

City of Lowell Financial Forecast Review

May, 2021

Edward J. Collins, Jr. Center for Public Management

McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES



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SUMMARY

The City of Lowell, under a Community Compact Best Practices grant awarded by the Commonwealth of Massachusetts, contracted with the Edward J. Collins, Jr. Center for Public Management to assess the City's financial forecast tool and to make recommendations to improve forecasting of Education Aid and Charter School Assessments and Reimbursements. In addition, the City sought support in forecasting certain revenues in light of the covid-19 pandemic.

The Center's work included the following tasks:

1. Reviewed the existing financial forecast tool;
2. Conducted an in-depth review of major local receipts budgets to actuals and assumptions used for future collections;
3. Conducted a comparison of Lowell's major local receipts categories to other Massachusetts' cities;
4. Worked with finance officials to model scenarios for local receipts and state aid;
5. Reviewed current practices in forecasting for Chapter 70 School Aid and Charter School Assessments and Reimbursements;
6. Developed a comprehensive model for forecasting Chapter 70 School Aid and Charter School Assessments and Reimbursements;
7. Assisted the City finance team in development of the FY2022-FY2026 forecast;
8. Presented select findings and recommendations to the City Council Finance Sub-Committee on March 23, 2021; and
9. Prepared this report documenting and summarizing the work and associated recommendations.

Note: Slides used in the March presentation to the City Council Finance Sub-Committee are included in an appendix to this report. The following report and findings are based upon the data available at that point in time, except for subsequent updates to the status of state cherry sheet budgets.

Municipal revenue and expenditure forecasting is a financial management best practice that can be used to isolate the impact of future changes and determine their probable effects on the City's financial picture. This best practice is very important to bond rating agencies who review the City's bond sales and determine its bond rating.

The City has for many years prepared a very comprehensive and robust multi-year financial forecast model. The baseline approach used in the forecast model assumes that current service levels will be maintained in the future years of the forecast. The model also assumes that existing Massachusetts General Laws and regulations will remain unchanged over the forecast period. The forecast uses multiple years of historical data to provide a sound and dynamic framework for administration and elected officials to make informed decisions around the City's current budget development and future budget scenarios.

The City's forecasting model uses reasonable assumptions about a wide variety of revenue and expenditure categories. Using these assumptions along with known facts, a comprehensive view of the City's fiscal outlook emerges. Though potential exists that any one item in the forecast may be less than accurate, when taken as a whole, this well-built model presents a fair representation of the City's future budgets. The first year of the forecast typically has the least amount of volatility. In the later years, there is a greater potential for the assumptions to change. Because Massachusetts does not allow for unbalanced municipal budgets, any deficit forecast in the previous year must eventually be eliminated.

As new information becomes available, the assumptions and estimates used in the projections are regularly re-evaluated and updated by finance staff to determine if they are still appropriate and reasonable.

The forecast tool is structured as a series of Excel worksheets. These include:

1. Summary Forecast General Fund
2. Trash & Recycling
3. Utilities & Street Lights
4. Local Aid from State
5. Local Receipts
6. State & County Assessments
7. Sewer Enterprise
8. Water Enterprise
9. Garage Enterprise
10. Wages and Contracts Projections
11. Debt Service Forecast
12. Pension Costs
13. Health Care Costs
14. Indirect Costs charged to Enterprise Funds

The table on the following page represents the Summary Forecast for the General Fund developed by the CFO and Deputy CFO as of early January, 2021. Over the subsequent months, they revised the forecast as new information became available. The City Council received the final proposed budget which included the multi-year financial forecast on May 25, 2021 and adopted it on June 8, 2021.

Summary FY2022 – FY2026 Financial Forecast as of January, 2021

Line Number	Category	Assumptions	BUDGET/ RECAP	FORECAST				
			2021	2022	2023	2024	2025	2026
1	Prior Year Levy	From last yr	138,331,643	144,933,397	150,056,731	155,930,182	161,814,234	168,297,610
2	Prop 2 1/2 Increase	2.5%	3,458,291	3,623,335	3,751,418	3,898,255	4,614,099	4,776,183
3	New Growth	Three year avg.	2,335,360	1,500,000	2,122,032	1,985,797	1,869,277	1,992,369
4	Tax Increase/(Decrease)	TBD	808,102	-	-	-	-	-
5	Tax Levy	Calculated	144,933,397	150,056,731	155,930,182	161,814,234	168,297,610	175,066,162
6	Local Aid	5 Year Average	199,181,920	204,849,177	210,866,786	217,029,068	223,349,325	229,803,177
7	Local Receipts	Flat Estimate	24,173,690	23,789,203	24,070,702	24,359,828	24,656,793	24,961,816
8	Available Funds	Reduce 25%/yr	8,145,317	6,108,988	4,581,741	3,436,306	2,577,229	1,932,922
9	MSBA Reimbursement	From MSBA	1,192,791	1,192,791	1,192,791	-	-	-
10	Subtotal Gross Revenues	Sum (Line 5-9)	377,627,115	385,996,889	396,642,202	406,639,436	418,880,957	431,764,076
11	Allowance for Abatements (Overlay)	2.50%	961,646	985,687	1,010,330	1,035,588	1,061,478	1,088,015
12	State and County Charges	5 Year Average	30,478,667	33,998,165	37,941,593	42,359,410	47,308,887	52,854,224
13	Snow & Ice Deficit (a)	0.00%	-	-	-	-	-	-
13.1	COVID-19 Deficit	0.00%	217,000	179,935	-	-	-	-
14	Subtotal To Be Raised	Sum (Line 11 - 13)	31,657,313	35,163,787	38,951,922	43,394,998	48,370,364	53,942,238
15	Indirect Reimb (Enterprises)	calculated	10,490,769	11,241,907	11,616,640	11,778,815	12,109,697	12,437,651
16	Net Revenue	Line 10 + 14 + 15	356,460,571	362,075,010	369,306,919	375,023,252	382,620,290	390,259,489
17	School Budget (Ch. 70)	5 Year Average	166,954,483	171,963,117	177,122,011	182,435,671	187,908,741	193,546,004
18	School Budget (local)	3.95%	15,736,053	16,357,627	17,003,753	17,675,402	18,373,580	19,099,336
19	Subtotal School Spending	Line 17 + 18	182,690,536	188,320,745	194,125,764	200,111,073	206,282,321	212,645,340
20	Salaries & Wages	Various - Per CBA	70,634,314	73,422,249	76,320,587	78,572,813	81,675,113	84,900,264
21	Health/Dental Insurance	5.00%	24,787,103	25,701,137	25,985,402	26,272,842	26,563,493	26,857,390
22	Medicare Tax	2.50%	2,800,000	2,870,000	2,941,750	3,015,294	3,090,676	3,167,943
23	Pension Assessments	2015 Actuarial	28,732,760	30,018,256	31,089,046	32,132,191	33,209,428	34,321,264
24	Unemployment	2.00%	500,000	510,000	520,200	530,604	541,216	552,040
25	Existing Debt Service*	DS attached	12,362,654	10,239,511	8,332,120	7,088,087	6,883,360	6,301,009
26	Projected Capital Plan DS	DS attached	-	827,222	3,326,966	5,714,971	6,944,328	7,351,312
27	Lowell HS Renovation Debt	DS attached	-	-	-	8,288,750	8,288,000	8,287,000
28	Trash Removal	Calculated	6,775,993	6,983,617	7,264,573	7,627,802	8,009,192	8,409,651
29	Utilities (Heat/ Electric)	Calculated	4,770,476	4,888,497	4,904,042	4,919,636	4,935,280	4,950,974
30	Street Lights	3.00%	340,000	298,706	299,656	300,609	301,565	302,524
31	Greater Lowell Technical HS	2.50%	8,358,516	8,567,479	8,781,666	9,001,208	9,226,238	9,456,894
32	GLTHS Capital Assessment	DS attached	1,001,711	995,789	974,984	954,179	933,374	728,244
33	Snow & Ice	2.50%	1,350,000	1,383,750	1,418,344	1,453,802	1,490,147	1,527,401
34	Claims	2.25%	775,000	792,438	810,267	828,498	847,140	866,200
35	FY2020 COVID-19 Expenses	3-year Amortization	217,000	217,000	217,000	-	-	-
36	N Middlesex Area Comm	2.50%	34,529	35,392	36,277	37,184	38,114	39,066
37	All Other Expenses	2.00%	10,329,980	10,536,579	10,747,311	10,962,257	11,181,502	11,405,132
38	Subtotal "City" Spending	Sum (Line 20 - 37)	173,770,035	178,287,622	183,970,191	197,700,727	204,158,165	209,424,310
39	Total Appropriations	Line 19 + 38	356,460,571	366,608,367	378,095,955	397,811,800	410,440,487	422,069,650
40	Surplus/(Deficit)	Line 16 - 39	(0)	(4,533,357)	(8,789,036)	(22,788,547)	(27,820,197)	(31,810,161)

The Governor’s Proposed FY2022 budget was released in late January, the House and Senate have voted their budgets and will release a joint proposal shortly for the Governor’s approval. It is likely that the net state aid for the City will be significantly higher than the current fiscal year. See table, below.

