



CITY OF LAWRENCE
OFFICE OF THE MAYOR

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DANIEL RIVERA
MAYOR & CEO

MEMORANDUM

TO: William Maloney, City Clerk
CC: City Council President Kendrys Vasquez
FROM: Mayor Dan Rivera
RE: Proposed Five-Year Financial Forecast and Users' Guide and Assumptions
DATE: May 30, 2019

Please accept this memorandum as a formal request to place the following item on the **City Council Agenda** for **Tuesday, June 4, 2019**.

Proposed Five-Year Financial Forecast and Users' Guide and Assumptions

Also attached for submission with respect to this item is a document entitled, "Lawrence Financial Forecast: Users' Guide and Assumptions". The forecast is comprised of three spreadsheets listed below:

1. Summary of Projected General Fund Revenues and Expenditures
2. Revenue Projections
3. Expenditure Projections

This is the third five-year financial forecast submitted to the city council for review. This forecast covers fiscal years FY2020 to FY2024. This item is submitted in collaboration with the **Fiscal Overseer, Sean Cronin**. It is respectfully requested that his name appear on the agenda with the item as co-sponsor of the document with Mayor Rivera.

Finally, it is further requested that this item be placed in the "**Communications from the Mayor**" section of Council Agenda as a vote of the council is not requested on the documents at this time.

City of Lawrence

Summary of Projected General Fund Revenues and Expenditures

Revenues	FY2020	FY2021	FY2022	FY2023	FY2024
Property Tax Levy	73,710,085	77,198,835	80,774,804	84,440,172	88,197,174
State Aid Cherry Sheet	225,255,480	230,046,726	234,986,329	240,072,853	245,305,232
MSBA Reimbursement	4,750,927	4,750,927	0	0	0
Estimated Local Receipts	15,137,784	14,787,415	15,133,462	15,497,102	15,879,610
Available Funds/Other Financing	2,520,133	1,290,401	1,308,209	1,326,373	1,344,901
Total Revenues	321,374,409	328,074,304	332,202,804	341,336,500	350,726,917
Expenditures					
General Government	6,590,027	6,578,060	6,641,161	6,705,839	6,772,134
Public Safety	28,483,959	28,945,057	28,982,057	29,019,982	29,058,855
Education	197,284,017	201,459,951	206,108,040	210,913,235	215,875,685
Public Works/Cemetery	11,294,549	11,719,533	12,165,765	12,634,310	13,126,282
Human Services	1,266,899	1,285,439	1,304,443	1,323,922	1,343,889
Culture & Recreation	1,180,054	1,185,094	1,190,260	1,195,556	1,200,983
Debt Service/Capital Plan	11,706,608	12,403,443	8,227,411	8,581,725	8,944,125
Deficit Notes	1,757,442	1,894,000	1,896,775	1,898,125	1,898,200
Intergovernmental	29,796,103	30,867,242	31,977,643	33,128,750	34,322,061
Fixed Costs/Benefits	27,273,616	28,585,670	29,951,577	31,373,583	32,854,032
Risk Management	375,988	413,587	454,945	500,440	550,484
Other Amounts Raised	735,785	751,768	768,126	784,869	802,006
Free Cash/Other Fin. Uses	1,531,070	1,610,506	1,663,434	1,717,683	1,773,284
Total Expenditures	319,276,117	327,699,350	331,331,639	339,778,019	348,522,019
Excess of revenues over expenditures	2,098,292	374,954	871,165	1,558,481	2,204,898
Collective Bargaining Impact	2,098,292	2,856,612	3,630,098	4,419,054	5,223,789
Revenue after COLA	0	-2,481,658	-2,758,933	-2,860,573	-3,018,891

