



Finance Committee Report

City of Newton In City Council

Monday, March 27, 2023

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

Absent: Councilor Norton

Also Present: Councilors Laredo and Lucas

City Staff: Chief Financial Officer Maureen Lemieux, Comptroller Steve Curley, Treasurer Ron Mendes, Senior Financial Analyst Perry Rosenfield, Senior Financial Analyst Connor Roach, Human Resource Director Michelle Pizzi O'Brien and Amy Mistrot, Director of Business Operations, Newton Public Schools

Others present: NewTV

For more information regarding this meeting, a video recording can be found at the following link:

<https://newtv.org/recent-video/107-committee-meetings-and-public-hearings/7974-finance-committee-march-27-2023>

#106-23 Appropriate \$244,821.31 for Homeless Student Transportation

HER HONOR THE MAYOR requesting authorization to appropriate and expend the sum of two hundred forty four thousand eight hundred twenty one dollars and thirty one cents (\$244,821.31) from June 30, 2022 Certified Free Cash to Newton Public Schools for homeless student transportation.

Action: Finance Committee Approved 7-0

Note: Ms. Mistrot presented the item. She stated that in the packet there was a memo dated November 17, 2022, which also went before the School Committee on February 6, 2022. They approved the details of both the foster care and the McKinney-Vento transportation and we have received reimbursement from the State. The funds have been verified and certified through free cash. This is a request to transfer the reimbursed funds back to the schools.

Questions, answers, comments and suggestions:

Question: Is it correct that the City has been reimbursed by the State for the amount that is in the general fund? Now the School Department is requesting that the money be transferred to them?

Answer: Mr. Curley answered yes, this source of general fund revenue needs to be used for its intended purpose. Each year the schools submit a reimbursement to the State, they get the money back then it drops to free cash that year. After that year, it becomes part of the certified free cash. The School

Department is requesting that the money be reallocated to cover their homeless transportation and foster care transportation costs. In years past, this money had been considered a grant, before it became determined that it had to be treated as general fund money.

Question: Is this item is approved, how much free cash will be remaining for FY23?

Answer: Mr. Curley answered this is FY22 certified free cash. These funds were determined free and clear after the close of FY22 to be used in FY23. The total remaining free cash available, if this item is approved, is \$23,843,115.

Question: For clarity purposes, over what period of time was the transportation administered that is now getting reimbursed? Is it more than one year in arrears?

Answer: Ms. Mistrot answered yes, but we were late in requesting the FY21 funding. The McKinney-Vento reimbursement request for 2021 was not submitted until FY22, taking it longer to be certified in free cash. It is the School Department's hope to be able to do this annually going forward. This request is essentially representing two years' worth of transportation.

Question: If this item passes, there will be available \$23,843,115 in free cash. Is that in addition to what's being held in the overlay fund from the Eversource settlement?

Answer: Mr. Curley answered that they are completely independent of each other.

Question: When docket item #435-22 was discussed, there was confusion on the timing of the request. Is it correct that normally, the schools would request reimbursement from the State for one year at a time, and the City would be getting reimbursed in the following fiscal year for the previous fiscal year's actual expenses?

Answer: Ms. Mistrot answered yes, she just submitted the FY22 foster care reimbursement request. We are hopeful to receive that prior to the end of this fiscal year. It will need to go through the free cash certification process and then the School Department could request it.

Question: What percentage of the transportation expenses are reimbursed? Is it a partial and/or fixed percentage or does it vary every year?

Answer: Ms. Mistrot answered it varies and certainly doesn't cover the full expense. The foster care reimbursement is expected to be 17%. The memo delineates what amount is for which account.

Mr. Rosenfield suggested at a future Finance meeting to vote no action necessary on docket item #435-22. Last year, the School Committee submitted a docket request for \$60,826.31 to directly offset a portion of the cost of bus transportation in FY22. This docket request of \$244,821.21 includes that funding request in docket item #435-22.