	FY2022 Preliminary Forecast	FY2022 Governor’s Budget	FY2022 House Budget	FY2022 Senate Budget
Local Aid	204,849,177	212,449,235	214,221,921	214,120,581
State Aid Assessments	33,998,165	34,016,357	34,773,285	34,464,243
Net Total	170,851,012	178,432,878	179,448,636	179,656,338
Net Increase in Aid		7,581,866	8,597,624	8,805,326

REVENUE PROJECTIONS

PROPERTY TAX LEVY

Annual tax levy growth is constrained by Proposition 2 1/2, the Massachusetts General Law that limits the annual growth in a municipality’s total tax levy to 2.5 percent, plus an allowance for certain new construction and other additions to the tax rolls (i.e. new growth). The law also allows a city or town to increase taxes beyond this levy limit with voter approval. An override of this limit by voters becomes a permanent part of the tax levy calculation in future years and is best used for recurring expenses in the regular operating budget. A debt exclusion may also be approved by voters to increase the levy limit temporarily to fund capital projects. Generally, these projects are financed by borrowing, and the annual debt service is added to the levy limit each year until the project is paid off.

Over the past ten years, annual new growth in Lowell has averaged approximately \$2.3 million with the City experiencing more rapid new growth averaging \$2.5 million in the past five years. See the table, below. However, the January forecast projects new growth of \$1.5 million for FY2022 because of potential Covid-19 impact on building construction and renovation. The subsequent forecasts continue to use the 3-year rolling average of new growth which brings the estimated new growth revenues back up to approximately \$2 million per year. This new growth projection does not incorporate any special development(s) during the forecast period. Generally, tax rates will rise slightly each year as the levy limit grows and property valuations are stable. New growth is reported to the State each year on Form LA-13 which is typically submitted in late summer or early fall prior to setting a tax rate.

Fiscal Year	Residential New Growth	Comm/Ind/PP New Growth	Total New Growth
2012	510,687	1,315,607	1,826,294
2013	694,778	601,423	1,296,201
2014	512,013	1,038,443	1,550,456
2015	1,042,463	2,129,103	3,171,566
2016	811,124	1,436,093	2,247,217
2017	677,579	2,466,216	3,143,795
2018	939,694	1,479,001	2,418,695
2019	545,260	1,598,952	2,144,212
2020	1,139,173	1,391,564	2,530,737
2021	723,190	1,612,170	2,335,360
<i>10-year average</i>	<i>759,596</i>	<i>1,506,857</i>	<i>2,266,453</i>
<i>5-year average</i>	<i>804,979</i>	<i>1,709,581</i>	<i>2,514,560</i>

The City attempts to keep its annual tax increase to citizens at a minimum and, as such, has significant unused tax levy capacity, which provides significant ability to absorb financial emergencies and other unanticipated events. It is anticipated that the City will maintain its untaxed capacity during the remaining term of the forecast.

Fiscal Year	Tax Levy Limit	Actual Tax Levy	Unused Tax Capacity
2016	134,307,160	119,234,045	15,073,115
2017	140,808,634	124,134,134	16,674,500
2018	146,747,545	128,507,951	18,239,594
2019	152,560,447	133,785,808	18,774,639
2020	158,905,239	138,331,643	20,573,596
2021	165,213,230	144,933,397	20,279,833

STATE AID (CHERRY SHEET)

State aid amounts included in the forecast are based on the Governor’s proposed FY2022 Cherry Sheet figures. The House FY2022 budget has been passed with significant increases in education aid and, at this time, the Senate is anticipated to approve a similar local aid budget. Typically, the new forecast will be updated with the most current information as it becomes available. The table below summarizes the City’s state aid by category since FY2020.

STATE AID	FY20	FY21	FY22 Governor's Budget	FY22 House Budget
Chapter 70	163,023,947	166,954,483	177,325,054	178,548,325
Charter School Tuition Reimbursement	3,922,994	4,270,451	6,274,448	6,790,651
School Choice Receiving Tuition	57,108	35,547	35,547	35,547
Unrestricted Gen Govt Aid	26,746,523	26,746,523	27,682,651	27,682,651
Veterans Benefits	507,446	495,285	420,086	420,086
Exemptions for Veterans & Elderly	284,359	301,512	259,654	259,654
State Owned Land	209,228	214,672	232,205	247,186
Public Libraries	182,955	219,590	219,590	237,821
Total	194,934,560	199,238,063	212,449,235	214,221,921

State Education Aid and Reimbursements - A later section of this report details the finding of the Collins Center’s review of the various education aid programs. The formulas are complex and subject to state legislative appropriation each year. See the **Forecasting Education Aid & Assessments** section.

Lowell receives Chapter 70 School Aid from the State and Charter School Tuition Reimbursement funds to offset some of the costs to educate pupils. In addition, a small amount is received under the School Choice Receiving Tuition program. The forecast assumes a 3 percent increase each year in Chapter 70 aid and decreasing amounts in Charter Tuition Reimbursements. The Collins Center performed an in-depth review of this category and the discussion is included in this report. It is recommended that the City finance team review the results and consider its use in future forecasts.

Unrestricted General Government Aid (UGGA) – This budget item is for general state assistance to municipalities. The forecast assumes a 3 percent increase each year.

Veterans Benefits and Exemptions for Veterans and Elderly – These accounts consist of reimbursements for veterans’ benefits and certain local property exemptions for qualified individuals. The forecast

assumes a slight drop in FY2022 thru FY2024, increasing in FY2025 and FY2026.

State-Owned Land – This item is for payment-in-lieu-of-taxes for State-owned land. The forecast assumes a 1 percent increase each year.

Aid to Public Libraries -- This item is a Cherry Sheet offset and may be spent without an appropriation by the City’s library. This account has no real impact on the forecast since it is also raised on the expenditure side, essentially pulling these revenues out of the general revenue mix for direct use by the library department.

City officials will monitor the local aid estimates published by the Division of Local Services at each juncture of the state budget process. The Governor’s budget is typically released in late January of each year. Following this is the House Ways and Means Committee budget in mid-April, the final House budget in late April, the Senate Ways and Means budget in mid-May, and final Senate budget in late May. The Conference Committee’s budget, which resolves differences in the two legislative versions of the budget, is typically issued in late June. Final cherry sheets reflect any vetoes by the Governor and/or any legislative overrides of these vetoes.

LOCAL RECEIPTS

Local receipts are locally-generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, payments-in-lieu-of-taxes, penalties and interest on taxes, departmental revenue, fines, and permit fees. Annual estimates of local receipts are shown on the tax rate recapitulation sheet in the forecast.

Receipt Description	FY17		FY18		FY19		FY20		FY21
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget
Motor Vehicle Excise	8,260,739	9,120,033	8,752,592	9,918,611	8,750,000	9,743,488	8,711,943	8,743,993	8,743,993
Meals Excise	1,250,000	1,227,302	1,350,000	1,238,909	1,350,000	1,292,366	1,292,366	1,220,378	1,292,450
Room Excise	310,000	308,650	340,000	331,215	340,000	346,888	340,000	261,846	90,000
Other Excise/Urban Excise & Boat Excise	511,000	511,512	511,000	511,115	437,559	164,284	122,000	165,858	120,000
Cannabis Excise						30,786	-	322,587	280,000
Penalties And Interest On Taxes And Excises	1,360,051	1,324,218	1,324,218	1,697,175	1,324,254	1,246,787	1,246,787	1,091,158	1,091,158
Payments In Lieu Of Taxes	1,000,000	560,602	560,602	433,476	560,602	465,612	425,000	546,357	425,000
Charges For Services - Solid Waste Fees	3,266,202	3,184,930	3,184,930	3,135,830	3,184,930	3,097,008	3,097,008	3,248,846	3,225,000
Other Fees	727,200	741,467	27,200	14,200	27,200	29,570	14,000	19,300	14,000
Cannabis Impact Fee/Host Revenue						93,750	217,822	471,552	400,000
Rentals	144,479	14,400	14,400	-	20,000	19,200	19,200	19,200	20,000
Departmental Revenue - Libraries	25,000	22,059	22,059	20,864	22,059	25,909	20,000	15,022	15,000
Departmental Revenue - Cemeteries	190,000	190,357	206,000	194,009	196,000	226,892	196,000	240,365	240,000
Other Departmental Revenue	1,569,243	1,568,445	1,734,337	1,780,245	1,900,005	3,230,156	2,332,622	2,200,377	2,200,000
Licenses And Permits	2,536,000	2,414,801	2,720,000	2,274,038	2,435,675	2,686,758	2,494,350	3,062,744	2,535,950
Fines And Forfeits	1,361,600	1,380,693	1,380,693	1,339,920	1,478,500	1,361,452	1,361,452	1,287,890	1,287,890
Investment Income	451,292	303,388	303,388	313,382	300,000	738,015	320,000	1,086,862	920,000
Medicaid Reimbursement	-	1,095,021	925,000	926,379	1,000,000	1,101,409	925,000	765,421	765,420
Miscellaneous Recurring	1,523,253	1,469,100	651,756	1,017,847	740,997	616,685	521,540	643,640	507,829
Miscellaneous Non-Recurring	67,500	1,161,591	7,500	1,532,211	-	809,399		700,977	
Grand Total	24,553,559	26,598,569	24,015,675	26,679,426	24,067,781	27,326,414	23,657,090	26,114,373	24,173,690
Over Estimate		2,045,010		2,663,751		3,258,633		2,457,283	

Going forward, City officials will need to continue to closely monitor actual receipts as compared to budget estimates for all categories based on information from the Treasurer’s Office.

