



Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

MEMORANDUM

TO: Eileen M. Donoghue, City Manager *EMD*
FROM: Conor Baldwin, Chief Financial Officer *[Signature]*
DATE: July 23, 2020
SUBJECT: FY2021 Budget Update

On the Council agenda for the July 28th regular meeting is the public hearing and vote on the August appropriation order, or the second of the city's "one-twelfth" budgets for FY2021. The Administration is continuing to use this approach because it is the most fiscally sound manner to deal with the uncertain budget picture at the State level.

Governor Charlie Baker on Tuesday filed another one-month State spending bill to keep state government funded through August with an additional \$5.51 billion appropriation. However, it is becoming increasingly apparent that Beacon Hill may enter their summer recess without debate on a full—albeit overdue—budget for the Commonwealth. The Governor indicated Tuesday that in the "coming weeks" he and Democratic leaders in the House and Senate would be finalizing a full-year projection for local aid and Chapter 70 School funding from the state to provide "important clarity" for municipal leaders. The passage of a joint resolution by the House and Senate could allow the city to move forward with a full budget for September through June, but absent any assurances, an additional one-month appropriation for September may be necessary.

The Department of Revenue plans to unveil a preliminary update on June state tax revenues in July, but does not expect a full June revenue report until September due to the deferral of the personal income tax return deadline and payment due dates. While this may provide some clarity on declining state revenues, further action by the State is likely depended on the US Senate and the outcome of negotiations regarding an additional stimulus package and, specifically, whether it includes further relief to cities and towns.

Throughout the first three weeks of the city's fiscal year, the city has expended approximately \$4.45 million and collected \$7.79 million. As of the date of this memorandum, the city's cash position is about \$86.5 million, with an anticipated monthly distribution of aid coming from the state at the end of the month for Chapter 70, Unrestricted Aid, and other local aid accounts of another approximately \$13 million in July, for a total unrestricted cash balance of \$99.5 million. By way of comparison, the city's cash position as of 6/30/2019 in our main depository account was \$33.6 million. The current cash position is strong due to current tax commitment collections and deferred excise collections from FY2020. It is somewhat inflated, however, due to the deferral of the retirement assessment and GIC monthly premiums to January 1.



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The finance department continues to carefully monitor the budget as we progress through FY2021. The deferral of the retirement payment to January from July 1 has helped the city's cash flow, as has the deferral of the first 3 months for health insurance premium payments to the GIC. Other cost-savings opportunities are being pursued, such as energy program savings, debt refinancing, and means and methods to utilize the existing \$9.84 million CARES Act funding from the first federal stimulus package to offset unanticipated budget costs associated with COVID-19. A fall bond sale will aid in maintaining the city's cash flow and allow for the continuation of many critical infrastructure projects, while also taking advantage of still historically low interest rates for tax-exempt municipal bonds.

The continuing uncertainty at the state level suggests that additional deliberation is warranted at the local level either in a finance subcommittee or with the body as a whole, in order to devise contingency plans in the event that cuts are made to the local aid accounts by the state. Projections have ranged anywhere from a 2% to 10+% in reductions to the unrestricted aid account, which for Lowell would mean a loss of revenue between \$540,000 and \$2.7 million, based on a reduction to the FY2020 funding level. Additional revenue loss in local receipts tied to the economy, like excise taxes and other permit and fee revenue, could increase the number by as much as another \$1.2 million. Potential solutions to close the gap on the revenue-side should include a range of options from tapping into the city's \$20 million of unused levy capacity, to an appropriation from the city's \$12.3 million "rainy day" fund, or some combination depending on the severity of the cuts and how permanent the loss of funding may be. On the expense-side of the budget, aside from possible cost savings opportunities and temporary service reductions; negotiations are ongoing with the city's unions to absorb any reduction in revenue without any drastic reduction in the city's workforce.

The impact to the school department budget is of equal or greater concern, as is the city's ability to continue to exceed the net school spending requirement at the same pace as the past two fiscal years. The Chapter 70 increase included in the Governor's budget seems unlikely to survive in the current economic climate and a joint subcommittee between the City Council and School Committee is warranted to deliberate any potential impact to the education budget. While we remain optimistic that the additional education appropriations from the Student Opportunity Act remain in place for economically disadvantaged districts, like Lowell, a full public discussion on the potential fiscal scenarios would be timely. Please let me know if you have any questions.