

City of Lowell

Annual Budget



FISCAL YEAR 2008

Bernard F. Lynch
City Manager

CITY OF LOWELL

FY2008 PROPOSED BUDGET

BERNARD F. LYNCH – CITY MANAGER

THOMAS MOSES – CHIEF FINANCIAL OFFICER

T.J. McCARTHY – ASSISTANT CITY MANAGER

J.MATTHEW COGGINS – ASSISTANT CITY MANAGER

LOWELL CITY COUNCIL

WILLIAM F. MARTIN, JR. – MAYOR

EDWARD CAULFIELD

EILEEN DONOGHUE

RODNEY ELLIOTT

ARMAND MERCIER

KEVIN BRODERICK

RITA M. MERCIER

JAMES L. MILINAZZO

GEORGE RAMIREZ

CITY OF LOWELL

FY2008

PROPOSED BUDGET

Transmittal Letter	1
Financial Overview	4
Proposed Resolution of City Council	18
Budget Highlights	29
Revenue Detail	37
Detailed Departmental Budgets	42
Legislative Budgets	46
City Manager Budgets	52
Finance Budgets	56
Legal Budgets	67
Planning and Development Budgets	72
Police Budget	76
Fire Budget	85
Inspectional Services Budget	91
School Budgets	94
Public Works Budgets	96
Human Services Budgets	104
Library Budget	112
Debt Service Budgets (all funds)	115
Unclassified Budgets	118
Wastewater Enterprise Fund Budget	121
Arena Enterprise Fund Budget	126
Parking Fund Budget	129
Career Center Budget	133
Financial Management Policies and Objectives	Appendix A

Notes:

The one-page General Fund summary is on page 45

The one-page Wastewater Enterprise Fund summary is on page 124

The one-page Arena Enterprise Fund summary is on page 127



May 11, 2007

To the Mayor and City Council:

In accordance with the requirements of the Massachusetts General Laws and the City of Lowell Charter, I herewith present the City of Lowell Proposed Fiscal Year 2008 Operating Budget.

This will be my first full budget as Lowell City Manager and the proposed decisions contained herein reflect a philosophy of financial management that is based upon certain basic principles that are intended to create long term stability and strength. Over time and these principles should be modified to reflect improved fiscal conditions. The currently utilized principles are as follows:

1. Current revenues must be generally sufficient to support current expenditures.
2. The growth in local property taxes is held to a generally accepted 2.5% increase in recognition of the limits of property owner's ability to pay.
3. The budget strives as best as possible to maintain the quality and balance of services currently provided with particular focus upon public safety.
4. General Fund reserves are maintained
5. Adequate contingency funds are budgeted
6. Some level of maintenance and replacement dollars are included to ensure capital facilities and equipment are properly maintained.

In addition to these short-term principles, the City Budget abides by comprehensive *Financial Management Policies & Objectives*, a copy of which is contained as an Appendix of this document. These Policies & Objectives represent the general philosophy upon which financial decisions are made and include provisions for long-term financial planning, as well as guidelines for the use of Free Cash and reserves.

The budget document and its organization itself provide a presentation of financial information that is intended to assist the City Council in their decision making and the general public in understanding the operation of City government and the manner in which it is financed. The structure of the document includes the following sections:

- Budget Message
- Financial Overview and Trend Analysis
- Proposed City Council Resolution
- FY08 Budget Highlights
- Projected Revenue Detail
- Departmental Budget Detail including mission, goals and objectives, staffing, multi-year cost detail, and budget highlights. This information is divided by function and within fund.
- Appendices
 - Financial Management Policies and Objectives

The budget that has been developed and presented within this document is a reflection of the City's difficult financial condition. Lowell is not alone in facing its fiscal challenges though there are certain specific circumstances which add to the FY08 budget complexity. All of these issues will be addressed in a section of Budget Highlights.

The preparation of the Budget is driven largely by available revenue and certain fixed and semi-fixed costs. Upon calculation of these factors we are able to determine what level of spending is available for distribution to departments that provide City services. In FY08 this level of spending has generally been reduced from FY07 levels which will result in a decrease of personnel and some reduction in service levels though it is a city-wide goal to mitigate such reduction through improved management.

The section on Budget Highlights summarizes the major revenue and expenditure changes that are contained within this proposed budget, and greater detail is available within each departmental budget. However the most notable highlights of the budget are as follows:

- Revenue
 - Limit of 2.5% Increase
 - Decrease of \$3.5 million in School Building Assistance funds
 - No use of Free Cash or one time funds to support budget.
- Expenditures
 - Loss of 22.5 positions within City government. This is less than initially proposed and importantly Public Safety personnel were not reduced.
 - First phase of organizational restructuring with focus upon infrastructure issues by consolidating public works departments under Assistant City Manager.

- Restructuring also makes Neighborhood Services a component of City Manager office with emphasis upon citizen requests for service and implementation of performance metrics.
- Gap of \$1.6 million in School Department request and proposed allocation.
- Increase of \$2.1 million in employee health insurance, 15% increase
- \$500,000 set aside for collective bargaining.

The budget, as proposed is very tight, but is fiscally sound with expenditures matching recurring revenues. I would have preferred being able to provide increased funds to the School Department, enhancements in Police services and youth programs and a level of capital investment.

It is conceivable that some or all of the Governor's Municipal Partnership Act will be adopted by the State Legislature. If so and assuming the remainder of the proposed budget remains intact, I would propose that the anticipated Telecommunications property tax revenue of approximately \$700,000 be utilized to fund the Lowell School Department.

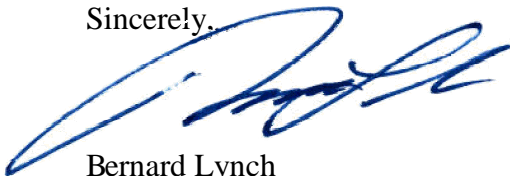
In addition, if approved by the Legislature, I would recommend that the City adopt a 2% local option meals tax that would raise approximately \$2 million. I would propose that these funds be used as follows:

- \$500,000 for the hiring of additional police officers
- \$400,000 for additional funding for Lowell Schools
- \$200,000 for additional funding for the Fire Department
- \$100,000 for enhanced year-round youth recreation programs
- \$150,000 to rehire Public Works employees
- \$650,000 to fund debt service associated with capital improvements for streets and sidewalks throughout the City and energy improvements on public buildings.

This allocation of funds would enhance the quality of life within the City and have long term benefits for the residents without the additional burden of increased property taxes.

I look forward to presenting this budget to the City Council and addressing any questions you might have.