The table on the subsequent page compares the actual receipts for the six-month period of July 1 to December 31, 2019 to July 1 to December 31, 2020 to identify potential trends in collections and the impact of Covid-19. Although the total collections are on pace with the FY2021 budget target, there are

areas that must be closely monitored over the coming months. Revenue categories like the meals tax, hotel tax, building permits, and court fines have shown a significant decrease compared to FY2020. The decrease is expected because of the restrictions on travel, dining, and court cases. The decrease in building permits may also be affected by the economic downturn. It is anticipated that these trends would be largely reversed as vaccinations reduce the threat, but it is difficult to project how long the recovery will take.

LOCAL REVENUES							
	Budget	thru 2nd Qr	% of Bud		Budget	thru 2nd Qr	% of Bud
Major Account Description	FY20	FY20	Collected		FY21	FY21	Collected
MV Excise	8,711,943	1,780,455	20%		8,500,000	2,529,291	30%
Meals Tax	1,292,366	671,933	52%		1,292,450	554,266	43%
Hotel/Motel Tax	340,000	180,678	53%		320,000	25,708	8%
Cannabis Excise	0	160,195			280,000	113,865	41%
Penalty & Interest	1,246,787	548,657	44%		1,285,000	778,036	61%
PILOT	425,000	113,355	27%		425,000	452,544	106%
Trash/Recycling Services	3,200,000	1,519,430	47%		3,200,000	1,540,564	48%
Cannabis Host Agreement	150,000	217,822	145%		150,000	176,639	118%
Ambulance	448,622	0	0%		376,172	0	0%
Code & Inspection Bldg Permits	1,100,000	1,047,684	95%		1,100,000	637,222	58%
Court Fines	575,000	302,497	53%		575,000	181,813	32%
Interest on Investments	150,000	467,256	312%		750,000	221,263	30%
Other Misc Interest	170,000	85,577	50%		170,000	85,729	50%
Medicaid Reimbursement	925,000	167,166	18%		925,000	316,937	34%
Medicare Part D Reimb	370,000	0	0%		320,000	0	0%
TOTAL	19,104,718	7,262,705	38%		19,668,622	7,613,877	39%

AVAILABLE FUNDS

This category covers a variety of funds that are either restricted for specific purposes (e.g. PEG Access Revenue) or available for use to cover costs in the City’s capital budget or operating budget (e.g. Stabilization Funds). Amounts recommended and forecast to be used in future years may vary based upon fund balances and financial policies. Most importantly, the City relies upon its adopted Reserve Policy and the policy is included in the annual budget document.

MSBA REIMBURSEMENT

This account reimburses the City for the State share for building and renovating the Stoklosa Middle School. The last reimbursement will be in FY2023. Future state participation in School building projects sends funds directly to the municipality. The municipality only permanently borrows its share of the project costs.

INDIRECT COST REIMBURSEMENT FROM ENTERPRISE FUND(S)

The General Fund forecast includes detailed worksheets for the enterprise funds’ share of general fund costs that are to be reimbursed to the general fund. These amounts are treated as revenues to the general fund when the City sets its tax rate. The City maintains and regularly updates its Enterprise Fund Policy document which describes the indirect cost calculation policy.

EXPENDITURE PROJECTIONS

Detailed expenditure projections are contained in eight “Expenditure” worksheets, including Expenditure Projections, COLA, Retirement, Education, Capital, Enterprise Funds, Non-Exempt Debt Summary, and Enterprise Debt Summary.

MUNICIPAL DEPARTMENTS

In the summary forecast, City expenditures are listed by different categories, including: Salaries and Wages, Health/Dental Insurance, Medicare Tax, Pension Assessments, Unemployment, Existing Debt Service, Projected Capital Plan, Lowell HS Renovation Debt, Trash Removal, Utilities, Street Lights, Greater Lowell Technical HS, GLTHS Capital Assessment, Snow & Ice, Claims, FY2020 COVID-19 Expenses, North Middlesex Area Comm, and All Other Expenses. This segregation of costs allows the City to work with detailed backup worksheets to project future costs (as in the Salary, Pensions, Debt Service, Trash, and Utilities worksheets) or input an across-the-board increase.

For projection purposes, the forecast utilizes a COLA and step increase model. The COLA and Wages worksheet allows for simulation of other wage agreements and step amounts.

Future operating expenses have been projected to increase by 2 percent per year, reflective of recent relatively low inflation rates.

EDUCATION

The leadership, faculty, and staff of the Lowell School Department provide services from pre-K through high school for approximately 17,700 students. A 3.95 percent annual increase was projected in the January forecast draft for the School Department budget.

In addition, Lowell has students who attend the Greater Lowell Technical High School. The GLTHS assesses the City for its share of students in addition to its share of capital projects. The assessment for the City is projected to increase 2.5 percent per year and the capital assessment will decrease based upon existing costs. Future capital costs are not included in the forecast.

OVERLAY

The City must set aside funds for the annual allowance for abatements and exemptions. This Overlay account has been forecast at a 2.5 percent increase.

STATE ASSESSMENTS

State assessments included in the forecast are based on the Governor’s proposed FY2022 Cherry Sheet figures. A separate section of this report details the findings of our review of the various education aid

programs. The formulas are complex and subject to state legislative appropriation each year. See **Forecasting Education Aid & Assessments** section.

Like the Cherry Sheet State Aid accounts on the revenue side, City officials will need to monitor the State budget process for FY2022 and follow the release of local assessment estimates each year.

ASSESSMENTS	FY20	FY21	FY22 Governor's Budget	FY22 House Budget
Mosquito Control Projects	77,923	78,678	83,814	83,814
Air Pollution Districts	26,911	27,447	28,508	28,508
RMV Non-Renewal Surcharge	325,900	325,440	325,440	325,440
Regional Transit	1,044,338	1,070,448	1,097,209	1,097,209
Special Education	62,020	57,418	44,866	44,866
School Choice Sending Tuition	956,175	933,926	933,926	933,926
Charter School Sending Tuition	26,568,526	27,500,644	31,502,594	32,259,522
Total	29,061,793	29,994,001	34,016,357	34,773,285

ENTERPRISE FUNDS

The City operates three enterprise funds: Sewer, Water, and Garage. These operations are self-sufficient, whereby revenues and surpluses generated remain with each fund to cover all direct and indirect costs. The forecast model presents each fund separately. The Collins Center project team did not review these forecasts but recommends that careful study and discussion will be necessary to plan for ongoing self-sufficiency of these enterprises based upon projections of significant deficits.

FORECASTING EDUCATION AID AND ASSESSMENTS

BACKGROUND

The first step in forecasting the City's Chapter 70 aid is to estimate future increases to the City's Foundation budget. The Foundation budget measures the minimum amount that must be spent to provide an adequate education in a community. The Foundation budget is adjusted each year to reflect changes in enrollment, pupil demographics (grade level, English language learners or low-income pupils), inflation and wage differences across the State.

When the Governor filed his initial budget for FY2021 in January of 2020, additional funding was allocated to finance the first year of implementing the changes to the Chapter 70 formula prescribed by the Student Opportunity Act (SOA). However, as Covid-19 pandemic impacted State revenues negatively, subsequent FY2021 budget revisions saw the funding necessary to implement these changes eliminated. The formula changes promised by the SOA involved increasing various Foundation budget categories to more closely reflect their true cost. These categories include employee benefits and fixed charges, guidance and psychological services, special education out-of-district tuition, English language learners and low-income pupils. The Act provided that these rate increases were to be phased-in over a seven-year period.

In Lowell, the changes to the Foundation rates for low-income pupils will likely be the largest factor in future increases to the City's Foundation budget. In the Governor's initial budget for FY2021, Lowell saw an increase in low-income incremental costs of close to \$9.7 million above the low-income costs for FY2020. This increase was the result of language in the SOA that required DESE to use the greater low-income enrollment for FY2021 of: 1. the District's FY16 low income enrollment percent times the FY2021 District Foundation enrollment or; 2. the number certified as eligible for the Supplemental Nutrition Assistance Program (SNAP), Transitional Assistance for Families with Dependent Children (TAFDC) and MassHealth (Medicaid). Use of the FY16 percentage increased the number of Lowell pupils in the low-income category by about 1,500 pupils or 15 percent over FY2020 low-income enrollment. Later iterations of the FY2021 State budget overrode this SOA provision and lowered the City's low-income enrollment (using the second low-income measure above) and Foundation rates such that Lowell's allotment for low-income pupils decreased by close to \$7 million from the Governor's original FY2021 budget.

