

CITY OF LOWELL

COMMONWEALTH OF MASSACHUSETTS

VOTE

IN CITY COUNCIL

ORDERED,

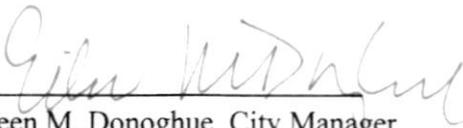
By the City Council of the City of Lowell by a Two-Thirds Vote, as follows:

That the amount of **Seven Million, Four Hundred Sixty Two Thousand, Seven Hundred Six (\$7,462,706.00) Dollars** be appropriated:

FROM: 7/1/19 Certified Free Cash; General Fund, more fully described in Attachment "A"

TO: Various Accounts; more fully described in Attachment "A".

ORDER RECOMMENDED AND INTRODUCED BY:



Eileen M. Donoghue, City Manager



Eileen M. Donoghue
City Manager

March 25, 2020

Mayor John J. Leahy
And
Members of the Lowell City Council

Dear Mayor Leahy and Members of the Lowell City Council,

I am pleased to inform you that the city has received notification from the Commonwealth's department of revenue ("DOR") that the city's free cash total as of July 1, 2019 has been certified in the amount of \$7,462,706. The amount certified is a calculation normally submitted by the City Auditor and certified by DOR. However, due to the turnover in the position of the City Auditor, I must thank my finance team for taking on these additional responsibilities of preparing the balance sheet submission for FY2019. This total is significant and is a figure greater than Lowell has seen in many years, providing much needed flexibility during a time that could be otherwise very fiscally challenging.

Along with the free cash certification, the DOR has also certified the retained earnings of the three enterprise funds. Each fund has likewise performed well in FY2019 and exceeded our expectations. As we look ahead to some significant increases in debt service costs associated with the ongoing capital improvement programs of the water, sewer, and parking enterprise; we will continue to monitor expenses so that rates will remain affordable to the users. The fiscal position of each of these enterprise funds, as is also substantiated by the FY2019 audited financial statements, is strong.

I am hereby recommending that the accompanying vote be approved by the City Council to appropriate the balance of General Fund free cash. The financial rationale is explained in a memorandum from the Chief Financial Officer enclosed with this letter and line-item detail is included with the attachment to the vote.

Sincerely,

Eileen M. Donoghue
City Manager

CC: Conor Baldwin, Chief Financial Officer
Tina Masiello, City Auditor



Conor Baldwin
Chief Financial Officer

MEMORANDUM

TO: Eileen M. Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer 

CC: Tina Masiello, City Auditor

DATE: March 25, 2020

SUBJECT: Free Cash Certification – 7/1/2019

The city has received notification from the Department of Revenue (“DOR”) that the “free cash” total as of 7/1/2019 has been certified as \$7.5 million for the general fund. Additionally, the DOR has certified the retained earnings of the city’s three enterprise funds for sewer, water, and parking at healthy balances of \$4.2 million, \$5.3 million, and \$5.4 million, respectively. It is important to note that “free cash” is not a measure of the money that Lowell has in the bank. Rather, free cash is the portion of the General Fund balance that the state certifies as available for appropriation after analyzing the City Auditor’s year-end balance sheet and deducting all outstanding liabilities and grant deficits. Simply put, free cash is a community’s unrestricted, available funds that may be used as a funding source for appropriations.

Free cash is generated when the actual operating results compare favorably with the budget. Specifically, free cash is generated when actual revenue collections are more than budget estimates, and when expenditures and encumbrances are less than appropriations, or both. Indications of the strong fiscal state of the city were communicated to the City Council earlier this year in a letter dated September 17th, 2019 (FY20) regarding the city’s FY2019 year-end results. The undesignated fund balance as of 6/30/2019, which is the starting point for the free cash calculation was \$10.1 million, an increase of over \$5.5 million over the prior year and the highest year-ending balance in at least a decade.

During the budget hearings, the Administration represented to the City Council that once free cash was certified, the stabilization account would be replenished for the \$3.3 million earmarked to fund the FY2020 budget. Fortunately, because of the proactive austerity measures and fiscal controls implemented early in FY2020, the city did not need to use any of the stabilization funds to set the 2020 tax rate. Earlier in March of FY2020, however, the Council appropriated \$1.1 million from the stabilization account to fund the retro component of the MOU with the Patrol Officers’ union, with the caveat that the funds would be repaid from free cash. After repayment, the stabilization fund balance will stand at an all-time high level of \$12.24 million. This healthy level of reserves is looked upon favorably by the ratings agencies when the city issues debt to finance our ongoing capital investment campaign.



Conor Baldwin
Chief Financial Officer

Another component of the free cash appropriation represents a deliberate financial strategy to mitigate some anticipated increases in fixed costs to the FY2021 operating budget, so as to alleviate the impact on taxes, as well as addressing some perceived one-time funding needs that otherwise would have been funded by selling debt, saving the city interest costs associated with borrowing. There are also unforeseen expenditures, namely in the worker's compensation account, which will be supplemented with the appropriation from free cash.

With these appropriations, the city will solidify the strong fiscal results for FY2019 and put the city in the most advantageous position to achieve a balanced FY2020 and FY2021. Please let me know if there are any questions.