




Conor Baldwin  
Chief Financial Officer

Austin Ball  
Deputy CFO

## MEMORANDUM

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

**FROM:** Conor Baldwin, Chief Financial Officer 

**CC:** Austin Ball, Deputy CFO

**DATE:** March 21, 2023

**SUBJECT:** FY2024 Budget Update

### Introduction

This memorandum is intended to provide an update on the ongoing preparations for the FY2024 operating budget for the City of Lowell. Budget guidelines were distributed to Department Heads beginning on January 27, 2023 as we began the formal budget preparations. Since that time, all departments have submitted their funding requests for the upcoming fiscal year. The finance department has completed a preliminary revenue estimate for the next year, as well as updated the city's rolling five-year forecasts for general fund and the three enterprise funds for water, sewer, and parking. The city is currently on schedule to deliver a balanced budget to the City Council for review and approval according to the timeline set forth in this memorandum.

### Background & FY2024 State Budget Process

A significant portion of the city's annual revenue stream is dependent upon local aid from the Commonwealth. This year, the delivery of the first version of the state budget is later than normal due to a new gubernatorial administration. Whereas the past several years have seen a budget from the Governor in January, additional time is afforded to the new Governor by law. This budget update is based on assumptions from the Governor's version of the budget, released on March 1<sup>st</sup>. Many of the proposals in the Governor's budget, known as "H1" will add key investments that will benefit municipalities like Lowell, especially in the area of education funding.

The governor's budget proposal is the first step in a months-long process to determine a final state budget. The House and Senate Ways and Means committees are expected to host a budget hearing in late-March or early April on municipal and school aid for fiscal 2024, and the House will debate its budget bill in April, with the Senate deliberating its own bill in May. The Legislature will work to get a final budget bill to the governor by the beginning of the fiscal year on July 1. For purposes of planning Lowell's revenue estimates, the version of the state budget released by the House will be a better indicator of the local aid receipts for 2024.



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House 1 would continue implementation of the funding schedules in the Student Opportunity Act, bringing Chapter 70 school aid up to \$6.58 billion. The majority of the funds would implement improvements to the foundation budget, adding weight for low-income students, English language learners, special education costs, and school employee health benefits. The Lowell Public School system stands to benefit, substantially, from this proposal.

- **For Lowell, the Chapter 70 increase pursuant to H1 in FY2024 is \$27,723,636**

The funding increase proposed by the Governor for the main discretionary local aid account (known as Unrestricted General Government Aid or “UGGA”) increased by only 2% over last year. This funding is what Lowell uses for all areas of operations other than education. In FY2023, the total UGGA for Lowell was \$29.2 million and the proposed amount for FY2024 is \$29.76 million, an increase of \$583,550. With inflation running far higher than 2% for costs within the city budget, the city will be watching closely the next versions of the budget from the House and Senate to combat rising fixed costs for FY2024. House 1 would level-fund charter school reimbursements at \$243 million, intended to meet the state’s statutory obligation to mitigate Chapter 70 losses to charter schools as outlined in the Student Opportunity Act. While the proposed budget may meet the requirement, it does not solve the serious flaws in the overall charter school finance system. Lowell is particularly susceptible to the flaws in this system and must absorb the additional costs within the budget, unless some legislative relief is afforded to municipalities by the state. Enclosed with this memorandum is a chart which highlights the enormous cost pressures but on the budget for Lowell over the past several years. The so-called “net charter impact” to the budget for FY2024 is \$4.9 million. This will again be a significant fiscal challenge for the city as we create the financial plan for the ensuing fiscal year.

- **For Lowell, the UGGA increase pursuant to H1 in FY2024 is \$583,550**

Enclosed with this memorandum is a summary of the local aid and municipal charges included in the Governor’s proposal. Some of the numbers may change as the state budget moves through the legislative process.



