

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 Seventeen Million Seven Hundred Eighty Thousand Five Hundred Twelve and 00/100 (\$17,780,512.00) Dollars be appropriated:

FROM: July 1, 2021 Certified Free Cash; 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

Transfer Form - Attachment "A"

Department:	Various			
TRANSFER TO:				
Account #			Description	Amount
Org.	Object	Project		
Fund # 8401			Stabilization Fund - Replenish Reserves	\$ 3,570,688.00
Fund # 8401			Stabilization Fund - Build Reserves	\$ 1,000,000.00
Fund # 8524			OPEB Trust Fund	\$ 889,026.00
Fund # 6100			Water Enterprise - 21 Revenue Loss	\$ 2,000,000.00
Fund # 6000			Sewer Enterprise - 21 Revenue Loss	\$ 1,000,000.00
Fund # 4450			Parking Enterprise - 21 Revenue Loss	\$ 3,000,000.00
Fund # 8700 (Agency)	258200		Fire Special Detail - Agency	\$ 12,252.54
Fund # 8700 (Agency)	254200		LETf - Correction for FY21	\$ 20,662.20
Fund # 1304			Chapter 90/ Capital Paving	\$ 54,154.89
Fund # 6822	*NEW*		Fire Apparatus - Ladder Truck Purchase	\$ 1,100,000.00
01514857	573001		Claims - Pol/ Fire Active	\$ 150,000.00
09129711	516900		Worker's Comp - Schools	\$ 150,000.00
09129711	517100		Worker's Comp - City	\$ 50,000.00
Fund #8398			Salary Stabilization Fund	\$ 1,000,000.00
Fund #8396			Municipal Building Stabilization	\$ 1,000,000.00
Fund # 6822			Paving, Sidewalks, etc.	\$ 2,600,000.00
Fund # 8394			Equity/ Inclusion Stabilization Fund	\$ 183,728.37
			TOTAL	\$ 17,780,512.00
TRANSFER FROM:	Free Cash/ Undesignated Fund Balance (General Fund)			
Account #			Description	Amount
Org.	Object	Project		
7/1/21 Free Cash			Undesignated FB	\$17,780,512.00
			TOTAL	\$ 17,780,512.00

Reason for Transfer:
Free Cash Utilization

Department Signature



Chief Financial Officer






Conor Baldwin
Chief Financial Officer

Allison Chambers
Deputy CFO

MEMORANDUM

TO: Eileen M. Donoghue, City Manager

FROM: Conor Baldwin, Chief Financial Officer 

CC: Kelly Oakes, City Auditor

DATE: March 16, 2022

SUBJECT: FY21 Free Cash (7/1/2021) Certification & Recommendation

The City has received notification from the Department of Revenue (“DOR”) that the “free cash” total as of 7/1/2021 has been certified as \$17.78 million for the general fund. This represents the highest free cash total in over twenty years (20) for the City of Lowell. In addition to the General Fund, the DOR has certified the retained earnings of the city’s three enterprise funds for sewer, water, and parking at \$3.8 million, \$1.58 million, and \$549,646, 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 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 fiscal state of the city were communicated to the City Council earlier this year in a memo to the City Council dated October 21, 2021, regarding the city’s FY21 year-end results. The undesignated fund balance as of 6/30/2021, which is the starting point for the free cash calculation was \$22.43 million, an increase of about \$15.7 million over FY2020. Enclosed with this memorandum is a chart which outlines the history of the undesignated fund balance in the general fund and the “free cash” history over the same period.

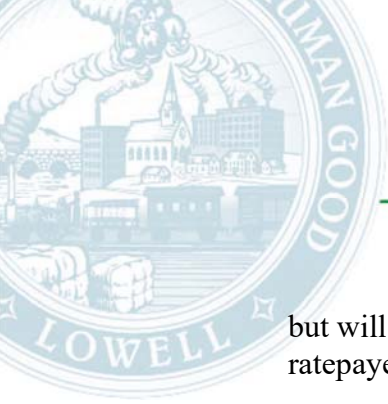
One of the major contributing factors to the historic total is the \$7.9 million in revenue loss which was credited to the general fund via the ARPA calculations. This revenue loss was government-wide, but the entire amount was recorded as a transfer into the general fund in FY2021. As such, three of the recommendations from the finance department for appropriation by the City Council are to replenish the water, sewer, and parking enterprise funds. Additionally, because of fiscal controls in place throughout the pandemic, significant turn-backs in department appropriations also contributed to the total. Approximately \$10.6 million in unexpended, unencumbered appropriations closed to the undesignated fund balance at year end.