Sincerely,



Bernard Lynch
City Manager

FINANCIAL OVERVIEW

FINANCIAL OVERVIEW

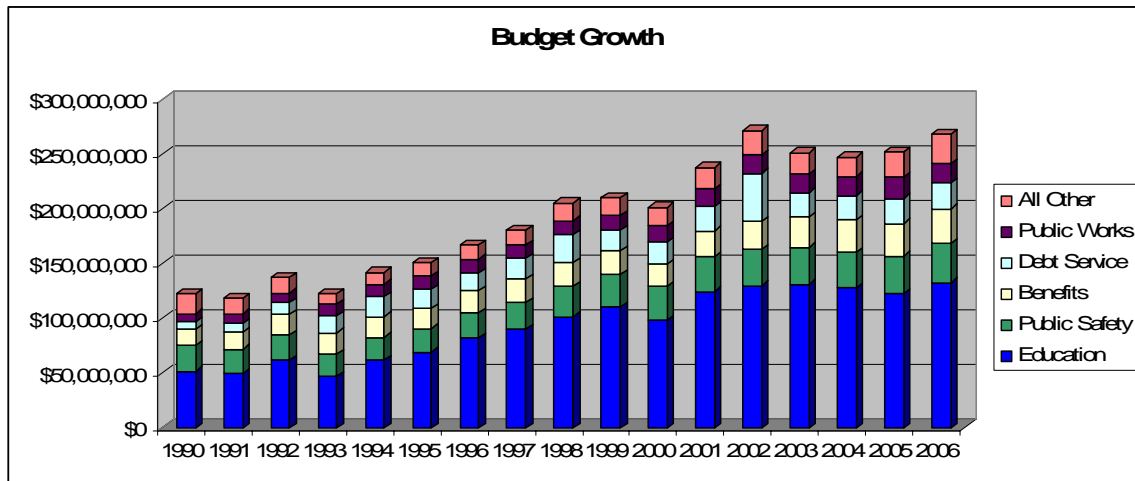
Fiscal Year 2008 will mark significant changes in how the City of Lowell presents and adopts its budget. Visually this budget will emphasize the use of charts and graphs to better enable the user to put data in its historical context. It will also rely on analysis and discussion to communicate the overall mission of the administration and the objectives of each department. We will also provide a narrative for each department so that the public becomes better informed of the specific role each department plays.

Mission of the Administration

It is the mission of the current Lowell City Management administration to deliver programs and services to the City's various constituents in the most cost-effective and efficient manner possible. One way to measure our performance is to compare our operations with that of our peers. More importantly, on a qualitative basis we must listen to the feedback from our residents and businesses.

Overall Budget Trends

Budgetary levels in Lowell are in a large part reflective of the overall economic situation of the Commonwealth. Below is a chart of our budget growth from 1990 to 2006.

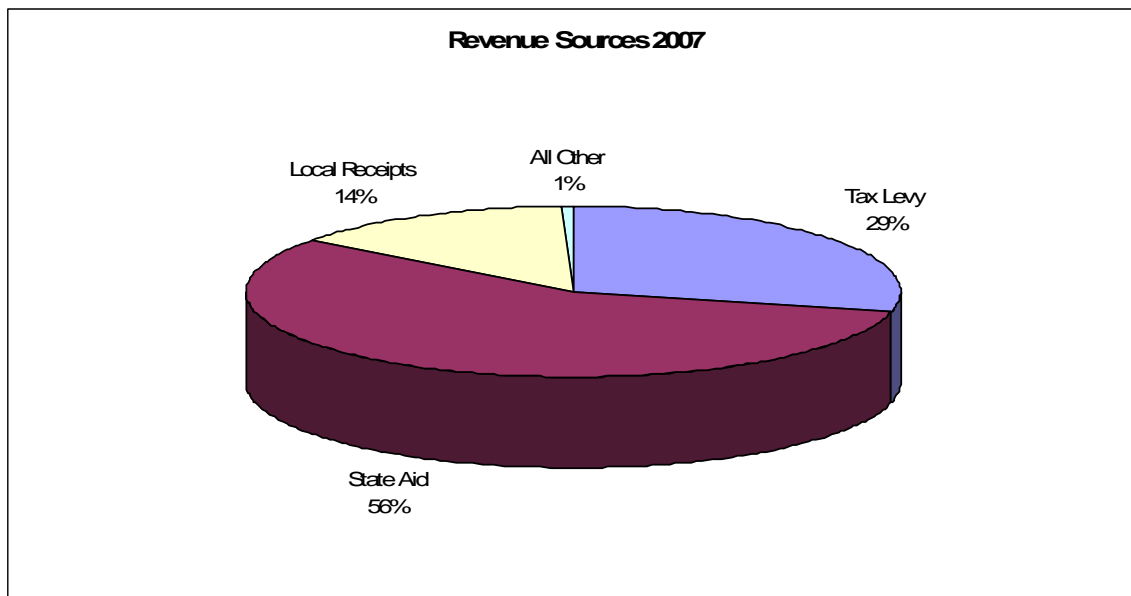


The impact of the two most recent economic recessions is evident in this chart. The periods from 1990 to 1993 and 2003 to 2005 reflect Lowell's response to declining state aid. Lowell's primary source of revenue is state aid, the bulk of which comes in the form of Chapter 70 school aid and Lottery aid. Both of these aid categories are distributed based on complex formulae. During recessions, aid levels decline for most communities.

Each community reacts differently in times of stress. Some draw on reserves while striving to maintain service levels. Those cities that have adequate reserves can rely on them for a short period, but even well positioned communities must begin to make budgetary adjustments if the recession is prolonged. Other municipalities react

immediately to economic stress by reducing appropriations and staff levels. Still others seek to maintain or increase revenue that is less dependent on the state or on economic cycles.

Lowell generally benefits from high levels of state aid. However, this actually makes recessions more difficult for us. State income taxes are the ultimate source of our state aid. Personal income taxes, and especially corporate income tax receipts, are very dependent on economic cycles. This makes them volatile. Unlike Lowell, communities that fund their budgets primarily by real estate taxes have much less volatility in their revenue streams, since real estate taxes are based on value rather than income. In Massachusetts, Proposition 2 ½ actually insulated communities against loss in property values by limiting tax levies but not tax rates or values. The next chart shows Lowell's sources of revenue.

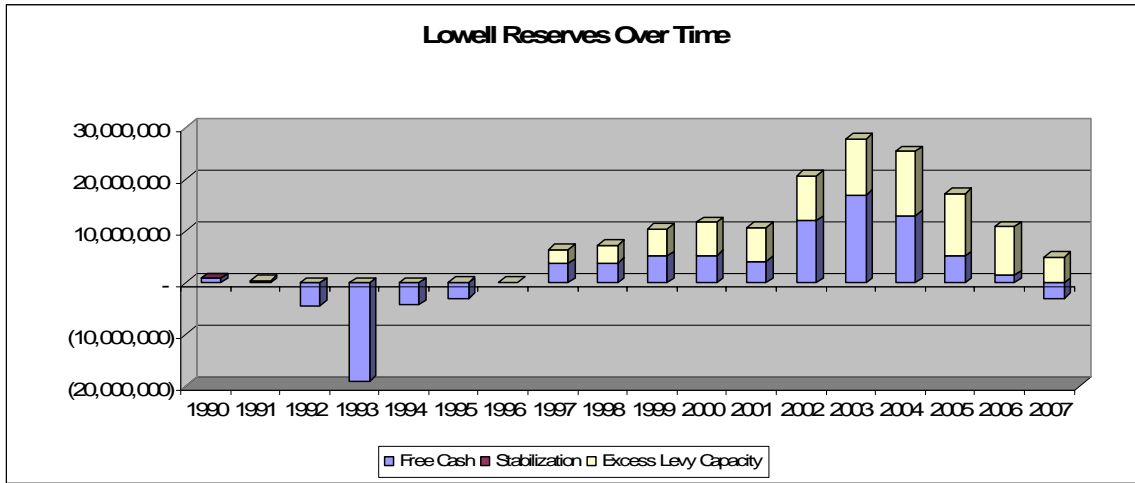


Our proportion of revenues is very different than in FY 1990 when 41% of our revenues came from state aid and 35% came from property taxes. This changed steadily through the 1990's with the economic prosperity of much of that decade. State aid peaked in FY 2002 and has not yet recovered to those levels. Since that date we have relied on dwindling one-time sources of funds to bridge our budget gaps. In FY 2007 our reserves were depleted, and the only source of funding left untapped was our excess levy capacity.

