



Newton City Council

Committee of the Whole Agenda

Wednesday, May 3, 2023

The City Council will meet in a Committee of the Whole on Wednesday, May 3, 2023, at 8:00 am.

The City Council will hold this meeting as a virtual meeting on Wednesday, May 3, 2023, at 8:00 am. To view this meeting using Zoom use this link:

<https://newtonma-gov.zoom.us/j/83414701095>

or call 1-646-558-8656 and use the following Meeting ID: 834 1470 1095

Referred to a Committee of the Whole

#136-23 Request to increase the retiree COLA base

RETIREMENT BOARD requesting City Council approval of an increase to the retiree Cost Of Living Adjustment (COLA) base from twelve thousand dollars (\$12,000) to thirteen thousand dollars (\$13,000) in FY24, from \$13,000 to \$14,000 in FY25, and from \$14,000 to \$15,000 in FY26 pursuant to Chapter 32, Section 103(j), such increase to be effective July 1, 2023.

#158-23 Discussion regarding use of non-recurring revenue in Newton

COUNCILORS ALBRIGHT, GROSSMAN, LIPOF, MARKIEWICZ requesting a comprehensive discussion with the Mayor regarding all one-time funds, regardless of source, and possible upcoming requests to the Council in order to have an appropriate context in which to discuss the two existing docket items (125-23 and 127-23). The one-time money discussion should include free cash, overlay surplus as well as any other possible one-time funding source.

#125-23 Appropriate \$1,400,000 from FY22 Free Cash

HER HONOR THE MAYOR requesting authorization to appropriate and expend one million four hundred thousand dollars (\$1,400,000) from FY22 Free Cash to provide a "bridge grant" to Newton Public Schools for the expected significant increase in student out-of-district cost in FY24.

#127-23 Appropriate \$10,000,000 from FY22 Free Cash

HER HONOR THE MAYOR requesting authorization to appropriate and expend ten million dollars (\$10,000,000) in FY22 Free Cash for the Lincoln-Eliot Elementary School construction project.

Respectfully submitted,

Susan Albright, President

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



To: City Council
From: Susan Albright, Rick Lipof, Chris Markiewicz, and Becky Grossman
Re: Choices before us at our COW 5/3/23, with context for our thinking

At the March meeting of the Retirement Board, the Mayor came to the Board with a proposal to reduce the rate of growth for the allocation to the Pension Trust enough to fund the Horace Mann renovation, and in return she offered a \$1,000 increase in the COLA base for 3 consecutive years. Some of you are aware that the Retirement Board has come to the Council twice over the last 10 years asking for this COLA base increase, and they were turned down twice. At that same March meeting, a group of Councilors asked the Board to consider a larger decrease to the rate of growth, recognizing that the rate of growth of revenue in Newton is 3.5%, and therefore any rate of growth above 3.5% will mean increased reductions in city services. Both these requests recognized that state law requires fully funding the pension trust by 2040. It should be noted that although Newton is not under the control of the Public Employee Retirement Administration Commission (PERAC), we have learned that PERAC is encouraging the 103 other retirement boards under its control to fully fund pensions by 2035.

Based on the two requests before the Board, they offered to reduce the rate of growth from 9.6% annually to 6.6% annually, as long as the Council and Mayor agreed to providing a COLA base increase over 3 consecutive years from a maximum base of \$12,000 currently to a maximum base of \$15,000.

Since that time, the Mayor announced last week that she will phase out the retiree reimbursement for Medicare Part B which is \$925 annually. She made the point that retiree health care premiums will be going down meaningfully as a result of the newly negotiated health care plan. Councilor Gentile made the case in recent emails that we are giving an increase of \$30/year for COLA, and at the same time taking away \$925. He is asking us if we think this makes sense recognizing that there is an increase to fully fund the trust based on the COLA base increase we might provide (see Comptroller Curley's chart and explanation). It should be noted that the Councilors who have spoken with the Retirement Board have heard that achieving an increase in the COLA base is very important to retirees.