Without further discussion, Councilor Humphrey made a motion to approve this appropriation. Committee members agreed 7-0.

#107-23 Request to transfer \$125,000 to Human Resources Department Consultants

HER HONOR THE MAYOR requesting authorization to transfer the sum of one hundred twenty five thousand dollars (\$125,000) from Account # 01109520-511001 Human Resources Department Full Time Salaries to Account # 0110952-530100 Human Resources Full Time Consultants.

Action: **Finance Committee Approved 7-0**

Note: Ms. Lemieux presented the item. She stated that significant staffing shortages are prevalent throughout the Northeast. The City is no different in our workforce, but also in the Human Resources Department (HR). Several positions have been unfilled this year. This docket requests the transfer of unused salary money to different consulting lines, training and recruiting.

Ms. Pizzi O'Brien stated that in the past year, the HR Department has had three vacant positions including Deputy Director, Benefits Administrator and Generalist. Last month, two positions were filled. We've also experienced increases in all costs relating to recruitment and are competing with other communities for talent. Background checks, pre-employment, medical exams, etc. have also increased. The background check costs for our Fire Department, which was a process that had typically been done by the Police Department, now is required to be completed by an outside agency at an unanticipated cost. It will also be necessary to bring in temporary staff to support the HR department in the open enrollment and recruitment processes. We anticipate the training fund will be depleted by the end of the fiscal year.

Questions, answers and comments:

Question: How many vacancies remain in the HR Department?

Answer: Ms. Pizzi O'Brien answered two vacancies as of this week. It is difficult to fill our entry level positions as mid-level staff move up to department head positions.

Question: Has the FY23 budgeted money allocated to Consultants in the HR budget been spent? Are we reimbursing training expenses with this item?

Answer: Ms. Lemieux answered that some of that money has been used. Money was transferred out of training to the consulting line. The administration was hoping that we were going to fill positions sooner and not need as much of a transfer.

We have reduced our training line to compensate for the consulting needs. If this request is not approved, we would not move forward with training. We have not spent money that we do not have.

We have been going through a health insurance RFP process which will involve a significant amount of work over the next couple of months to transition employees. A portion of this request is to replenish

the training money that we've used. The remainder of the request is money we need for now and through the end of the fiscal year.

Question: Moving forward, what will happen if the money runs out before the end of the fiscal year?

Answer: Ms. Lemieux answered that it will depend on how far we get in any transition that we might have with health insurance, a large undertaking. We may carry some of this money forward to make sure that we have personnel or temporary personnel in place.

Question: The City is having a difficult time retaining people. What are our biggest drivers to that?

Answer: Ms. Lemieux answered that there are several different drivers depending on the position. Some positions we pay very comparable wages, some are on the low end. We're working on how to attract and retain personnel. Ms. Pizzi O'Brien is working with the Collins Center to understand what we may need to do differently. Ms. Pizzi O'Brien added that people are reimagining the way they look at work. The HR Department is digging into the employee experience and how we can reimagine our workforce within the context of our environment. The City is restricted with a large percentage of employees being subject to a collective bargaining agreement, which restricts our ability to compete with private industries. We have been discussing the strategies with unions and we are in a good position to compete with other communities for most positions. The majority of our positions are well paid after making many adjustments over the years. Many of our entry level positions are filled by younger candidates that are more interested in fully remote work, not recognizing longevity and looking for higher pay. There is a decline in the interest of public safety positions, which is not unique to Newton.

Question: Is this something that we think might continue into FY24?

Answer: Ms. Pizzi O'Brien answered that when we planned the HR Department FY23 budget, we knew that the City would likely be going out to bid for health insurance carriers. We hoped we would have been able to fill the two HR positions. We've also learned after having set the budget that our open enrollment process and our benefit administration process is going to be different because Tufts and Harvard Pilgrim are joining. There will be a process to ensure that our employees are transitioned appropriately.