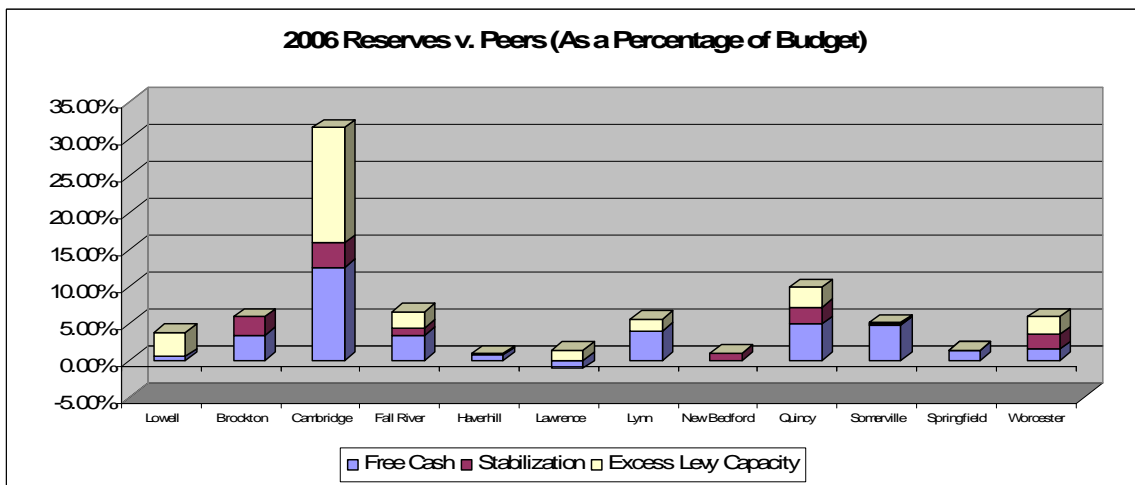
The chart on the next page shows Lowell's financial reserves over the period 1990 to 2006. The early 1990's were a difficult time for Lowell. A state control board assumed much of the financial responsibility in the City. The fiscal discipline that it mandated, along with the prolonged economic expansion, contributed to the restoration of Lowell's finances.

Economic lightning struck again in 2003, and the City found itself using its Free Cash to satisfy operating needs. This practice put us in a downward spiral from which we are

only now beginning to emerge. The FY 2008 budget is based on matching recurring revenues with recurring expenses.



While this chart looks alarming, Lowell faced the same financial pressures as all other Massachusetts municipalities. Each community reacted to this stress differently. One way to gauge our relative strength is to look at the reserves at the disposal of our peers. The next chart does this.



While by 2006, Lowell's reserves were compromised, we were by no means alone. In fact our reserve levels as a percentage of budget were higher than Haverhill, Lawrence, New Bedford and Springfield.

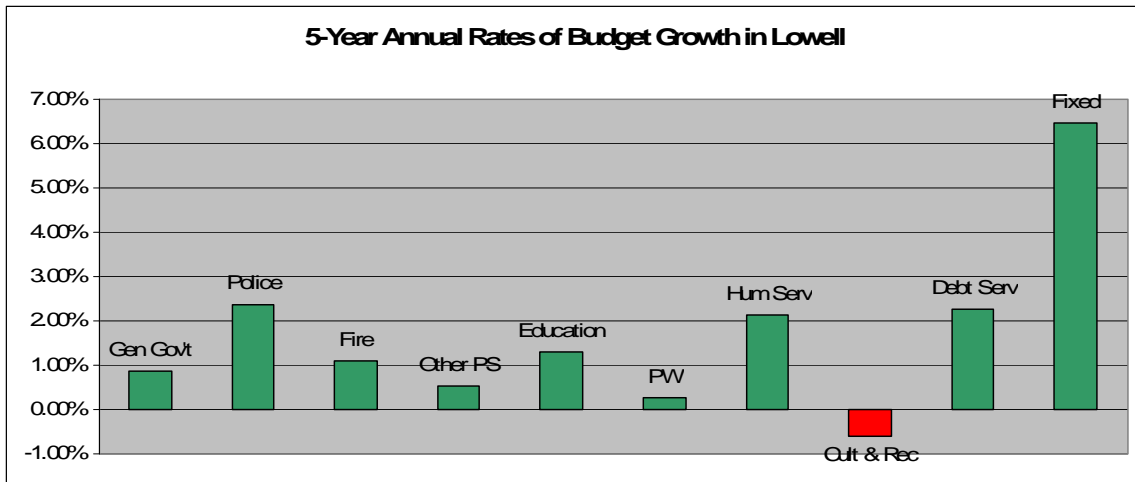
Expenditure Summaries

As helpful as analysis of revenues and reserves can be, it is how we spend our budget that intrigues most people. Once again, it will be helpful to compare Lowell's current spending against historical patterns. Such a comparison will reveal changing priorities, as well as reflect external budgetary influences. Comparisons with other communities

may also be worthwhile. A word of caution is in order. Differing spending levels in a given category may very well indicate that one city is more efficient at delivering that service than another. It may also merely reflect differences in geographic or demographic characteristics, conscious decision making, or differences in accounting methods.

Much of the following data comes from the Department of Revenue’s database of Schedule A’s. Schedule A is a state form that each Massachusetts municipality is required to submit to the DOR annually. Among other things, Schedule A attempts to categorize municipal general fund spending into categories that are common to each city or town. Despite this attempt, local accounting practices may differ significantly. The most notable differences may occur in Public Works spending. Some communities account for their water and/or sewer operations in enterprise funds. Enterprise funds are separate accounting groups that treat the “enterprise” as if it were a stand-alone business. Other communities account for water and sewer in their general funds.

We’ll begin with a chart that depicts Lowell’s annual budget growth rates in the major Schedule A spending categories calculated over a five year period. Following the chart is a brief explanation of each category.



General Government is a catch-all category for “overhead” spending. It includes departments such as Mayor, City Council, Auditor, Treasurer, Law, Assessors, Licensing, MIS, as well as parts of other departmental spending, such as building maintenance from DPW and all land use spending. Police and Fire are obvious. Other Public Safety includes any emergency medical spending and Inspectional Services. Again, Education speaks for itself. Public works includes highways, snow and ice removal, waste collection and disposal, street lighting and water, utilities and parking if they are accounted for in the general fund. In Lowell, only water is in the general fund.

