

CITY OF LOWELL
COMMONWEALTH OF MASSACHUSETTS

In City Council

VOTE

ORDERED,

By the City Council of the City of Lowell by a Two-Thirds Vote, as follows:

That the amount of **Seven Million Eight Hundred Sixty Thousand Four Hundred Forty Eight and 00/100 (\$7,860,448.00) Dollars** be appropriated:

FROM: July 1, 2022 Certified Free Cash; more fully described in Attachment "A"

TO: Various Accounts; more fully described in Attachment "A"

ORDER RECOMMENDED AND INTRODUCED BY:



Thomas A. Golden Jr., City Manager

Transfer Form - Attachment "A"

Department:	Various				
TRANSFER TO:					
Account #	Description			Amount	
Org.	Object	Project			
Fund # 8401			Stabilization Fund - Replenish Reserves	\$	3,177,728.00
Fund # 8401			Stabilization Fund - Replenish Reserves	\$	2,834,616.17
Fund # 8401			Stabilization Fund - Build Reserves	\$	307,000.00
Fund # 8524			OPEB Trust Fund	\$	214,693.00
01514153	530000		Law Department - Professional Services	\$	669,320.75
01454153	536900		Postage - City-wide	\$	100,000.00
02104153	520512		REPAIR & MAINT-COMPUTER EQUIP (911 System)	\$	110,000.00
01624153	536900		Postage - Elections	\$	72,000.00
01514857	573001		Worker's Comp	\$	100,000.00
02204154	542300		Fire Department Fuel	\$	120,000.00
02204153	530105		Fire Department New Recruit Charges	\$	30,000.00
TBD - New Acct # LPD			Opioid Reduction Program Expenses	\$	18,724.85
Fund #1601			LOWELL DRUG FREE CFDA#84.196 OLD DEFICIT (2012)	\$	4,095.09
Fund #1624			GEER CFDA#84.425 OLD DEFICIT (2021)	\$	0.10
Fund #1642			HIGHER ORDER TEACH CFDA#84.367 OLD DEFICIT (2019)	\$	6,468.59
Fund #1681			TITLE IID-ENHACING CFDA#84.318 OLD DEFICIT (2011)	\$	734.52
Fund #1724			LHS FLOODING - DEFICIT FROM INSURANCE CLAIM	\$	94,626.16
Fund #1829			STUDENT DRUNK DRIVING ED PRG OLD DEFICIT (2018)	\$	0.40
Fund #1839			HEALTH STATE OLD DEFICIT (2022)	\$	10.00
Fund #1850			HEALTH ENHANCED SCHOOL OLD DEFICIT	\$	430.35
Fund #2849			LOWELL EX-OFFENDER CFDA#16.738 OLD DEFICIT	\$	0.02
TOTAL				\$	7,860,448.00
TRANSFER FROM:					
Free Cash/ Undesignated Fund Balance (General Fund)					
Account #	Description			Amount	
Org.	Object	Project			
7/1/22 Free Cash			Undesignated FB		\$7,860,448.00
TOTAL				\$	7,860,448.00

Reason for Transfer:

Free Cash Utilization

Department Signature



Chief Financial Officer






Conor Baldwin
Chief Financial Officer

Austin Ball
Deputy CFO

MEMORANDUM

TO: Thomas A. Golden, Jr., City Manager

FROM: Conor Baldwin, Chief Financial Officer 

CC: Kelly Oakes, City Auditor

DATE: February 7, 2023

SUBJECT: FY22 Free Cash (7/1/2022) Certification & Recommendation

The City has received notification from the Department of Revenue (“DOR”) that the “free cash” total as of 7/1/2022 has been certified as \$7.86 million for the general fund. This represents an amount between 3% and 5% of the FY2022 annual budget, less the revenue received from State Aid, which is in compliance with best practices recommended by the DOR. 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 \$2.82 million, \$2.78 million, and \$2.78 million, 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. The undesignated fund balance for the general fund as of 6/30/2022, which is the starting point for the free cash calculation was \$14.3 million, a decrease of about \$8.2 million over FY2021.

The major contributing factors to the FY22 certification total were the total unencumbered and unexpended appropriations (i.e. “turn backs”) from departments, totaling \$5,832,760, as well as excess local receipts of \$3,890,533 and excess “cherry sheet” receipts of \$450,865. Now that free cash has been certified, there are a number of outstanding financial obligations which can be satisfied. Most notable amongst these is the ability to “pay back” the city’s savings account, known as the stabilization or “rainy day” fund for amount appropriated to balance the FY2023 budget, as well as the appropriation made in December of this fiscal year to stabilize the parking enterprise fund. The net result of these recommendations will afford the city a better reserve position, which is an important component of the city’s credit rating. The city’s credit has a direct bearing on the interest rate the city must pay to finance capital projects, such as the Lowell High School project, and has financial implications on the future debt service costs in the budget.



