

BUDGET HIGHLIGHTS

The City budget is divided into different funds. The largest is the General Fund which supports the vast majority of city services. In addition, the City operates two Enterprises; Wastewater and the Arena, as well as Parking as a quasi-Enterprise. The Enterprise Funds do provide reimbursement for costs paid from the General Fund to support their operation. The largest component of such costs is employee benefits such as health insurance and pensions. The total amount currently projected for transfer is \$1.99 million. The City also serves as the fiscal agent for the regional Career Center which is included within the overall City budget.

REVENUES

General Fund

A central tenet of good financial management is operating within the available revenues that are sustainable over time. Budget should not be driven by expenditures or through the utilization of one-time non-recurring sources of revenue. The effect of either of these actions is the placement of burden upon those that provide the revenues (i.e. taxpayers) or the creation of unsustainable structural deficits. Lowell has used such revenues over the past several years in order to avoid decisions of service/staffing reductions, cost savings or an increase in total taxes. Those one-time revenues are now totally exhausted.

The total revenue in the FY08 General Fund Budget is estimated to be \$287,868,291 representing an increase of \$4,972,396, or 1.76% over FY07. These total revenues are included within the four sources that are available to the City: local property taxes, state aid, local receipts and available funds. The highlights of each will be discussed in detail.

Property Taxes: In total Property Taxes in FY08 are proposed and projected to be \$89.6 million, representing an increase of just over \$4 million from FY07. The increase of existing property taxes is \$2.264 million based upon an imposed growth limit of 2.5%. This is in line with the standards used by most Massachusetts communities and will retain the City's unused levy capacity at about \$5 million. The estimated effect of this increase upon the residential taxpayer will be about 2.25% or about \$60 per year as a result of stable or slightly declining values while commercial taxpayers will see a slightly larger increase. This estimated impact upon the residential taxpayer compares favorably with the recent years in which the average tax bill increased annually by 5.7 %, or \$136.00. The limit on the level of increase was deliberate in an attempt to minimize annual impact in recognition of the increases that have occurred over the past several years.

The remainder of the total increase in taxes is \$1.75 million which will occur as a result of new developments within the City. This estimated level of growth is comparable to the last several years during which time the City has captured an increase in personal property values and reaped the results of the condominium developments in the downtown area. A renewed focus on commercial development will hopefully increase overall growth in the future.

State Aid: Total aid from the state is expected to grow from \$150.3 million in FY07 to \$155.4 million in FY08, or \$5.1 million. This increase is largely attributable to Chapter 70 education aid which grew by \$6.2 million. However, this growth was offset by a reduction in Charter School reimbursement of \$1.32 million.

In FY07 the State lifted its cap on the distribution of Lottery funds to communities. As a result, Lowell saw an increase of \$4.2 million over FY06. In FY08 the increase in this aid is only \$400,000. The other major form of general revenue sharing, Additional Assistance, is again limited to \$6.3 million which is the same level that it has been since FY03 when it was reduced from nearly \$8 million.

The most dramatic change in state aid in FY08 is a reduction of approximately \$3.3 million in School Building Assistance reimbursement as the result of a completion of audits for a number of school projects in which the City was over-reimbursed for a number of years. This is largely attributable to better than anticipated interest rates received on City borrowings. Unfortunately, this adjustment is made late in the reimbursement schedule resulting in a very serious loss of revenue that had been sustaining operations.

Local Receipts: It is estimated that the City will receive approximately \$28.4 million in FY08, which is comparable with FY07. There will be a full year of the fee increases approved by the Council in FY07. However, the additional five months of these revenues plus an expected increase in water revenues (\$532,000) and Medicare Part D reimbursement (\$586,000) is offset by a loss of PILOT (\$479,000) and Tax Lien funds (\$226,000) and the appropriate allocation of Parking and Wastewater related revenues to those enterprises. In addition, an Urban Renewal payment of \$472,000 from the state that was double counted as a receipt and state aid payment in FY07 has been eliminated.

Available Funds: The City is able to appropriate from funds on hand to offset operating costs. In FY07 this source of funding provided approximately \$1,846,000. In FY08 it is only estimated to provide \$1,267,000 based upon the full allocation of parking related revenues and expenditures to that quasi-enterprise. The largest source of funding in this area is a \$1.1 million transfer from Wastewater Enterprise which is similar to FY07. The basis of this transfer is reimbursement to the General Fund for prior years in which the Enterprise was subsidized. The Department of Revenue has approved this type of transfer for FY06-08 but advised the City that this revenue will not be allowed in subsequent years. In addition, it is expected that there will be \$92,000 in Overlay Surplus that can be transferred to the operating budget.

