



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

MEMORANDUM

TO: Eileen M. Donoghue, City Manager *EMD*

FROM: Conor Baldwin, Chief Financial Officer *CB*

CC: Kelly Oakes, City Treasurer/ Collector
Sue LeMay, Chief Assessor
Terry Ryan, Parking Director

DATE: April 6, 2020

SUBJECT: **MOTION RESPONSE: 4/14/2020 by C. MERCIER** - Req. City Mgr. Find Ways And Means To Have City Vendors That Are Responsible For Sending Out Property Tax Bill, Excise Tax Bills, Etc. Offer A Grace Period For Payment During These Difficult Times.

MOTION RESPONSE: 4/14/2020 by C. ELLIOTT - Req. City Mgr. Have Proper Department Suspend Parking Ticketing During Stay At Home Order.

1. Taxes/ Penalties & Interest

In response to questions received by the Treasurer/ Collector's Office and the above referenced City Council motions, the finance department has compiled this review of relevant options available to the city for potential relief to residents related to tax payments due to the city in FY2020. While the Administration is exploring every available opportunity to offer options to our residents during this unprecedented public health emergency, the flexibility for municipalities to make changes is limited by state law in most instances. To that end, there was a bill passed by the House and Senate on April 3rd, which provides further relief to cities and towns. Those options are discussed in this memorandum, as well.

a. Motor Vehicle Excise Taxes

Many calls received at City Hall in March/April have been relative to the FY2020 motor vehicle excise bills, which were mailed in March. The city has issued over 68,000 excise bills this fiscal year on various commitments based on data received from the Registry of Motor Vehicles. The largest single commitment, commitment 1, was issued on **March 10th, with a due date of April 8th**. Motor vehicle excise is governed by state law (G.L. c. 60A) which requires an excise to be assessed and levied each calendar year on every motor vehicle in each community. Once the bill is issued, the amount must be due within thirty (30) days. The revenue from Motor Vehicle Excise is a significant component of the city's financing plan each fiscal year. In FY2019 the actual collections were approximately \$9.7 million. While the operating budget depends on the collection of this revenue and the due date has already passed, there are some available opportunities for some relief.



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

After the due date elapses, each year the city will place a demand fee of \$30 is on the bill, which is a method under the law designed to guarantee collection. If it is the will of the Council, the city could allow for a thirty day grace period before the demand is attached, effectively pushing the date out until May 8th. Additionally, the city has yet to issue commitment #2, which is the second largest motor vehicle excise commitment of the year. That commitment consists of 4,989 bills for a total of approximately \$934,662. These bills, if issued on May 13th, would have a due date of June 13th. If the Council desires, we can wait to issue this bill. However, the financial implications for FY2020 would be substantial. As of the date of writing, the city has collected approximately \$4.7 million of the \$8.25 million in budgeted revenue for motor vehicle excise for the FY2020 commitments.

Finally, the city is permitted to waive interest up to a maximum of \$15, without any special legislation. If a resident's interest charges—which begin to accrue on the 31st day after the bill is issued at a rate of 12% per annum – are less than \$15, these could also be waived if the Council so chooses. Anything in excess of \$15 cannot be waived, under the law. Other communities, like Springfield, have enacted this measure as part of a relief package to residents.

b. Real and Personal Property Taxes

The second most pressing question of a financial nature posed to City Hall has been related to the fourth quarter tax bills. Unlike like aforementioned options for excise, taxes for real and personal property are more strictly regulated by the Department of Revenue and the relative flexibility for municipalities is nearly non-existent. The City of Lowell uses a quarterly tax billing system under the provisions of GL c. 59 s. 57C. Four bills are issued per year, the first two of which are a “preliminary bill” based on the prior year valuation and then two “actual quarterly bills”. The 3rd and 4th quarter bills are based on the assessed valuation as of January 1st and are calculated using a tax rate that has been approved by the Commissioner of Revenue after submission of the city's annual tax rate recapitulation. Under the law, the municipal finance officials like the Treasurer, Assessor, and Collector are bound by statute to follow the prescribed process for assessing, billing, and collecting the taxes each year. The annual due date of the bills are a matter of law and the city has already issued the Q4 bill with a due date of 5/1/2020.

To address these matters, legislatively, the Governor signed into law *An Act to Address Challenges Faced by Municipalities and State Authorities Resulting from COVID-19*, (Chapter 53 of the Acts of 2020, on April 3, 2020). The Act provides cities and towns, amongst other provisions, flexibility on tax collections in order to allow residents more time to pay taxes without incurring penalties. Municipalities are be allowed, pursuant to a local option, to waive late-payment penalties and interest for certain payments and change their tax bill due date, as well as extend the deadline for property tax exemptions and deferrals to June 1.

