

THE COMMONWEALTH OF MASSACHUSETTS

CITY OF LOWELL

In City Council

LOAN ORDER
(General Fund Capital Improvements)

To borrow \$6,771,100 for the purpose of financing various capital improvements and purchases and any related architectural and engineering services in connection therewith and any costs incidental and related thereto.

IT IS ORDERED BY THE CITY COUNCIL OF THE CITY OF LOWELL BY A TWO-THIRDS VOTE OF ALL OF ITS MEMBERS, as follows:

Ordered: That the sum of \$6,771,100 is appropriated for the purpose of financing the following capital improvements, and any related architectural and engineering services in connection therewith and any costs incidental and related thereto: (1) City-wide paving and sidewalk program, (2) bridge repair/replacement program, (3) Westford/Stedman Intersection, (4) School Street Cemetery Wall Improvement, (5) TIGER (canal bridges projects), (6) Replace two ladder/engines - city match, (7) Locker Room Upgrades, (8) Convert/ Retrofit Firing Range to Evidence, (9) Service Tablets, (10) LPD Vehicle Maintenance Facility and Sign Shop Roof Replacement, (11) Cawley Stadium Improvements, (12) Concord River Greenway, (13) Voting Machine Upgrades, (14) City Council Chamber upgrades, (15) City Hall Security upgrades – Exterior, (16) School Department Security Equipment Upgrades, and (17) ADA transition plan projects; that to meet this appropriation the Treasurer, with the approval of the City Manager, is authorized to borrow \$6,771,100 and to issue bonds or notes therefor under G.L. c.44 or any other enabling authority; that the City Manager is authorized to contract for and expend any federal or state aid available for the projects; that the City Manager is authorized to take any action necessary to carry out the projects; and that the Treasurer is authorized to file an application with the Municipal Finance Oversight Board to qualify any or all of the bonds under G.L. c.44A and to provide such information and execute such documents as such board may require for these purposes. Any premium received upon the sale of any bonds or notes approved by this loan order, or upon the sale of any other bonds or notes approved by any other loan order of the City adopted prior to the date of this loan order, less any such premium applied to the payment of the costs of issuance of such bonds or notes, may be applied to the payment of costs approved by this vote as well as any other projects approved by loan order of the City adopted prior to the date of this loan order in accordance with G.L. c. 44, §20, thereby reducing the amount authorized to be borrowed to pay such costs by a like amount.

ORDER RECOMMENDED AND INTRODUCED BY:



Eileen M. Donoghue, City Manager



Conor Baldwin
Chief Financial Officer

MEMORANDUM

TO: Eileen M. Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer

CC: Kelly Oakes, City Treasurer/ Collector

DATE: May 18, 2020

RE: Capital Budget Loan Order – 2021 Capital Improvements

The city's bond counsel has prepared a draft loan order to fund the 2021 component of the city's comprehensive five year capital improvement ("CIP") plan. The loan order is enclosed for approval by the City Council. Typically this loan order is presented to the Council each year in tandem with the city's annual operating budget and the full capital budget documents are incorporated in the budget book, however, due to the circumstances surrounding this year's budget calendar and the impact of the COVID-19 crisis, the process has been bifurcated to keep the timeline intact for funding capital projects. To follow is a discussion of the financial analysis and general principals associated with capital budgeting and the specific considerations for the city's finances. However, the funding proposal to the City Council is only for the 2021 projects and associated financing.

One financing strategy for capital plans is to use the budgetary capacity created by paying off existing debt to issue more bonds to finance capital projects. In theory this accomplishes two objectives. First by financing capital with debt, it matches payments for the asset with the useful life of the asset itself. Secondly, by replacing a declining expense with a new expense, the operating budget is not burdened further. The number we will arrive at as the "target debt service" would represent a net zero impact on the General Fund. This is

