



Eileen M. Donoghue
City Manager

March 20, 2019

Mayor William J. Samaras
And
Members of the Lowell City Council

Dear Mayor Samaras and Members of the Lowell City Council,

As we near the end of the third quarter of the fiscal year, I write to update the City Council of the ongoing preparations for the FY2020 budget. Over the course of the year, I have issued several communications to department heads to control expenditures in order to allow for the flexibility necessary to end the year under budget. The financial challenges faced in only the first year of my Administration have—and continue to be—daunting, but by tightening our belts and maximizing our efficiency we are resolute in continuing the level of services residents expect while maintaining Lowell’s affordability. I have recently met with my finance department to review the state of the FY2019 budget and these austerity measures have produced positive fiscal results. By holding off on filling some positions and continuing to leave others vacant, the city-side of the budget is on track. While this information provides temporary relief for a challenging year; all departments must continue to be conservative with expenditures through June 30th.

The finance department recently informed me that the Department of Elementary and Secondary Education (“DESE”) recently published the official compliance report for last year’s school district spending requirements. I am pleased to report to the City Council that the City of Lowell exceeded the Commonwealth’s “net school spending” requirement for FY2018 by \$7,138,166. Education is a key component to each of the pillars of my Administration and has been a vocal priority of the City Council. This figure is especially notable amongst gateway cities. Attached to this letter is a chart which displays the net school spending totals for the eleven (11) original gateway communities in Massachusetts. Of those, Lowell ranked second in funding as compared to the other municipalities in the Commonwealth with a population between 35,000 and 250,000, an average household income below the state average, and an educational attainment rate (Bachelor’s or above) blow the state average. The DESE compliance report further indicated that, based on budget projections, Lowell will continue to exceed the requirement in FY2019.

The city budget process is well underway. I have directed department heads to reduce growth in spending by managing positions and identifying other cost reductions so that fixed cost increases can be absorbed without an adverse effect on the total budget. All non-personnel operating expenses increasing due to contractual terms must be absorbed within the budget without being knowingly under-budgeted. Departments have been informed that reductions will be made during the review process and that every area of the budget will be thoroughly examined to best align the available resources with the City Council’s key priority areas. Most will sacrifice in the budget balancing process, but I assure you there will be no effect on services to residents. New revenues to support the budget will come to the city from the local option excise tax on adult use marijuana sales and one-quarter of the new revenue will fund school and other municipal facility repairs, consistent with the wishes of the City Council.



Eileen M. Donoghue
City Manager

My Administration must close a \$17.2 million gap in total departmental requests and increases in fixed costs. This challenge will be formidable, but I am confident that a balanced budget will be delivered to the City Council later in May. Some of the major fiscal challenges include:

- A \$1.7 million increase in the city's pension assessment over FY19;
- An increased in state "cherry sheet" charges, including the assessment for charter schools in Lowell, of \$1.7 million;
- Sufficient funding necessary for the schools to continue exceeding the net school spending requirement by the Commonwealth;
- Increases in health insurance premiums and debt service associated with the city's aggressive five-year capital improvement plan;
- An increase in cost associated with trash and recycling collections of \$730,000;
- A reduction in one-time revenues in order to build a more sustainable funding model for city services.

The budget submission will support Council priorities and the general programmatic and operational needs of the residents, while holding the line on taxes. A particular emphasis has been placed on the goal to evaluate all expenditures and maintain the strong fiscal position the city has experienced over the past several years. A solid financial foundation is the key to sustainable municipal services. The city's reserve position is strong and the FY2020 budget will provide funding to further build reserves. This is of paramount importance as the city is poised to fund the high school project. Education has and will continue to be a top priority for this coming fiscal year. The Governor's Chapter 70 funding proposal included a \$7.7 million increase in revenue for Lowell. My Chief Financial Officer and I will meet with the Acting Superintendent in the coming weeks to arrive at a suitable school department budget for next year.

By state law, the budget must be submitted to the City Council within 170 days after the Council organizes in early January. The projected timeline is consistent with previous communications to the City Council and projects that the FY2020 operating and capital budgets will be submitted to the City Council in May of calendar year 2019.

Sincerely,

Eileen M. Donoghue
City Manager

Cc: Conor Baldwin, Chief Financial Officer

Gateway Cities - Dollars Over/ Under Net School Spending - FY2018