The law further includes a local option to waive interest and other penalties for late payment of any excise, tax, betterment assessment or apportionment thereof, water rate or annual sewer use



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

or other charge added to a tax for any payments with a due date on or after March 10, 2020 where payment is made after its respective due date but before June 30, 2020. This section allows the waiver of interest and penalties regarding late payments of bills with a due date of March 10, 2020 or after, when such bills are paid late but paid on or before June 30, 2020. This section does not permit waiver of interest and penalties regarding bills with due dates before March 10, 2020 or if the bill is not paid by June 30, 2020.

c. Fiscal Impact and Recommendation

Any change to the due date for taxes will result in an impact to the city's cash flow, which could have repercussions to city services. In order to provide the level of services outlined in the 2020 fiscal year budget, the city must meet its revenue estimates. As of the end of the third quarter of the fiscal year, the actual revenue collections are largely on-target. However, some of the revenues in the budget related to economic activity like meals tax, hotel/motel excise, and marijuana excise taxes will not see a decline in revenue until the fourth quarter because the funds we receive from the state are one quarter behind (for example, the Q3 meals tax receipt is for activity from December through February). The Administration has already implemented cost control measures to make sure the city finishes the year on-target and any further impact to revenue estimates will need to be met with commensurate reductions to expenditures. Without meeting revenue estimates, the city will need to consider service reductions, where possible.

Furthermore, according to records from the Treasurer's Office, the two largest payers of taxes or "customers" to the city are *Corelogic and Lereta*—financial services companies who collect tax payments on behalf of mortgage lenders and make payments to municipalities on their behalf. It is probable that these companies have already collected the revenue from the city's residents through their escrow accounts and will sit on the money until whichever date is chosen for payment. This would help the financial position of those companies, who may be able to earn interest on the funds, rather than the residents. Approximately 55% of the total commitment for the 4th quarter is going to be paid by a mortgage company. Only about 12,000 of the 27,000 Q4 tax bills were issued to individuals other than the two aforementioned mortgage customers.

In order to prevent any material loss of revenue in the fourth quarter, the finance department would not recommend exercising the local option to extend the due date of the fourth quarter. The FY2020 tax levy totals approximately \$138.3 million and the amount of revenue still deferred for real and personal property taxes is approximately \$35.2 million, the majority of which should be collected before year-end. Any change to the date would impact our ability to recognize the revenue within FY2020 and could potentially result in the need to reduce services. Collectively, between the various penalties and interest revenue that would be lost in the fourth quarter, the city is at risk of losing another approximately \$335,000 before 6/30/2020. This revenue does not exclude the first \$15 dollars that could potentially be waived. Essentially the loss of revenue, coupled with the existing loss of economic-activity related revenue associated



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

with local option meals tax, hotel/motel excise tax, building permit revenue, and local option marijuana excise, could have a material impact on the FY2020 financials.

2. Parking Tickets/ Enterprise Revenue

The final request for residential relief is relative to parking tickets. According to the Parking Department, the city immediately reduced the number of tickets issued beginning on the week of March 15th and shifted the attention of personnel to “priority tickets”, cars left on the street for long periods of time and illegal parking in loading zones or on crosswalks. During the six (6) weeks between March 1st and April 11th, the year-over-year ticket issuance is down by 53%, as compared with the same period in FY2019. The Parking Director maintained a level of enforcement due to observed behavior that was impacting the economic activity in the downtown, albeit substantially limited due to COVID-19.