Going forward, the SOA directs the Department of Elementary and Secondary Education (DESE) to recommend a new method for identifying low-income pupils. For the Governor's FY2022 budget proposal, the Department decided to use the greater of the direct certification low-income enrollment versus the FY2016 low-income percentage times the current Foundation enrollment. This decision benefited Lowell by increasing its FY2022 low-income enrollment and Foundation budget significantly and generating additional Chapter 70 education aid. However, this increases the charter school tuition rates charged to the City when Lowell pupils attend a charter school, as the same Foundation budget calculations are used to determine the tuition rates at each charter. Although it remains to be seen how DESE will calculate these low-income enrollment numbers going forward, as long as the City's future low-income enrollment is measured in a manner that doesn't materially decrease its enrollment below the 11,200 pupils in FY2022, the phased-in increases to the low-income rates are likely to increase Lowell's Foundation budget substantially.

PROJECTING THE FOUNDATION BUDGET

The projection of the Foundation budget is based on a review of the data released by the Department of Elementary and Secondary Education (DESE) on Foundation budgets, local contributions and Chapter 70 aid. This includes numbers released after the Governor's original FY2021 budget filed in January of 2020, a subsequent Administrative Agreement on FY2021 local aid, including Chapter 70, that rolled back increases in Foundation budgets and Chapter 70, and the final numbers based on the Conference Committee budget and approved by the Governor. The recently released Foundation budget, Chapter 70 and required local contribution numbers from the Governor's FY2022 budget proposal are also factored into the projections for FY2022 and beyond.

Among the largest issues for forecasting growth in the City's Foundation budget and Chapter 70 is the rate at which the State is able to fund the increases to Foundation budgets promised in the SOA. This Act promised to phase-in Foundation budget increases over a seven-year period, beginning in FY2021. While the State was unable to fund the expected Foundation budget increases for FY2021, the Governor's FY2022 budget contains sufficient increases to begin funding 1/7th of the promised SOA increases to Foundation budgets. Use of the higher low-income enrollment and inclusion in the 70-79.99 percent low-income enrollment group resulted in a substantial one-time increase in Lowell's Foundation budget for FY2022. This increase would have been more than \$4 million higher if the City's enrollment had not declined by 305 pupils for the FY2022 Foundation budget calculations. This decrease in total enrollment is likely related to the Covid pandemic with parents pursuing private or home-schooling options rather than the City's schools.

After controlling for the decrease in Foundation enrollment for FY2022, the City's Foundation budget rates increased by about 7.5 percent. As explained above, much of this increase is related to the measurement of low-income pupils that increases Lowell's low-income enrollment by close to 1,000 pupils over the FY2021 figure. This places Lowell in the 70-79.99 percent low-income group where rates are scheduled to be increased to close to \$8,000 per pupil (from about \$4,700 in FY2021) by the seventh year.

Going forward beyond FY2022, the forecast projects the City's Foundation budget to increase by 4.3 percent per year. This assumes that inflation applied to the Foundation budget is in the 1.5 to 2 percent range and that the State continues to fund the increases promised in the SOA. It is also assumed that the 305 pupils lost in FY2022 gradually return over the next two fiscal years, with 150 added each year in FY2023 and FY2024. The projection of either new or declining enrollment is done separately to control for the impact of changing enrollment on the Foundation budget rates. The impact of any future enrollment change can be estimated by multiplying the prior year average per pupil Foundation budget, increased by the inflation rate applied to the current year Foundation budget, by the number of new pupils expected or the expected decline in enrollment.

It is important to project the impact of new (or declining) enrollment separately from the increases to the Foundation budget due to inflation and the promised increases to Foundation rates made in the SOA. Keeping the impact of enrollment changes separate from the inflationary and SOA impacts to Foundation budgets allows the forecast percentage increases in the City's Foundation budget to be applied to the Charter School tuition rates described later.

Data Sources for Projecting the Foundation Budget

The data for analyzing the Foundation budget calculations is published to the Department of Elementary and Secondary Education's (DESE's) website when the Governor issues the preliminary budget (typically

in late January) and these figures are updated once the Legislature agrees on the final State budget (usually in July most years).

Foundation budget – Navigate to the Chapter 70 page on the DESE website: [Chapter 70 Program - School Finance \(mass.edu\)](#), then open the Fiscal Year data you want to examine. Once you have opened either the Governor’s budget calculations (usually January date) or the final calculations (typically dated July), go to the “Complete Formula Spreadsheet” and open this Excel workbook. Go to the “Index” tab and select Lowell in the drop down box to bring up the City-specific data. Then review the “Foundation Budget” tab to analyze the changes in the Foundation budget and Foundation enrollment. The rate of inflation applied to the overall Foundation budget will be detailed in the narrative once you have selected the calculations you want to review by fiscal year and date (on page where you opened Complete Formula Spreadsheet).

PROJECTING LOCAL CONTRIBUTION

The City’s local contribution is calculated based on the DESE’s “Aggregate Wealth model” formula that determines a “target local share” based on the City’s aggregate property wealth and income levels each year. For communities that are below their target local share, the prior year’s local contribution is increased by the municipal revenue growth factor (MRGF) calculated by the Division of Local Services (DLS). The MRGF calculation estimates the growth in annual recurring municipal revenues and reflects the assumption that education spending should increase by this amount. After the prior year contribution is increased by the MRGF, the Chapter 70 formula compares the resulting figure to the target local share. In Lowell’s case, the City remained about \$7 million short of this target after the MRGF increase. This shortfall is converted to a percentage relative to the target local share percentage and if this shortfall is between 2.5 percent and 7.5 percent, the community must raise an additional 1 percent above the MRGF increase. Since Lowell is well below its target local share, it must increase its prior year contribution by the MRGF, plus an additional 1 percent due to a more than 2.5 percent shortfall from the target local share.

For the projection of Lowell’s local contribution, the assumption is that the City’s required local contribution will continue to grow by about 4.25 percent per year in FY2023 and beyond. From FY2019 to FY2022, the average increase in required contribution was about 4.25 percent.

Data Sources for Projecting Local Contribution

The City’s Local Contribution to education can be found in the same Complete Formula Spreadsheet used to review the Foundation budget and enrollment. After selecting Lowell in the index, go to the “Municipal Contribution” tab which shows the detailed calculations of the City’s local contribution. This spreadsheet will show both the increase required by the municipal revenue growth factor (MRGF) and the extra effort the City must make for being below its target local contribution. To allocate this contribution between the Lowell Public Schools and the Greater Lowell Vocational School, go to the “Regional Allocation” tab or the “Summary” tab to find the required local contribution to the City’s schools.

To review the calculations for the municipal revenue growth factor (MRGF), which estimates annual recurring revenue growth in each community, go to the Division of Local Services’ (DLS) website: [Cherry Sheets, State-owned Land, Payments & Municipal Revenue Growth Factors \(MRGF\) | Mass.gov](#)

PROJECTING CHAPTER 70 AID

The projection of Chapter 70 aid flows from the projections of the City's Foundation budgets and local contributions. Lowell is considered a "Foundation Aid" community where annual Chapter 70 aid increases are necessary to ensure that spending does not fall below Foundation budget levels. For communities in this category, Chapter 70 is calculated by subtracting the required local contribution from the Foundation budget. This is the approach used in the projections of Chapter 70 aid for Lowell.

Data Sources for Projecting Chapter 70 Aid

From the "Complete Formula Spreadsheet," select the "Summary" tab which details the calculations for Chapter 70 aid. This summary spreadsheet will show the change in Foundation budget, enrollment and Chapter 70 aid from the prior year. It will also show whether or not additional Foundation aid (Chapter 70 aid) is necessary to maintain Foundation budget spending levels given the prescribed local contribution for the City.

PROJECTING CHARTER SCHOOL ASSESSMENTS AND REIMBURSEMENTS

To project the City's charter school assessments, the first step was to identify the charter schools attended by Lowell pupils. In FY2021, it is estimated that 2,057 Lowell pupils will attend area charter schools. The four charter schools where most Lowell pupils (2,053) attend include the Collegiate Charter School of Lowell (945 Lowell pupils), the Lowell Community Charter School (730 Lowell pupils), the Lowell Middlesex Academy Charter School (78 Lowell pupils) and the Innovation Academy in Tyngsborough (300 Lowell pupils). Four additional Lowell pupils attend various other charter schools.

