



## **Finance Committee Report**

### **City of Newton** **In City Council**

**Monday, February 10, 2020**

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

Absent: Councilors Gentile, Ciccone and Noel

City staff present: Chief Financial Officer Maureen Lemieux, Director of Planning and Development Barney Heath, Comptroller Sue Dzikowski, Chief of Police David MacDonald and Lieutenant George McMains

**#115-20      Authorization to expend a \$43,943 Office of Public Safety and Security Grant**

HER HONOR THE MAYOR requesting authorization to accept and expend a forty-three thousand nine hundred and forty-three dollar (\$43,943) grant from the Executive Office of Public Safety and Security for the purpose of funding overtime to have Police Officers monitor high accident locations and conduct traffic enforcement through written warnings and/or citations.

**Action:**      **Finance Approved 5-0**

**Note:**      Police Chief David MacDonald and Lieutenant George McMains presented the request to accept a grant from the Executive Office of Public Safety and Security for the purpose of funding overtime for Police Officers to monitor high accident locations and conduct traffic enforcement through written warnings or citations. Chief MacDonald explained that the City was awarded \$43,943 and approximately half of that has been released. The balance should become available in late spring. As part of the grant, the department was to submit the attached list of ten high accident locations within the City. The way this program will work is that Monday through Friday officers will be at each location in two, three or four hour intervals after 3:30 pm. Additionally, officers will be dispatched on the weekends in the morning and evening hours. Per the grant, officers will need to issue three written warnings or citations per hour. If there are not three citations per hour given then officers can be dispatched to other locations. Chief MacDonald explained that the department can submit new locations but those need to be approved by the Executive Office of Public Safety and Security. Additionally, Chief MacDonald explained that this program's focus is on enforcement and believes if this is a successful grant then it could be renewed in the future. Councilor Kalis motioned to approve which passed 5-0.

### **Referred to Public Facilities and Finance Committees**

**#114-20      Approve \$500,000 for snow and ice removal**

HER HONOR THE MAYOR requesting authorization to transfer the sum of five hundred thousand dollars (\$500,000) from the Budget Reserve – Snow and Ice Removal Account to the following accounts:

DPW Overtime, Snow & Ice Removal  
(0140123-513010)..... \$200,000  
DPW Rental Vehicles/Subcontractors  
(0140123-527301)..... \$300,000

**Public Facilities Approved 5-0 (Councilor Crossley not voting)**

**Action:** **Finance Held 5-0**

**Note:** Maureen Lemieux, Chief Financial Officer, requested for the committee to hold item #114-20. Ms. Lemieux explained that the 10- day forecast is not predicting any storms. If anything changes, she is requesting that the Finance Committee meet before the next full City Council meeting to approve this item. As of now the City has spent approximately \$2.9 million on snow and ice removal and has a total of \$3.5 million in the account. Councilor Kalis motioned to hold the item which passed unanimously.

**#116-20      Approve a proposed contract for online pay services**

TREASURY DEPARTMENT requesting authorization to approve a proposed five year contract for online payment services with the vendor as chosen by the RFP evaluation committee.

**Action:** **Finance Approved 5-0**

**Note:** Maureen Lemieux, Chief Financial Officer, presented the request to approve a five-year contract for online payment services. The City can enter up to three-year contracts but anything above three years needs to be authorized by the City Council. A five year contract makes more financial sense for the City and this will be more convenient for residents. The City will continue to use City Hall Systems. Councilor Norton motioned to approve which passed unanimously.

**#379-19(7)      CPC Recommendation to amend funding source for Webster Woods acquisition**

COMMUNITY PRESERVATION COMMITTEE recommending authorization for the City Treasurer to amend the funding source for \$740,000 seven hundred and forty thousand dollars to fund legal and conservation restriction expenses for Webster Woods approved by Council Orders #379-19 (3) and (4) to allow the City to borrow seven hundred and forty thousand dollars (\$740,000) as authorized by G. L. c. 44B, sec. 11, for a period of 30 years, and any expenditures already appropriated from the CPC's Open Space Reserve and Restricted Fund Balance for Open space pursuant to the CPC's original recommendations be reimbursed from the sale of such bonds or notes, and that any premium received upon the sale of such bonds or notes, less any such premium applied to the payment of issuance costs of the bonds or notes shall be deposited in the Community Preservation Fund's restricted fund balance for open space.