Conor Baldwin
Chief Financial Officer

The following are the finance department's recommendations for utilization of "free cash": Allison Chambers
Deputy CFO

1. Replenish Reserves in the "rainy day" fund - **\$3,570,688;**
 - During the FY22 budget hearings, the Administration represented to the City Council that once free cash was certified, the stabilization account would be replenished for the \$3.57 million earmarked to reduce the tax rate in the FY22. In order to continue to ease the tax burden on residents in FY23 and despite rising fixed costs in the budget, the continued replenishment of reserves is necessary to maintain a healthy balance in the stabilization fund. The plan presented for appropriation by the City Council accomplishes this delicate balancing act.
2. Build Reserves to strengthen Lowell's credit rating - **\$1,000,000;**
 - Similar to the above recommendation, the addition of \$1 million to the Stabilization Fund would bring the account to an all-time high of \$13.9 million. The City's credit rating is especially important now as the expectation is that the Federal Reserve will raise interest rates several times in the coming months.
3. Appropriate 5% of free cash to OPEB, consistent with City policy - **\$889,026;**
 - With this transfer, the OPEB Trust balance would be approximately \$14.88 million. While not sufficient to address the significant OPEB liability, continuous appropriations into the fund are a positive credit factor to ratings agencies.
4. Replenish revenue loss in the water fund - **\$2,000,000;**
 - Both the water and sewer enterprise funds are underway with significant capital campaigns funded by loan orders authorized by the City Council in 2019 (\$45 million for Water and \$67 million for Sewer). In order to fund the capital improvements, many of which are to meet EPA mandates, these transfers are necessary to replace lost revenue due to COVID-19. The transfers will not negate the need for rate increases in the funds, but will mitigate the revenue needed and allow the City to smooth out the impact to ratepayers.
5. Replenish revenue loss in the sewer fund - **\$1,000,000;**
 - Both the water and sewer enterprise funds are underway with significant capital campaigns funded by loan orders authorized by the City Council in 2019 (\$45 million for Water and \$67 million for Sewer). In order to fund the capital improvements, many of which are to meet EPA mandates, these transfers are necessary to replace lost revenue due to COVID-19. The transfers will not negate the need for rate increases in the funds,



Conor Baldwin
Chief Financial Officer

but will mitigate the revenue needed and allow the City to smooth out the impact to ratepayers. Allison Chambers
Deputy CFO

6. Replenish revenue loss in the parking fund - **\$3,000,000**;
 - The parking enterprise fund suffered the most significant revenue loss, as residents and visitors to the downtown stayed home during the pandemic. In order to maintain the health of the fund and avoid either an immediate need for a significant rate increase, or a deficit in the fund which would need to be raised on the tax rate, this transfer is necessary. It will also allow for the enterprise to fund the recently discussed capital improvements at the two garages and kiosk replacement program.
7. Close out various grant deficits from prior years - **\$87,070**;
 - A number of grant funds in various departments have been in deficit for a number of years and are unlikely to receive further receipts from the grantor. The finance department has worked with the City Auditor to identify these funds and this balance will allow the City to close-out these funds. Otherwise, the deficit will continue to reduce the free cash total each year until an appropriation is made.
8. Purchase a new ladder truck for the LFD - **\$1,100,000**;
 - The Fire Chief has indicated that his top priority for capital is the replacement of a ladder truck in the fleet. Rather than issuing debt to finance the purchase of a new apparatus, this appropriation is recommended. It will have the benefit of further reducing company closures due to mechanical issues, as well as avoiding about \$436,000 in interest which the city would have to pay if the apparatus were financed. In addition, the City can focus the capital budget for fire on building improvements and repairs.
9. Provide funding for various legal accounts - **\$350,000**;
 - The law department has communicated a need for additional funding for various legal matters. This is not an uncommon need, as many of these totals are unknown when the budget is set, and the city is typically unable to appropriate sufficient funding to accounts in the law department due to budget constraints.
10. Appropriation to the Salary Stabilization fund to fund wage/class study - **\$1,000,000**;
 - The City Council and the Personnel Subcommittee have communicated a need to examine the pay structure, city-wide. This transfer would appropriate funding into the existing salary stabilization fund, which currently has a balance of \$1 million. If a pay and classification study were to be completed with recommendations for any adjustments to the current pay scales, this account could fund the implementation without overly burdening the tax levy. The stabilization fund would earn interest on the