Question: Is the contractor expense higher than what we would have otherwise been paying staff?

Answer: Ms. Pizzi O'Brien answered it nets out because of the cost of benefits. We did not expect to have our benefits consultant working as much because of our inability to fill certain positions. Ms. Lemieux added that we may, or we may not have spent as much money if the positions were filled. This item is taking money that we had in the HR Department salary line item and moving it so that other personnel can accomplish the work.

Question: If we do not approve this request, would this money drop to free cash?

Answer: Ms. Lemieux answered yes.

Question: In preparation of this year's budget, you anticipate going out for carrier bids. Does this happen each year?

Answer: Ms. Lemieux answered that it has not been done in the past thirteen years. It is a difficult process when an organization is self-insured. Through the years we have kept the same two insurance carriers. It has taken a year to receive new bids and proceed in making the decision.

Without further discussion, Councilor Kalis made a motion to approve this request. Committee members agreed 7-0.

Referred to Public Safety & Transportation and Finance Committees

#109-23 Request to transfer \$450,000 to Traffic Safety – Regular Salaries

HER HONOR THE MAYOR requesting authorization to transfer the sum of four hundred fifty thousand dollars (\$450,000) to Account # 0120102-511001 Traffic Safety – Regular Salaries to fulfil the City of Newton's two 3-year agreements with AFSCME 2913 spanning FY2019-2021 and FY2022-2024.

Action: **Finance Committee Approved 7-0**

Note: Ms. Lemieux explained that in the past twelve months, several contracts have been settled. The City employs ten parking control officers and fifty two crossing guards who have been without a contract since June 30, 2018. We were able to settle on two 3-year Collective Bargaining Agreements covering FY2019-2021 and FY2022-2024. It will be necessary to pay employees in the next several weeks.

Each year in the budget, there is money set aside in our wage reserve. The wage reserve money is transferred out to the departments when we settle. We also calculate each year, by person and by union, for any contracts that are not settled. Any unspent money in the wage reserve gets carried forward, because we're going to need it for the retroactive settlements.

Because this represents years' worth of retro payments, all set aside money in the wage reserve will be exhausted with this request, and it is necessary to supplement with free cash. There is approximately \$402,000 to \$407,000 in wage reserve. We need approximately \$450,000 to pay out the retroactivity. Moving forward, we are carrying a number in our wage reserves for overtime.

The Police Superior Officers are settled through June 30, 2023.

Questions, answers, comments and suggestions:

Question: Will this bring our wage reserve down to zero?

Answer: Ms. Lemieux answered yes.

Question: Where does our budget reserve account stand?

Answer: Ms. Lemieux answered the budget reserve is approximately \$200,000.

Mr. Curley added that there was one appropriation from the current year budget reserved for \$210,000 and that had to do with the election. There remains \$290,000 going into this item and this item is pulling \$47,000 from that account.

Question: Will we have an agreement with the remaining police unions before the end of this fiscal year?

Answer: Ms. Lemieux answered that we have nothing left in retroactive wage reserve for any outstanding settlements. When they do settle, the administration will be requesting free cash. If we settle with them in the summer, we have an approximately three month period, starting with the new fiscal year on July 1, where we're without access to free cash until its newly declared in the fall.

Question: How can we still be being asking to approve contracts when the COLA is above 3% every year when we're limited to 2.5% revenue growth under Prop 2.5?

Answer: Ms. Lemieux answered that when we do these calculations, we consider how many people are stepping in each union. She assigns an attrition number to the different union groups. The crossing guards only get one step every five years. She assumes approximately a 1% attrition rate for any given union, so we know that our budget is going to increase by 3.4% / 3.5%, between the steps, the COLAs, and netting out attrition. The attrition is incredibly important. Many of our union contracts do not allow us to hire people above a certain step. Depending on the union, we have different agreements.

Question: Regarding the 3%, does it apply to everybody regardless of their tenure?