Revenue Projections

	Projection Percent	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
PROPERTY TAX LEVY						
Prior Year Tax Levy Limit/RE&PP		74,107,308	79,549,991	83,038,741	86,614,710	90,280,078
2.5% Increase		1,852,683	1,988,750	2,075,969	2,165,368	2,257,002
Certified New Growth	0.00%	3,590,000	1,500,000	1,500,000	1,500,000	1,500,000
TAX LEVY LIMIT TOTAL		79,549,991	83,038,741	86,614,710	90,280,078	94,037,080
Percentage Tax Increase		0%	2.5%	2.5%	2.5%	2.5%
LESS Excess Tax Levy Capacity	0.00%	5,839,906	5,839,906	5,839,906	5,839,906	5,839,906
TOTAL		73,710,085	77,198,835	80,774,804	84,440,172	88,197,174
STATE AID CHERRY SHEET						
Chapter 70 Education Aid	NSS	199,995,369	204,723,578	209,556,409	214,495,798	219,543,695
Charter Tuition Reimbursement	NSS	3,539,553	3,185,598	2,867,038	2,580,334	2,322,301
Unrestricted General Government Aid	2.00%	20,849,605	21,266,597	21,691,929	22,125,768	22,568,283
Veterans Benefits	0.00%	601,258	601,258	601,258	601,258	601,258
Exemptions VBS and Elderly	0.00%	102,085	102,085	102,085	102,085	102,085
State Owned land	0.00%	6,825	6,825	6,825	6,825	6,825
Public Libraries	0.00%	160,785	160,785	160,785	160,785	160,785
TOTAL Cherry Sheet		225,255,480	230,046,726	234,986,329	240,072,853	245,305,232
MSBA REIMBURSEMENT						
TOTAL MSBA	0.00%	4,750,927	4,750,927	0	0	0
LOCAL RECEIPTS						
Motor Vehicle Excise	2.00%	5,228,233	5,251,198	5,356,222	5,463,346	5,572,613
Meals Excise	3.00%	612,226	579,093	596,466	614,360	632,790
Room Excise	3.00%	185,400	190,962	196,691	202,592	208,669
Other Excise	0.00%	700,000	700,000	700,000	700,000	700,000
Penalties/Interest on Taxes and Excises	2.00%	986,700	853,434	870,503	887,913	905,671
Payments in Lieu of Taxes	0.00%	600,000	600,000	600,000	600,000	600,000
Other Charges for Services	0.00%	1,448,915	1,398,915	1,398,915	1,398,915	1,398,915
Fees	0.00%	36,400	36,400	36,400	36,400	36,400
Other Departmental Revenue	0.00%	58,000	58,000	58,000	58,000	58,000
Licenses/Permits	0.00%	1,518,500	1,368,500	1,368,500	1,368,500	1,368,500
Fines and Forfeits	2.00%	875,160	892,663	910,516	928,727	947,301
Investment Income	10.00%	900,000	990,000	1,089,000	1,197,900	1,317,690
Medicaid Reimbursement	5.00%	1,800,000	1,680,000	1,764,000	1,852,200	1,944,810
Miscellaneous Recurring	0.00%	188,250	188,250	188,250	188,250	188,250
Miscellaneous Non-Recurring	-100.00%	0	0	0	0	0
TOTAL Local Receipts		15,137,784	14,787,415	15,133,462	15,497,102	15,879,610
AVAILABLE FUNDS/OTHER FINANCING						
Contingency Reserve		1,229,732				
Free Cash - OPEB Trust		100,000	100,000	100,000	100,000	100,000
Free Cash - Compensated Absenses		100,000	100,000	100,000	100,000	100,000
Free Cash - Workers Comp Claim reserve		100,000	100,000	100,000	100,000	100,000
Free Cash - Injured on Duty Claim reserve (police & fire)		100,000	100,000	100,000	100,000	100,000
Transfer from Enterprise Funds: Indirect Costs	2.00%	890,401	890,401	908,209	926,373	944,901
TOTAL Available Funds		2,520,133	1,290,401	1,308,209	1,326,373	1,344,901
TOTAL GENERAL FUND REVENUES		321,374,409	328,074,304	332,202,804	341,336,500	350,726,917