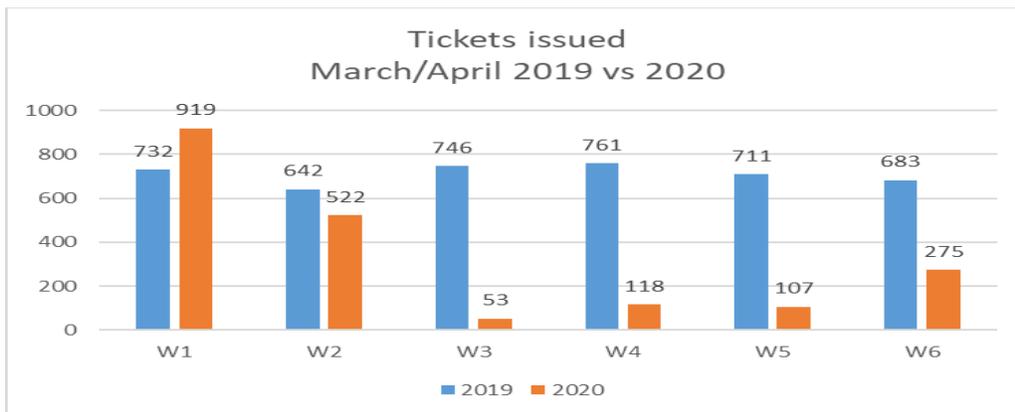
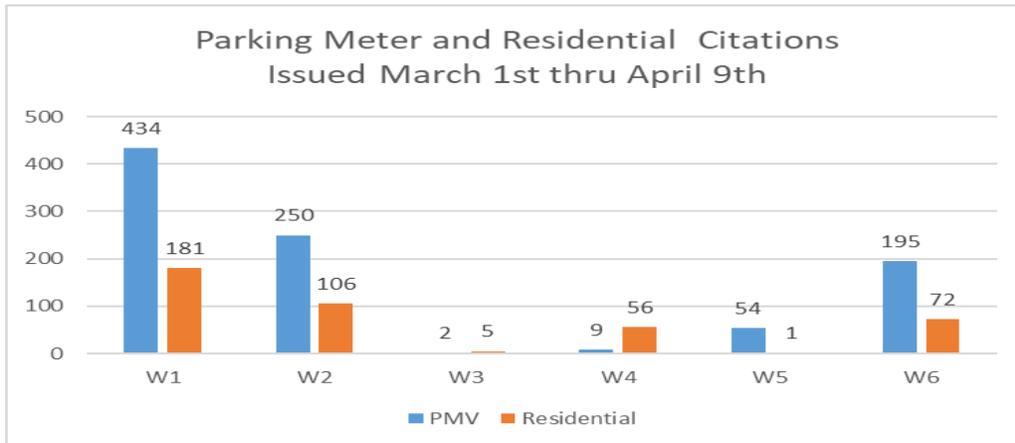
The primary objective of parking enforcement is to maintain an adequate supply of open spaces on the street, in order to support the downtown economy. Without enforcement, it is likely that the availability of open spaces on or near business will be usurped by residents or visitors for long periods of time. Enforcement is also a key component of maintaining an accessible downtown for the disabled community, as tickets are issued for violations of crosswalks, parking on sidewalks, etc., that are necessary for ensuring compliance with ADA requirements for public streets and sidewalks.

Financially, the parking ticket revenue accounts for approximately \$860,000 in annual revenue for the parking enterprise fund. The Parking Department is an Enterprise Fund, pursuant to G.L. c. 44 s. 53F1/2 and is self-supported by the rates and revenues derived from the operation. As such, no tax dollars are used to support the salaries and wages, ordinary expenses, or debt service associated with the city’s parking department. While the health of the enterprise is good, currently, and the enterprise fund balance was certified at \$5,465,109 as of 7/1/2019; that fund balance will rapidly deteriorate as the debt service for the HCID garage comes online, starting in the next fiscal year. In FY2021, the total debt service for the garage under construction is \$2,034,569. Exacerbating this increased cost is lost revenue from the enterprise, itself, associated with the COVID-19 crisis. Between late February and early April, garage revenue is down by 88%, as most pass card holders have cancelled their monthly subscription and meter revenues have dropped, proportionately to the reduction in economic activity in the downtown.



Conor Baldwin
 Chief Financial Officer

Allison Chambers
 Deputy CFO

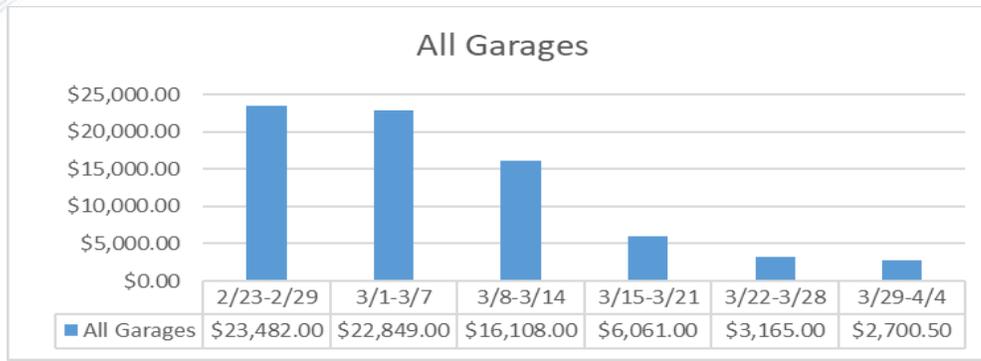


W1	3/1-3/7
W2	3/8-3/14
W3	3/15-3/21
W4	3/22-3/28
W5	3/29-4/4
W6	4/5-4/11



Conor Baldwin
 Chief Financial Officer

Allison Chambers
 Deputy CFO



Week	All Garages	% Drop
2/23-2/29	\$23,482.00	
3/1-3/7	\$22,849.00	3%
3/8-3/14	\$16,108.00	31%
3/15-3/21	\$6,061.00	74%
3/22-3/28	\$3,165.00	87%
3/29-4/4	\$2,700.50	88%