**Action:** **Finance Approved 5-0**

**Note:** Barney Heath, the Director of Planning & Development, presented the request to amend the funding source for the Webster Woods acquisition. Mr. Heath explained that instead of the

\$740,000, which is covering the legal and conservation restriction fees, being taken from CPA funds, the City should include this in bonding. Additionally, Mr. Heath explained that at the end of the year the City realized it made more sense to have that \$740,000 available for the Community Preservation Committee. Councilor Malakie motioned to approve which passed unanimously.

**#112-20 Submittal of the CAFR, and external audit reports**

COMPTROLLER transmitting the Comprehensive Annual Financial Report and external audit reports for fiscal year ending June 30, 2019 for City Council review/acceptance.

**Action:** Finance Approved 5-0

**Note:** The Committee met with Matt Hunt of Clifton, Larson, Allen, LLP, (CLA), the City's external auditing firm, to discuss CLA's review of the City's Comprehensive Annual Financial Report (CAFR), review of the single audit report and the management letter for Fiscal Year 2019. The auditor's opinion on the CAFR is unqualified and unmodified (i.e., the financial statements present fairly in all material respects, the City's financial situation), which is the best opinion available. The Committee members received copies of all documents related to the audit. The CAFR, Federal Grants Report (single audit report) and the Management Letter can be found at: <http://www.newtonma.gov/gov/comptroller/new.asp>

**Comprehensive Annual Financial Report**

Mr. Hunt began the discussion by reviewing the financial highlights of the audit of the CAFR. The Government-wide Financial Statements are reported on pages 18-21 of the CAFR, which shows the City's assets, liabilities, and net position. The City's liabilities are approximately \$1.3 billion, and the 3 largest liabilities are bonds payable of \$305 million, OPEB of \$613 million and net pension of \$324 million. Mr. Hunt explained that many municipalities in Massachusetts are experiencing that kind of deficit because of the large unfunded liabilities. In terms of the Full Accrual Government-wide Financial Statement, pages 20-21 go over the City's expense and revenue activity. The City did experience increase of net position of \$9.7 million. The total expenses of the City, government wide, were \$510 million and the largest of that was education related expenses of \$318 million. The total revenues, government wide, were \$519 million and the largest of that was real estate revenue of \$347 million.

Mr. Hunt then explained the modified accrual financials statements, in particular the general fund, starting on page 22. The total general fund balance is \$71 million and page 73 has a breakdown of the total fund. The unassigned balance is \$47.5 million, which includes \$21.5 million dollars of the City's "rainy-day"/stabilization fund. On page 12, there is a five-year summary of the assigned fund balance as a percentage of revenues. In addition, pages 24-26, provides a reconciliation of the governmental fund balance totals to the statement of net position that pinpoints how the General Fund compares to the budget.

Mr. Hunt reviewed the financial highlights related to the enterprise funds and internal service funds. The sewer enterprise fund liabilities totaled \$27 million. The net position overall was \$77 million of which \$13 million was unrestricted. The City's enterprise funds are in positive net positions. The internal service funds include health claims and workers compensation. The overall liabilities for the internal service

funds are \$15 million. This includes the City's incurred but not reported health claims of \$4 million and \$9 million worth of workers compensation liabilities. The overall net position was \$20 million and the change in net position was \$1.8 million. The \$20 million net position represents approximately 3-4 months' worth of claims. Further information on the City's enterprise funds and internal service funds can be found on pages 28-30, of the CAFR. Page 103 of the CAFR provides a further breakdown of the Internal Services Fund.