Expenditure Projections

	Projection Percent	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
GENERAL GOVERNMENT						
Personal Services	0.00%	4,054,041	4,054,041	4,054,041	4,054,041	4,054,041
Expenses	2.50%	2,462,458	2,524,019	2,587,120	2,651,798	2,718,093
TOTAL General Government		6,590,027	6,578,060	6,641,161	6,705,839	6,772,134
PUBLIC SAFETY						
Police Personal Services	0.00%	13,446,920	13,696,920	13,696,920	13,696,920	13,696,920
Police Expenses	2.50%	706,463	724,125	742,228	760,783	779,803
Police Total		14,153,383	14,421,045	14,439,148	14,457,703	14,476,723
Fire Personal Services	0.00%	12,372,044	12,547,044	12,547,044	12,547,044	12,547,044
Fire Expenses	2.50%	633,899	649,746	665,990	682,640	699,706
Fire Total		13,005,943	13,196,790	13,213,034	13,229,684	13,246,750
Inspectional Services Personal Services	0.00%	1,221,093	1,221,093	1,221,093	1,221,093	1,221,093
Inspectional Services Expenses	2.50%	103,540	106,129	108,782	111,501	114,289
Inspectional Services Total		1,324,633	1,327,222	1,329,875	1,332,594	1,335,382
TOTAL Public Safety		28,483,959	28,945,057	28,982,057	29,019,982	29,058,855
EDUCATION						
Lawrence Public Schools	See NSS	183,913,035	187,480,391	191,491,416	195,629,702	199,893,974
Transportation	5.00%	9,005,938	9,456,235	9,929,047	10,425,499	10,946,774
Leases of school buildings	5.00%	195,782	205,571	215,850	226,642	237,974
Adult Education	2.50%	1,218,601	1,249,066	1,280,293	1,312,300	1,345,107
Total Lawrence Public Schools		194,333,356	198,391,263	202,916,605	207,594,143	212,423,829
Greater Lawrence Assessment	4.00%	2,950,661	3,068,687	3,191,435	3,319,092	3,451,856
TOTAL Education		197,284,017	201,459,951	206,108,040	210,913,235	215,875,685
PUBLIC WORKS						
DPW/Cemetery Personal Services	0.00%	2,794,876	2,794,876	2,794,876	2,794,876	2,794,876
DPW/Cemetery Expenses	5.00%	8,499,673	8,924,657	9,370,889	9,839,434	10,331,406
TOTAL Public Works		11,294,549	11,719,533	12,165,765	12,634,310	13,126,282
HUMAN SERVICES						
Personal Services	0.00%	525,281	525,281	525,281	525,281	525,281
Expenses	2.50%	741,618	760,158	779,162	798,641	818,608
TOTAL Human Services		1,266,899	1,285,439	1,304,443	1,323,922	1,343,889
Library						
Personal Services	0.00%	978,448	978,448	978,448	978,448	978,448
Expenses	2.50%	201,606	206,646	211,812	217,108	222,535
TOTAL Culture/Recreation		1,180,054	1,185,094	1,190,260	1,195,556	1,200,983
DEBT SERVICE/CAPITAL PLAN						
Existing School Debt Service		7,149,023	6,993,700	2,377,175	2,310,325	2,170,975
Existing General Government Debt Service		3,146,688	3,100,788	2,926,613	2,883,113	2,806,563
Interst Short Term Borrowing			200,000	250,000	300,000	350,000
New Debt - Level percent general revenues		1,410,897	2,108,955	2,673,623	3,088,287	3,616,587
TOTAL Debt Service/Capital Plan		11,706,608	12,403,443	8,227,411	8,581,725	8,944,125

Expenditure Projections

	Projection Percent	FY2020 Budget	FY2021 Projected	FY2022 Projected	FY2023 Projected	FY2024 Projected
DEFICIT NOTES						
TOTAL Deficit Notes		1,757,442	1,894,000	1,896,775	1,898,125	1,898,200
STATE ASSESSMENTS						
Air Pollution	2.50%	17,903	18,351	18,809	19,280	19,762
RMV Non-Renewal Surcharge	2.50%	227,460	233,147	238,975	244,950	251,073
Regional Transit	2.50%	1,010,718	1,035,986	1,061,886	1,088,433	1,115,644
Special Education	5.00%	84,774	89,013	93,463	98,137	103,043
School Choice Sending Tuition	NSS	433,244	433,244	433,244	433,244	433,244
Charter School Sending Tuition	NSS	28,022,004	29,057,503	30,131,266	31,244,708	32,399,295
TOTAL State Assessments		29,796,103	30,867,242	31,977,643	33,128,750	34,322,061
EMPLOYEE BENEFITS						
Unemployment Compensation	1.00%	150,000	151,500	153,015	154,545	156,091
Medicare	5.00%	650,000	682,500	716,625	752,456	790,079
Retirement	3.60%	9,712,268	10,261,910	10,831,338	11,421,267	12,032,432
Non Contributory Retirement	0.00%	53,208	53,208	53,208	53,208	53,208
ILD, Work Comp, Compensated Absences	1.50%	770,000	781,550	793,273	805,172	817,250
Group Insurance Commission	4.50%	15,300,000	15,988,500	16,707,983	17,459,842	18,245,535
Group Life Insurance	2.00%	14,140	14,423	14,711	15,005	15,306
Dental Insurance	4.50%	624,000	652,080	681,424	712,088	744,132
TOTAL Employee Benefits		27,273,616	28,585,670	29,951,577	31,373,583	32,854,032
RISK MANAGEMENT						
Property Insurance	10.00%	75,988	83,587	91,945	101,140	111,254
Auto Insurance	10.00%	300,000	330,000	363,000	399,300	439,230
TOTAL Risk Management		375,988	413,587	454,945	500,440	550,484
OTHER AMOUNTS TO BE RAISED						
Cherry Sheet Offsets	1.00%	160,785	162,393	164,017	165,657	167,314
Abatements & Exemptions (Overlay)	2.50%	575,000	589,375	604,109	619,212	634,692
TOTAL Other Amounts Raised		735,785	751,768	768,126	784,869	802,006
FREE CASH EXPENDITURES						
Free Cash - OPEB Trust		100,000	100,000	100,000	100,000	100,000
Free Cash - Compensated Absences		100,000	100,000	100,000	100,000	100,000
Free Cash - Workers Comp Claim reserve		100,000	100,000	100,000	100,000	100,000
Free Cash - Injured on Duty Claim reserve (police & fire)		100,000	100,000	100,000	100,000	100,000
TOTAL Free Cash Appropriations		400,000	400,000	400,000	400,000	400,000
MISC./ OTHER FINANCING USES						
Intergovernmental- MVPC	2.00%	29,269	29,854	30,451	31,060	31,682
Intergovernmental- State retire board		50,000	75,000	75,000	75,000	75,000
Other Financing Uses - ch58 reserve		1,051,801	1,105,651	1,157,983	1,211,622	1,266,603
TOTAL Misc./Other Financing Uses		1,131,070	1,210,506	1,263,434	1,317,683	1,373,284
TOTAL GENERAL FUND		319,276,117	327,699,350	331,328,864	339,776,669	348,521,944