To begin these calculations, we start with the forecast of current debt service and deduct ongoing reimbursements from the Massachusetts School Building Authority ("MSBA"). From this, we arrive at our target debt service number for the next five years. Next, we include potential savings forecasted from issuing refunding bonds. This occurs when new debt is issued to replace or redeem old debt before the maturity or call date of the old debt. Under these circumstances, the proceeds of the new debt must be placed in escrow and used to pay interest on old, outstanding debt as it becomes due, and to pay the principal on the old debt either as it matures or at an earlier call date. While Lowell has already taken advantage of many refunding opportunities, there are additional prospects being pursued currently by the City Administration which will reduce future debt service costs. These savings are incorporated in the model presented. The analysis includes previously authorized capital expenditures which have been spent, but not permanently financed. These future costs are layered into the analysis to provide a more accurate forecast, including all financial considerations.



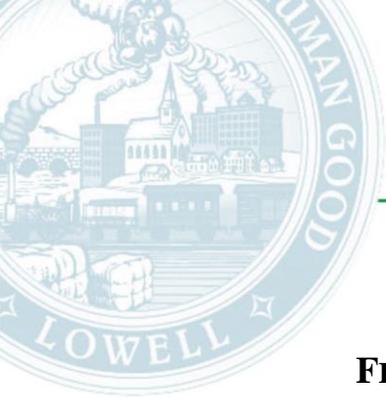
Conor Baldwin
Chief Financial Officer

A less attractive, but more generous strategy is to perform the same calculations, but to assume that the City's budget has the capacity to increase at 2 ½% per year. This is consistent with Proposition 2 ½ and with the long-term historical revenue growth. Along the bottom line of the chart, the revised target includes an increase of 2.5% of the prior year's forecasted debt service for comparison. The capital planning process has run concurrently with preparations for the upcoming year's operating budget. The symbiotic relationship between capital planning and preparation of the operating budget has long-since been a goal of the city, which has finally come to fruition.

Preparation of a five-year capital improvement plan (CIP) is a best practice in municipal finance. Department Heads were asked to submit their short and medium term priorities to the Finance Office this winter for consideration and inclusion in a comprehensive plan. Buildings, infrastructure, technology, and major equipment are the physical foundation for providing services to constituents. The procurement, construction, and maintenance of capital assets are a critical activity of state and local governments, school districts, and other government agencies, and therefore require careful planning.

Capital planning is critical to maintaining essential public services. It is also an important component of a community's economic development program and strategic plan. Capital facilities and infrastructure are important legacies that serve current and future generations. It is extremely difficult for governments to address the current and long-term needs of their constituents without a sound multi-year capital plan that clearly identifies capital and major equipment needs, maintenance requirements, funding options, and operating budget impacts.

The debt service payments related to financing all of these projects have been incorporated into our General Fund forecasts.



Conor Baldwin
 Chief Financial Officer

FINANCIAL ANALYSIS – ACTUAL AND BUDGETED REVENUES

Fiscal Year	Total Amounts to Be Raised	Annual Growth Rate	Compounded Annual Growth Factor (CAGF)
2008	\$ 308,711,540	<i>N/a</i>	} 2.3%
2009	\$ 318,636,488	3.21%	
2010	\$ 308,847,270	-3.07%	
2011	\$ 311,646,472	0.91%	
2012	\$ 321,111,145	3.04%	
2013	\$ 328,095,926	2.18%	
2014	\$ 342,975,498	4.54%	
2015	\$ 364,130,698	6.17%	
2016	\$ 358,051,834	-1.67%	
2017	\$ 365,886,534	2.19%	
2018	\$ 376,248,783	2.83%	
2019	\$ 391,858,652	4.15%	
2020	\$ 407,340,917	3.95%	
2021	\$ 416,861,514	2.34%	
2022	\$ 426,604,631	2.34%	
2023	\$ 436,575,470	2.34%	
2024	\$ 446,779,353	2.34%	
2025	\$ 457,221,727	2.34%	
2026	\$ 467,908,165	2.34%	
2027	\$ 478,844,373	2.34%	
2028	\$ 490,036,188	2.34%	
2029	\$ 501,489,584	2.34%	
2030	\$ 513,210,675	2.34%	