At a School Committee meeting this week, the Mayor announced that the schools would have an additional \$650,000 added to their allocation, which is the amount saved as a result of the Medicare Part B plan.

Since the announcement to phase out the Medicare Part B reimbursement, we received an email from two members of the Retirement Board explaining how unhappy they are with this plan. Even though there is a decrease in health care premiums for retirees, they make the case that the cost of health insurance always rises and will soon erase this benefit.

There are two purposes for our Wednesday morning meeting:

1. Discuss and possibly vote on the Retirement Board docket item on COLA (136-23)
2. Discuss the use of pending free cash requests by the Mayor and remaining one-time funds if there is time in our meeting (the other docket items on the agenda)

If we don't finish these discussions, we will need to schedule a follow-up Committee of the Whole, possibly on the evening of May 10, as this night is already reserved as a second meeting on the School Budget.

What are our options with respect to docket item 136-23?

1. We can vote it in the affirmative
2. We can vote it in the negative
3. We can make an alternative proposal to the Mayor and the Retirement Board. If we ask for an alternative, we would also have to ask the Retirement Board to hold a special meeting to discuss our alternative if it involves a change in the rate of growth of the City's pension allocation. Then of course, the Council would have to respond.

What might an alternative look like? Here are some that we have thought about – there are others – but we'll offer these to give you context for your thinking:

1. We ask the Mayor to change the Medicare Part B proposal in the following way:
 - a. No future retirees after May 1 receive the Medicare Part B reimbursement
 - b. Current retirees making less than \$40,000 will continue to receive the Medicare Part B reimbursement as long as they prove that their income is no more than \$40,000
 - c. Retirees making greater than \$40,000 will have their Medicare Part B reimbursement phased out as proposed by the Mayor

(Clearly there are alternatives to this plan based on changing the maximum salary or making the determination based on age – we only offer this as one alternative. **Remember: any change in this area has to be approved by the Mayor**)
2. Ask the Retirement Board to change the rate of growth to the City's pension fund allocations from 6.6% to 5%. This would enable the Mayor, if she chooses, to increase funding to the schools by an equivalent amount she has saved from the Medicare Part B plan (\$650,000). We would still need to discuss whether or not to offer an increase to the COLA base as the Mayor has offered, and what the size of the increase to the COLA base should be. This part must be approved by the Retirement Board. We do not want to pretend that getting that agreement would be easy. Of course, there are longer term changes to the cashflows to the City to be achieved by this, including greater levels of "freed up cash" in the medium term, and larger cash payments to be made in the longer term, which is essentially when we would have started turning to OPEB funding anyway.
3. In Comptroller Curley's document, President Albright asked him to provide information regarding a 5% or 5.5% rate of growth. There are many different reduced rates of growth we could propose as a way to achieve additional funds for the schools and city services. Any further reduction means a later date that we would achieve full funding of the Pension Trust. Note that some members of the Retirement Board have indicated they will not entertain fully funding the pension trust later than FY32. Note also that we could consider offering a higher rate of increase to the COLA base in exchange for a lower rate of growth to the pension allocation.

Tom Lopez (chair of the Retirement Board), Kathleen Riley (the actuary from Segal), Steve Curley, and Maureen Lemieux will also be with us on Wednesday morning. We hope we will have a fruitful conversation.

Beside this memo we are also providing:

1. The original letter to the Retirement Board from Kathleen Riley (the actuary)
2. Two documents we asked our Comptroller to prepare:
 - a. An exhibit showing the pension at full funding with possible impact related to changing the rate of growth and adding COLA
 - b. A verbal description of the chart
3. Two emails provided to President Albright from Retirement Board member Tony Logalbo explaining the COLA base given by peer communities