Lawrence Financial Forecast: Users' Guide and Assumptions

FY 2020 TO FY 2024

May 2019

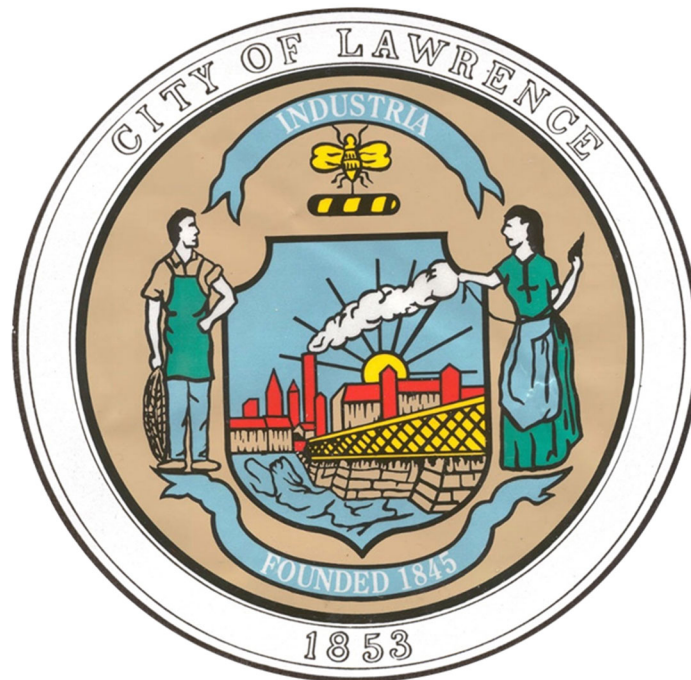


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FINANCIAL FORECAST: USERS' GUIDE AND ASSUMPTIONS

INTRODUCTION

The object of the City of Lawrence financial forecast is to conservatively project revenues and expenditures five years into the future (FY2020-FY2024). The forecast is intended to provide policymakers with the information they need to make informed decisions around the city's financial strategies and policies, long-term financial and capital planning, and long-term contracts or obligations.

Revenue and expenditure forecasting is a powerful financial planning tool that can be used to isolate the impact of particular future events and determine their effects on the city's financial picture. The forecasting model is designed using reasonable assumptions about a wide variety of future events and, by 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, a well-built model presents a fair representation of the city's future finances.

The approach used in the forecast model for the City of Lawrence 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. However, as new information becomes available here forward, the assumptions and estimates used in the current projections will need to be regularly re-evaluated to determine if they are still appropriate and reasonable.

The model is structured as a series of Excel worksheets. Revenues are projected in detail in the "Revenues" worksheet and detailed expenditure projections are contained in an "Expenditures" worksheet. The totals from the detailed revenue and expenditure projections flow into a "Summary" worksheet which reveals projected future operating surpluses or deficits. More detailed sheets are available for more in-depth analysis of issues like new growth (Growth), net school spending requirements, Chapter 70 and the city's minimum local contribution (NSS), and local receipts (Receipts). An additional worksheet that estimates the impact of cost-of-living increases (COLA) in general government collective bargaining agreements flows directly to the City's bottom line and is shown in the Summary worksheet.

REVENUE PROJECTIONS

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.

The FY2020-FY2024 forecast projects new growth at \$3.6 million for FY2020, and \$1.5 million for FY2021-FY2024 of the forecast. This is \$2 million above the new growth revenue estimate used in the prior budget and is primarily due to the infrastructure improvements completed by Columbia Gas. The new growth estimate for the remaining years, FY2021-FY2024, have been reduced back to the normal range of \$1.5 million per year.