Some positive steps taken by the Parking Dept. were to implement the Restaurant Relief Program providing parking specifically for restaurant pick up service and providing Lowell Makes with parking placards for members to make PPE on 3D printers. Additionally, Parking has taken the opportunity to sweep the garages, perform needed maintenance on department vehicles, remove graffiti and perform maintenance on parking kiosks.

Parking is available in the garages for long term parking and on street parking is available which can be paid for at a kiosk or on the Passport Parking App. If a customer feels that they received a citation in error, they may appeal it online at lowellma.rmcpay.com.

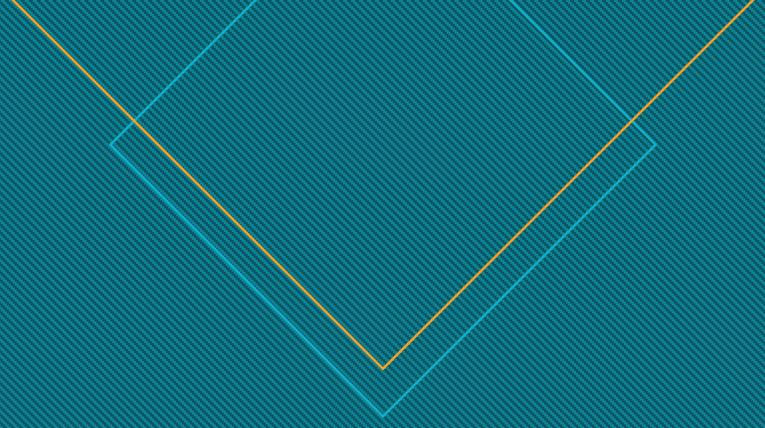
3. Conclusions

The COVID-19 crisis has only just begun to impact cities and towns across the country, financially. Offering relief to residents through various avenues provided for through recent legislation must be balanced with the potential impact to the city's finances. The City of Lowell is a major employer and maintains a workforce of approximately 3,238 full and part-time employees (2,183 of whom are employed by the School Department). By law, the city must maintain a balanced budget (G.L c. 44 s. 31) and, if a major reduction to revenue comes as a result of this crisis, either in local receipts or a reduction at the state-level to our unrestricted or Chapter 70 education aid, the impact could be devastating. For context, of the approximately \$370 million in General Fund appropriations in FY2020, only approximately \$13.3 million (3.5%) is so-called "discretionary spending" in city departmental budgets. Enclosed with this memorandum is a short presentation which outlines some of the possible financial impacts of the COVID-19 crisis to the city budget.

Please do not hesitate to let me know if there are any questions.

