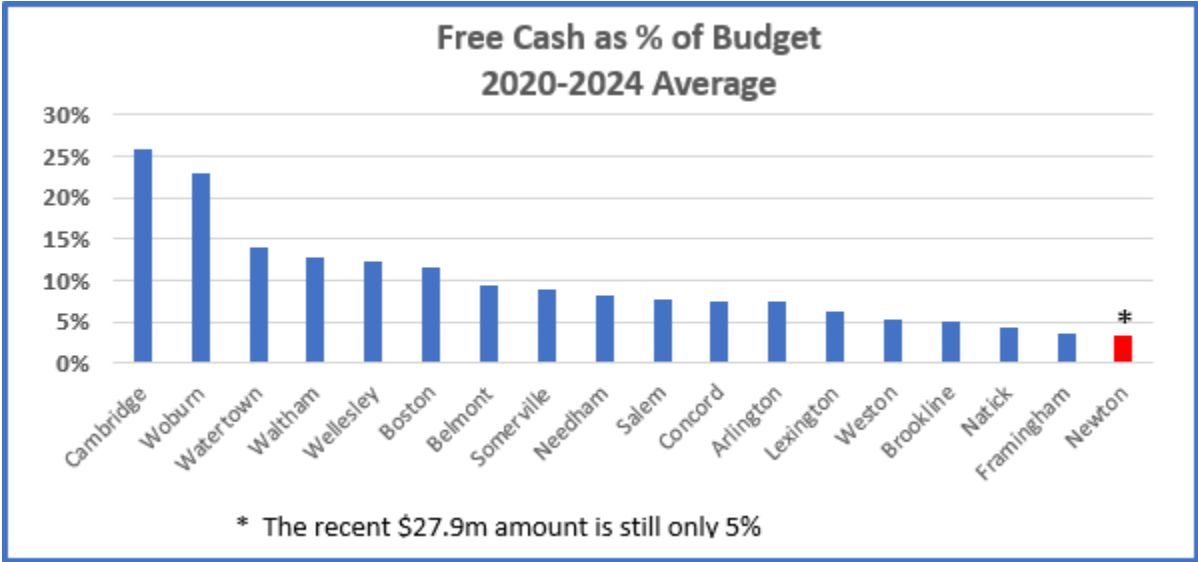
We transferred \$3.182 million in retiree health care costs (OPEB) out of the NPS budget over to the City. The City will now provide the financial and administrative support for this program, assuming the costs, and taking the risks in support of the Newton Public Schools.

Free Cash

Thankfully the City has benefited from significantly higher amounts of Free Cash over the last two years.

We used 70% of last year’s Free Cash to support NPS. We will work closely with NPS as we make decisions about this year’s Free Cash.

All cities and towns in Massachusetts annually have funds called Free Cash certified by the State. In layperson’s terms, Free Cash is the remaining, unrestricted funds from a City’s or Town’s operations from the previous fiscal year. Free Cash comes from actual revenues in excess of revenue estimates, unspent funds in operating budget line items, and/or unanticipated unexpended free cash from the previous year. Newton on average has lower Free Cash as a percentage of the City budget compared to similar communities, reflecting how tight the City budget is constructed (e.g., Cambridge just declared \$200 million+ in Free Cash).



Just over a year ago, on October 5, 2022, the MA Department of Revenue notified the City that we would have a Free Cash amount of \$28,860,460 for use in FY2023 deriving primarily from FY2022 Revenues Received in Excess of Budget and FY2022 Municipal Department Unexpended Appropriations. (Please note that NPS uses 100% of its funding each year and never turns back unexpended funds but rather carries them forward.) That amount was approximately \$15 million higher than usual. The City utilized \$23.4 million of these funds with City Council approval and reserved \$5.4 million for projected needs that have not yet settled.