Also influencing the projected tax levy is the continued strong personal property growth in the city as well as the city’s intention to distribute “Forms of List” to personal property owners for the first time during FY2017. Owners of personal property are required to file a return by March 1st that identifies and describes their personal property including the make and year of manufacture, as well as the purchase price so that local assessors can include these values in determining new growth and tax assessments for the upcoming fiscal year.

The tax levy projections also factor in Tax Increment Financing (TIF) properties that will contribute to new growth during the forecast period. The TIF exemption is an exemption of a percentage of the increase in a parcel's value over its base value in the year before the exemption was granted. The exemption can last for up to twenty years, and the percentage of the increased value that will be exempt can be up to 100%. Both the duration of the exemption and the percentage of increased value that will be exempt are fixed by the municipal vote that adopts the TIF plan. Several of these TIF exemptions are reaching the end of the agreement period and will contribute to additional new levy growth going forward. In addition, Urban Redevelopment Excise properties (121A) will also be returning to the tax rolls. M.G.L. Chapter 121A exempts urban redevelopment corporations from real and personal property taxes and special assessments but imposes a Chapter 121A excise which is less onerous than taxation under M.G.L. Chapter 59 Assessment of Local Taxes. The rationale for Chapter 121A is to facilitate development of residential, commercial and industrial projects in areas with high tax rates or with less desirable locations. The developer would pay a reduced amount that could be easily calculated over the life of the agreement (ranging from 15 to 40 years). The state collects this excise revenue from these property owners and remits the excise to the appropriate community.

The forecast anticipates that in FY2020 the city will not increase the tax levy by the 2.5% allowed (\$1.85 million). Rather, this amount will add to the city’s unused levy capacity increasing this amount to \$5.8 million and will remain at that level through the remaining forecast period.

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. Levy limit information is published each year by the Division of Local Services (<https://dls.gateway.dor.state.ma.us/gateway/Login>) and should be reviewed periodically in late summer and early fall as growth is certified.

State Aid Cherry Sheet

Chapter 70 – Chapter 70 education aid is determined each year by the Department of Elementary and Secondary Education (DESE) using a complex formula. The formula entails calculating a foundation budget for each municipality or school district based on the number and characteristics of the pupils (e.g., low income, bilingual or vocational) in the district. The foundation budget represents the minimum level of spending necessary to provide an adequate education in each district. Generally, in communities with sufficient resources, required school spending (aka, “net school spending”) is well above the calculated foundation budget, reflective of historically high education spending. In communities with fewer resources and lower historical spending on education, the formula seeks to maintain required net school spending at a level at least as high as the foundation budget.

To determine the relative contributions from municipal revenues versus state Chapter 70 aid necessary to meet required education spending levels, DESE calculates target levels of local (municipal) contribution and target levels of (state) Chapter 70 aid. These calculations are based on the total income of a municipality’s residents and the total property wealth of the municipality. For example, if a community has sufficient income and property wealth to cover 60 percent of the foundation budget, then the State aid target is 40 percent of foundation. Income is measured using State Department of Revenue total income by community from state tax returns and property wealth is measured using equalized property values for each community. Equalized property values are determined by the state every two years and control for differences in local assessing practices. In cases where a municipality has a low ability to pay, less is required from the municipality and state Chapter 70 aid fills the gap between the foundation budget and the required local contribution.

In Lawrence, nearly 90 percent, or \$200 million of the city’s \$225.2 million total FY2020 cherry sheet aid, comes from Chapter 70 state School Aid. As a so-called “foundation aid” community, the formula goal is to keep city education spending at a level that matches the foundation budget. In other words, Lawrence’s net school spending requirement is equal to the city’s foundation budget. As a result, in simple terms, Lawrence’s Chapter 70 aid is a function of the growth in the city’s foundation budget less the city’s required local contribution. The city’s required local contribution is increased annually based on the municipal revenue growth factor (MRGF) that estimates the annual growth in general municipal revenues that support school spending. The foundation budget takes into account the recent growth in enrollment at the Lawrence Public Schools and also factors in inflation levels from the previous year.

To project Chapter 70, the forecast anticipates growth in the foundation budget at 2.5 percent per year, a level lower than the average annual historical change of 4.1 percent. This takes into account the relatively low levels of inflation that will be applied to the FY2020 foundation budget calculations and the fact that enrollment at Lawrence Public Schools appears to have leveled off.

Pupils attending charter schools that live in Lawrence are included in the city’s foundation budget calculations and, as a result, charter school assessments for these pupils count toward meeting the city’s spending requirement. Enrollment at charter schools is projected to continue to grow as two of the existing charter schools are adding a grade per year to move from serving grades Pre-K-4 to Pre-K-8. A third charter school currently has large enrollments in the lower grades with the intention of gradually expanding enrollment. Growth in enrollment at the charter schools contributes to the forecast growth in the city’s foundation budget.