Answer: Ms. Lemieux answered yes, union contracts don't allow us to differentiate for merit or longevity payments. With COLAs there are not different numbers for different years of service.

Question: If the City has \$23+ million in free cash, how much money will the administration ask be moved to the wage reserve account?

Answer: Ms. Lemieux answered approximately \$1,250,000.

One Councilor suggested that perhaps meeting in an Executive Session will allow Ms. Lemieux to convey how she is budgeting for wage reserves and what assumption she's making.

Question: Some unions tend to settle early, and some seem to drag their feet. Is this a fair statement?

Answer: Ms. Lemieux answered it absolutely is a fair statement.

One Councilor suggested that rather than putting additional money into the wage reserve from free cash, perhaps the City should convey that we will not grant any additional funding to our wage reserve account. Perhaps this would incentivize more efficient negotiation and settlement with unions who tend to hold out longer.

Question: The Public Safety & Transportation Committee requested this Committee ask how folks in these unions, and particularly crossing guards are compensated relative to other communities?

Answer: Ms. Lemieux answered that she does not have this information available but will later provide it. One problem is that when these unions don't settle, we're paying people significantly less than other communities because our crossing guards got 3% in this agreement. Until we switched to the current pay scale, they were making 15% less than they are now. This makes it very difficult to recruit. We want to be fair to crossing guards. As of settling this contract, crossing guards received a 15% raise.

Question: How many crossing guard and parking control officer positions are vacant?

Answer: Ms. Lemieux answered that parking control officers never have vacant positions because when someone retires, one of the crossing guards usually applies for that position. The person with the most tenure is selected. There are thirteen vacant positions out of the fifty-two crossing guard positions. Parking control officers also have crossing guard posts.

A Councilor mentioned that the Council remains interested in exploring ways to structure crossing guard positions differently to make the position more attractive. Perhaps the role can be bundled with other positions, understanding that any such change would require significant bargaining with the unions.

Without further discussion, Councilor Gentile made a motion to approve this request. Committee members agreed 7-0.

#108-23 **Requesting a discussion regarding the Rainy-Day Fund Investment Strategy**
COUNCILORS GENTILE, GROSSMAN, KALIS, LAREDO, AND LIPOF requesting a discussion with the administration, specifically the Treasurer, to understand the City's rainy day fund investment strategy and how rainy-day fund investment decisions are made.

Action: **Finance Committee Held 7-0**

Note: Councilor Gentile stated that he docketed this item for clarification on where the Rainy Day Fund had been invested for the last several years. He expressed a desire to reconstitute the Investment Advisory Committee so that more than one person is helping make the decision regarding how we invest millions of dollars.

In the 1980s, the former Treasurer made a bad investment costing the City a million dollars, a significant amount of money. The Finance Committee wants to ensure this does not happen again.

Councilor Gentile expressed that the Council should be made aware when large investment decisions

are made, such as the recent decision to invest approximately \$20 million of \$24 million in the Rainy Day Fund into one particular investment vehicle.

The Treasurer is in charge of approximately \$300 million dollars including day to day business. The Rainy Day Fund plays an important role in the event that we have a terrible tragedy.

Mr. Mendes stated the Rainy Day money was in the Massachusetts Municipal Depository Trust (MMDT). The MMDT is a money market mutual fund that was established many years ago by the State Treasurer's Office. As interest rates were increasing, MMDT was doing better. But MMDT is playing catch up with US Treasuries when interest rates are going up. Considering that US Treasuries are the safest possible investment, the Treasurer decided to shift money from the stabilization fund into a ladder strategy for US Treasuries. The City shifted into US Treasury bonds and T bills that are that are scheduled to mature over the next two years; thus they are short term. If we were to have the money in a bank, and we were to ask the bank to collateralize the money, they would collateralize it with US Treasury bonds. Instead of collateralizing with US Treasury bonds, we own the treasury bonds instead. This was putting money in a plan that was actually safer than it was in currently, and is going to earn more money. The Treasurer will inform the Council of these types of decisions in the future.