The next step was to determine which charter schools were adding grades or otherwise expanding their enrollment. These enrollment limits are spelled out in the individual charters for each school. For example, the Collegiate Charter School of Lowell plans to add a high school grade in both FY2022 and FY2023 so that by FY2023 it will be providing services to grades K-12 with an enrollment cap of 1,200 pupils. In the projections, it is assumed that most of these new seats at Collegiate will be filled by Lowell pupils, consistent with current enrollment percentages by community.

The Lowell Community Charter School has a pending request before the State Board of Elementary and Secondary Education (BESE) to increase its enrollment cap by 15 pupils to a total of 815 pupils. In recent years, the school has been over its enrollment cap, but communities are not charged for pupils over the enrollment cap. The forecast assumes that this request will be approved by the BESE and that Lowell pupils will occupy most of these seats (13 of 15).

The Innovation Academy Charter School is not expanding, but an increasing percentage of its enrollment comes from Lowell. The forecast expects this trend to continue at a modest rate. The Lowell Middlesex Charter School has struggled historically to reach its enrollment cap although the number of Lowell pupils attending this school has remained relatively flat over the last four years. The projection assumes that this stable enrollment from Lowell continues across the forecast years.

After projecting Lowell's enrollment at these charters, the tuition rates for each charter school are calculated. The tuition rate is a function of the same Foundation budget rates used for the City's Foundation budget, plus an amount for facilities. District spending over Foundation levels is also reflected

in the charter school tuition rates, but Lowell does not appear to have spent much above Foundation budget levels in recent years. The Foundation budget calculated for each charter school factors in each pupil's grade level, English language learner or low-income status. Since most of the charter schools (except the Innovation Academy) attended by Lowell pupils have about the same percentage of low-income pupils as the City, these rates have been projected to increase at the same rates as the City's Foundation budget. For Innovation Academy, with less than half the percentage of low-income pupils compared to the City, the rate of Foundation increases is reduced to reflect the lower costs of fewer low-income pupils.

The State DESE also makes an adjustment for "private/home school" pupils that attend charter schools and reside in Lowell. Since these pupils attended a private school or received home-schooling in prior years, they were never counted in the City's Foundation budget. Therefore, the State does not assess the City for these pupils in the first year they attend a charter school since the City never received credit for these pupils in its Foundation budget or Chapter 70 aid. After the first year attending a charter school, these pupils are counted in the City's Foundation enrollment and Chapter 70 aid is granted for these pupils going forward.

Since DESE does not know about these pupils going into a given school year, they are not reflected in the initial estimates for the year. That is why there are no adjustments for these pupils in FY2021 or beyond. The City may want to include an estimate of this "private/home-schooled" number in the forecast going forward, but if any of the FY2021 pupils are found to be in this category, the offset will reduce both the charter assessment and reimbursement by the same amounts.

The SOA also restructured the charter school reimbursement formula and replaced the existing formula that provided for 100 percent reimbursement of year-to-year charter assessment increases, and then 25 percent of this amount for the subsequent four years. The new reimbursement formula (this formula was used before the 100, 25, 25, 25, 25 percent formula) prescribed by the SOA calls for a 100 percent reimbursement of first year assessment increases (net of facilities portion that is fully reimbursed by the State), followed by 60 percent of this increase in year two, and then 40 percent of this increase in year three. These reimbursements are referred to as "transition aid." The SOA further stipulates that the State will increase its funding for these charter reimbursements (these reimbursements have historically not been enough for full reimbursements) such that 75 percent of the total State transition aid obligation is covered in FY2021, 90 percent in FY2022 and 100 percent by FY2023.

The Legislative versions of the FY2021 budget increased the charter reimbursement line-item significantly above the amounts in the Governor's revised FY2021 budget. Once the Conference Committee agreed on the final amount, it was enough to cover about 70 percent of the State's obligation. The forecast assumes that the State continues to make inroads to fully funding this reimbursement by FY2023, but at slightly slower rates than contained in the SOA. The rate at which the State is able to increase this funding will have a major impact on the amount of charter reimbursements received by Lowell. City officials can revise these reimbursement percentages as additional information about charter reimbursements becomes available.

The forecast also assumes that the State continues to fully reimburse communities for facility assessments paid to charter schools. The State funds these facilities reimbursements prior to funding transition aid. The forecast assumes a very slight increase in the facilities assessment over the forecast period which is fully reimbursed by the State.

Data Sources for Projecting Charter Assessments and Reimbursements

Although DESE publishes Charter school assessment and reimbursement data on its website after the release of the Governor's budget, the detailed data on each Charter school's tuition rates and enrollment by sending by District is not published until the final State budget is approved. This date is then updated for the final rates at the end of each fiscal year.

Once the FY2022 budget is approved, the source data on Charter schools and enrollment by sending community can be found on the DESE Charter school website: [Tuition, Reimbursements and Enrollment - Massachusetts Charter Schools](#). After navigating to this page, scroll down to the Charter School Tuition and Enrollment data to the fiscal year data you want. Open the "Tuition Rate Summary" spreadsheet and go to the "Rates" tab. This tab will give you the ability to sort data by selecting the drop down arrow under "Send lea." After selecting "Send lea," select "Number filters" and then "Custom filter." In the data entry box, enter 160 which is Lowell's jurisdiction code used by DESE. This will filter the data to show all the Charter schools that educate Lowell pupils as well as the enrollment in each, including the few pupils that attend schools other than the primary four Charter schools. Once the data is filtered, the tuition rates charged for each of the Charter schools for Lowell pupils can also be found on this spreadsheet.

To review the Foundation budget calculations for each Charter school, go back to the Charter School Tuition and Enrollment page. Then open the "Foundation Budget" spreadsheet. From the drop down arrow, select the Charter school for the Foundation budget you would like to review. Reviewing the Foundation budget for each Lowell Charter school will show the low-income enrollment and the low-income group for each school.

To review the reimbursement calculations for Charter assessments, go back to the Charter School Tuition and Enrollment page. From this page, go to the fiscal year you want and select the "By District" spreadsheet. Scroll down to the Lowell data and then scroll across to the far right to see the detailed calculations on the reimbursements for Lowell.

Charter School Tuition Assessments and Reimbursements								
	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Notes:
Collegiate Charter School of Lowell, Grades K-10								
Total Enrollment	929.9	1,024	1,112	1,200	1,200	1,200	1,200	Collegiate's charter calls for adding a grade each year or 88 pupils until enrollment cap reaches 1,200 by FY2023
Lowell Enrollment	857.17	929	1,013	1,095	1,095	1,095	1,095	By FY2023, Collegiate will serve Grades K-12
Percent Lowell Enrollment	92.18%	90.72%	91.12%	91.27%	91.27%	91.27%	91.27%	
Tuition Rate	12,852	13,477	14,113	14,720	15,353	16,013	16,701	Tuition rate increases mirror projected increases in Foundation Budget based on Student Opportunity Act
Private/Home School Offset	89,864							State pays for first year private/home school pupils attend a Charter School, thereafter these pupils are included in the City's Foundation enrollment and assessed to the City
Assessment (net offset)	10,926,185	12,520,133	14,299,158	16,121,034	16,814,238	17,537,250	18,291,352	Collegiate assessments included transportation in FY2018, but not thereafter
Lowell Community Charter School, Grades PK-8								
Total Enrollment	813.8	800	815	815	815	815	815	Lowell Community's request to BESE to increase its enrollment cap by 15 pupils was approved
Lowell Enrollment	730.14	714.32	727.71	743	743	743	743	Enrollment net of Lowell's proportionate share of over cap enrollment
Percent Lowell Enrollment	91.26%	89.29%	89.29%	91.17%	91.17%	91.17%	91.17%	Tuition rate increases mirror projected increases in Foundation Budget based on Student Opportunity Act
Tuition Rate	13,844	14,187	16,053	16,743	17,463	18,214	18,997	Tuition rate increased rapidly in FY2022 due to large increase in low-income enrollment at Lowell Community
Private/Home School Offset	25,992							
Assessment (net offset)	10,081,811	10,134,076	11,681,860	12,440,101	12,975,026	13,532,952	14,114,869	
Innovation Academy Charter School, Tyngsborough Grades 5-12								
Total Enrollment	794.9	800	800	800	800	800	800	
Lowell Enrollment	294.03	293	296.71	310	315	320	325	Projection reflects trend of increasing enrollment from Lowell pupils
Percent Lowell Enrollment	36.99%	36.63%	37.09%	38.75%	39.38%	40.00%	40.63%	
Tuition Rate	11,639	12,324	12,653	12,969	13,293	13,626	13,966	Tuition rates set at lower amounts than Foundation increases due to lower percent of Low-income enrollment
Private/Home School Offset	221,141							
Assessment (net offset)	3,200,971	3,610,932	3,754,198	4,020,427	4,187,405	4,360,218	4,539,055	
Middlesex Academy Charter School, Grades 9-12								
Total Enrollment	97.1	120	120	120	120	120	120	Maximum enrollment is 150, though the school has struggled to reach this level
Lowell Enrollment	82.17	75	102.27	78	78	78	78	
Percent Lowell Enrollment	84.62%	62.50%	85.23%	65.00%	65.00%	65.00%	65.00%	
Tuition Rate	15,240	15,359	16,356	17,059	17,793	18,558	19,356	Tuition rate increases mirror projected increases in Foundation Budget based on Student Opportunity Act
Private/Home School Offset	0							
Assessment (net offset)	1,252,242	1,151,925	1,672,752	1,330,610	1,387,826	1,447,502	1,509,745	
Other Charter Schools								
Other Charter Assessments	53,737	83,576	94,622	98,690	102,934	107,360	111,977	Tuition rate increases mirror projected increases in Foundation Budget based on Student Opportunity Act
Total Charter Assessments	25,514,946	27,500,642	31,502,591	34,010,862	35,467,428	36,985,283	38,566,998	