Enterprise Fund Revenues

The City currently operates three areas as Enterprises: Wastewater, Tsongas Arena and Parking. Wastewater revenue is expected to increase in FY08 by approximately \$1.3 million. This is primarily attributable to the proper allocation of sewer lien receipts, increased revenue from the participating communities and a transfer of prior year enterprise free cash.

The Arena revenue is estimated to remain essentially level at \$1 million.

Parking is projected to increase by approximately \$1.2 million. This growth is attributable to full allocation of parking meter revenue, an doubling of Middlesex Community College fees (\$225,000), partial year JAM garage revenue (\$180,000), and collection of past due amounts.

Career Center Revenues

The City of Lowell operates the regional Career Center as a Department of the City but with all funding provided through the Commonwealth of Massachusetts. As such the funds are passed through the City directly to the operation. In FY08 the revenue and expenses equal \$4,970,000.

EXPENDITURES

General Fund Expenditures

The expenditure side of the budget includes costs which are already committed and those necessary to operate the City and provide services. The substantial portions of these costs that are largely fixed limit the amount available for the variety of services and programs provided by City departments. These fixed areas include debt service, pension costs, employee health insurance, Medicare tax, workers compensation and Public Safety IOD, legal claims, state assessments, and the vocational school assessment. Together these areas total nearly \$78 million or 27% of the General Fund. In addition the City is required to spend a certain amount on education. The City is just at, or a small amount under, this level which represents another \$135.1 million, or 47% of the total budget. Further, there are a number of other budgetary areas that are have certain spending requirements due to state law or grant conditions (Library and Fire Department); and others in which it is difficult to make sizeable cost savings such as solid waste, street lighting and snow and ice. Finally, this budget has recognized the difficulty in reducing police staffing given the crime trends of the past year.

In short, the limited revenue, the large increases in some fixed cost areas and the limited options relating to other cost areas have produced a very tight budget that includes a number of reductions in expenses and personnel including reduction of 14 in employee headcount. This budget also provides a first phase of restructuring designed to maximize efficiency and economies of scale. Further restructuring will occur beyond the budget process. The budget has been divided into functional areas of the Uniform Municipal Accounting System which forms the basis of this analysis.

Legislative: This area includes funding for the City Council, Mayor's Office and City Clerk. The only notable change is the City Clerk's reduction of the Clerk of Committee position for a savings of approximately \$32,000.

City Manager: This area includes the City Manager office, certain costs associated with School spending, Marketing and Cultural Development, Disability Commission, Scholarship Fund, Cable Access, and Neighborhood Services. There are a several changes which provide cost reductions.

- Assistant City Manager for Operations is moved to Public Works Area and assigned responsibility for that functional area. General City Manager staff support in operations is replaced by an Assistant to City Manager/Chief of Staff position at lower salary. Savings: approximately \$11,000
- Administrative Assistant to City Manager is moved to Public Works to provide support to Assistant City Manager. Replaced by PT Executive Assistant. Savings: approximately \$8,000
- CFO and Executive Secretary moved to another area of budget. Relocated within building. No savings.
- Neighborhood Services (NS) office eliminated with coordinator moved into City Manager office and assigned all citizen services. Senior Clerk position in NS eliminated. New Senior Clerk position established in City Manager office. No savings.
- City Manager Contingency reduced by \$42, 872. Salary Reserve of \$500,000 established for collective bargaining.
- City appropriation to Convention and Visitors Bureau retained at \$100,000 subject to execution of a contract with defined responsibilities and performance measurements.
- Cable Access Coordinator position eliminated. Savings \$14,000

Finance: This area includes the Chief Financial Officer, City Auditor, Purchasing, Treasurer, Assessors, Human Relations and Management Information Services. Given the significance of these functions and previous reductions in this area there are limited staffing changes. Some cost reductions have been implemented but these are offset by some required increases. The highlights are as follows:

- As previously noted the CFO and an Executive Secretary are moved out of City Manager budget into this area. No cost impact.
- Assessors Revaluation costs increased by \$90,000 for funding of triennial revaluation.
- Assessor Principal Clerk reduced by layoff. Savings \$32,000
- The restructuring that occurred in FY07 remains in place with the Parking Office merged with the Treasurer's Office and the Attorney and Paralegal assigned to Tax Title shifted to Law Department. No cost impacts.
- Postage for tax bills increased by \$35,000
- MIS overtime reduced by 50%. Savings: \$17,500

Law Department: This area now includes the Solicitor Office, Licensing and Elections. Legal claims and Workers Comp/111F are shifted to a section of the budget designated as Unclassified. There are various highlights within this budget but the effect on the budget are negligible as they are shifts of costs as opposed to increases/decreases.