More specifically, during FY2023, we allocated approximately \$16.3 million (70%) of the total amount (\$23.4 million) of Free Cash that was appropriated to support our students and schools with one time funding needs as follows:

- We strategically paid \$10 million in cash towards the Lincoln-Eliot Elementary School reconstruction project to reduce Debt Payments which allows us to increase the NPS operating budget by \$600,000 per year, \$10,000,000
 - We provided a “Bridge Grant” to NPS for a one-year gap to fund State imposed increased tuition costs for out-of-district student placements, \$ 1,400,000
 - We paid NPS legal settlements totaling \$580,000, taking pressure off the NPS operating budget, \$ 580,000
 - We replaced Newton South Synthetic Turf Fields & Track, \$ 3,240,000
 - We paid NPS McKinney-Vento Homeless Transportation and Foster Aid \$ 244,821
 - We sustained the FY24 NPS Operating Budget \$ 810,000
- TOTAL FY2023 FREE CASH DEDICATED TO NPS \$16,274,821**

Two months ago, on September 25, 2023, the MA Department of Revenue notified the City that we would have a Free Cash amount of \$27,912,423 for use in FY2024, deriving again primarily from FY2023 Revenues Received in Excess of Budget, FY2023 Municipal Department Unexpended Appropriations, and Unappropriated Free Cash from FY2022. These are also *one-time* funds.

There are two specific and unusual reasons for the FY2024 higher than typical Free Cash. First, we held \$5.4 million from last year’s Free Cash for potential liabilities and settlements that we may be facing; the \$5.4 million rolled over into this year’s Free Cash. Second, interest rates have risen dramatically in the past eighteen months. Consequently, our actual interest earned from investments in FY2023 was \$8.4 million more than we had budgeted; this entire amount dropped into this year’s Free Cash. More specifically, when we were crafting the FY2023 Budget in March 2022, the Federal Funds Rate was 0.25% to 0.50%, which was the interest rate income that we built into our Budget. By the end of our fiscal year in June 2023, the Federal Funds Rate had dramatically and unexpectedly increased to 5.25%.

As of the middle of November 2023, we have made only a few appropriations from this year’s Free Cash totaling \$3.4 million. Of this, NPS is once again the beneficiary of the largest amount of our appropriations. We have requested that the City Council approve \$2.4 million (70% of totals funds requested to date) for the purpose of funding the replacement of the aging synthetic turf field and track at Newton North’s stadium.

We have been working closely with the City Council and School Committee to determine where best to utilize these one-time funds again this year.

As a reminder, the Fuller Administration is very careful about using one-time funds for one-time expenses. Otherwise, when the one-time funding ends, current ongoing services that depend on that funding cannot continue.

Overlay Surplus including the Eversource Payment

We have had another unusual one-time payment recently. The Newton Board of Assessors has been able to release \$26 million in principal and interest holdings that had been held for property owners that have challenged their assessments, primarily from Eversource.

With the certification of significantly higher than usual Free Cash, we have the opportunity to transform the entire *one-time* surplus amount of \$26 million from Overlay Surplus and the ATB Interest & Penalties into *ongoing* funds to support the current operations of the Newton Public Schools and the overall financial health of the City.

On August 17, 2023, Mayor Fuller submitted a docket item to the City Council requesting authorization to establish an “Operations Booster Stabilization Fund” with an initial balance of \$26 million from Overlay Surplus. Seventy percent (70%) of the Operations Booster Stabilization Fund was to be used over the next eight years to “boost” the NPS budget during the period of time that we are working to fully fund our pension system.

The City Council did not support our plan, rejecting our attempt to secure additional on-going funds for NPS.

Not to be deterred, last week on November 16, 2023, Mayor Fuller submitted a docket item to the City Council requesting authorization to establish a Debt Service Stabilization Fund, again with an initial balance of \$26 million. It is again our intent to provide additional funding for the NPS budgets each year while Mayor Fuller serves. We are hopeful that the City Council will approve this Fund.

By the way, some have suggested that our revenues will go up by millions of dollars annually now that we’ve settled with Eversource. Unfortunately, there is no extra money to be had by the fact that Eversource has now paid their property taxes and withdrawn their appeal of our assessment. We do and always have budgeted up to the levy limit allowed by Proposition 2 ½. We will have approximately \$800k more in cash receipts each year.