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	Notes:
Facilities Aid								
Facilities Aid	1,818,853	1,891,842	2,012,824	2,120,500	2,125,250	2,208,473	2,213,398	
Facilities Aid per Pupil	938	938	938	950	950	985	985	Assumes slight growth in Facilities assessment per pupil
Transition Aid								
Tuition Increase - Current Year	2,628,570	1,912,305	3,880,966	2,400,596	1,451,816	1,434,631	1,576,790	
60% of Prior Year Increase	644,069	1,577,142	1,147,383	2,328,580	1,440,358	871,090	860,779	
40% of Prior Increase -2 yrs. Ago	612,124	429,379	1,051,428	764,922	1,552,386	960,239	580,726	
Total Entitlement	3,884,763	3,918,826	6,079,777	5,494,098	4,444,560	3,265,960	3,018,294	
Projected State Funding for Transition Aid by Tier								
Tier 1: Current year increase funding %		100%	100%	100%	100%	100%	100%	Enter percent funding for each Tier
Tier 2: PY funding %		29.6%	33.2%	100%	100%	100%	100%	SOA required full funding of reimbursement by FY2023, this was delayed until FY2024
Tier 3: Two years prior funding %		0.0%	0%	0%	100%	100%	100%	
Charter Reimbursement								
Transition Aid		2,378,607	4,261,621	4,729,176	4,444,560	3,265,960	3,018,294	
Facilities Aid		1,891,842	2,012,824	2,120,500	2,125,250	2,208,473	2,213,398	
Total Charter Reimbursement		4,270,449	6,274,446	6,849,676	6,569,810	5,474,433	5,231,693	

Foundation Budget, Required Local Contribution and Chapter 70 Aid

	Actual FY2020	Final Budget FY2021	Governor's Budget FY2022	Projected FY2023	Projected FY2024	Projected FY2025	Projected FY2026	% Increases FY23-FY26	Notes:
Enrollment Change			-305	150	150	0	0		Assumes pupils lost in FY2022 return over two years
Impact on Foundation			(4,324,852)	2,256,184	2,353,200	-	-		Assumes average Foundation budget per pupil from prior year time percent increase to Foundation applied that year
Foundation Enrollment	16,353	16,352	16,047	16,197	16,347	16,347	16,347		Assumes 1.5-2 percent annual inflation applied to Foundation budget plus the impact of implementing the SOA increases beginning in FY22
Foundation Budget	212,748,264	218,744,160	231,415,707	243,622,767	256,451,746	267,479,171	278,980,775	4.3%	Assumes 4.3 percent increase to base Foundation rates in FY2023 and thereafter as SOA is fully implemented
Required Local Contribution	49,724,317	51,808,768	54,090,653	56,389,506	58,786,060	61,284,467	63,889,057	4.25%	Assumes 4.25 percent increase in required local contribution based on 4 year historical average of 4.23 percent.
Chapter 70 Aid	163,023,947	166,954,483	177,325,054	187,233,261	197,665,686	206,194,703	215,091,718		Assumes that Lowell's low income enrollment remains about 11,200 pupils, enough to reach 70 percent threshold and higher low income increment
								FY18-FY21 Ave. % Chng	
Percent Incr Foundation	7.27%	2.82%	5.79%					5.07%	
Percent Incr Local Contribution	4.90%	4.19%	4.40%					4.23%	
Percent Incr Chapter 70	8.01%	2.41%	6.21%					5.33%	

IMPACT OF PRIOR RECESSION

The Collins Center conducted a review of a number of major revenue sources that were affected during in all Massachusetts cities during the last major recession from FY2008 – FY2011 in order to assist the City in preparing for the potential implications of the covid-19 pandemic. The results of this study are summarized below.

LICENSES and PERMITS REVENUE by FISCAL YEAR				
CITY	2008	2009	2010	2011
Brockton	1,627,104	2,004,120	2,162,119	2,138,531
Fall River	1,400,590	2,035,601	2,190,518	2,041,201
Haverhill	2,262,866	1,420,091	1,400,999	1,325,430
Lawrence	860,542	1,266,364	1,352,593	1,421,543
Lynn	1,067,767	859,941	1,060,134	1,274,080
Medford	1,079,393	1,429,518	1,375,348	1,475,421
New Bedford	2,030,260	2,015,320	2,289,056	2,043,090
Somerville	3,130,312	4,127,817	3,530,682	5,364,535
Springfield	3,515,844	5,420,028	3,828,681	3,583,060
Worcester	4,725,903	4,402,115	4,890,145	4,864,744
TOTAL	21,700,581	24,980,915	24,080,275	25,531,635
INC/DEC		3,280,334	(900,640)	1,451,360
% INC/DEC		15%	-4%	6%
Lowell	1,635,231	1,843,431	2,062,406	2,003,716
INC/DEC		208,200	218,975	(58,690)
% INC/DEC		13%	12%	-3%

HOTEL/MOTEL REVENUE by FISCAL YEAR				
CITY	2008	2009	2010	2011
Brockton	345,253	391,458	460,499	600,019
Haverhill	158,777	156,051	151,019	153,031
Lawrence	38,177	75,227	61,366	106,767
Somerville	403,478	350,815	374,364	514,203
Springfield	960,544	876,507	727,765	767,571
Worcester	758,192	632,923	610,949	729,800
TOTAL	2,664,421	2,482,981	2,385,962	2,871,391
INC/DEC		(181,440)	(97,019)	485,429
% INC/DEC		-7%	-4%	20%
Lowell did not adopt during this time frame				
PENALTIES and INTEREST on TAXES				
CITY	2008	2009	2010	2011
Brockton	1,567,170	1,426,544	1,619,799	1,399,808
Fall River	1,088,648	1,504,911	860,477	943,846
Haverhill	466,975	535,855	549,849	525,123
Lawrence	603,697	916,374	1,120,992	1,201,111
Lynn	653,444	743,905	755,922	875,620
Medford	547,822	577,321	710,740	750,496
New Bedford	1,923,700	1,582,118	1,343,195	1,173,436
Somerville	821,535	695,914	982,668	1,242,181
Springfield	2,110,092	2,342,311	1,613,260	1,677,741
Worcester	2,413,943	2,605,177	2,271,930	2,285,359
TOTAL	12,197,026	12,930,430	11,828,832	12,074,721
INC/DEC		733,404	(1,101,598)	245,889
% INC/DEC		6%	-9%	2%
Lowell	3,225,141	2,641,348	3,300,850	3,973,623
INC/DEC		(583,793)	659,502	672,773
% INC/DEC		-18%	25%	20%

FINES and FORFEITS REVENUE by FISCAL YEAR				
CITY	2008	2009	2010	2011
Brockton	726,066	668,256	610,487	431,418
Fall River	1,362,471	1,167,814	1,051,076	1,035,215
Haverhill	322,274	353,043	375,305	475,286
Lawrence	1,209,035	1,443,219	1,252,060	1,054,881
Lynn	1,422,582	1,303,588	1,253,768	1,210,048
Medford	727,778	700,085	572,964	521,529
New Bedford	299,881	244,203	201,354	182,871
Somerville	8,076,241	7,993,627	8,399,739	8,086,631
Worcester	3,307,908	3,136,579	3,189,980	2,805,580
TOTAL	17,454,236	17,010,414	16,906,733	15,803,459
INC/DEC		(443,822)	(103,681)	(1,103,274)
% INC/DEC		-3%	-1%	-7%
Lowell	955,520	1,050,669	1,282,234	1,392,536
INC/DEC		95,149	231,565	110,302
% INC/DEC		10%	22%	9%
MOTOR VEHICLE EXCISE REVENUE by FISCAL YEAR				
CITY	2008	2009	2010	2011
Brockton	6,592,907	5,602,924	5,472,003	5,619,189
Fall River	6,392,307	5,903,215	4,943,367	5,832,709
Haverhill	5,780,933	5,221,154	4,969,710	5,109,145
Lawrence	3,344,085	3,088,356	2,995,987	3,115,739
Lynn	5,194,148	4,861,544	4,788,342	4,738,410
Medford	5,044,851	4,767,732	4,620,220	4,850,857
New Bedford	6,467,890	5,778,900	5,285,030	5,504,811
Somerville	5,007,547	4,531,602	4,563,267	4,894,602
Springfield	8,921,591	8,250,451	7,572,282	7,691,115
Worcester	12,772,437	12,108,104	11,059,137	11,418,760
TOTAL	65,518,696	60,113,982	56,269,345	58,775,337
INC/DEC		(5,404,714)	(3,844,637)	2,505,992
% INC/DEC		-8%	-6%	4%
Lowell	6,742,295	6,559,429	6,293,686	6,702,555
INC/DEC		(182,866)	(265,743)	408,869
% INC/DEC		-3%	-4%	6%