- Tax title related costs of salaries and expenses are shifted from Treasurer to Law Department.
- City Physician position is eliminated and those costs along with those of 111f Physician are shifted into Professional Services. The Occupational Health service will provide medical services for all injured employees. Anticipated to have improvement in claim costs.
- License Commission office shifted to Law Department space. No cost impact.

Department of Planning and Development: This area is essentially unchanged from prior years as we simultaneously focus upon increasing economic development and effective planning. However, there are staffing changes:

- Historic Board Administrative Assistant position eliminated by layoff: Savings \$33,917
- Secretary/Receptionist position eliminated by layoff: Savings \$29,118

Police Department: Despite budget conditions it was a priority within this budget to retain the existing headcount of the uniformed force at the current headcount of 244. The budget does anticipate various vacancies occurring during the year with resulting savings and also includes filling eight vacant positions. Through various staff changes through the year a budget adjusted reduction figure of \$200,000 is retained as it was in FY07. Highlights:

- Minimal staffing changes. Reduction of one mechanic and one sign painter
- Temporary Salary and Wages reduced by approximately \$44,000. Only to be used for on-call dispatchers
- Overtime reduced by \$41,000
- Court time increased by \$20,000
- Compensatory time reduced by \$35,000
- Horses/Boarding Costs reduced by \$20,000 pending further review.
- Rental of Equipment increased by \$26,000
- Gasoline increased by \$19,000 to reflect increased costs
- Police cars increased by \$42,000 but still a 1 car reduction in the planned cruiser replacement
- Police Equipment reduced by \$27,000

Fire Department: This department is essentially unchanged from FY07 due to staffing requirements of a grant received by the City for the past three years and prioritization of public safety. However, overtime has been reduced by \$100,000 which may result in increased station closures. Other highlights include:

- Increase in gasoline by \$25,000
- Increase in safety SCBA Equipment \$20,000
- Replacement of safety apparel. Cost \$15,000

Inspections: This department is virtually unchanged from FY07 reflecting prioritization of code and safety enforcement within the City. Ongoing reorganization and restructuring related to this Department may ultimately result in increased savings.

Education: This area of the budget includes the Lowell Public Schools and the Greater Lowell Regional Vocational School. The highlights are as follows:

- Greater Lowell assessment increases by \$144,000 over FY07.
- Lowell Public School budget increases by approximately \$3.3 million. This is an area of concern as the City is perilously close to dropping below the 95% of school spending requirements which could impact Chapter 70 funding. Additional analysis is needed.

Public Works: This area includes all Public Works related departments under the direct supervision of an Assistant City Manager. During the course of FY08 the position will be merged with the Commissioner of Public Works constituting a dual assignment. This will occur upon the anticipated retirement of the current Commissioner. Departments and divisions in this section include: Public Works Records and Accounts, Engineering, Land and Buildings, Messenger, Electrical, Streets, Solid Waste, Street Lighting, Snow and Ice, Parks, Cemetery and Water. Wastewater also is part of the Public Works area but is budgeted separately as an enterprise. During the course of the year it is expected that the functional area will be restructured for increased efficiency. Budget highlights include:

- Assignment of Assistant City Manager to Public Works reflecting increased emphasis on infrastructure. Merge with Public Works Commissioner during year expected to save approximately \$50,000
- Assignment of Administrative Assistant to City Manager to provide administrative support. Cost \$48,000
- Eliminate vacant Contract Administrator position. Savings \$42,138
- Eliminate vacant Principal Clerk position. Savings: \$32,135
- Eliminate Asst. Animal Control Officer position. Savings: \$38,919
- Reduce lease of DPW Equipment. Savings \$46,000
- Reduce professional services. Savings: \$60,000
- Reduce Plows and Frames. Savings \$10,000
- Eliminate one Land and Building Craftsman by layoff. Savings: \$42,876
- Eliminate one vacant HVAC Technician \$43,106
- Reduce Underground Storage Tank costs by \$40,000