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### **Update on Current Funding Status**

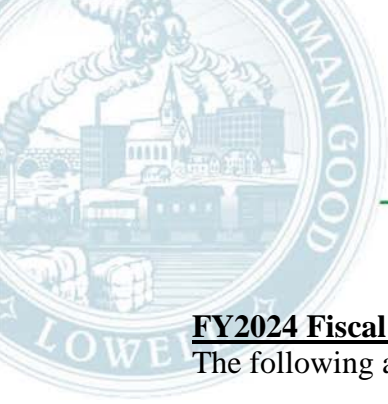
As of the date of this memo, all Departments Heads in the city have submitted their FY2024 budget request. Based on a preliminary analysis of estimated revenues for FY2024, including local receipts, indirect revenues from the enterprise funds, and a projected 2.5% increase to the tax levy along with new growth, the estimated deficit based currently stands at approximately \$20.1 million.

The following is a revised timeline for introduction of the budget to the City Council. Milestones which have been completed are annotated below:

### **FY2024 Budget Timeline and Process for Adoption**

1. **January 25 – 27, 2023** – Budget instructions and financial sheets distributed to Department Heads. **(COMPLETE)**
2. **February 15, 2023** – All FY2024 budget requests (*financial spreadsheets*) due to the Budget Department for initial review **(COMPLETE)**
3. **February 16 – February 28, 2023** - Finance Department works with departments to complete budgets. **(COMPLETE)**
4. **March 1, 2023** – Department’s complete budget submission **(COMPLETE)**
5. **March 27, 2023 – March 31, 2023** – CFO, Budget staff, and/or City Manager to meet with Department Heads to discuss departmental budgets.
6. **April 3, 2023 – April 28, 2023** – Final budget preparation.
7. **May 23, 2023** – FY2024 Budget and Capital Loan Order introduction to the Lowell City Council.

On May 23<sup>rd</sup>, the formal budget introduction will be made to the City Council. The budget books will be placed on each City Councilors desk that evening. On the agenda for that City Council meeting will be the first reading of the appropriation order for FY2024, the loan order to finance the FY2024 capital budget, and any other relevant ordinance amendments. All of these items will be referred to a public hearing at least two weeks later for consideration by the Council and the public, and for approval by the City Council. By state law (GL c. 44 s. 32), the budget must be submitted to the City Council within 170 days after the Council organizes in early January. The City Council has the jurisdiction to make reductions but cannot increase the proposed budget without the consent of the City Manager. Following submission of the proposed budget, the City Council has 45 days within which to act. The Annual Budget and the appropriations contained therein for FY24 become effective July 1, 2023.



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### **FY2024 Fiscal Challenges and Budget Strategy**

The following are the major fiscal challenges facing the city in the FY2024 budget:

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1. Increase in the **Pension Assessment** of \$1.2 million;
2. The average overall **Health Insurance** premium increase is 5.1% from the GIC. Some plan increases were as high as 10.5%. A 5.1% increase represents about \$2.04 million in additional cost;
3. Increase in the **Charter Schools** assessment \$2.02 million;
4. **Personnel Cost** (FY24 MOU per CBA's) of 2.5%, approximately \$6 million;
5. **Increase in Debt Service** of approximately \$450,000

Many of the aforementioned challenges as well as other, less material challenges, are associated with the city's fixed costs. Departments were instructed to level fund their budget requests. However, within those directions was a request to fulfill the priorities of the City Council and certain strategic investments were requested as a result. For example, Fire Department overtime, a DPW Apprenticeship program and an expanded HHS Department, including expanding the Co-Op team to combat homelessness have all been asked for additional funding.

The strategy for closing the budget gap and balancing the budget will come as a combination of cuts to department budget requests, utilization of available funds, and identification of opportunities for efficiency where cost savings can be realized. Each 1% increase to the tax levy represents approximately \$1.64 million dollars in additional revenue for the budget. To close the entire deficit using the tax levy would require a total tax increase for FY2024 of 12.26%. This, however, is not consistent with the city's tax policy. To bring the budget in balance within a reasonable increase to taxes will require a multi-faceted strategy to reduce requested expenditures and to reexamine the local tax-levy appropriation to the School Department. The City exceed the net school spending requirement again in FY2022 by approximately \$8.6 million and some reduction would ease the burden on the city-side in FY2024.