Human Services includes expenses of the Health and Veterans Departments, and Councils on Aging. Culture and Recreation includes Library, Recreation, Parks, Special Events, and the like. Debt Service includes only principal and interest charged to the

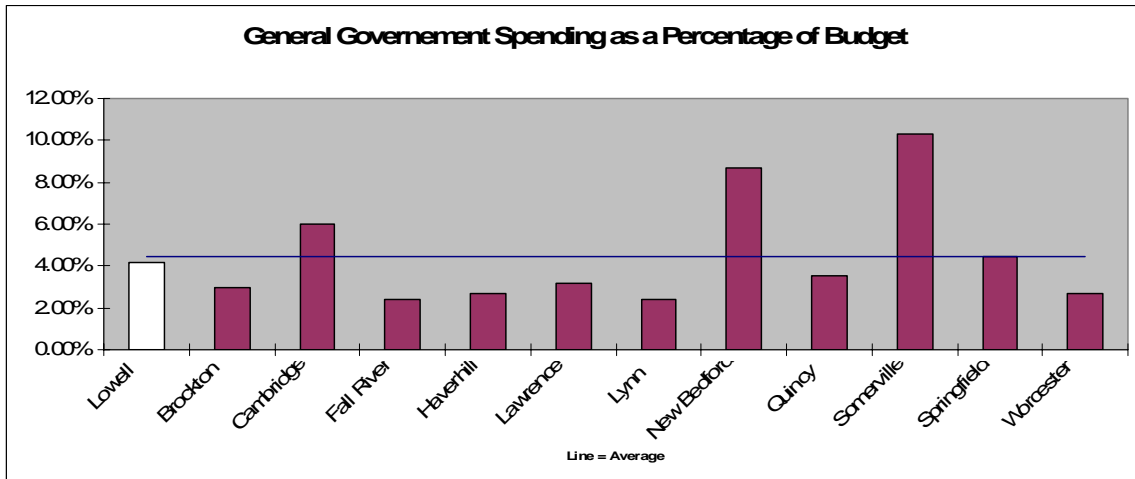
general fund. Fixed costs encompass workers' compensation, unemployment, health insurance, other insurance costs and pension system assessments.

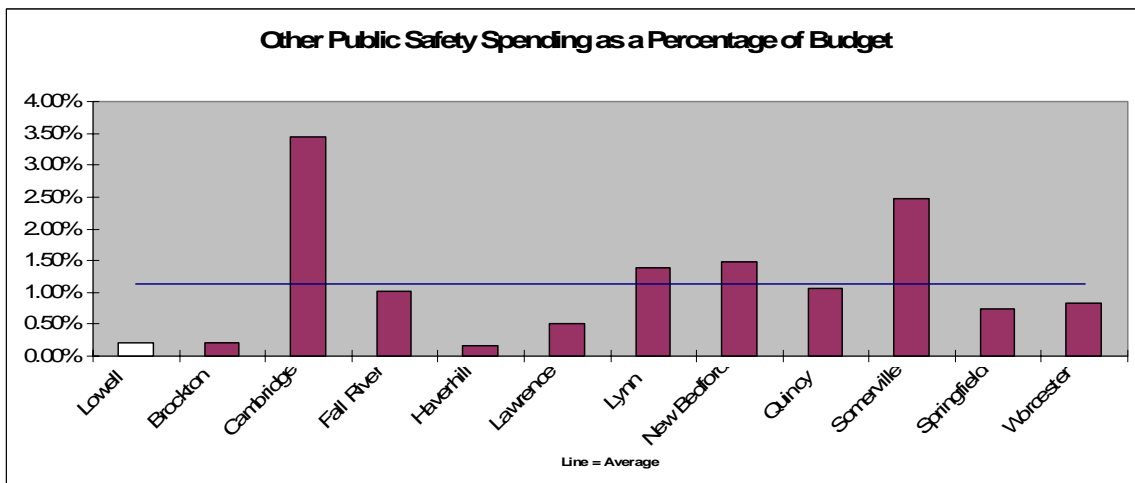
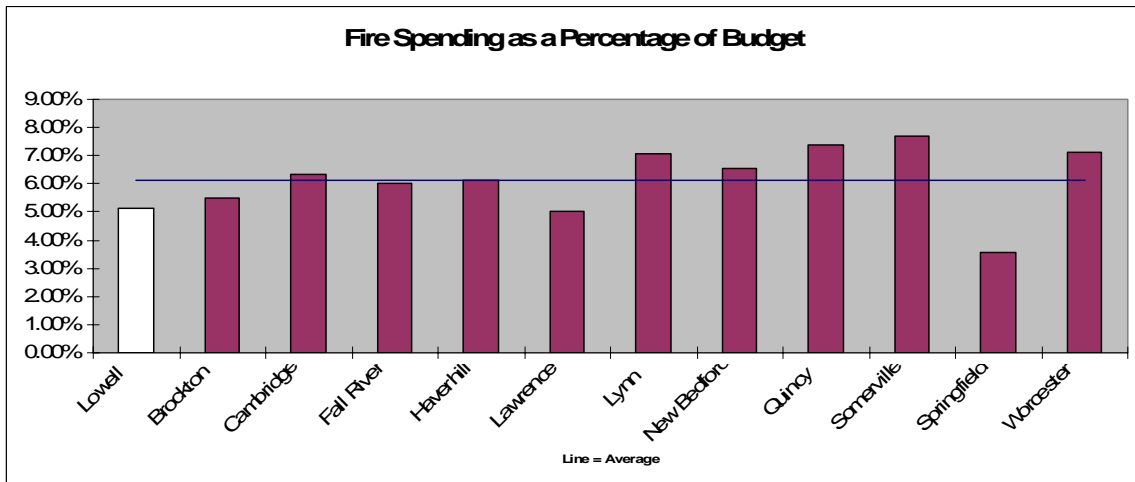
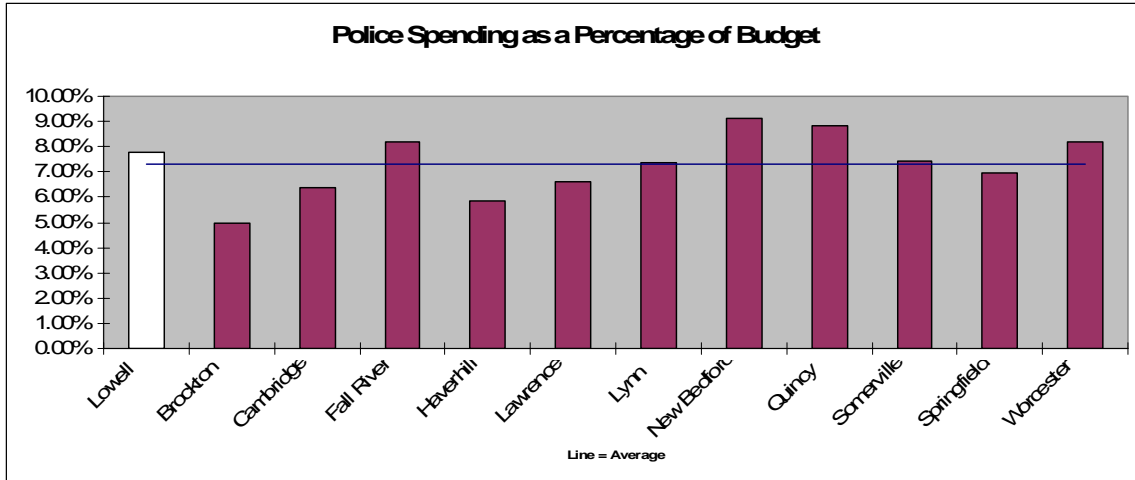
It will come as no surprise that the escalation of fixed costs far exceeds growth in other parts of our budget. With health care inflation continually in the double digits, this trend is likely to continue. In fact, Lowell has held insurance costs artificially low for the past few years by drawing down the reserves of our Health Insurance Trust Funds. That practice must end, and ending it will require additional appropriations.