FY2021 REVENUE PLANNING UNDER COVID-19

During the course of this project, the Collins Center was asked to assist the City in gathering data to show how peer cities were initially forecasting major revenue sources for FY2021. The data collected below was gathered in fall 2020 and is based upon estimates used by cities in developing their FY2021 budgets at that time. The pandemic disrupted the state and municipal budgeting processes by introducing a number of potentially significant yet unknown impacts on revenues. On average, Lowell's peer cities were predicting declines in many key revenue sources, such as motor vehicle excise, hotel/motel and meals tax, and state aid. Forecasted reductions in state aid varied, but on average were 10% for unrestricted aid and 1% for Chapter 70. These potential cuts amounted to potentially millions of dollars which could have been very challenging for municipal budgets. At the time, Lowell was forecasting a 2% increase in Chapter 70 (\$166,284,426) and a flat UGGA allocation (\$26,746,523). The data are summarized below. As can be seen in the Lowell Budget chart below, Chapter 70 aid was \$670,057 higher than originally estimated.

Major FY21 Local Receipts and State Aid Budget Assumptions									
Inc/(Dec) from FY20 Budget	Motor Vehicle Excise	Penalties and Interest	Hotel - Motel Tax	Payment in Lieu of Taxes	Meals Tax	Fines and Forfeits	Licenses and Permits	State Aid Chapter 70	State Unrestricted Gen Gov Aid
Brockton	-6%	-33%	-50%	-54%	-50%	-71%	-7%	-5%	-20%
Fall River	1%	-22%	0%	0%	-8%	-7%	-7%	-9%	3%
Haverhill	-14%	-9%	-13%	6%	-20%	-12%	-14%	0%	-20%
Lawrence	-2%	0%	0%	0%	-13%	0%	0%	3%	-3%
Lynn	reductions in total are 15%							0%	-10%
Medford	-5%	-49%	-75%	-7%	-25%	-24%	-27%	-10%	-10%
New Bedford	-8%	-29%	-14%	0%	-14%	0%	-21%	0%	-4%
Somerville	-17%	0%	-17%	7%	-45%	-48%	-6%	0%	-25%
Springfield	reductions range from 10%-25%							0%	-15%
Worcester	-2%	-5%	-13%	-3%	-13%	-6%	-4%	7%	3%
AVERAGE	-7%	-18%	-23%	-6%	-24%	-21%	-11%	-1%	-10%
Lowell	23%	-11%	23%	-22%	17%	-1%	-16%	2%	0%
Note:									
LOWELL BUDGETS 9/20	FY20	FY21	Inc/Dec	%					
Motor Vehicle Excise	6,902,394	8,502,000	1,599,606	23%					
Penalties and Interest	1,600,000	1,426,000	-174,000	-11%					
Hotel/Motel Tax	260,000	320,000	60,000	23%					
Payment in Lieu of Taxes	701,000	545,000	-156,000	-22%					
Meals Tax	1,100,000	1,292,450	192,450	17%					
Fines and Forfeits	1,503,000	1,492,200	-10,800	-1%					
Licenses and Permits	3,099,000	2,600,250	-498,750	-16%					
Chapter 70	163,023,947	166,954,483	3,930,536	2%					
Unrestricted Gen Gov Aid	26,746,523	26,746,523	0	0%					

APPENDIX

The following slides were presented by the Collins Center team via Zoom to the City Council Finance Subcommittee on March 23, 2021.

FINANCIAL FORECAST REVIEW

City of Lowell



EDWARD J. COLLINS CENTER FOR PUBLIC MANAGEMENT

March 23, 2021

Introduction

- ▶ About the Collins Center for Public Management at UMass Boston
- ▶ Commonwealth of Massachusetts Community Compact Best Practices Grant Program
- ▶ Project Team
 - ▶ Sarah Concannon
 - ▶ Anthony Torrisi
 - ▶ Frederick Kingsley

Project Scope

- ▶ Review existing forecast model
- ▶ Review major local receipts categories
- ▶ Compare local receipts and budgets to those of other Massachusetts cities
- ▶ Model scenarios for local and state revenues
- ▶ Prepare detailed forecast tool for Ch70 and Charter Schools aid and assessments
- ▶ Present report

Review of Existing Forecast Model

- ▶ Projections of future finances using historic and current trends for projections
- ▶ Comprehensive and robust tool to guide development and forecast of multi-year budgets
- ▶ Use of reasonable assumptions of revenues and expenditures
- ▶ Variance increases as you move further into future
- ▶ Regular updates needed as new information becomes available
- ▶ Capital improvement program should be regularly included in forecast
- ▶ Development of a users' guide helpful for continuity

Financial Forecast Model Structure

- ▶ General Fund 5-year revenue and expenditure forecast summary
- ▶ Trash and recycling budgets
- ▶ Utilities and streetlights budgets
- ▶ State aid (Cherry sheet)
- ▶ Local receipts
- ▶ State assessments
- ▶ Sewer, Water, and Garage enterprises
- ▶ Wages and contracts projections
- ▶ Debt Service projections
- ▶ Pension costs
- ▶ Health care costs
- ▶ Indirect costs charges to Enterprise Funds

Forecasting Charter School Assessments and Reimbursements

Identify Charters Attended by Lowell Pupils – FY2021

Charter School	Campus Location	FTE Pupils
COMMUNITY DAY - GATEWAY	LAWRENCE	1.0
INNOVATION ACADEMY	TYNGSBOROUGH	296.7
COMMUNITY DAY - PROSPECT	LAWRENCE	2.0
LOWELL COMMUNITY	LOWELL	727.7
LOWELL MIDDLESEX ACADEMY	LOWELL	102.3
PROSPECT HILL ACADEMY	CAMBRIDGE	1.0
PHOENIX ACADEMY CHELSEA	CHELSEA	1.9
COLLEGIATE CS OF LOWELL	LOWELL	1,013.2

Calculating Charter Assessments

- ▶ Examine Enrollment Caps at each Charter
- ▶ Determine which Schools are increasing enrollment due to adding grades or increasing cap
- ▶ Assessment is determined by multiplying the enrollment by a tuition rate for each Charter
- ▶ The tuition rate is a function of the Foundation budget for Lowell pupils at each Charter
- ▶ If demographics of Charter are similar to City, the tuition rate will grow at rate of City's Foundation budget rate increases (excludes impact of enrollment change)

Determining Tuition Rates by Charter

- ▶ A Foundation budget is calculated for Lowell pupils at each Charter School
- ▶ The Foundation allocation for Charter pupils is the same as if they remained in the Lowell schools
- ▶ If the Sending District spends above Foundation, this additional spending is factored into the tuition rate
- ▶ Lowell spending above Foundation is not a significant factor in Charter tuition rates

Low-Income Enrollment

- ▶ The Student Opportunity Act (SOA) called for large increases in the low-income increment added to the Foundation budget
- ▶ This Act establishes 12 low-income groups based on the percent of low-income pupils
- ▶ With the new low-income groups and Lowell in the 70 -79.99% group, the low-income increment per pupil to increase from about \$4,681 per qualifying pupil in FY2021 to close to \$8,000 per pupil over 7 years
- ▶ The will benefit Lowell significantly in the Chapter 70 formula, but will also increase the tuition rates at the Charter schools

Two Ways to Measure Low-Income Pupils

- ▶ The SOA tasked the Department of Elementary and Secondary Education (DESE) to determine a method for measuring low-income pupils based on the reinstated 185% of Federal poverty level
- ▶ From FY17 - FY21, DESE used the economically disadvantaged designation (based on 133% of the Federal poverty level) measured through direct certification in various federal and state benefit programs (Medicaid, SNAP and TAFDC programs)
- ▶ For FY22, a district's low income enrollment is the higher of:
 - ▶ the number of students matched through the DESE's current direct certification process or
 - ▶ the district's FY2016 low income percentage multiplied by its current foundation enrollment

Other Factors in Assessment Calculations

- ▶ If a home school/private school Lowell pupil enrolls in a charter, the State pays the tuition since the pupil is not yet a part of the City's Foundation enrollment
- ▶ The following year this pupil is in the City's Foundation budget, and the assessment is then made to the City
- ▶ In the event that a Charter enrolls more pupils than their cap, the sending communities are not assessed for the enrollment over cap