Interest Income

Interest income earned on the City’s financial cash reserves and investments is very difficult to predict and has fluctuated dramatically over the years. As a result, we are very careful not to build this funding into ongoing operations but rather to use it for one-time expenses.

The Federal Reserve Bank raised rates through 2018 but implemented a sequence of rate decreases starting in July 2019. In late March 2020, the Fed decided in response to COVID-19 to lower the Federal Funds Rate to a historical low of 0.25 percent.

Since then, the world again experienced many changes which have impacted interest rates dramatically.

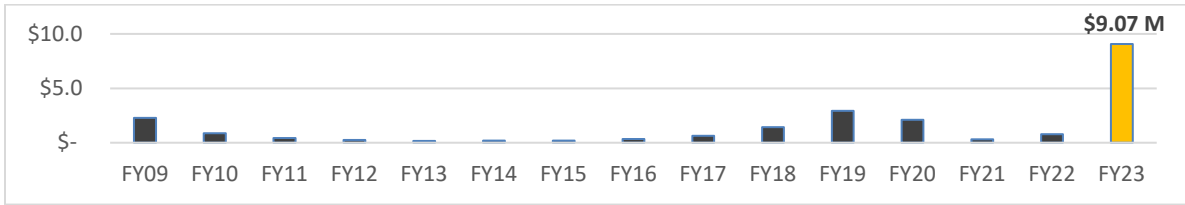
At its meeting, July 2023, the Federal Open Market Committee (FOMC) raised interest rates by another quarter of a percent to 5.25-5.50%, in support of its quest to bring down inflation to 2% and continuing rate hikes that began in March 2022. Since that point in time, the FOMC has held rates steady at both its September 2023 and November 2023 meetings.

The rapid rise in interest rates over the past eighteen months has led to unprecedented levels of revenue for the City from interest income. It is expected that rates will begin to decline in 2024. In fact, the Federal Reserve provides projections of the median Federal Funds Rate via the St. Louis Fed. The June 2023 projection for the Median Federal Funds rates are 5.6% for 2023, 4.6% for 2024, 3.4% for 2025, and 2.5% thereafter.

While we are currently enjoying extraordinary interest income, we must be careful not to become dependent on this revenue stream for ongoing operations, as we can expect it to decrease, perhaps as quickly as it has risen. History shows we should not depend on high interest rate yields.

We have provided the chart below so that everyone can understand why we cannot responsibly use this unprecedented interest income when we are making ongoing revenue assumptions. These funds will fall to Free Cash in the following year, and we will certainly put them to good use for one-time needs.

Revenue from Interest Income
FY2023 Actual - \$9.07M
 (\$ millions)



Capital Projects

In addition to prioritizing operating expenditures for NPS, we have also completed and/or embarked on over \$200 million in capital projects using city funds to improve on an aggressive schedule for Newton’s aging school buildings. These school building projects include:

- Addition to Oak Hill Middle School to relieve overcrowding
- A centralized facility for the Newton Early Childhood Program at the completely renovated former Horace Mann Elementary School
- A new Lincoln-Eliot Elementary School
- A new Countryside Elementary School
- A new Franklin Elementary School
- Addition and renovations to Horace Mann Elementary School

Last week we docketed with the City Council the final approval to bond \$55 million to fund the new Lincoln-Eliot Elementary School project at the former Aquinas Junior College; this will be the largest completely city-funded elementary school building project in City history.

Summary

- In summary, the numbers speak for themselves, and although we said this at the beginning, it bears repeating. We invested in NPS at every opportunity: 82% of CARES Funding - \$6.4 M of a total of \$7.8 M
- 32% of ARPA Funding - \$20.4 M of \$63.6 M
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While we must live with our means, we will continue to invest heavily in our Newton Public Schools.

Sincerely,

A handwritten signature in black ink that reads "Maureen Lemieux". The signature is written in a cursive style with a large initial 'M' and a long, sweeping underline.

Maureen Lemieux
Chief Financial Officer