Conor Baldwin
Chief Financial Officer

**FINANCIAL ANALYSIS – EXISTING DEBT OBLIGATION AS A PERCENTAGE OF
BUDGETED REVENUES**

Fiscal Year	Existing Net Debt Service Obligation (ALL FUNDS)	Projected Budgeted Revenue	Debt Service as a Percentage (%) of Projected Budgeted Revenue
2020	\$ 23,008,478	\$ 400,447,413	5.75%
2021	\$ 22,309,576	\$ 409,224,423	5.45%
2022	\$ 21,332,716	\$ 418,193,807	5.10%
2023	\$ 19,079,786	\$ 427,359,782	4.46%
2024	\$ 18,150,913	\$ 436,726,658	4.16%
2025	\$ 17,858,757	\$ 446,298,836	4.00%
2026	\$ 16,409,214	\$ 456,080,818	3.60%
2027	\$ 15,831,136	\$ 466,077,201	3.40%
2028	\$ 15,227,993	\$ 476,292,685	3.20%
2029	\$ 12,252,991	\$ 486,732,072	2.52%
2030	\$ 11,609,705	\$ 497,400,269	2.33%



Conor Baldwin
Chief Financial Officer

FINANCIAL ANALYSIS – DEBT LIMIT CALCULATIONS

DEBT LIMIT CALCULATION

Equalized Valuation as of January 1, 2018	\$	8,192,976,800
Debt Limit (5% of Equalized Valuation)	\$	409,648,840
		264,438,247
Total Outstanding Debt as of June 30, 2020 ¹		
Total Authorized/ Unissued Debt as of June 30, 2019 (Approximate)	\$	506,929,000 ²
Total Outstanding Debt Plus Total Authorized/ Unissued Debt	\$	771,367,247
		54,675,380
Amount of Outstanding Debt Outside the Debt Limit	\$	
Appx. Amount of Authorized/ Unissued Debt Outside the Debt Limit	\$	471,833,158
Outstanding Debt plus Authorized/ Unissued Outside the Debt Limit	\$	526,508,538
		771,367,247
Total Outstanding Debt Plus Total Authorized/ Unissued Debt	\$	
Less: Outstanding Debt plus Authorized/ Unissued Outside the Debt Limit	\$	526,508,538
Debt Subject to the Debt Limit	\$	244,858,709
Debt Limit (5% of Equalized Valuation)	\$	409,648,840
Remaining Borrowing Capacity Under Debt Limit	\$	164,709,131