Mr. Hunt continued with a review of the fiduciary funds financial statements found on pages 31-32 of the CAFR, which provides the total of both the Pension and OPEB Trust Funds. A breakout of both funds is provided on pages 79 and 80. For the pension trust fund there is a net position of \$342 million and a \$9 million decrease in net position. This has occurred in many municipalities because this was a poor year for investment markets. The OPEB trust fund has a net position of \$11.8 million and an overall increase in net position of \$3.1 million. As shown on page 80, the City's contribution to the OPEB trust fund is \$26 million but the actual cash contributions were \$2.5 million. There is a generally accepted accounting principles (GAAP) accrual of "pay as you go" in the amount of \$23.5 million. Additionally, there was investment income generated of \$598,000.

Mr. Hunt noted that he will work on having a growth chart on Pensions and OPEB liability for next year's report.

In addition, Mr. Hunt provided a quick review of the footnotes included in the CAFR. Note 10 (pages 58-66) of the CAFR footnotes relates to long-term debt. During FY19, the City issued approximately \$18 million of new debt, which includes \$5 million for Cabot Elementary, \$7 million for water infrastructure, \$1 million for sewer infrastructure and \$1 million for stormwater infrastructure. Last year, was the implementation of GASB 74 and 75 which completely changed how the OPEB liability was being calculated. The OPEB liability went from \$290 million to \$639 million, last year, and now that the changes are in place the City will not see a significant fluctuation to the liability. This year, the OPEB liability decreased to \$628 million. On page 68, there are deferred outflows and inflows of resources related to OPEB. The OPEB discount rate utilized last year was 3.58% and this year it is 3.87%. Additionally, on pages 70-71 there are investment policies and expected returns, discount rate and sensitivity tables. Lastly, there is the pension foot note 17 on pages 74-78. The pension liability in total is \$335 million and there are deferred outflows and inflows. Mr. Hunt explained that the City has paid \$32 million this year into the pension but that does not mean that the total liability will decrease by \$32 million. An actuary evaluation is the key to these reports, which is taking a snapshot of all of the retirees and active employees as a point in time document. Through this information the actuary makes projections. But throughout the year variables change, which can include the number of retirees and the status of investment markets. Additionally, Mr. Hunt explained that the OPEB discount rate needs to be determined by the actuary. The actuary needs to take the amount of assets the City has in the OPEB trust balance, consider what the City is going to be contributing to the OPEB trust in upcoming years and then they need to make projections.

**Government Accountability Office (GAO) and Office of Management and Budget (OMB) Reports**

The independent auditor provides reports on the internal control over Federal and State financial reporting and on compliance. The report does not provide an opinion on internal controls but includes any significant deficiencies and/or material weaknesses in internal controls and material noncompliance to laws and regulations. This year the City's total federal award expenditures were \$9.6 million. The auditor goes through a process to pick major grants to test. For FY19 those programs were the HOME Investments Partnerships and the Special Education Cluster. There were no findings for the Special Education Cluster program but there were two findings for the HOME program. As part of the HOME program, funds are distributed to subrecipients and with that there are certain monitoring procedures that need to be done. Some of the monitoring was not being done which includes the subrecipients, including the City of Waltham and other municipalities, did not have their own audit reports. For Newton this falls under the Department of Community Development, which would be the Planning Department. Comptroller, Sue Dzikowski, explained that this issue has been resolved. This is Finding 2019-001 on page 10 of the GAO and OMB Report. The second finding is Finding 2019-002 on page 11. Two out of seven payroll charges tested were charged in excess of time and effort documentation. The variances that were identified were small, but this still needs to be reported.

**Management Letter**

Mr. Hunt continued with a review of the Management Letter. This year's management letter contains three out of five prior year comments that the auditor considers partially resolved. A summary of each of the resolved comments is included in this year's management letter. FY20 will be the first year the City is using MUNIS, some of the items in the management letter will not be resolved until FY20 closes. Additionally, the MUNIS payroll system is expected to be implemented for FY21, the MUNIS fixed asset module is to be considered for FY20 and the MUNIS reporting capabilities are being utilized and explored further. Regarding year-end close there was a recommendation that all deposits should be centralized through the Treasury, which is being considered for FY20.