The city's total minimum contribution is expected to increase at 4.15 percent or close to the 4.5 percent it has increased on average over the last four years. This assumes that the city will continue to be considered well below its target local effort based on its income and property wealth. In large part, this is reflective of historically low spending from local resources prior to the Education Reform Act of 1993. Consequently, Lawrence will have to increase its contribution by an additional 2 percent above the city's calculated municipal revenue growth factor.

Aid to Lawrence Public Schools is determined by the district's proportionate share of total foundation and minimum required contributions. The city's total foundation budget and minimum required contribution are then allocated between the Lawrence Public Schools and the Greater Lawrence Vocational district. The share of each allocated to Lawrence Public Schools is currently just under 90 percent. Chapter 70 funding for the Lawrence Public Schools then is calculated by taking the difference between the district's share of the foundation budget and the minimum contribution.

This projection assumes that the state will continue to fund Chapter 70 at the levels necessary to keep communities at their foundation budgets. It does not factor in any of the recent recommendations of the Foundation Budget Review Commission to substantially increase certain foundation budget calculations. If this occurs, this would substantially benefit the Lawrence Public Schools and the Chapter 70 figures included in this forecast will need to be re-examined.

Unrestricted General Government Aid (UGGA) – UGGA is projected to grow at a rate of 2.0 percent. In recent years, when new aid has been added to this account, it has been distributed based on the proportion of existing aid received by a community relative to the total amount of aid to all communities. For example, if a community's existing UGGA represents 2 percent of the total amount statewide, any new distribution to this community will be 2 percent of the amount added to the state total. Due to Lawrence's relatively low property values it has historically received a relatively large share of this aid. While Lawrence was hit hard by the earlier cuts rendered on a percentage basis, as aid has been restored, the city has benefited by the approach used to add the aid back based on existing proportions of UGGA aid.

To keep UGGA and the other cherry sheet accounts below up to date, city officials will need to monitor the local aid estimates published by the Division of Local Services at each juncture of the state budget process: <http://www.mass.gov/dor/local-officials/municipal-databank-and-local-aid-unit/cherry-sheets/>. The first of these estimates will come after the release of the Governor's FY2020 budget in late January of each year followed by 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.

Charter Tuition Reimbursement – Charter school tuition reimbursement is the city's third largest cherry sheet aid account. Aid to Lawrence from this account is a function of the city's total charter tuition assessment and the state funding of this account. Funding for the charter reimbursement has been controversial and levels have fluctuated over the last four years. As a consequence, the forecast includes a projection that this reimbursement will decrease about 10 percent per year reflecting the higher city charter enrollments anticipated in the coming years.

Other Local Aid accounts – These accounts consist primarily of reimbursements for veterans’ benefits, certain local property exemptions, and state-owned land. The forecast has level funded these minor accounts over the next five years. Aid to Public Libraries is considered a cherry sheet offset and may be spent without an appropriation by the city’s libraries. This account has no real impact on the forecast since it is also raised on the expenditure side, essentially pulling it out of the general revenue mix for direct use by the library without appropriation.

MSBA Reimbursement – This revenue reflects the state’s share of school construction costs from the old reimbursement program. This revenue has been level funded through the forecast period, though this payment ends after FY2021.

Local Estimated Receipts – Local estimated receipts are locally generated revenues, other than real and personal property taxes. Examples include motor vehicle excise, investment income, hotel/motel tax, fees, rentals, and charges. Annual estimates of local receipts are shown on the tax rate recapitulation sheet. In total, the city’s actual receipts grew by a moderate 5.6 percent per year from FY2014 to FY2018 and actual receipts have exceeded budget estimates by an average of \$2.9 million for the most recent five years (FY2014 to FY2018).

A direct correlation exists between the performance of these receipts and the city’s free cash certifications. As recently as the period from FY2006 through FY2010, the city had no available free cash at all, including the early years of this period where the city’s free cash was significantly in deficit. Given the importance of local estimated receipts in building positive free cash balances, the forecast has projected local receipts conservatively for all five projection years. Going forward, the city will continue to closely monitor actual receipts as compared to budget estimates for all estimated receipt categories.

Available Funds/Other Financing Sources – The inter-fund transfers from the enterprise funds to the general fund for indirect costs are recognized as other financing sources in the general fund in these projections. In addition, the projection assumes continued funding of the following reserve funds from free cash: OPEB Trust, Workers Comp Claims, Compensated Absences and Injured in the Line of Duty claims.

EXPENDITURE PROJECTIONS

Municipal Departments – In the forecast, departments have been grouped by major categories consistent with city and state expenditure reporting. These categories include General Government, Public Safety, Education, Public Works, Human Services and Culture and Recreation. Personal services and expenses have been broken out separately.