Conor Baldwin
Chief Financial Officer

Austin Ball
Deputy CFO

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

1. Replenish Reserves in the "rainy day" fund - **\$3,177,728;**
 - During the FY23 budget hearings, the Administration represented to the City Council that once free cash was certified, the stabilization account would be replenished for the \$3.12 million earmarked to reduce the tax rate in the FY23. In order to continue to ease the tax burden on residents in FY24 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. Replenish Reserves used in FY23 for the Parking Enterprise Fund - **\$2,834,616.17;**
 - In December of FY23, the Administration represented to the City Council that once free cash was certified, the stabilization account would be replenished for the \$2.8 million used to stabilize the parking enterprise fund. The plan presented for appropriation by the City Council satisfies this promise.
3. Build Reserves to strengthen Lowell's credit rating - **\$307,000;**
 - Similar to the above recommendations, the addition of \$307,000 to the Stabilization Fund would bring the account to an all-time high of \$14.3 million. The City's credit rating is especially important now as the expectation is that the Federal Reserve will continue to raise rates to control inflation for the foreseeable future.
4. Appropriate free cash to the OPEB Trust, consistent with City policy - **\$214,693;**
 - With this transfer, the OPEB Trust balance would be approximately \$12.15 million. While not sufficient to address the significant OPEB liability, continuous appropriations into the fund are a positive credit factor to ratings agencies. The Trust fund investments have suffered in the recent market, but the Council has committed, by policy, to continue to address the OPEB liability. This recommended amount, however, is less than the 5% policy goal. The reason for the reduction is because of the other funding needs this year.

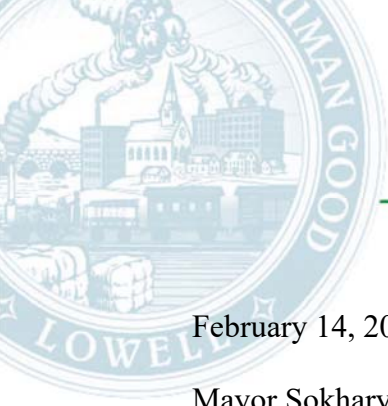


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5. Provide funding for various legal obligations - **\$669,320.75**;
 - The law department has communicated a need for additional funding for various legal matters. This is not an uncommon need, as many of these totals are unknown when the budget is set, and the city is typically unable to appropriate sufficient funding to accounts in the law department due to budget constraints. The turnover in the Law Department staffing has also further driven the need for additional outside counsel services.
6. Appropriations for Fire Department new recruits, fuel, and to address the opioid crisis - **\$168,724.85**;
 - The Fire Chief has requested funding to send recruits to the Boston Fire Academy, which will expedite the process to add additional fire fighters to the roster, as well as a need for additional fuel costs. There is also an additional need for supplies, such as Narcan, to address the opioid crisis in Lowell.
7. Close out various grant deficits from prior years - **\$106,365.23**;
 - 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 them out. Otherwise, the deficit will continue to reduce the free cash total each year until an appropriation is made.
8. Miscellaneous other funding needs from Departments - **\$382,000**
 - Since July, a number of additional funding needs have been communicated to the finance department, totaling \$382,000 in the aggregate. Those needs include: additional funding for worker's compensation costs, including medical supplies for employees receiving either worker's compensation or chapter 111F benefits from the city; additional money for postage both in the Treasurer's Office (which is the cost center for all outgoing city mail) and in the Elections Office (which is for the annual city census), and repair and maintenance costs for software for the 911 center in the Lowell Police Department.

These are fiscally prudent recommendations from the finance department. I have asked the law department to prepare the necessary vote for the City Council. Please let me know if there are any questions.



Thomas A. Golden, Jr.
City Manager

February 14, 2023

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 has been certified in the amount of \$7,860,448. This number represents a strong FY2022 year-end, with the amount falling squarely within the DOR recommendation for generation of free cash within 3% to 5% of the annual budget. For Lowell, due to amount of State Aid received annually for education, the starting point for the calculation is less the amount of aid received from the Commonwealth. The free cash certification is about 4.2% of the net revenue in the FY2022 budget.

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. The goal of these appropriations is twofold. First, to sustain the city’s strong financial position by replenishing and building reserves. And second, to use the remaining balance to fund outstanding obligations within the FY2023 budget. 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 are starting to strengthen—thanks to the diligence of this City Council—but still need careful analysis, moving forward. As has been discussed in the finance subcommittee, a rate increase is needed in Parking. However, with this newly certified information, my finance team is analyzing ways to utilize the favorable results to determine whether a rate proposal can be scaled back from the amounts previously discussed. Furthermore, in the water and sewer enterprise, future capital needs will necessitate a need to deliberate a comprehensive rate increase discussion, a proposal for which is in the final stages of development by my Administration.

The financial rationale for the recommendations is explained in a memorandum from the Chief Financial Officer enclosed with this letter.

Sincerely,

Thomas A. Golden, Jr.
City Manager

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