

October Newsletter

From City Councilor Marc Laredo



HOW SHOULD NEWTON SPEND \$55 MILLION DOLLARS

In August, the Mayor first proposed her plan to spend part of the large amount of cash that had accumulated in the city's accounts, an amount that has now grown to \$55 million dollars. During that time, City Council has been discussing her proposal and considering various alternatives. At last night's City Council meeting, I joined a majority of my colleagues in voting against the Mayor's proposal. Here is the story:

How did we get here

Newton maintains a number of "excess" cash accounts, including some that are set up to deal with contingencies. Three of those accounts are relevant here:

- **Assessment reserves.** The Newton Board of Assessors holds money in reserve (an "overlay account") to pay for successful challenges to assessments of property by businesses and residents.

- **Free cash.** The city often has leftover funds at the end of each fiscal year (the fiscal year ends on June 30) from money that has been budgeted but not spent. After a mild winter, for example, there may be money remaining in the snow and ice account if we have a less-than-average snowfall and there are always some municipal positions that are vacant when someone leaves and is not immediately replaced. These funds, plus interest earned on our investments during the course of the year, are considered “free cash.”
- **Rainy Day fund.** First established at the suggestion of City Councilor Lenny Gentile when Setti Warren was Mayor, this money is a reserve that is only to be used in a crisis when no other money is available. It now holds around \$25 million dollars. It is considered a prudent financial practice for a municipality to have a “Rainy Day” fund of at least 5% of its budget. I have not included our Rainy Day Fund in the \$55 million of excess cash.

As Newton was preparing to vote on the operating override last spring, it became apparent that we had a significant amount of one-time funds in the assessment reserves and free cash.

By August, a more complete financial picture became available: \$26 million dollars in tax abatement reserves and approximately \$21-23 million dollars in free cash. When free cash was certified by the state several weeks ago, that number grew to nearly \$29 million dollars, meaning that we now have approximately \$55 million dollars in one-time funds.

The Mayor’s proposal and the City Council’s response

The Mayor proposed that the city do two things with the \$26 million dollars in assessment reserves:

- establish a new “Operations Stabilization Fund” and use those funds over eight years by using the Fund’s principal to help pay for our pension obligations; and
- allocate the interest for eight years so that two-thirds goes to the schools and one-third goes to the municipal budget (which would generate another approximately 0.2% annually for the schools).

Meanwhile, none of our free cash has been allocated yet.

On Monday night, after a lengthy debate, the City Council rejected the Mayor's proposal for the Operations Stabilization Fund in a 13-10 vote (a minimum of 16 votes was needed to approve the plan and only 10 votes supported the plan).

Why I voted against the proposal and what we should we do next

Voting against the Mayor's proposal was not a vote against funding our schools but a vote for more flexibility to address our city and school needs over the next eight years.

I always have agreed that non-recurring funds generally should not be spent on ongoing operational expenses. However, I do not believe that it is good financial management to decide how to allocate those funds for the next eight years; we put together a budget each year, and I do not think we should lock ourselves in to a portion of a budget for eight years.

A better approach is to keep the money in reserve, but then provide greater flexibility and transparency to meet the needs of the schools and the rest of the city each year by allowing the Mayor to recommend, and the City Council to review and approve, each future allocation from this reserve. The Mayor and the City Council have a common goal – to help ensure appropriate funding for our schools and municipal services. I hope we can work together to create a new mechanism for doing so.

As always, I welcome your thoughts, questions, comments, and criticisms!

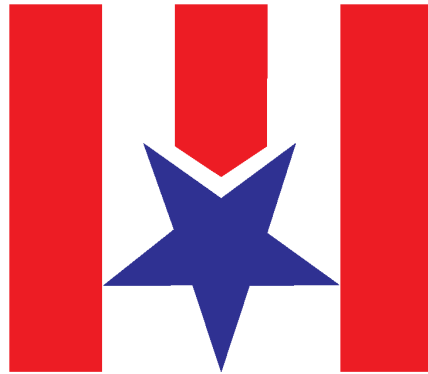
Thanks,

Marc

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