¹ Projected debt as of 3/24/2020

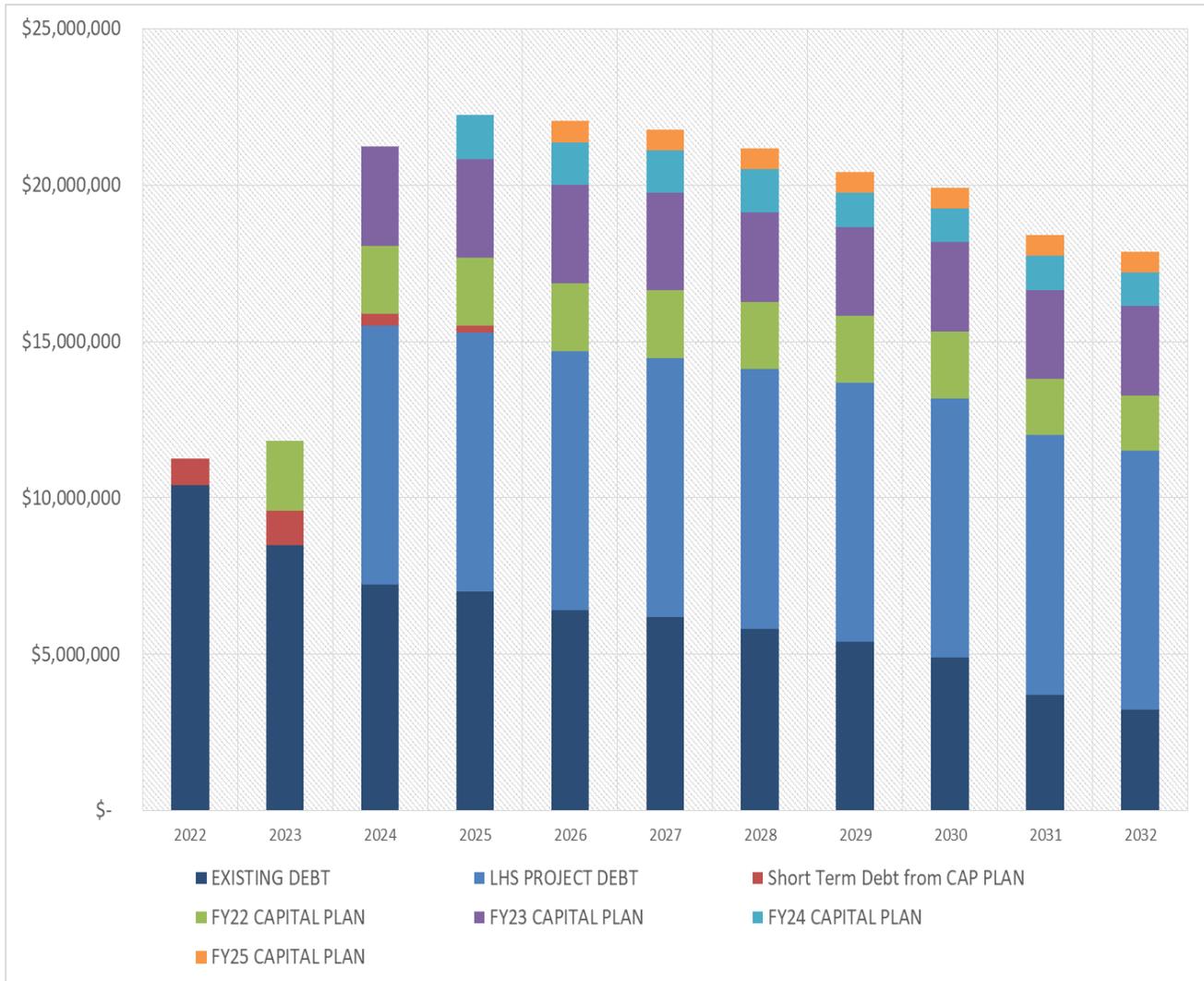
² Currently, the City has approximately \$506.929 million (excluding authorized refundings) of authorized unissued debt outstanding, comprised of the following: \$340.899 million school bonds authorized for construction and reconstruction of a new high school. The total amount authorized for this project will be reduced to the extent of school building grant funds paid to the City by the Massachusetts School Building Authority (MSBA). The reimbursement rate will be approximately 80% of reimbursable project costs.

\$67 million sewer and \$45 million water bonds authorized for the reconstruction of water and sewer mains and facility upgrades throughout the City. The City is aggressively working to maintain and improve its water and sewer infrastructure. Financing will be through the Massachusetts Clear Water Trust. Rates will be raised to support this debt as it is issued. Additionally, the City will have authorized unissued debt of approximately \$49 million for various capital improvements.



Conor Baldwin
Chief Financial Officer

FINANCIAL ANALYSIS – 10 YEAR DEBT SERVICE FORECAST (INCLUDES LHS DEBT)





Conor Baldwin
 Chief Financial Officer

Detailed Debt Service for 5-year phase in of capital

City of Lowell, Massachusetts

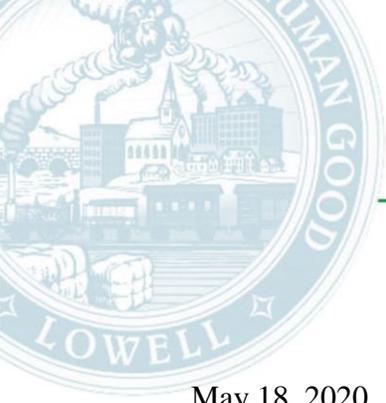
Projected Interest Rate on Bonds Dated September 1, 2019: 3.50%
 Projected Interest Rate on Bonds Dated September 1, 2020: 4.00%
 Projected Interest Rate on Bonds Dated September 1, 2021-2023: 4.50%
 Projected Interest Rate on Bonds Dated September 1, 2024: 5.00%