EXHIBIT B

April 28, 2023

Newton Retirement System Pension Funding
Cost differences of Rate Changes and COLAs through FY33

| Annual % Increase => | FY 2031 9.6 w/o COLA | FF 2032 rate 6.6 w/o COLA | FF 2032 rate 6.6 w/COLA | Cost difference per year 9.6 w/o COLA and 6.6 w/COLA | FF 2033 rate 5.5 w/COLA | FF 2033 rate 5.0 w/COLA |
|---|-------------------------|------------------------------|----------------------------|---|----------------------------|----------------------------|
| 2023 | 40,847,226 | 40,847,226 | 40,847,226 | - | 40,847,226 | 40,847,226 |
| 2024 | 44,768,560 | 43,543,143 | 43,543,143 | (1,225,417) | 43,093,823 | 42,889,587 |
| 2025 | 49,066,342 | 46,416,990 | 46,416,990 | (2,649,352) | 45,463,984 | 45,034,067 |
| 2026 | 53,776,711 | 49,480,511 | 49,480,511 | (4,296,200) | 47,964,503 | 47,285,770 |
| 2027 | 58,939,275 | 52,746,225 | 52,746,225 | (6,193,050) | 50,602,550 | 49,650,058 |
| 2028 | 64,597,445 | 56,227,476 | 56,227,476 | (8,369,969) | 53,385,691 | 52,132,561 |
| 2029 | 70,798,800 | 59,938,489 | 59,938,489 | (10,860,311) | 56,321,904 | 54,739,189 |
| 2030 | 77,595,485 | 63,894,429 | 63,894,429 | (13,701,056) | 59,419,608 | 57,476,149 |
| 2031 | 85,863,135 | 68,111,461 | 68,111,461 | (17,751,674) | 62,687,687 | 60,349,956 |
| 2032 | 95,234,159 | 73,988,433 | 73,988,433 | (21,245,726) | 66,135,510 | 63,367,454 |
| 2033 | 106,234,159 | 82,234,159 | 82,234,159 | (24,000,000) | 71,135,510 | 68,367,454 |
| Funding through FY32 | 504,487,138 | 516,194,383 | 538,776,719 | | 525,922,486 | 513,772,019 |
| Additional Cost | new baseline w/losses | 11,707,245 | 34,289,581 | | 21,435,348 | 9,284,881 |
| Additional Cost figures are through FY33 | | | | | | |
| Funding through FY33 | 512,721,297 | 524,428,542 | 547,010,878 | | 562,440,200 | 562,440,200 |
| Additional Cost | new baseline w/losses | 11,707,245 | 34,289,581 | | 49,718,903 | 49,718,903 |

This is the FY24 appropriation that was voted by NRB on 2/21/23
 *Difference in Full Appropriation, not just GF, which accounts for ~94.7%
 Require funding in Excess of Normal Costs in FY33

The attached Exhibit B, dated April 28, 2023, titled “Newton Retirement System Pension Funding cost differences... through FY33” shows the changes in funding in a variety of scenarios.

It compares full funding in FY2031 with 9.6% annual increase in appropriation and no COLA base increases with the Newton Retirement Board’s contingent plan to change the schedule to full funding in FY2032 with a 6.6% annual increase in appropriation and 3 COLA base increases (\$12,000 -> \$15,000 with \$1,000 annual increases in FY24, FY25, FY26) if the COLA is approved.

The results of this comparison show that changing this schedule will result in a \$34M increase in nominal dollar cost to the City to fund the pension. This results in \$12M cost in extending the schedule, which is largely due to investment gains that would not be recognized because of the reduced annual appropriations, and a \$22M cost for COLA.

The COLA cost is an increase in unfunded liability by \$3.8M per \$1,000 increase (\$11.4M for the three increases) and an increase to normal costs of \$76,000 each year. The difference in the \$11.4M COLA unfunded liability and \$22M cost of the COLA increase can best be explained like a mortgage. If you pay \$11.4M cash on a house today, it costs \$11.4M. If you put a mortgage on the house, the \$11.4M will cost you \$22M by the time it is paid off.

With reductions in annual appropriations, you will see cost reductions in the short term, but it will cost more over time. This is evident in the Cost difference row (highlighted green). Savings short-term, more expensive in the later years when you must fund those additional costs referenced above.