Mr. Mendes then stated he is aware of ongoing discussions about reactivating the Investment Advisory Committee. The Rainy Day Fund policy that was enacted several years ago called for the Investment Advisory Committee to remain actively involved. It would be beneficial to have regular meetings to discuss the Rainy Day Stabilization and investment funds. The stabilization fund requires the fund to maintain a balance equal to 5% of the operating budget. If it falls below that level, the policy calls for taking money from free cash or other places to replace it in the stabilization fund. The City has many trust funds invested in the market, which has not been doing well. If we had the stabilization fund invested in a similar fashion, we would be conversing on how to replace losses. Balance is necessary with the stabilization fund.

Ms. Lemieux stated that Mr. Mendes is interested in catching the best interest rates and is always looking at and talking to different banks to see if we can get more interest on our accounts, which is incredibly important. Each month the Rainy Day fund receives the highest interest yield available to the City. Prior to this current interest rate environment, the City had \$18 - \$20 million with Village Bank. Village Bank had made an agreement with us that they will give us 10 basis points above what the MMDT rate is. The remaining \$5 million in the Rainy Day Fund received its interest credited from wherever the next highest interest is that we are receiving, which was probably MMDT. Village Bank sets their rate with us once a month. Throughout the course of the month, MMDT may have been raising their rate. It made complete sense to go with MMDT for the Rainy Day fund in a declining interest rate environment.

After the meeting, Mr. Mendes clarified that in conditions where there are rising interest rates, MMDT and investing in T-Bills is how we capture the highest rates. The City has approximately \$70 million in treasury bills currently.

We make sure that whatever we increase the budget by, we need to take 5% of whatever that increase is, and add it to the Rainy Day fund for July 1. We start the year off at 5% of our fiscal year budget every year. Whatever interest we earn lowers the amount of money that we have to take from free cash and set aside to make sure that the Rainy Day fund now has 5% of our budget. The Rainy Day fund goal is to always keep our money safe and put the highest interest toward the Rainy Day investment, because that minimizes what the administrations needs to request from free cash in April or May to keep the fund at the 5% ratio.

Questions, answers, suggestions and comments:

Question: The Rainy Day fund essentially covers the unknowns. Is there a credible scenario where the City would be forced to tap the Rainy Day fund to quickly cash in?

Answer: Ms. Lemieux answered that since the time the fund was started, she expected that it would be a catastrophic weather event allowing us to get our hands quickly on the money to perhaps rebuild a facility, etc. We did not imagine the pandemic. In the FY21 budget, we looked to solve our pandemic challenges with the budget. When we first put that budget together, we were not aware of large federal funding the City would receive. Our guidelines state that we would certainly look to replenish those funds as soon as we were able if it had been needed.

Question: When the pandemic broke out, we did not think we would have the federal money. If the federal money had not been available, would we have tapped into the Rainy Day fund?

Answer: Ms. Lemieux answered our goal is to never take any money out of the fund. She doesn't know what number the Rainy Day Fund would need to get to in order to feel comfortable that we have enough and don't need to contribute more. She doesn't \$25 million is that number, but maybe \$50 million. Ten years from now, she envisions the Finance Committee and the leaders of the City may be in a position to determine an appropriate static funding amount for the Rainy Day fund.

A Councilor made the point that if we cannot foresee a scenario where we would ever touch the Rainy Day fund, we are essentially using it to earn a higher credit rating and lower interest rate.

Question: Are there concerns about being able to liquidate a lot of cash suddenly?

Answer: Mr. Mendes answered that liquidity is one of the decision factors. The vast majority of the T-bills are maturing within 12 months, and there are several that will mature in 24 months. If for some reason we needed to liquidate the stabilization fund, we could always reclassify these in our record keeping from the stabilization fund to the general fund. These are short term investments; the intent is to hold them to maturity.