The prior year comments for the Oak Hill student activity funds are partially resolved from last year (page 4). In accordance with the student activity fund law a maximum balance was established several years ago. Mr. Hunt explained that the Newton School Department should raise the maximum balance and stated that the School Department has released a draft of new maximum balances for all of the schools' student activity funds checking accounts. The Newton School Department is also considering MUNIS for the student activity funds. Additionally, Mr. Hunt explained he does not view this as a high priority item. The prior year comments regarding the high school athletic fees and gate receipts are unresolved. Mr. Hunt explained that there are draft policies and procedures, but they have not been finalized yet. With the implementation of the new payment management system, there should be a reconciliation of participants to fees, fully automating the processing of receipts and recording refunds without the need for a separate system. The School Department has found a software that can alleviate these concerns.

The last section of the report are current year comments for FY19. Mr. Hunt explained for Information Technology (page 9) the auditor recommended to update password standards, use a credentialed

vulnerability scanner on a regular basis, update policies and procedures and make sure that IT is removing former employees from the system. Maureen Lemieux, Chief Financial Officer, explained that the City will always be vulnerable for ransomware, even with the amount of the testing that the IT department does. The Financial Audit Advisory committee will investigate these issues further with Chief Information Officer, Joseph Mulvey. The next current year comment dealt with Newton South High School's student activity funds (page 11). Similar to Oak Hill, the maximum balance for the funds was approved years ago, and should be reevaluated because the maximum balance has been exceeded. Also, the school should consider using the MUNIS module for student activity funds and consider using wire transfers instead of handwritten checks. Mr. Hunt explained that overall the School Department has been doing a good job with the student activity funds. Additionally, there was a current year comment on the Inspectional Services Department (page 12). The policies and procedures were dated in various locations and formats and the recommendation is to put everything in one centralized electronic file, which the department has already addressed. Additionally, there should be a reconciliation of what the department has for permit fees and what the City has in its general ledger.

With that, Councilor Norton motioned to approve the acceptance of the CAFR and associated documents, which carried unanimously.

**#111-20      Reappointment of James Shaughnessy to the Board of Assessors**

HER HONOR THE MAYOR reappointing James Shaughnessy, 17 Whirty Circle, Hopkinton, as a member of the Board of Assessors for a term to expire February 1, 2023. (60 days 04/03/20)

**Action:**      **Finance Approved 5-0**

**Note:**      Maureen Lemieux, Chief Financial Officer, presented the request for the reappointment of James Shaughnessy as a member of the Board of Assessors. Mr. Shaughnessy is the Director of the Assessing Department and works with two other employees on the Board of Assessors. The two other positions are held by the key residential assessor and the key commercial assessor. Councilor Norton motioned to approve which passed unanimously.

The committee adjourned at 8:35 p.m.

**Respectfully submitted,**

**Rebecca Walker Grossman, Chair**

<b><i>Directed Location</i></b>	<b><i>Estimated # of Patrol Hours</i></b>
1. West Newton Square area (Washington Street @ Chestnut Street, Washington Street @ Watertown Street, Washington Street @ Waltham Street, Washington Street @ Cherry Street, Washington Street @ Elm Street, Washington Street @ Highland Street)	100
2. Newton Highlands Square area (Centre Street @ Walnut Street, Walnut Street @ Lincoln Street, Lincoln Street @ Hartford Street)	100
3. Newtonville Square area (Washington Street @ Walnut Street, Walnut @ Newtonville, Walnut Street @ Madison Avenue, Lowell Street @ Austin Street)	100
4. Newton Centre Square area (Beacon Street @ Centre Street, Centre Street @ Pelham Street, Centre Street @ Pleasant Street, Beacon Street @ Langley Road)	100
5. Needham Street	75
6. Newton Corner area (Centre Avenue @ Centre Street, Centre Street @ Washington Street, Washington Street @ Tremont Street)	75
7. Waban Square Area (Beacon Street @ Chestnut Street, Chestnut Street @ Woodward Street, Beacon Street @ Wyman Street)	75
8. Crafts Street @ Albemarle Road	75
9. Oak Hill Square area (Dedham Street @ Nahanton Street, Dedham Street @ Brookline Street, Dedham, Street @ Carlson Road)	75
10. Washington Street @ Beacon Street	67