For the two FY 2033 appropriation schedules on the right (5.5% and 5.0%), these would not be fully-funded the same time as those to the left. There would still be significant costs in funding for each of those options in FY33, while the FY31 and FY32 plans would only be paying Normal Costs (est around \$8.2M a year). Normal Cost is the cost of the Pension Plan for the year less expected member contributions.

The cost of extending the schedule and the cost of the COLA would further increase from the combined to a number greater than the \$34M cost of FY32 full funding by moving the schedule out an additional year to FY33.

UNANIMOUS LOCAL APPROVAL OF 3% COLA

For FY23, we're pleased to report that all 102 retirement boards have unanimously approved a 3% COLA, effective July 1. The 3% will be applied to

the Base amount that as the chart below shows, ranges from \$12,000 to \$18,000. *Mass Retirees* is seeking enactment of our proposed local option provision that would enable

local boards to add up to 2% more onto this year's 3% COLA for a total of 5%. For more about this, see lead article on page 1.

FY23 COLA BASES: ANNUAL OVERVIEW 104 MASS. RETIREMENT SYSTEMS

\$12,000 Base

Amesbury
Braintree
Chelsea
Fall River
Fitchburg
Framingham
Lawrence
Marblehead
Marlborough
New Bedford
Newburyport
Newton
Winthrop

20

Springfield
State
Teachers'
West Springfield
Westfield
Weymouth*

\$14,000 Base

Adams
Berkshire County
Brockton*
Concord
Dukes County
Everett
Falmouth
Gloucester
Greenfield
Hingham
Holyoke
MassPort
Minuteman RSD*
North Attleboro
Northbridge
Pittsfield
Plymouth
Reading
Saugus
Shrewsbury*
Southbridge*
Swampscott

20

18

Waltham
Watertown*
Winchester
Worcester*

\$15,000 Base

Arlington
Boston
Brookline*
Dedham
Fairhaven*
GLSD
Lexington*
Lynn
Maynard
MHFA
MWRA
Norwood*
Peabody
Quincy
Salem*
Somerville*
Stoneham*
Taunton

\$16,000 Base

Cambridge
Chicopee*
Easthampton*
Essex Cty*

Melrose*

Middlesex County
Needham*
Plymouth County
Wakefield*
Webster
Woburn*
Worcester County

12

\$17,000 Base

Franklin County
Hull*
Lowell

3

\$18,000 Base

Barnstable County
Blue Hills RSD
Bristol County
Clinton*
Hampden County
Malden*
Medford*
Methuen
Milton*
Montague
Norfolk County
Wellesley

12

*Changes since July 2021

From: Anthony Logalbo <atlogalbo@comcast.net>
Date: Mon, Mar 27, 2023 at 10:36 PM
Subject: Fwd: Correction - COLA Base data
To: Maureen Lemieux <mlemieux@newtonma.gov>
Cc: Susan Albright <susansophia.albright@gmail.com>

Further digging - since September 2022, six more communities have completed action to raise the \$12,000 minimum COLA base level effective July 1, 2023:

Fitchburg - to \$14,000
Framingham - to \$16,000
Lawrence - to \$14,000
New Bedford - to \$14,000
Newburyport - to \$15,000
Winthrop - to \$13,000

Additionally, Braintree has voted to raise the base to \$13,000 with an effective date of July 1, 2024

So at this point in time, to the best of my knowledge, six systems, including Newton, remain at the \$12,000 base:

Amesbury
Chelsea
Fall River
Marblehead
Newton

Tony

May 1, 2023

Information for the May 3rd Committee of the Whole Meeting

Question: Would you be able to show us the math that explains why the cola actually costs us \$34 million?