Question: Mr. Mendes estimates that we'll be receiving approximately a 5.2% return on a lot of the money he shifted. With over \$24 million in the account, if things continue as projected, we should

hopefully have enough money in interest so that we don't have to use any operating funds to get to that 5% number this year. Is this correct?

Answer: Ms. Lemieux answered that we would approximately end the year with \$500,000 to \$600,000 in interest because we weren't receiving this kind of interest in the beginning of the year. She expects she will still need to come to this Committee for free cash in the \$400,000 to \$500,000 range for interest. Mr. Mendes added that as of January 31, 2023, we have received \$384,000, leaving another two to five months left to earn interest. The first three months of the fiscal year, we were at really low rates.

The City received \$75,000 in November, \$74,000 in December, and \$100,000 in January, with five months remaining. If we continue to get \$100,000 for the remaining five months, we will be in good shape. Ms. Lemieux stated yes, we will be asking for much less money than we have in recent years.

Question: You mentioned that we have approximately \$70 million in T bills. How much money is in the City's tax overlay account, where is the money, how is the money invested and how were overall investments being returned to that account?

Answer: Mr. Curley answered that \$31.6 million is in the tax overlay account. Mr. Mendes added that the money is in the general fund investment pool, which is the general fund with any other funds that are not required to be segregated. The stabilization fund is one that accrues its own interest. A fund like the overlay fund doesn't keep its own interest. The interest that's earned on that money is part of the interest income that is earned in the general fund.

Ms. Lemieux added that to date, we've earned well over \$4 million in interest for all the other non-Rainy Day accounts. Other funds such as the Chaffin Fund are completely different, and they receive their own interest. All of our general fund interest is surplus revenue, which is certainly higher than what we predicted last year when we put the budget together.

Question: Our Rainy Day fund guidelines show a 1/3, 1/3 and 1/3 strategy. Are you confident that where the money is now is satisfying the requirements of the Rainy Day fund guidelines?

Answer: Mr. Mendes answered yes. With the treasuries, the T bills and T bonds, Mr. Mendes has "laddered" them into a 24-month strategy. For T bills, he bought 24 T bills; one of them expired in one month, one of them expires in two months, the third one expires in three months, all the way to 24 months. Each time one matures, he replaces it with one for 24 months. Then there's a segment of the stabilization fund that is not in T bills at all. The remaining is sitting in MMDT earning that interest rate. It falls into a tier one, tier two and tier three strategy.

It was explained that different pools of the City's money are in different places according to their own strategies, with the Rainy Day fund always getting credit for the highest interest the City is receiving.

Question: What fund receives the next highest interest? Mr. Mendes answered everything else is in the general fund. The stabilization fund and general fund, not trust funds, are the only ones that are

combined. We allocate the highest interest to other funds in their own separate accounts earning their own income based on their own investment policies.

Question: If the stabilization fund, general fund and free cash accounts generate significant interest, where does the interest show up the following year? How does the revenue generated by that interest get allocated in the next budget?

Answer: Mr. Mendes answered interest income appears in the general fund. Like any other general fund receipt, it becomes part of the budget estimate for the following year and is considered revenue when the budget is set. Ms. Lemieux added that depending on where we think interest rates are going, she's always conservative with projected interest income. Motor vehicle excise tax, building permits, interest income, etc. are all built into our revenue and is aligned to how we set the budget.

Our non-Rainy Day investment policy needs to be reviewed. This policy was not provided to Mr. Mendes upon his appointment as Treasurer.

A Councilor requested that the City's website be updated regarding the Financial Audit Advisory Committee as it is out of date.

A suggestion was made to hold the item allowing the Investment Advisory Committee be reconstituted and meet.

Without further discussion, Councilor Gentile made a motion to hold this item. Committee members agreed 7-0.

The meeting adjourned at 8:50 PM

Respectfully submitted,

Rebecca Walker Grossman, Chair