Conor Baldwin
Chief Financial Officer

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Deputy CFO

funds on deposit and would require a two-thirds Council vote before further appropriation.

11. Appropriate to the Municipal Building Stabilization fund - **\$1,000,000**.

- Currently the source of revenue for this fund is generated from 25% of the excise taxes received from the City's cannabis cultivators and retailers. This appropriation would supplement this, as well as the city's existing capital plan and operating plan designated for the City's aged building roster. In the FY22 capital budget, \$1 million was appropriated for municipal building improvements, however the designation for this money always seems to be changing based on the demands of the our City's buildings. With this additional funding the City will be able to further address critical needs throughout the city immediately and while still prioritizing other building improvement plans.

12. Appropriate funding to paving, sidewalks, and "curb appeal" projects - **\$2,600,000**.

- To supplement the city's existing capital plan for streets and sidewalks. In the FY22 capital budget, \$3 million was appropriated for paving and sidewalks. This funding was to supplement the city's annual apportionment from the Chapter 90 formula of \$1.8 million. With this additional funding, the City will be able to further address critical needs throughout the city immediately and can use the FY23 capital plan to forward fund the paving program in a way that has not been possible for the city in years past.

13. Appropriate to the Diversity and Inclusion Stabilization fund - **\$183,728**.

- In July of 2020 the City Council adopted a resolution regarding inclusiveness, equity, and racism. The resolution further spearheaded efforts to curb social injustice and assist minority communities. A special purpose stabilization fund was later established, and this funding will further those efforts to help the City reach its DEI goals.

These are fiscally prudent recommendations which also address many of the priorities of the City Council. I have asked the law department to prepare the necessary votes for the City Council. Please let me know if there are any questions.



Eileen M. Donoghue
City Manager

March 17, 2022

Mayor Sokhary Chau
And
Members of the Lowell City Council

Dear Mayor Chau and Members of the Lowell City Council,

I am pleased to inform you that the city has received notification from the Department of Revenue (“DOR”) that the city’s free cash total as of July 1, 2020 (‘FY21’) has been certified in the amount of \$17,780,512. This number represents the highest free cash total for the City of Lowell in over twenty years. The figure is driven, in-part, from lost revenue via the American Rescue Plan Act (‘ARPA’) which accounts for approximately \$7.9 million. The remainder is due to the fiscal controls which have been in place throughout the pandemic, in order to sustain the city’s finances and avoid the need for layoffs.

I am hereby recommending that the accompanying vote be approved by the City Council to appropriate General Fund free cash for a number of necessary and timely transfers before the end of FY2022. The goal of these appropriations is twofold. First, to sustain the city’s strong financial position by replenishing revenue loss in the enterprise funds, building reserves, and meet the city’s OPEB funding policy. And second, to make strategic investments in the city workforce, public safety, and infrastructure such as roads and sidewalks. Because free cash is a one-time source of revenue, these are the appropriate types of investments and will set the City up for future success without needing to rely on tax increases in the future.

The DOR has also certified the retained earnings of the three enterprise funds. These balances reflect a second difficult year due to COVID-19’s impact on revenues, especially in the parking enterprise. These recommendation to appropriate funds into the three enterprises will not completely negate the need for rate adjustments, but rather will aid in mitigating the magnitude and allow for a strategy of incremental increases.

The financial rationale for the recommendations is explained in a memorandum from the Chief Financial Officer enclosed with this letter, as well as a brief presentation on free cash for the Council and the public’s edification.

Sincerely,

Eileen M. Donoghue
City Manager

Cc: Conor Baldwin, Chief Financial Officer
Kelly Oakes, City Auditor