Answer:

Increasing the COLA base adds to both the unfunded liability and the normal cost of the Retirement System. We have estimated that increasing the COLA base to \$13,000 effective July 1, 2023, \$14,000 effective July 1, 2024, and \$15,000 effective July 1, 2025 adds approximately \$228,000 to the fiscal 2024 normal cost and \$11.4 million to the July 1, 2023 unfunded liability. The unfunded liability is similar to a mortgage and the payments on the "mortgage" include interest. Interest is charged at the assumed rate of return of 6.9%. Therefore, the nominal cost to the Retirement System of increasing the COLA base is the additional normal cost payments plus the payments on the unfunded liability. This amount is approximately \$22.6 million.

Please see Exhibit A to Lenny Gentile's email on April 30 for a comparison of the estimated projected contributions to the Retirement System with and without the change in the COLA base. The first column (no shading) shows the appropriations for fiscal 2023 through 2032 without the change in the COLA base. These appropriations total \$504,487,383. Please note the appropriation is increasing 9.6% per year and that the System is projected to be fully funded in 2031 (one year later than shown in the January 1, 2022 Actuarial Valuation Report), assuming the assumptions are met in all future years and there are no changes in the actuarial assumptions or further changes in the plan of benefits.

The column shaded in yellow shows the appropriations for the same time period with the change in the COLA base. These appropriations are calculated to increase 6.6% per year to provide some budgetary relief for the City beginning in fiscal 2024. Because a portion of each year's appropriation is being deferred and because the change in the COLA base is reflected, the System is projected to be fully funded in 2032, one year later than shown in the first column. These appropriations total \$538,776,719, or \$34,289,581 more than the first column. Of this increase of \$34.3 million, \$11.7 million is due to extending the funding schedule and \$22.6 million is due to increasing the COLA base.

I hope this information is helpful.

Kathy

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Ruthanne Fuller
Mayor

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Office of the Mayor

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March 28, 2023

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

Honorable City Councilors:

I respectfully submit this docket item to this Honorable Council requesting the appropriation and expenditure of \$1.4 million in FY2022 Free Cash to provide a "bridge grant" to Newton Public Schools for the expected significant increase in student out-of-district costs in FY2024. This is a result of a dramatic, unanticipated state-imposed 14% rate increase for private special education school tuitions. The state's circuit breaker special education program operates on a reimbursement model; NPS has a one year funding gap as the state will provide financial relief from these rate increases in FY2025.

This bridge grant allows NPS to fund this one year gap in special education cost increases.

Thank you for your consideration.

Sincerely,

Mayor Ruthanne Fuller

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NEWTON MA. 02459



Ruthanne Fuller
Mayor

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Office of the Mayor
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#125-23

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March 28, 2023

Honorable City Councilors and School Committee Members:

The voters of Newton made their decision on March 14, 2023 both to move forward with rebuilding the Countryside and Franklin Elementary Schools with debt exclusion overrides and, conversely, not to increase at this time the City's operating budget.

Elections matter. Without the additional funding, we are making challenging decisions.

NPS Operations:

I believe passionately in the mission of NPS. I will support the learning of our students and the work of our educators within our financial constraints.

I know the leadership at NPS is wholly committed to creating a sustainable budget, not just for this coming Fiscal Year 2024 but for the ensuing years.

Tomorrow morning, Interim Superintendent Kathy Smith is bringing forward to the School Committee her recommended budget.

I have taken three steps to support Superintendent Smith in these efforts. Tomorrow's NPS proposed budget incorporates these three steps, all of which require the approval of the City Council:

- Provide additional funding to support NPS operations by using one-time free cash towards one-time capital expenditures to lower our debt service costs and repurposing the \$600,000 of funds annually to help NPS transition to a sustainable budget.
- Support NPS operations with its \$1.4M one year gap in increased out-of-district tuition costs by using one-time free cash towards this one-time need.
- Support the mental health needs of NPS students with City funding.

More specifically, I respectfully submit an attached docket item to the Honorable Council requesting the use of \$10 million in FY2022 Free Cash for the Lincoln-Eliot Elementary School construction project that the Council has already approved. This \$10 million includes the \$7.5 million we originally planned to use for the Horace Mann Elementary School addition/renovation project and \$2.5 million we had set aside for snow/ice expenses this winter beyond what is included in the operating budget. This past winter was mild, fortunately, allowing the repurposing of these snow/ice funds.