PARKING ENTERPRISE FUND FORECAST/BALANCE

Line Number	Category	Assumptions	2020	2021	2022	2023	2024	2025
1	Penalties & Interest	0.00%	306,000	306,000	306,000	306,000	306,000	306,000
2	Fines	3.00%	652,520	650,000	669,500	689,585	710,273	-
3	Streets	2.00%	1,250,000	1,275,000	1,300,500	1,326,510	1,353,040	1,380,101
4	Ayotte	2.00%	835,000	851,700	868,734	886,109	903,831	921,907
5	Downes	2.00%	1,100,000	1,122,000	1,144,440	1,167,329	1,190,675	1,214,489
6	Davidson Lot	2.00%	190,000	193,800	197,676	201,630	205,662	209,775
7	Roy	2.00%	1,040,000	1,060,800	1,082,016	1,103,656	1,125,729	1,148,244
8	Lower Locks	2.00%	475,000	484,500	494,190	504,074	514,155	524,438
9	Early	1.75%	975,000	994,500	1,014,390	1,034,678	1,055,371	1,076,479
10	Pass Cards	5.00%	30,000	31,500	33,075	34,729	36,465	38,288
11	NEW HCID Garage	4.00%	-	1,200,000	1,200,000	1,200,000	1,200,000	1,200,000
12	Misc	5.00%	102,268	185,942	187,270	187,688	188,910	25,526
13	Revenues	<i>Sum of Line 1 - 11</i>	6,955,788	8,355,742	8,497,791	8,641,987	8,790,112	8,045,248
14	Salaries & Wages	3.00%	378,976	418,820	436,117	454,129	472,884	492,415
15	plus General Fund indirect	3.00%	207,715	213,946	220,365	226,976	233,785	240,799
16	Health/Dental Insurance	7.00%	686,688	734,757	786,190	841,223	900,109	963,116
17	Medicare Tax (1.45% of wages)	<i>calculated</i>	5,495	6,073	6,324	6,585	6,857	7,140
18	Pension Assessments	4.50%	218,286	228,109	238,374	249,101	260,311	272,025
19	Debt Service	<i>attached</i>	3,414,215	3,179,096	3,172,021	3,034,546	2,680,006	2,913,326
20	HCD Garage Design/ Build	<i>attached</i>	-	2,081,884	2,081,884	2,081,884	2,081,884	467,000
21	Utility Accounts	5.00%	271,215	284,776	299,015	313,965	329,664	346,147
22	All Other Expenses	2.00%	2,542,341	2,593,188	2,645,051	2,697,952	2,751,911	2,806,950
23	plus General Fund indirect	3.00%	289,214	297,891	306,828	316,032	325,513	335,279
24	Appropriations	<i>Sum of Line 13 - 22</i>	8,014,146	10,038,540	10,192,168	10,222,394	10,042,924	8,844,195
25	Surplus/(Deficit)	<i>Line 23 - Line 12</i>	(1,058,358)	(1,682,798)	(1,694,377)	(1,580,407)	(1,252,812)	(798,947)
26	Beginning Fund Balance	<i>As Certified by DOR</i>	3,057,494	1,999,136	316,338	(1,378,039)	(2,958,446)	(4,211,258)
27	Operations	<i>Line 24</i>	(1,058,358)	(1,682,798)	(1,694,377)	(1,580,407)	(1,252,812)	(798,947)
28	Ending Fund Balance	<i>Line 25 + Line 26</i>	1,999,136	316,338	(1,378,039)	(2,958,446)	(4,211,258)	(5,010,205)



City of Lowell

COVID-19

Potential Financial Impact

VARIABLES OF IMPACT

How long will shut down last?



How has spending behavior changed?



When will we fully recover?



How widespread will the virus be?



How much will we get from the federal and state government?

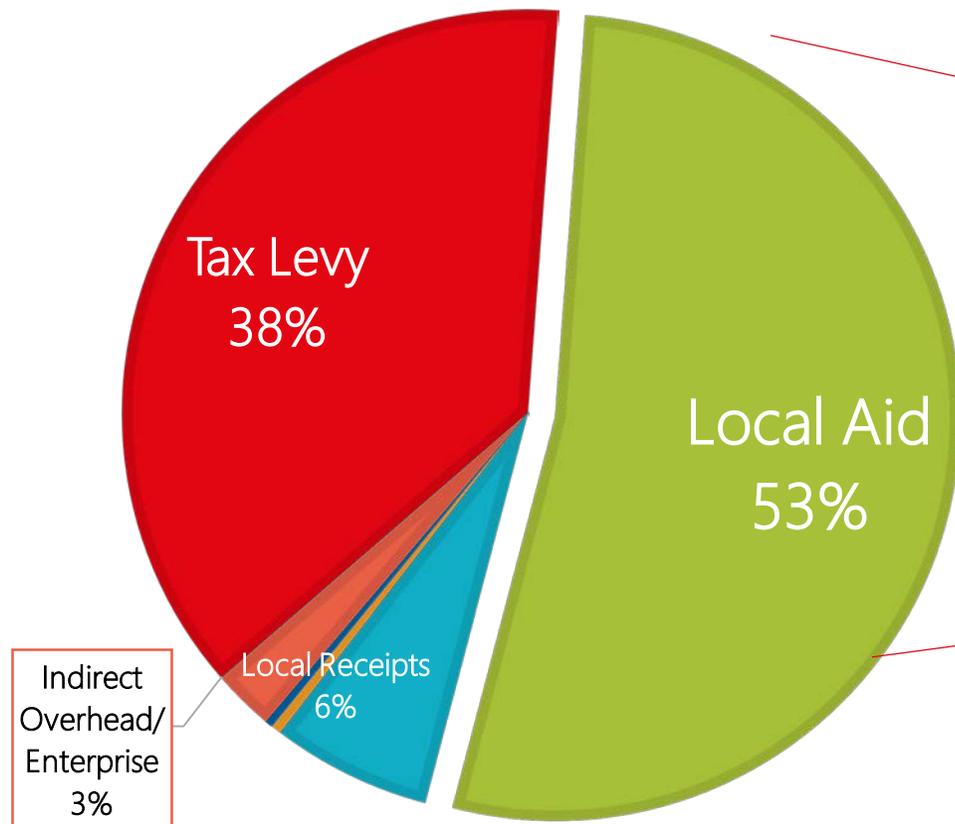


What permanent changes will be made?