Personal service expenses for public safety and certain other employees have been level funded as collective bargaining contracts are not yet settled. However, in the COLA worksheet, estimates were generated based on various settlement scenarios. Note that the COLA estimates do not include the impact of salary increases for school employees. The rationale for this is that any negotiated increases will be provided for within the required city appropriation to meet net school spending and will not impact general city finances.

Expenses have been projected to increase by 2.5 percent per year, reflective of recent relatively low inflation rates.

Education – To determine spending at Lawrence Public Schools, the school appropriation needed to meet state net school spending requirements is first calculated. As stated in the revenue assumptions, this is accomplished by projecting future foundation budgets and the minimum local contributions from the city. Working from the resulting estimated net school spending requirement, the projected FY2020 charter and choice assessments (\$25 million net of the estimated charter reimbursement) is subtracted as well as the forecasted municipal expenditures that support the schools (\$2.2 million). The remaining amount is the appropriation necessary to meet net school spending (See chart below for summary).

Projected FY2020 School Appropriation	
LPS Foundation budget	\$210,862,362
Less Minimum contribution	(10,866,993)
LPS Chapter 70 Aid	\$199,995,369
Required Net School Spending	\$210,862,362
Less Net Charter/Choice Assessments	(25,000,469)
Less qualifying city costs	(2,263,607)
School appropriation required to meet Net School Spending	\$183,598,286

Other appropriations in the education category include transportation expenses, adult education, and leases of school buildings. These expenses are not eligible under net school spending regulations. In the

forecast, transportation costs and leases of school buildings have been projected to increase by 5 percent per year. Adult education is forecast to grow a modest 2.5 percent per year.

Finally, the education category includes the city's assessment to the Greater Lawrence Technical School. These assessments have grown in recent years and based on this recent historical growth they have been forecast to increase by 4 percent over the forecast period.

Debt Service/Capital Plan – Debt service has been projected based on the city's existing general purpose debt. It does not include any debt related to the enterprise funds as this debt is financed with enterprise fund revenues and does not impact the general fund. Debt service includes the impact of the advanced refunding of city general obligation debt on December 1, 2016. The advanced refunding is essentially the refinancing of existing debt to take advantage of lower interest rates and generate budget savings on a present value basis. With the proceeds from the refinancing, the old issue is paid off and a new debt schedule arises on the new loan terms.

City payments on the deficit notes outstanding are shown separately and are based on the pro-forma schedule prepared by the city's financial advisors. Though it is normally illegal to borrow for operating purposes, special legislation authorized the city to borrow for operating purposes to stabilize its finances. The borrowing is done as a series of notes rather than a long-term issuance and the city has up to 20 years to pay off all of the deficit borrowing. There are 12 years remaining on the deficit notes.

In addition to acknowledging existing debt for which the city is responsible, the five year forecast fully funds the city's comprehensive five-year capital plan for FY2019-FY2023. The forecast includes the city's commitment to increase debt service annually until debt service as a percentage of net revenues reach 7%. Please refer to the City's capital plan for additional details available on the City's website.

State Assessments – By far, the most significant of these assessments is the city's assessment for charter school tuition. This assessment is estimated to be \$28 million in FY2020, or 94 percent of the city's total state assessments. Enrollment at city charter schools is projected to continue to grow as two schools are expected to add a grade per year for each of the next few years. In addition, a third school is accepting larger classes in the lower grades with the intention of gradually becoming a larger school. Therefore, the forecast projects that charter tuitions will continue to rise at 3.7 percent per year for each year of the forecast.

School choice tuition has been fairly low in the city in recent years and is estimated at \$518,018 in FY2020 and is projected to remain at that level for each year of the forecast.

Other state assessments include Registry of Motor Vehicles surcharges, air pollution control, SPED assessments for students in state hospital schools, and regional transit assessments. With the exception of SPED assessments that have been projected to increase 5 percent per year, these costs have been forecast to change by 2.5 percent over the forecast period.

Employee Benefits

Pension costs - City pension costs are projected based on the estimated appropriations issued by the

Public Employee Retirement Administration Commission (PERAC). The city's payments require a 3.6 percent increasing funding schedule over the projection years to reach full funding by 2037. The last actuarial valuation was performed by Stone Consulting, Inc. as of January 1, 2018.

The city budgets the school's share of retirement costs for non-teachers in the school budget and pension costs are also allocated to each enterprise fund. The city's share of the total assessment is about 89 percent, with the Greater Lawrence Technical School District, the Lawrence Housing Authority, and the regional transit system contributing the remaining 11 percent. When school and enterprise fund pension costs are removed, the city appropriates slightly more than half of the city's share of the assessment. The forecast assumes that these percentages remain stable over the forecast period and have forecast pension costs to increase by 3.6 percent per year consistent with the actuarial funding schedule.