5-Year General Fund Capital Plan

Fiscal Year	A Existing General Fund Debt Service	B Less: Existing QECCB & RZEDB Subsidies	C Less: Existing MSBA Subsidies	D Equals: Net Existing General Fund Debt Service	E Plus: Bonds dated 9/1/19 (see pages 4-7)	F Plus: Bonds dated 9/1/20 (see pages 8- 10)	G Plus: Bonds dated 9/1/21 (see pages 11- 14)	H Plus: Bonds dated 9/1/22 (see pages 15- 18)	I Plus: Bonds dated 9/1/23 (see pages 19- 22)	J Plus: Bonds dated 9/1/23 (see pages 23- 24)	K Equals: Existing and Projected General Fund Debt Service
2020	9,815,824	(192,793)	(1,192,791)	8,430,241	164,254	-	-	-	-	-	8,594,495
2021	9,258,769	(178,611)	(1,192,791)	7,887,367	1,164,585	504,866	-	-	-	-	9,556,818
2022	8,812,366	(163,427)	(1,192,790)	7,456,149	1,168,238	2,566,260	361,624	-	-	-	11,552,271
2023	6,912,931	(147,851)	(1,192,787)	5,572,293	1,171,650	2,558,300	1,893,500	272,075	-	-	11,467,818
2024	5,662,880	(131,882)	-	5,530,998	908,563	2,561,100	1,901,025	1,626,472	146,785	-	12,674,942
2025	5,443,241	(115,521)	-	5,327,721	899,325	2,561,100	1,912,750	1,628,225	932,623	199,075	13,460,818
2026	4,883,029	(98,767)	-	4,784,262	889,563	2,553,400	1,901,775	1,624,900	958,175	1,044,575	13,756,650
2027	4,667,593	(80,417)	-	4,587,176	889,100	2,430,400	1,898,325	1,624,213	950,663	1,047,500	13,427,376
2028	4,316,174	(61,637)	-	4,254,537	887,763	2,436,800	1,110,175	1,621,050	946,913	1,051,500	12,308,737
2029	4,048,315	(42,367)	-	4,005,947	409,038	2,435,100	1,103,113	799,200	941,813	1,048,625	10,742,835
2030	3,748,339	(22,607)	-	3,725,731	408,188	2,440,200	1,099,813	794,450	319,538	1,053,750	9,841,669
2031	2,530,605	(2,274)	-	2,528,331	397,163	2,432,100	1,109,825	793,688	320,538	413,125	7,994,768
2032	2,027,784	-	-	2,027,784	400,875	1,401,800	1,103,150	791,800	306,425	417,500	6,449,334
2033	1,381,100	-	-	1,381,100	408,975	1,390,100	753,000	788,788	307,200	416,250	5,445,413
2034	1,106,531	-	-	1,106,531	239,525	1,396,600	739,825	457,188	302,638	414,500	4,656,806
2035	969,375	-	-	969,375	237,788	1,400,900	740,863	447,450	248,975	412,250	4,457,600
2036	831,425	-	-	831,425	250,613	1,398,100	745,663	442,375	246,213	282,750	4,197,138
2037	234,850	-	-	234,850	248,000	148,700	749,113	446,625	243,225	276,250	2,346,763
2038	227,425	-	-	227,425	245,213	143,700	648,575	445,088	249,788	279,500	2,239,288
2039	-	-	-	-	242,250	143,600	654,050	301,138	250,788	277,375	1,869,200
2040	-	-	-	-	239,113	143,300	648,400	309,663	212,238	279,875	1,832,588
2041	-	-	-	-	-	142,800	641,850	302,625	204,363	277,000	1,568,638
2042	-	-	-	-	-	-	644,175	305,138	196,488	278,750	1,424,550
2043	-	-	-	-	-	-	-	311,863	208,163	284,875	804,900
2044	-	-	-	-	-	-	-	-	199,388	280,500	479,888
2045	-	-	-	-	-	-	-	-	-	280,750	280,750
2046	-	-	-	-	-	-	-	-	-	192,750	192,750
2047	-	-	-	-	-	-	-	-	-	191,625	191,625
2048	-	-	-	-	-	-	-	-	-	190,250	190,250
2049	-	-	-	-	-	-	-	-	-	193,500	193,500
2050	-	-	-	-	-	-	-	-	-	191,375	191,375
2051	-	-	-	-	-	-	-	-	-	193,875	193,875
2052	-	-	-	-	-	-	-	-	-	191,000	191,000
2053	-	-	-	-	-	-	-	-	-	192,750	192,750
2054	-	-	-	-	-	-	-	-	-	194,000	194,000
2055	-	-	-	-	-	-	-	-	-	194,750	194,750
Total	76,878,557	(1,238,155)	(4,771,159)	70,869,244	11,869,777	33,189,226	22,360,586	16,134,010	8,692,932	12,242,150	175,357,925