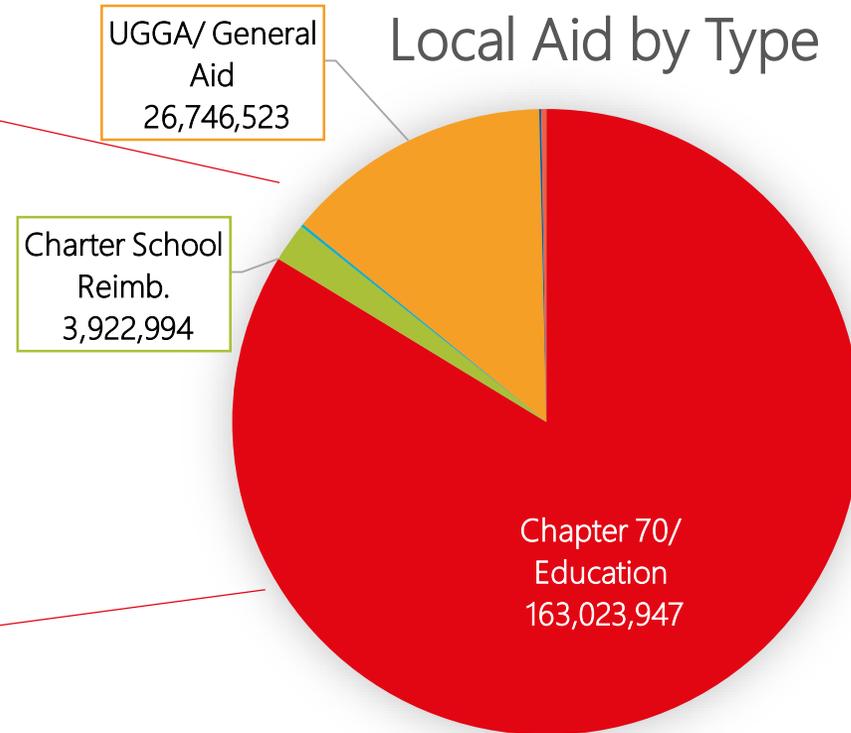


General Fund Revenue Sources

GENERAL FUND REVENUE



Local Aid by Type



Lowell Revenues Dependent on the Economy

FY 2020 Budgeted "Economic" Revenue:
\$9.94 million

9 Months Revenue Collected
\$7.5 million

Hotel/ Motel Excise Tax

-\$80,000

Based on 9 months with 70% drop in Q4

Meals Excise Tax

-\$250,000

Based on 9 months with 70% drop in Q4

Motor Vehicle

-\$1,350,000

Based on 9 months with 70% drop in Q4

Worst Case Scenario: Shortage of \$1.7 million in Excise Tax

State-collected excise taxes are remitted 2 months behind
On 3/31/20 Lowell received tax on sales that occurred: Dec. 2019 – Feb. 2020