Health Insurance – The city receives its health insurance through the state's Group Insurance Commission (GIC). The GIC offers insurance to over 400,000 subscribers and has been relatively successful at keeping health costs low through increasing employee co-payments and deductibles. Similar to pension costs, the city also budgets health insurance directly in the school budget and the enterprise fund budgets. Consequently, the city's budget for health insurance only reflects costs for general fund municipal employees. Between FY2014 and FY2018, health insurance has increased an average of 3.5 percent. Consistent with historical growth, health insurance costs have been forecast to increase by 4.5 percent each year.

Medicare – Medicare has been forecast to increase at 5 percent per year. This reflects the impact of a stable workforce with modest increases in salaries from sources (e.g., longevity) other than cost of living adjustments.

Unemployment – Unemployment is forecast to increase 1 percent as well.

Non-contributory Retirement – Non-contributory retirement is forecast to remain stable.

Dental and Life Insurance – Dental insurance costs between FY2014 and FY2018 have increased on averaged 4 percent per year. The forecast assumes 4.5 percent per year. Life insurance is a very minor cost and this cost has been fairly stable. It has been projected to increase by 2 percent per year.

Risk Management – Fire insurance has been stable over recent years but is projected to increase by 10 percent to account for new fire trucks added to the fleet. Auto insurance has also been projected to increase by 10 percent for each year of the forecast period.

Other Amounts Raised – Other amounts raised include the annual allowance for abatements and exemptions (overlay) and cherry sheet offsets. The overlay has been projected to increase by 2.5 percent per year, moving in tandem with the growth in the tax levy.

Cherry sheet offsets consist of Public Library aid in the amount of \$160,785. This has been forecast to grow at 1 percent per year. As an offset, however, this increase has no impact on the budget as these receipts are earmarked for library spending without appropriation. As such, any growth in this revenue is offset on the expenditure side of the forecast to essentially remove this aid from the city's general revenues.

Free Cash/Miscellaneous/Other Financing Uses - As a best practice, the forecast includes no routine free cash expenditures. However, the forecast assumes annual funding from free cash to support new reserve funds recommended by the state fiscal overseer.

Other Post Employment Benefit Trust

The forecast provides for an initial funding of \$100,000 to establish an Other Post Employment Benefit Trust (OPEB) with an additional \$100,000 per year over the remaining forecast period. OPEB is generally health insurance for retirees. The unfunded liability for this benefit is approximately \$325 million.

Compensated Absence Reserve

The forecast also funds an initial \$100,000 to establish a Compensated Absence Reserve with an additional \$100,000 per year over the remaining forecast period. This reserve will help stabilize the city's operating budget by providing a funding mechanism for severance payouts to employees. Currently, when an employee leaves or retires from the city their severance payout must be paid out of their operating budget. Since it is impossible to predict when an employee may choose to leave or retire from the city, this payout is often a "budget buster" for the department. This reserve will smooth the impact of severance payouts to department operating budgets.

Workers Compensation Claim Reserve

The forecast also funds an initial \$100,000 to establish a Workers Compensation Claim Reserve with an additional \$100,000 per year over the remaining forecast period. This reserve will help stabilize the city's operating budget by providing a funding mechanism for worker's compensation claims. Currently, when an employee is injured at work the claims related to such injury are paid out of the operating budget. The medical bills and the related payments can be significant and is often a "budget buster" for the department. This reserve will smooth the impact of worker's compensation claims on department operating budgets.

Injured On Duty (IOD) Claim Reserve

The forecast also funds an initial \$100,000 to establish an Injured On Duty (IOD) Claim Reserve with an additional \$100,000 per year over the remaining forecast period. This reserve will help stabilize the city's operating budget by providing a funding mechanism for IOD claims for police and firefighters. Currently, when an employee is injured while on duty the claims related to such injury are paid out of the operating budget. The medical bills and the related payments can be significant and is often a "budget buster" for the department. This reserve will smooth the impact of IOD claims on department operating budgets.

Included in this category as well are two miscellaneous expenses; an intergovernmental assessment of \$29,269 to the Merrimack Valley Planning Commission and a payback of \$50,000 to the state retirement system for cost of living increases. The debt to the state retirement system for prior cost of living increases for non-contributory retirees is substantial (\$1.9 million) and the repayment schedule stretches into FY2034 with payments increasing at five year intervals. Other than a \$25,000 increase in the pension payback amount scheduled for FY2021, expenses have been forecast to continue at the same amounts. Annual amounts for the payback increase to as much as \$150,000 in the last several years of the schedule however.