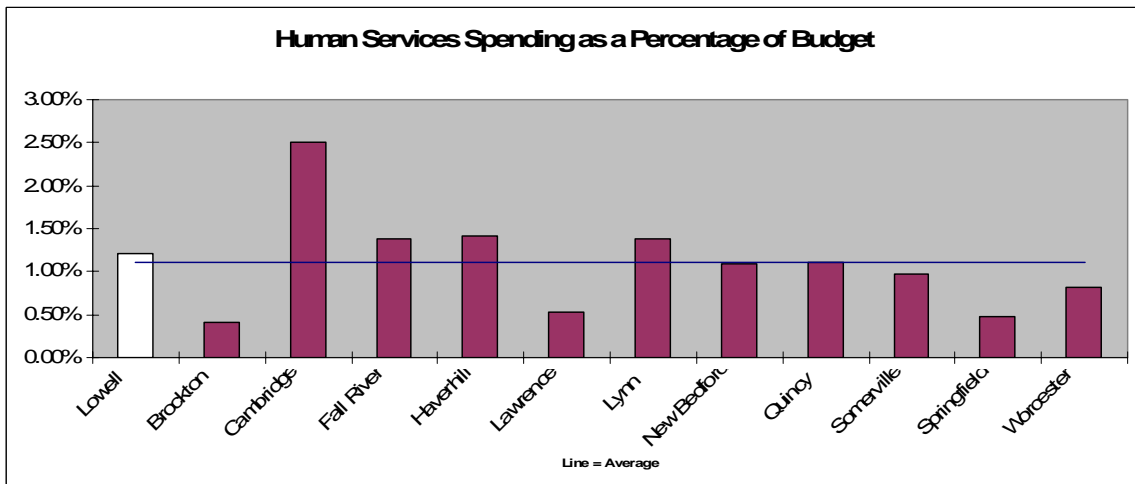
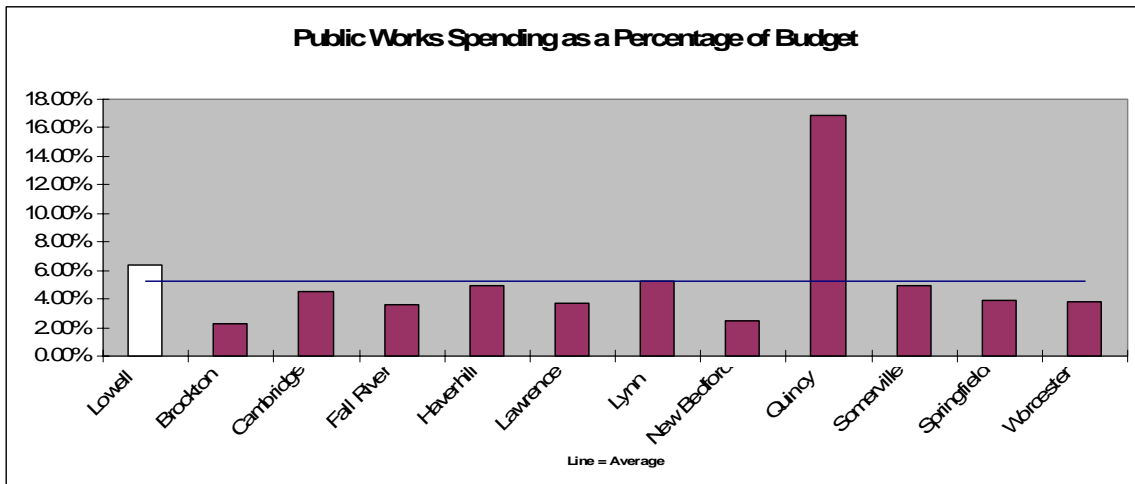
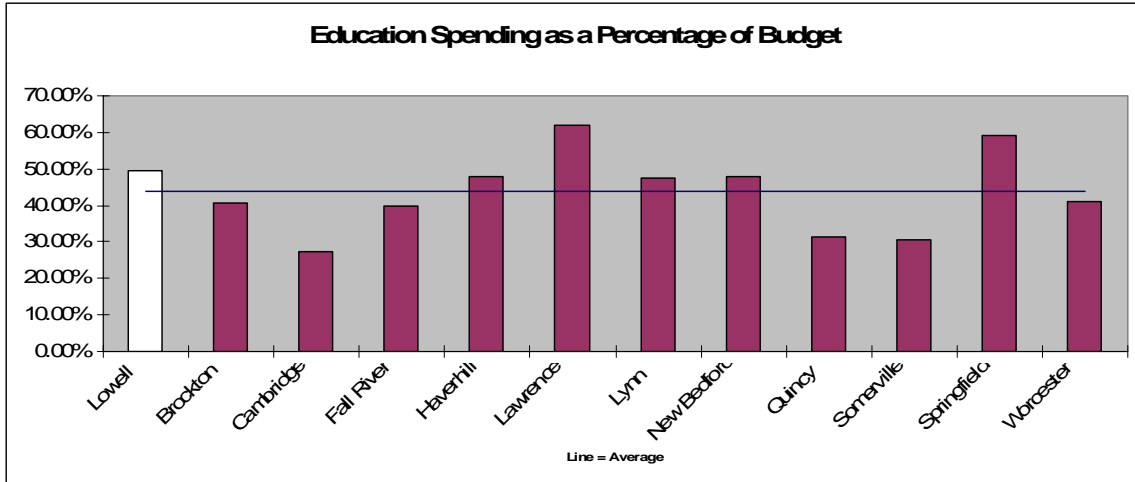
Rising fixed costs and constrained state aid have combined to dampen the growth of the rest of our operating budget. No other category of spending has kept pace with inflation. While this is good from a taxpayer standpoint, it does not bode well for the citizens of Lowell. At first, budgets that grow at a pace slower than inflation can maintain constituent responsiveness by gaining efficiency in their operations. Over a prolonged period, however, service levels will decline.