Other General Fund Revenue Shortfalls

Penalties & Interest (Property, MV)
Worst Case: **-\$400,000**

Court Fines and Fees
Worst Case: **-\$54,625**

Medicaid Reimbursement
Worst Case: **-\$500,000**



City Clerk/ Vital Record Revenue
Worst Case: **-\$90,000**

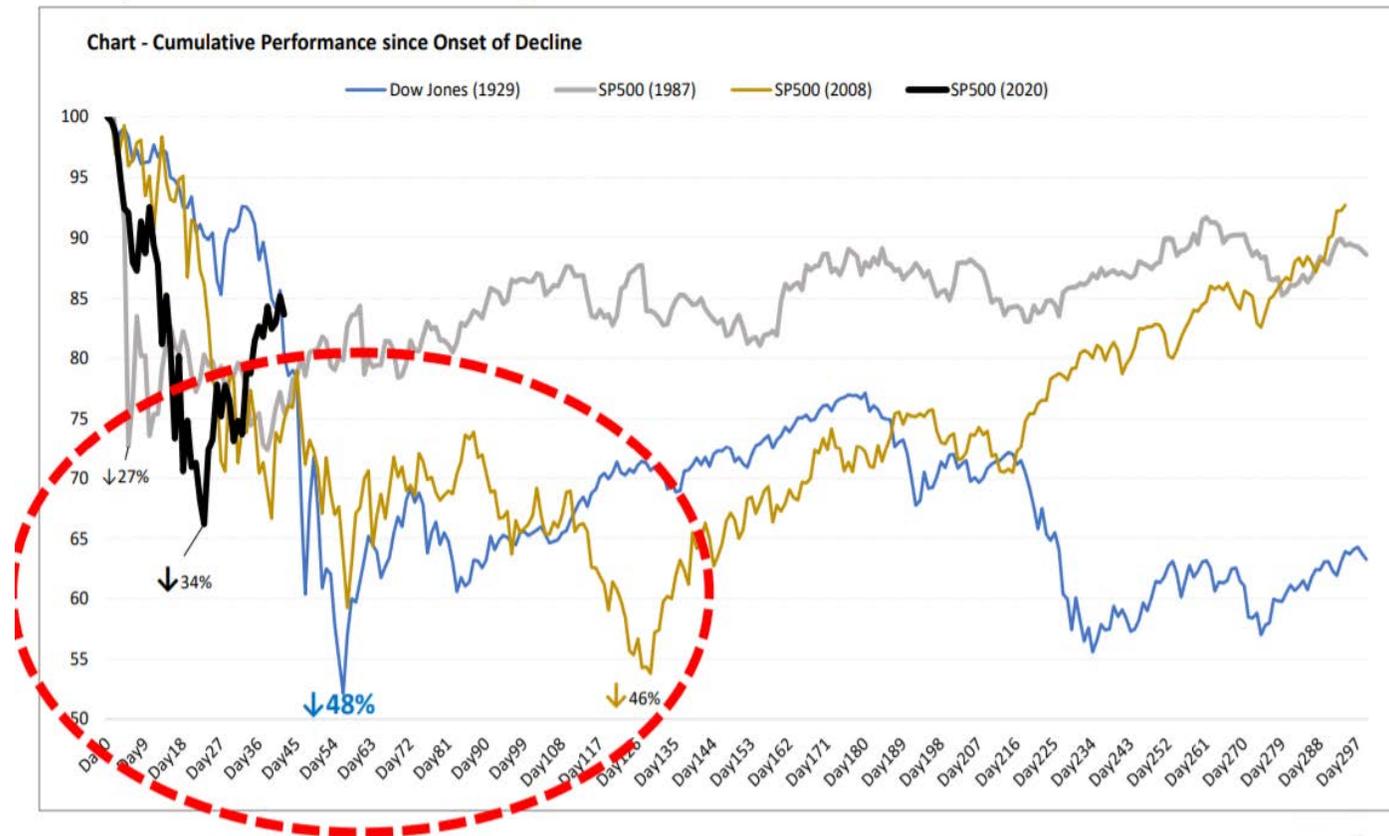
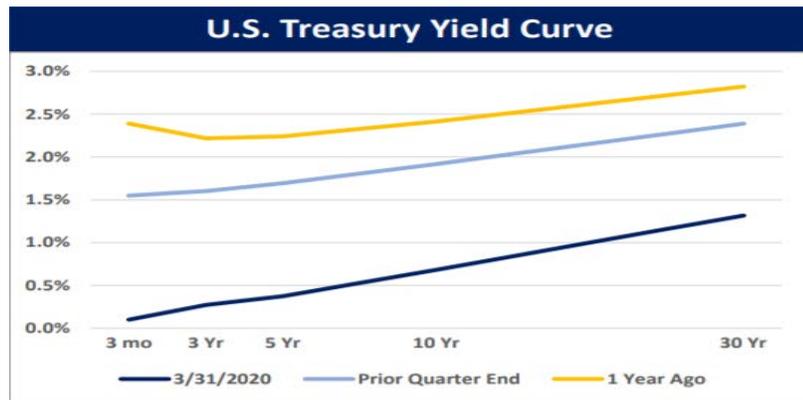
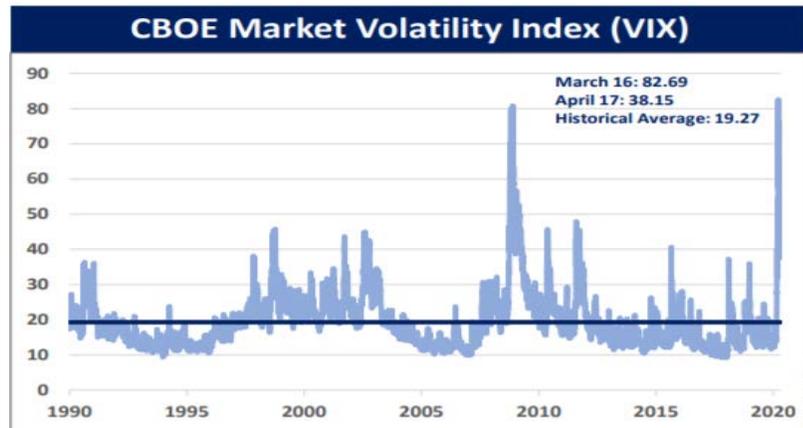
Parks & Rec Permits
Worst Case: **-\$46,889**