Assumptions:

- † Existing General Fund Debt Outstanding Projected as of June 30, 2019.
- † Proposed issues structured on a level debt basis.



Eileen M. Donoghue
City Manager

May 18, 2020

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

Dear Mayor Leahy and Members of the Lowell City Council,

I herewith submit for approval a loan order in the amount of \$6,771,100 to advance the city's comprehensive five year capital plan. This loan order represents the third year of a revamped five-year capital improvement plan ("CIP") under my Administration. When I became City Manager in April 2018, I shared my vision for the City; a vision focused on key areas including economic development, fiscal management, public safety, education, partnerships, strong neighborhoods, and diverse cultural and arts programs. The City of Lowell has seen marked improvement in all statistical measures of those key focus, as identified in the annual operating budget. This success vindicates the capital funding decisions of the Council and the focused direction of the priorities of the residents. Coupled with the Administrations operational austerity each year, the capital position of the City is well poised to undertake the pending infrastructure needs, including the most significant school building project in the history of the Commonwealth.

The capital budget is one of the most significant components of the city's financial plan. Decisions made during this process will have an impact on the City of Lowell and its budgets for years to many years to come. The city uses its five-year financial projections for revenue and expenditures, in addition to its five-year capital plan, to formulate budget guidelines for departments. Despite the tight deadline presented to department heads for submitting projects to the finance department, every department submitted projects for consideration in a timely manner. I am thankful for the diligent efforts of my staff to coordinate this worthy endeavor. Capital planning is critical component of municipal governance. Buildings, infrastructure, technology, and major equipment are the physical foundation for providing services to constituents. The procurement, construction, and maintenance of capital assets require careful planning and therefore a prescribed process for prioritization of the many projects must be followed. A properly prepared capital plan—one which contains recommendations from subject matter experts at City Hall and balances fiscal realities with the desires of the residents and the direction of the City Council—is essential to the future financial health of the organization.



Eileen M. Donoghue
City Manager

Within the operating budget is the city's comprehensive five-year capital plan document which includes a comprehensive capital plan outlook for the next five years, capital planning policy which takes into account the City of Lowell's unique organizational characteristics, and a detailed analysis of the debt service impact to the operational budget. A memorandum from Chief Financial Officer Conor Baldwin which further details and analyzes the financial impact of the debt associated with these projects is also enclosed.

The capital loan order enclosed herein is the funding mechanism for the critical projects scheduled for the coming year. Despite the ever uncertain circumstances surrounding the COVID-19 crisis, I am recommending approval in order to secure the funding for these projects to commence forthwith as soon as the time is right. The full capital budget document, as normally occurs in the budget calendar, will be presented with the budget at such a time that the full-year budget is presented for appropriation by the City Council. This loan order must be referred to a public hearing.

Sincerely,

Eileen M. Donoghue
City Manager

cc: Conor Baldwin, Chief Financial Officer