### **Conclusion**

The forecast for the enterprise funds have also been updated. Based on rising costs, action is needed to protect the fund balances. The sewer fund will soon bear additional debt service from the \$67 million loan and the capital costs of compliance associated with EPA mandates. Each fund's forecast assumes an appropriation from "free cash" to offset revenue loss due to COVID. Further details on the enterprise fund forecasts will be forthcoming in the next several weeks.

### **Attachments:**

1. FY2024 Local Aid Estimates & Est. "Cherry Sheet" Charges;



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## FY2024 Preliminary Cherry Sheet Estimates Lowell

Estimated Receipts    Estimated Assessments & Charges

PROGRAM	FY2023 Cherry Sheet Estimate	FY2024 Governor's Local Aid Proposal	FY2024 HWM Budget Proposal	FY2024 SWM Budget Proposal	FY2024 Conference Committee
<b>County Assessments:</b>					
County Tax	0	0			
Suffolk County Retirement	0	0			
<b>Sub-Total, County Assessments:</b>	<b>0</b>	<b>0</b>			
<b>State Assessments and Charges:</b>					
Retired Employees Health Insurance	0	0			
Retired Teachers Health Insurance	0	0			
Mosquito Control Projects	85,928	87,151			
Air Pollution Districts	29,644	30,558			
Metropolitan Area Planning Council	0	0			
Old Colony Planning Council	0	0			
RMV Non-Renewal Surcharge	280,140	259,740			
<b>Sub-Total, State Assessments:</b>	<b>395,712</b>	<b>377,449</b>			
<b>Transportation Authorities:</b>					
MBTA	0	0			
Boston Metro. Transit District	0	0			
Regional Transit	1,097,209	1,124,639			
<b>Sub-Total, Transp Authorities:</b>	<b>1,097,209</b>	<b>1,124,639</b>			
<b>Annual Charges Against Receipts:</b>					
Multi-Year Repayment Program	0	0			
Special Education	15,352	14,560			
<b>Sub-Total, Annual Charges:</b>	<b>15,352</b>	<b>14,560</b>			
<b>Tuition Assessments:</b>					
School Choice Sending Tuition	1,093,549	1,198,616			
Charter School Sending Tuition	38,627,052	40,648,212			
<b>Sub-Total, Tuition Assessments:</b>	<b>39,720,601</b>	<b>41,846,828</b>			
<b>Total All Estimated Charges:</b>	<b>41,228,874</b>	<b>43,363,476</b>			

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PROGRAM	FY2023 Cherry Sheet Estimate	FY2024 Governor's Local Aid Proposal	FY2024 HWM Budget Proposal	FY2024 SWM Budget Proposal	FY2024 Conference Committee
<b>Education Receipts:</b>					
Chapter 70	200,970,019	228,693,655			
School Transportation	0	0			
Charter Tuition Reimbursement	12,331,818	10,949,142			
Smart Growth School Reimbursement	0	0			
<b>Offset Receipts:</b>					
School Choice Receiving Tuition	20,000	0			
<b>Sub-Total, All Education Items:</b>	<b>213,321,837</b>	<b>239,642,797</b>			
<b>General Government:</b>					
Unrestricted Gen Gov't Aid	29,177,514	29,761,064			
Local Share of Racing Taxes	0	0			
Regional Public Libraries	0	0			
Veterans Benefits	353,714	284,712			
Exemp: VBS and Elderly	240,916	221,429			
State Owned Land	336,514	398,271			
<b>Offset Receipts:</b>					
Public Libraries	303,901	332,251			
<b>Sub-Total, All General Government:</b>	<b>30,412,559</b>	<b>30,997,727</b>			
<b>Total Estimated Receipts:</b>					
	<b>243,734,396</b>	<b>270,640,524</b>			

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