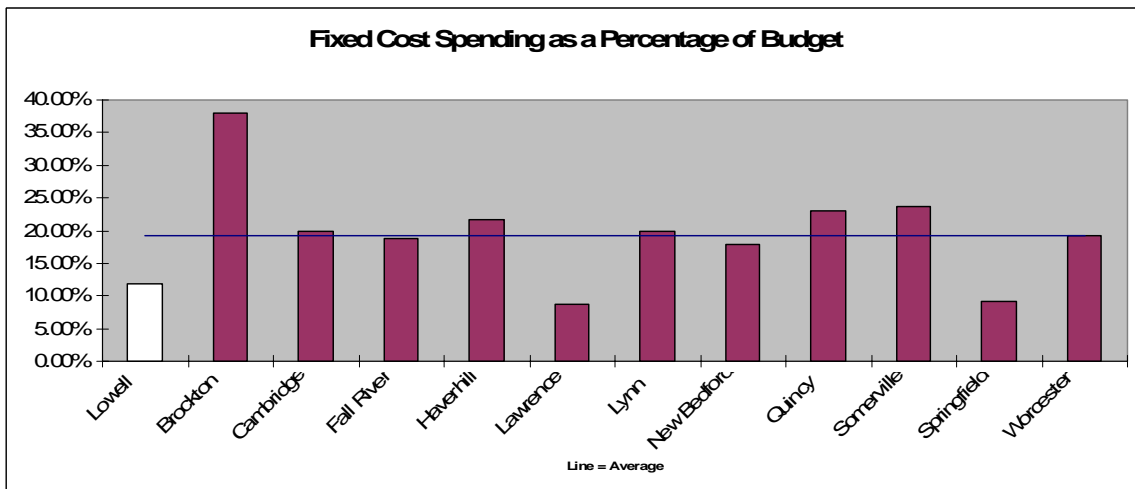
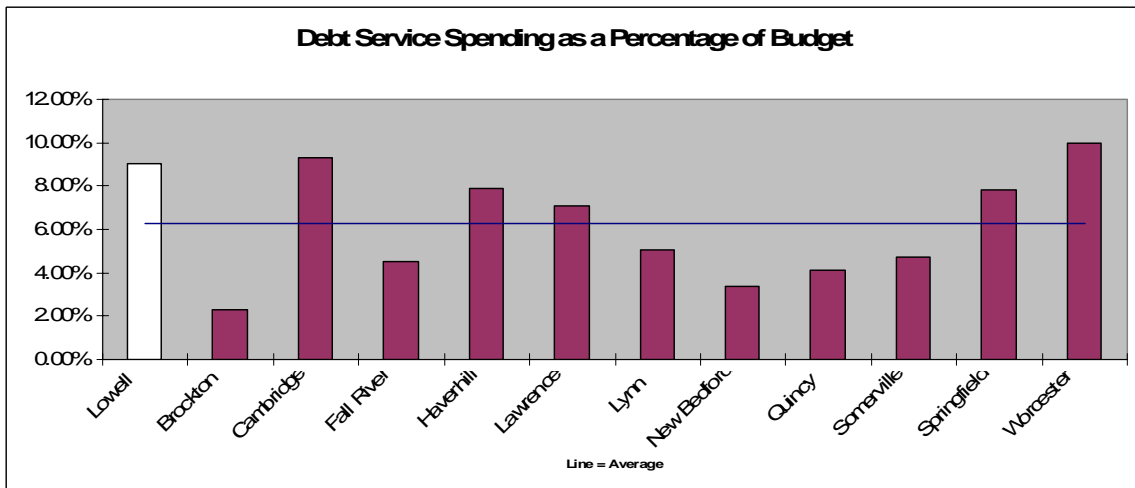
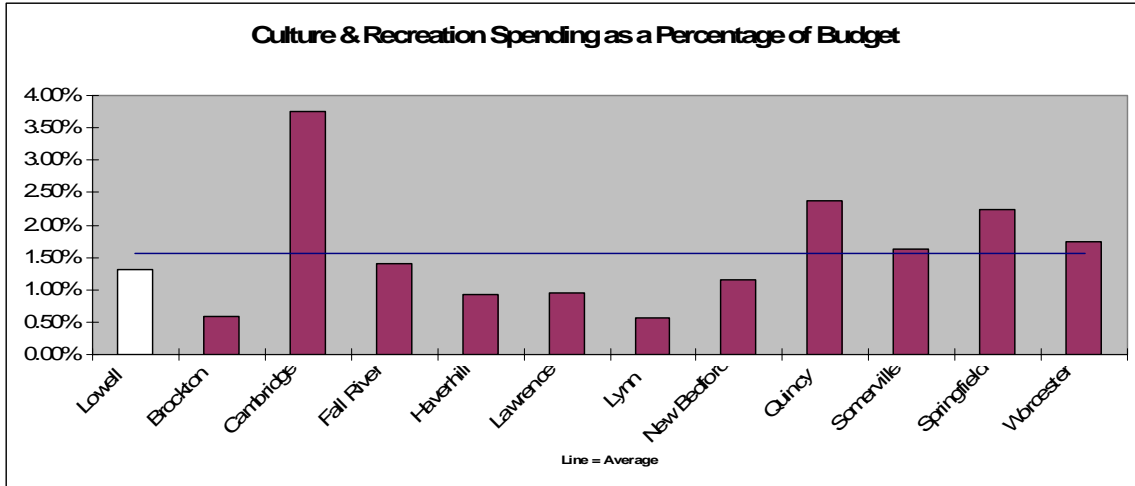
We in the administration continue to look for better ways to do things, but we are also at the point of focusing resources on functions of government are mission-critical and unfortunately must consider scaling back programs that are more limited in their benefit scopes. In the age of increasing demands we find ourselves trying to reduce expectations.