Tourism
Worst Case: **-\$100,000**

Worst Case Scenario: **Shortage of \$1.2 million**

Interest Rates/ Pension & OPEB impact

- Pension fund March (3/31/2020) – LOSS of \$40.7 million (net asset value)
- OPEB Trust – LOSS of \$1.3 million

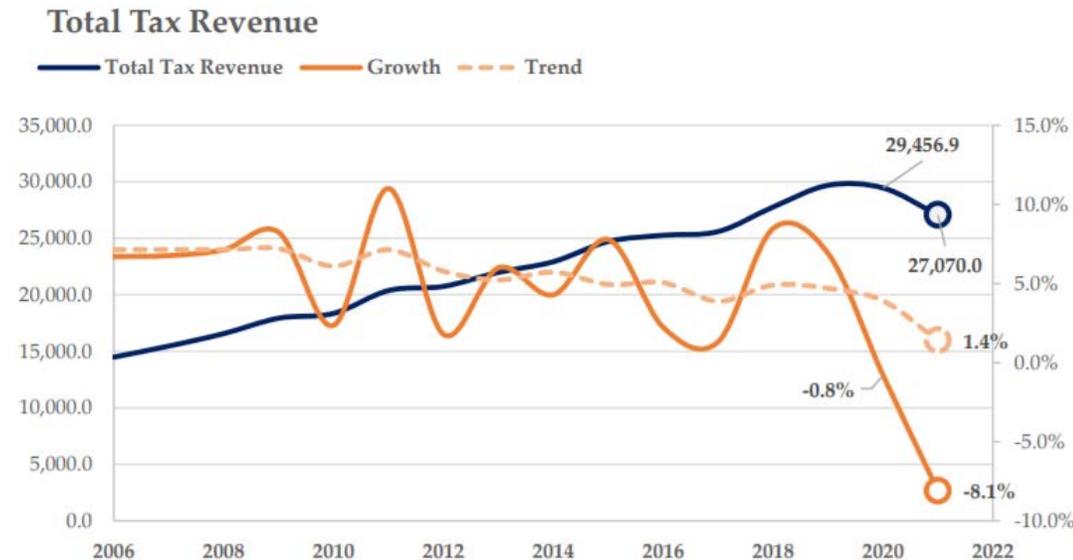


City Manager's Fiscal Initiatives

- Departments are only purchasing essential items and supplies needed to continue operations;
- Hiring Freeze;
- Tightened Purchase Order Restrictions- Approval by CFO/ Deputy CFO – only essential items;
- Keeping track of all COVID-19 related expenses for potential FEMA reimbursement
- Putting a pause on projects that are not:
 - In Progress
 - Under Contract

FY2021 – A Changing Outlook

- Mass Taxpayer Foundation: FY21 tax revenues projected to fall by \$4.4 billion or 14.1 percent (state revenues)
- Fiscal 2020 tax collections shortfall of between \$500 million and \$1 billion
- “A return to pre-pandemic employment levels of Q1 2020 will take several years to achieve.” – MTF



How Will We Recover?

- FEMA Reimbursement to cover COVID-19 Related Expenses
- Funds provided from the Commonwealth from the CARE act- Unclear how these funds will be distributed
- Budget cuts for FY 2021 if needed
- Current Fund Balances-

Cash Balances as of 4/23/2020:

- General Fund- \$14,852,520 (Avg. Monthly 2020 Expenses = \$25.7 million)
- Sewer Enterprise - \$4,342,343 (Avg. Monthly Expenses = \$1.3 million)
- Water Enterprise - \$6,070,702 (Avg. Monthly Expenses = \$717k)
- Parking Enterprise - \$6,739,692 (Avg. Monthly 2020 Expenses = \$238k)