- Increase Gas utility costs for City Hall by \$75,000
- Projected reduction of solid waste costs by \$70,000 through increased enforcement of ordinance.
- Increased Street lighting costs to reflect actual. Cost \$70,000
- Increase Snow and Ice OT Costs by \$30,000 to reflect actual costs transferring from Parks and Cemetery.
- Reduce four Park Laborers through layoffs. Total savings;\$119,148
- Increase Parks gasoline by \$41,000
- Eliminate Cemetery laborer by layoff. Savings: \$25,522
- Increase Water Utility Chemicals \$31,000
- Purchase Carbon Filter Replacements: \$225,000 (to be covered by recommended increase in fees as part of overall capital improvement project)

Human Services: This segment of the Budget includes those departments that provide community and social service functions within the City. This includes Health, Senior Center, Veterans and Recreation. It is intended that this will undergo further refinement to increase service collaboration. Budget highlights include:

- Eliminate one vacant Head Clerk position. Savings: \$33,413
- Eliminate a vacant School Nurse position. Savings: \$42,000
- Eliminate Veteran's Deputy Director by layoff. Savings: \$36,270
- Increase Recreation Temporary Salary and Wages by \$32,000 to enhance youth programs and open one additional pool for the summer.

Library: The Library budget has minimal changes in order to maintain the state required minimum increase in spending so as to retain state funding and membership in the regional consortium. The only budget highlights are as follows:

- Elimination of Library Secretary position. Savings: \$34,863
- Elimination of a vacant Library Aide position. Savings: \$6,825
- Increase in electricity costs by \$20,000

Debt: The City's debt service costs decrease in FY08 as older projects decrease or fall off the debt schedule. The FY08 Debt budget does include the initial payments (\$85,000) on the architectural costs for the Butler school project. It is anticipated that total debt will trend upward again in FY09 as the several projects debt service is increased or come on line. In some cases it will be proposed that the impact be offset by rate increases such as water.

Unclassified: This section of the budget includes all those costs that cut across all departments but not distributed including City insurance premiums, amounts reserved for legal claims, Cherry sheet assessments; and Employee benefits such as workers compensation, unemployment, health insurance, Medicare tax and pensions. The area of employee benefits is one of the fastest growing areas of the budget. The highlights of the Unclassified area are as follows:

- Workers Compensation Claim costs are set at \$800,000 which is a historically accurate level of funding. It is approximately \$667,000 below the level budgeted for FY07.
- Health insurance premiums are increased by 15% in FY08 resulting in an appropriation increase of \$2.1 million. This level of funding is calculated based upon claim and cost trends, plus the Department of Revenue required reserves. In part this increase is required as a result of under-funding of the account over the past three years. During this period of time the City's health insurance consultant and Blue Cross recommended annual increases of 10% instead of the 2-2.5% increases that were implemented.
- Cherry Sheet assessments increase by approximately \$270,000
- City pension costs for retirees increase by approximately \$800,000.
- Medicare tax payments are adjusted upward by \$300,000 to reflect actual payments needed.

Enterprise Fund Expenditures

Wastewater: The Wastewater enterprise is calculated to increase costs by approximately \$1.1 million in FY08 matching the incoming revenue. Debt service costs are estimated to increase by approximately \$550,000 to cover payments on the borrowings for the CSO project and improvements to the Duck Island plant. There is also a full loading of all indirect costs associated with the enterprise resulting in a charge-off of \$939,934, an increase of about \$670,000.

Arena: The Arena is once again projected to run at a deficit (-\$708,841). However this will be a decrease of \$250,000 based upon the elimination of the costs associated with the Lowell Devils contract. This elimination is based upon the inability of the City to afford these continued costs. It is proposed that this amount not be appropriated and the contract terminated in accordance with the annual appropriation clause.

Parking: Technically, the Parking Department is not an enterprise as the relevant section of state law has not been accepted by the City Council establishing such. However, for purposes of this budget preparation it is being treated as an enterprise. The major expenditure changes are as follows:

- Debt Service is projected to increase by almost \$1.3 million from original FY07 budget as a result of full funding of JAM garage.
- Ordinary expenses are projected to increase by approximately \$350,000 as a result of JAM garage coming on line in late fall of 2007.
- All indirect costs associated with the parking operation are included in the budget.