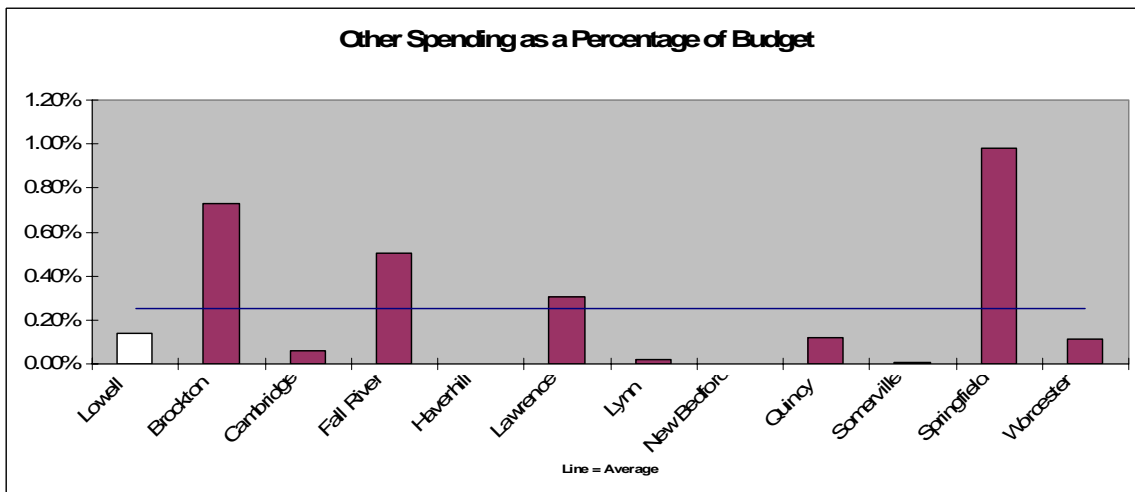
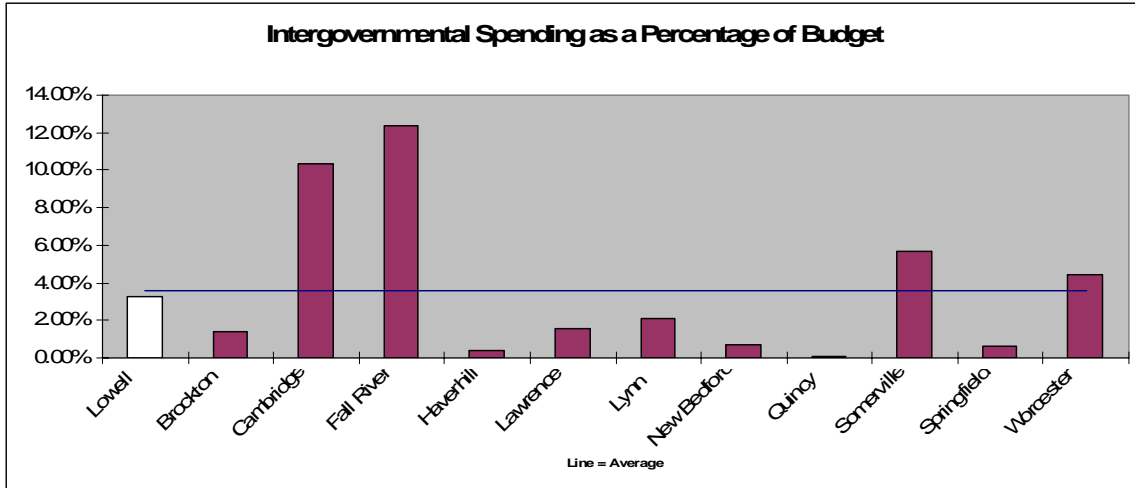
The next series of charts, presented in sequence, compares Lowell spending levels in the Schedule A categories with that of our peers. Brief discussions will follow.











While the appropriate level of General Government spending is somewhat subjective, it is interesting to note that of the four communities above the average line, 75% have bond ratings of A3 or better. Among those below the line, only 38% are rated A3 or better. This may indicate that cutting back too much on spending in this category could leave a city vulnerable to developing bad practices.

It appears that there may be some correlation between police spending and crime rates. Among the peer group selected, New Bedford, Quincy and Worcester spent the highest percentage of their budgets on police. Quincy had among the lowest crime rates of the group, and although the demographics of New Bedford and Quincy would predict high crime rates, their non-violent rates were moderate. It should be said however, that both those communities have high rates of rape, and New Bedford has a very high murder rate.

Conclusions are more difficult on the other end of the spectrum. Brockton, Cambridge and Haverhill spend relatively little on police. Brockton's crime rate was high across the board, Cambridge's was low, and with the exception of burglary. So was Haverhill's. Cambridge's low crime rate may reflect police protection that is enhanced by significant

university forces. All crime data came from “Crime in Massachusetts, 2004-2005,” compiled by the Commonwealth Fusion Center for the Massachusetts Executive Office of Public Safety.

With regard to fire safety, spending levels appear to have little effect. According to the National Fire Incident Reporting System, all but one of our peer communities responds to a call in six minutes or less at least 96% of the time. Lowell hits this target 97.3% of the time. The lone exception is Worcester, which makes the grade 90.2% of the time. Success can largely be attributed to the relatively short distances that fire departments must travel in dense cities.

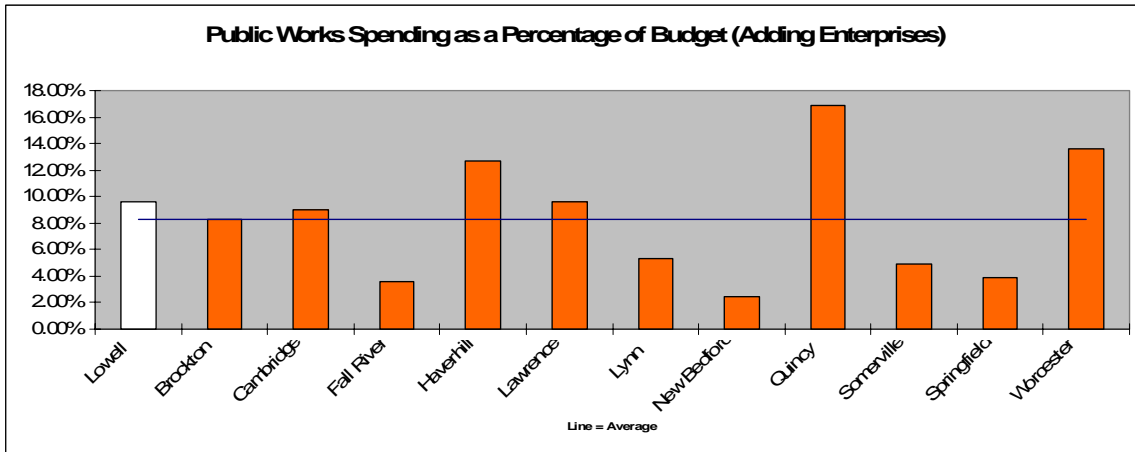
The Other Public Safety comparison is one that could lead to incorrect conclusions without caution. In general, spending in this category represents a small proportion of municipal spending. Two communities stand out as having very high expenses, Cambridge and Somerville. Those cities may operate their own ambulance services either through their fire departments or independently. They also may pay for those services, in whole or in part, through fees generated by the ambulances and charged to Medicare, private insurers or patients directly. Lowell, in contrast, contracts with a private ambulance company.

Minimum education spending is mandated by the state, and the percentage of the budget is but one way to view educational spending. Many large cities benefit heavily from Chapter 70 school aid and so, even though spending may be a high percentage of the budget, local taxpayers may only fund a small portion. Lawrence can afford to spend such a high percentage of their budget on education since 91.95% is funded by the state, not through local property taxes. Other percentages funded by the state are: Springfield 86.61%, Lowell 81.72%, Haverhill 52.74%, New Bedford 97.83%, Lynn 90.78%, Worcester 88.32%, Brockton 85.00%, Fall River 100.11%, Quincy 19.26%, Somerville 45.19%, and Cambridge 7.45%

In general, the more the state funds education, the larger the percentage of that city’s budget will be spent on education. Surprising is that even though the state pays for all of Fall River’s education spending, it’s percentage of their total budget is so low. Also surprising is that Haverhill appropriates so much of their local tax dollars to education. Lowell is right about where you would expect it to be.