Charter Reimbursements

- ▶ The SOA changed the State reimbursement formula to reimburse 100% of the current year assessment increase, 60% of the prior year increase and 40% of the increase from two prior years
- ▶ The appropriation for the reimbursement has been underfunded in past years, and the SOA calls for full funding of the reimbursements by FY23 (delayed until FY24)
- ▶ The forecast assumes that the State is successful in reaching full-funding by FY24
- ▶ The reimbursement also fully reimburses the \$938 per pupil facilities assessment that is a component of each tuition rate

City of Lowell

Charter School Tuition Assessments and Reimbursements

					Governor's					
	Actual	Actual	Actual	Estimated	Budget					
Charter School	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY23-FY26
Colleagiate Charter School of Lowell, Grades K-10										
Total Enrollment	755.86	842.84	929.9	1,024	1,112	1,200	1,200	1,200	1,200	
Lowell Enrollment	675.25	756.64	857.17	929	1,013	1,095	1,095	1,095	1,095	
Percent Lowell Enrollment	89.34%	89.77%	92.18%	90.72%	91.12%	91.27%	91.27%	91.27%	91.27%	
Tuition Rate	12,825	12,242	12,852	13,477	14,113	14,720	15,353	16,013	16,701	4.30%
Private/Home School Offset	0	91,325	89,864							
Assessment (net offset)	8,566,584	9,171,462	10,926,185	12,520,133	14,299,158	16,121,034	16,814,238	17,537,250	18,291,352	
Lowell Community Charter School, Grades PK-8										
Total Enrollment	805.36	810.26	813.8	800	815	815	815	815	815	
Lowell Enrollment	740.62	736.93	730.14	714.32	727.71	743	743	743	743	
Percent Lowell Enrollment	92.56%	92.12%	91.26%	89.29%	89.29%	91.17%	91.17%	91.17%	91.17%	
Tuition Rate	12,939	13,210	13,844	14,187	16,053	16,743	17,463	18,214	18,997	4.30%
Private/Home School Offset	0	0	25,992							
Assessment (net offset)	9,582,882	9,734,845	10,081,811	10,134,076	11,681,860	12,440,101	12,975,026	13,532,952	14,114,869	
Innovation Academy Charter School, Tyngsborough Grades 5-12										
Total Enrollment	800.83	793.69	794.9	800	800	800	800	800	800	
Lowell Enrollment	233.57	240.38	294.03	293	296.71	310	315	320	325	
Percent Lowell Enrollment	29.17%	30.29%	36.99%	36.63%	37.09%	38.75%	39.38%	40.00%	40.63%	
Tuition Rate	11,048	11,171	11,639	12,324	12,653	12,969	13,293	13,626	13,966	2.50%
Private/Home School Offset	0	167,565	221,141							
Assessment (net offset)	2,580,481	2,517,720	3,200,971	3,610,932	3,754,198	4,020,427	4,187,405	4,360,218	4,539,055	

Transition and Facilities Reimbursements

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Total Lowell Charter Assessment	25,514,946	27,500,642	31,502,591	34,010,862	35,467,428	36,985,283	38,566,998
Facilities Aid	1,818,853	1,891,842	2,012,824	2,120,500	2,125,250	2,208,473	2,213,398
Assessment net of Facilities Aid	23,696,093	25,608,800	29,489,766	31,890,362	33,342,179	34,776,809	36,353,599
Transition Aid Increase	2,628,342	1,912,707	3,880,966	2,400,596	1,451,816	1,434,631	1,576,790
Transition Aid	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026
Tuition Increase - Current Year	2,628,570	1,912,305	3,880,966	2,400,596	1,451,816	1,434,631	1,576,790
60% of Prior Year Increase	644,069	1,577,142	1,147,383	2,328,580	1,440,358	871,090	860,779
40% of Prior Increase -2 yrs. Ago	612,124	429,379	1,051,428	764,922	1,552,386	960,239	580,726
Total Entitlement	3,884,763	3,918,826	6,079,777	5,494,098	4,444,560	3,265,959	3,018,295
Projected State Funding for Transition Aid by Tier	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	
Tier 1: Current year increase funding %		100%	100%	100%	100%	100%	100%
Tier 2: PY funding %		29.6%	33.2%	100%	100%	100%	100%
Tier 3: Two years prior funding %		0.0%	0%	0%	100%	100%	100%
Charter Reimbursement	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	
Transition Aid	2,378,607	4,261,621	4,729,176	4,444,560	3,265,959	3,018,295	
Facilities Aid	1,891,842	2,012,824	2,120,500	2,125,250	2,208,473	2,213,398	
Total Charter Reimbursement	4,270,449	6,274,446	6,849,676	6,569,810	5,474,432	5,231,693	

Chapter 70 Aid

City Of Lowell									
<u>Foundation Budget, Required Local Contribution and Chapter 70 Aid</u>									
	Actual	Actual	Final Budget	Governor's	Projected	Projected	Projected	Projected	Projected In
	FY2019	FY2020	FY2021	Budget	FY2023	FY2024	FY2025	FY2026	FY23-FY26
Enrollment Change				-305	150	150	0	0	
Impact on Foundation				(4,324,852)	2,256,184	2,353,200	-	-	
Foundation Enrollment	16,184	16,353	16,352	16,047	16,197	16,347	16,347	16,347	
Foundation Budget	198,336,328	212,748,264	218,744,160	231,415,707	243,622,767	256,451,746	267,479,171	278,980,775	4.3%
Required Local Contribution	47,400,845	49,724,317	51,808,768	54,090,653	56,389,506	58,786,060	61,284,467	63,889,057	4.25%
Chapter 70 Aid	150,935,483	163,023,947	166,954,483	177,325,054	187,233,261	197,665,686	206,194,703	215,091,718	

Local Revenue Comparison

LOCAL REVENUES							
	Budget	thru 2nd Qr	% of Bud		Budget	thru 2nd Qr	% of Bud
Major Account Description	FY20	FY20	Collected		FY21	FY21	Collected
MV Excise	8,711,943	1,780,455	20%		8,500,000	2,529,291	30%
Meals Tax	1,292,366	671,933	52%		1,292,450	554,266	43%
Hotel/Motel Tax	340,000	180,678	53%		320,000	25,708	8%
Cannabis Excise	0	160,195			280,000	113,865	41%
Penalty & Interest	1,246,787	548,657	44%		1,285,000	778,036	61%
PILOT	425,000	113,355	27%		425,000	452,544	106%
Trash/Recycling Services	3,200,000	1,519,430	47%		3,200,000	1,540,564	48%
Cannabis Host Agreement	150,000	217,822	145%		150,000	176,639	118%
Ambulance	448,622	0	0%		376,172	0	0%
Code & Inspection Bldg Permits	1,100,000	1,047,684	95%		1,100,000	637,222	58%
Court Fines	575,000	302,497	53%		575,000	181,813	32%
Interest on Investments	150,000	467,256	312%		750,000	221,263	30%
Other Misc Interest	170,000	85,577	50%		170,000	85,729	50%
Medicaid Reimbursement	925,000	167,166	18%		925,000	316,937	34%
Medicare Part D Reimb	370,000	0	0%		320,000	0	0%
TOTAL	19,104,718	7,262,705	38%		19,668,622	7,613,877	39%

State Aid and Assessments Comparison

STATE AID	FY20	FY21	FY22 Governor's Budget
Chapter 70	163,023,947	166,954,483	177,325,054
Charter School Tuition Reimbursement	3,922,994	4,270,451	6,274,448
School Choice Receiving Tuition	57,108	35,547	35,547
Unrestricted Gen Govt Aid	26,746,523	26,746,523	27,682,651
Veterans Benefits	507,446	495,285	420,086
Exemptions for Veterans & Elderly	284,359	301,512	259,654
State Owned Land	209,228	214,672	232,205
Public Libraries	182,955	219,590	219,590
Total	194,934,560	199,238,063	212,449,235
ASSESSMENTS	FY20	FY21	FY22 Governor's Budget
Mosquito Control Projects	77,923	78,678	83,814
Air Pollution Districts	26,911	27,447	28,508
RMV Non-Renewal Surcharge	325,900	325,440	325,440
Regional Transit	1,044,338	1,070,448	1,097,209
Special Education	62,020	57,418	44,866
School Choice Sending Tuition	956,175	933,926	933,926
Charter School Sending Tuition	26,568,526	27,500,644	31,502,594
Total	29,061,793	29,994,001	34,016,357
NET AMOUNT	165,872,767	169,244,062	178,432,878

Final Thoughts

- ▶ The Forecast should be considered a planning tool and not an “engraved in concrete” projection
- ▶ City officials should continue to monitor both trends and current events that may impact finances
- ▶ In particular, the American Rescue Plan will likely have a significant impact on Lowell’s fiscal position
- ▶ The COVID-19 pandemic has created additional costs and lost revenues for local governments
- ▶ City leadership and finance team will have to closely monitor the temporary and/or longer-term financial consequences of the pandemic on the City and its citizens

Thank you for the opportunity to work
with the City of Lowell

Questions or Comments?