This use of \$10 million from the unusually large FY2022 Free Cash amount will allow the City to reduce the bonding for Lincoln-Eliot from \$50 to \$40 million. This will in turn save the City approximately \$600,000 each year (over 30 years) in debt service costs.

I will repurpose the \$600,000 to supplement the 3.5% increase I had originally planned for the Newton Public Schools FY2024 operating budget. This \$600,000 will be added to the NPS base budget. Instead of a 3.5% increase, the base budget for NPS will rise by 3.73% in my proposed FY2024 budget for a total increase in the budget of \$9.772M. This has in turn reduced the NPS staffing level reductions being announced tomorrow.

I am also respectfully submitting an attached docket item to the Honorable Council requesting the use of \$1.4 million in FY2022 Free Cash to provide a “bridge grant” to NPS for the expected significant increase in student out-of-district costs in FY2024. This is a result of a dramatic, unanticipated state-imposed 14% rate increase for private special education school tuitions. The state’s circuit-breaker special education program operates on a reimbursement model; NPS has a one year funding gap as the state will provide financial relief from these rate increases in FY2025. This bridge grant allows NPS to fund this one-year gap in special education cost increases.

I will also propose in the City’s FY2024 Budget that the City absorb for one year the \$50,000 cost currently in the NPS budget for the INTERFACE referral service program through William James College. This program provides mental health and wellness referral services. NPS staff have found it invaluable for students and families. The \$104,000 budget for this ongoing program will be 100% funded in the City’s Department of Health & Human Services for FY2024. (NPS represents 60% of the calls to INTERFACE.)

Combined, these three funding decisions using one-time free cash in a financially responsible way assists NPS during this necessary transition to a long-term sustainable budget.

Supporting our Retirees and Bolstering Financial Sustainability:

This morning I met with the independent Newton Contributory Retirement System Board with a proposal to support our current retirees, ensure the funding of our pension system for future retirees, and adjust the pension system payments to a more sustainable level. This is a collaborative effort and I am extremely grateful to the Board members for considering the proposal.

More specifically, I have asked the Board to consider:

- Increasing the base amount that retiree COLAs are applied to by \$1,000 for each of the next three years, which requires City Council approval. In other words, the COLA would apply to the first \$13,000 in FY24, \$14,000 in FY25 and \$15,000 in FY26 (an additional \$30 dollars a year per retiree). Currently, the City of Newton is one of only six retirement systems out of 104 in the Commonwealth that limits the COLA to the first \$12,000. This action addresses the inflationary pressures that our retirees are facing daily.
- Extending the funding schedule to August 2031 (in the beginning of FY32) at which time the system will be 100% funded. Our current plan would have allowed us to fully fund

our pension system by FY2030, but the losses in the stock market last year has pushed that into FY2031. This action will create a more sustainable funding schedule for the City in which to fully address this significant long-term liability and ensure funding of pensions for our retirees. In turn, fully funding our pension system, will allow us to fund the \$665 million+ unfunded retiree health insurance (a.k.a., OPEB) liability.

Simultaneously, the change in date in the full funding schedule frees up the bonding capacity to enable moving forward with the Horace Mann (HM) Elementary School addition and renovation. These facility upgrades at HM are critically important to the community's students, parents and staff. The school building is lacking a significant amount of space, creating educational hurdles for the staff and students every day. The addition/renovation is a \$23 million project with the cost of the bonding over thirty years being \$1.3 million annually for the associated debt service.

* * * * *

I am giving my full attention towards working with the City Council, School Committee, NPS and City Departments, and our community to deliver a balanced municipal budget that reflects our community values and balances our books.

Sincerely,



Mayor Ruthanne Fuller



Ruthanne Fuller
Mayor

City of Newton, Massachusetts
Office of the Mayor

#127-23

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March 28, 2023

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