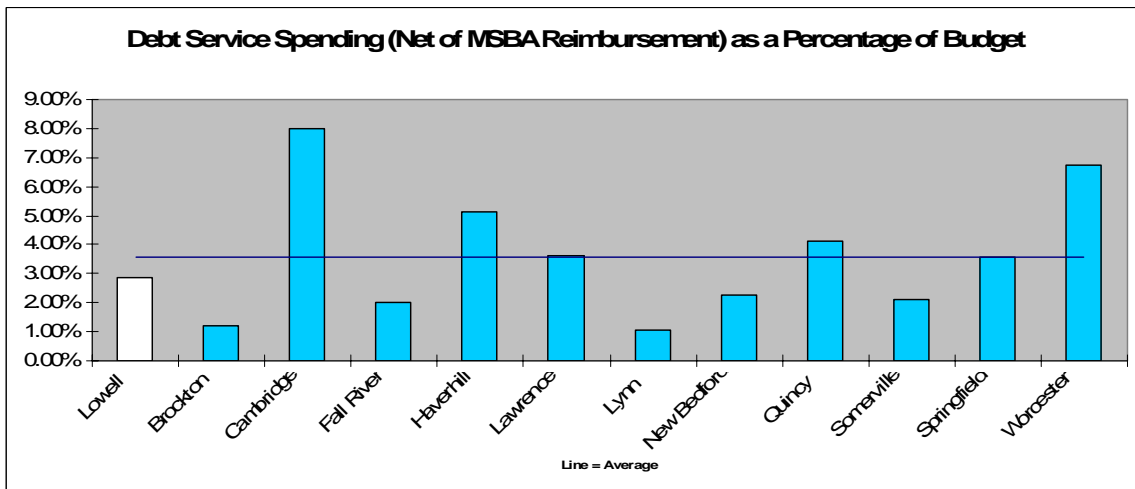
Public Works spending looks fairly uniform with the exception of Quincy. Each community accounts for their utilities differently, however. Lowell includes water expenses in our general fund, Cambridge includes sewer expenses, and Brockton, Haverhill, Lawrence and Worcester include neither. The rest of the communities include both. To facilitate comparison, the chart on the next page next adds water and sewer charges accounted for in enterprise funds back into the general funds.

Now public works spending looks much more uniform. Still there are large differences. Those may relate to large mandatory projects such as our own CSO work, or recent investments in capital upgrades.



The next two categories, Human Services and Culture & Recreation, tend to have considerable variation. Although these categories can shape a community’s character, support tourism and affect its appearance, they are also often the first areas to be affected by budget cuts. This can be the reason a well-capitalized community such as Cambridge spends so much in these areas while struggling cities such as Brockton, Lawrence and Lynn spend so little.

Debt service is a category of expense that, on the surface appears to divert funds from service providing departments. Analysis is more complicated than that, though. Some debt may be accounted for in enterprise or special revenue funds. Even the debt accounted for in general funds may be supported by dedicated revenue streams such as water and sewer rates or Massachusetts School Building Authority Reimbursements. The next chart removes the portion of the debt reimbursed by the MSBA. This provides a more, but not entirely, accurate view of debt supported by local revenues.



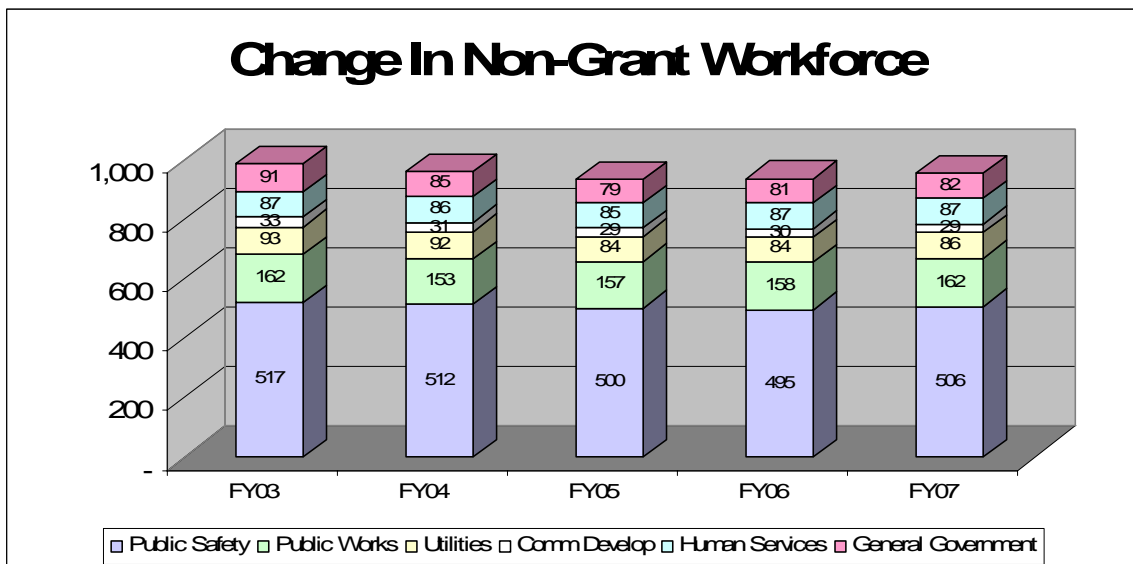
Like the previous chart, this indicates that communities that have a firmer financial base like Cambridge and Quincy are better able to invest in their infrastructure, while less fortunate cities are not as able.

Fixed cost spending often reflects the level of benefits offered to employees and retirees. Many of the communities with relatively high spending offer generous benefits. For example, Haverhill pays for 90% of health insurance costs. Other cities such as Lawrence keep insurance expenses low by not offering traditional indemnity health insurance, but instead offering a PPO as a proxy.

Brockton is an unusual case. Brockton is one of the few cities in Massachusetts to have issued pension obligation bonds to provide cash to mitigate the unfunded liability in their retirement system. The debt service obligation on those bonds has driven up the required annual contribution to the retirement fund. If over time the investments purchased with the bond proceeds exceed the required return, their unfunded liability could be greatly reduced or even eliminated, drastically reducing future annual appropriations.

The final two categories, Intergovernmental and Other Spending vary widely from city to city, and constitute very little of annual budgets.

It is very important to keep in mind that the vast majority of municipal spending is personnel-related, either as direct salary expense, or as benefits such as health insurance and retirement contributions. As our City budget came under pressure from the recession and reduction in state aid beginning in fiscal year 2003, the only meaningful way to manage expenditures was to control the number of employees. The next chart shows the change in full-time non-grant-funded positions over the period 2003 to 2007.



Given the difficulties in balancing Lowell’s 2007 budget, it would appear that we were somewhat premature in restoring some of the eliminated positions.

There is public perception that most of Lowell's eliminated positions came from Police and Fire, but this is not true. Community Development staffing is down 12.1% from 2003, General Government is down 9.9%, Utilities (water and wastewater) are down 7.5% and Public Safety is down 2.1%. Public Works and Human Services are unchanged.

Property Taxes

No matter how complex a budget is, discussion on the funding of that budget often focuses on property tax levels. Property taxes have the most direct and significant financial impact on a city's residents. Unfortunately, property taxes are often misinterpreted and are prone to both positive and negative exaggeration. It is helpful to look at property tax trends, both in Lowell and in Massachusetts as a whole. The final chart does just that.

