



DANIEL RIVERA
MAYOR & CEO

CITY OF LAWRENCE
OFFICE OF THE MAYOR

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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 10, 2018

Please accept this memorandum as a formal request to place the following item on the **City Council Agenda** for **Tuesday, May 15, 2018**.

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 second five year financial forecast submitted to the city council for review. This forecast covers fiscal years FY2019 to FY2023. 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	FY2019	FY2020	FY2021	FY2022	FY2023
Property Tax Levy	70,063,834	73,514,532	77,051,497	80,676,886	84,392,910
State Aid Cherry Sheet	210,295,928	215,831,607	220,417,460	225,159,525	230,056,271
MSBA Reimbursement	4,750,927	4,750,927	4,750,929	0	0
Estimated Local Receipts	13,803,689	13,414,839	13,719,781	14,039,453	14,374,870
Available Funds/Other Financing	1,290,402	1,308,210	1,326,374	1,344,902	1,363,800
Total Revenues	300,204,780	308,820,115	317,266,041	321,220,766	330,187,852
Expenditures					
General Government	6,215,650	6,277,264	6,340,418	6,405,151	6,471,503
Public Safety	27,261,679	27,738,893	27,772,938	27,807,833	27,843,601
Education	184,598,254	189,901,497	194,174,049	198,606,677	203,198,547
Public Works/Cemetery	9,490,728	9,832,059	10,190,456	10,566,774	10,961,907
Human Services	1,261,929	1,284,807	1,308,256	1,332,292	1,356,929
Culture & Recreation	1,145,215	1,150,468	1,155,852	1,161,370	1,167,027
Debt Service/Capital Plan	11,185,333	11,768,954	12,315,269	8,183,166	9,038,890
Deficit Notes	1,746,561	1,900,100	1,894,000	1,896,775	1,898,125
Intergovernmental	27,325,724	28,309,481	29,329,277	30,386,437	31,482,335
Fixed Costs/Benefits	26,774,408	28,062,471	29,403,413	30,799,443	32,252,865
Risk Management	370,225	407,248	447,972	492,769	542,046
Other Amounts Raised	727,636	904,162	745,079	761,370	778,046
Free Cash/Other Fin. Uses	1,232,876	1,530,086	1,582,429	1,661,077	1,716,064
Total Expenditures	299,336,218	309,067,489	316,659,408	320,061,136	328,707,886
Difference	868,562	-247,375	606,633	1,159,629	1,479,965
Collective Bargaining Impact	868,562	1,567,418	2,280,251	3,007,341	3,748,972
Revenue after COLA	0	-1,814,792	-1,673,618	-1,847,712	-2,269,007

Revenue Projections

	FY2017 Budget	FY2018 Budget	Projection Percent	FY2019 Projected	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected
PROPERTY TAX LEVY								
Prior Year Tax Levy Limit/RE&PP	63,711,774	67,210,871		70,661,377	74,027,911	77,478,609	81,015,574	84,640,963
2.5% Increase	1,593,345	1,680,272		1,766,534	1,850,698	1,936,965	2,025,389	2,116,024
Certified New Growth	1,905,752	1,600,000	0.00%	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000
TAX LEVY LIMIT TOTAL	67,210,871	70,491,143		74,027,911	77,478,609	81,015,574	84,640,963	88,356,987
LESS Excess Tax Levy Capacity	1,921,878	3,602,150	0.00%	3,964,077	3,964,077	3,964,077	3,964,077	3,964,077
TOTAL	65,288,993	66,888,993		70,063,834	73,514,532	77,051,497	80,676,886	84,392,910
STATE AID CHERRY SHEET								
Chapter 70 Education Aid	178,458,236	179,814,383	NSS	184,592,474	190,174,686	194,753,695	199,439,902	204,235,685
Charter Tuition Reimbursement	2,347,031	2,341,877	NSS	4,525,622	4,073,060	3,665,754	3,299,178	2,969,261
School Lunch	0	0	0.00%	0	0	0	0	0
Unrestricted General Government Aid	18,878,674	19,614,942	2.00%	20,301,465	20,707,494	21,121,644	21,544,077	21,974,959
Veterans Benefits	728,790	689,650	0.00%	614,303	614,303	614,303	614,303	614,303
Exemptions VBS and Elderly	111,268	100,535	0.00%	103,875	103,875	103,875	103,875	103,875
State Owned land	5,364	5,364	0.00%	5,553	5,553	5,553	5,553	5,553
Public Libraries	151,159	154,060	0.00%	152,636	152,636	152,636	152,636	152,636
TOTAL Cherry Sheet	200,680,522	202,720,811		210,295,928	215,831,607	220,417,460	225,159,525	230,056,271
MSBA REIMBURSEMENT								
TOTAL MSBA	5,522,088	4,750,927	0.00%	4,750,927	4,750,927	4,750,929	0	0
LOCAL RECEIPTS								
Motor Vehicle Excise	3,540,080	4,630,882	2.00%	4,500,000	4,508,400	4,598,568	4,690,539	4,784,350
Meals Excise	504,394	612,226	3.00%	612,226	579,093	596,466	614,360	632,790
Room Excise	180,000	185,400	3.00%	185,400	190,961	196,691	202,592	208,669
Other Excise	308,000	308,000	0.00%	400,000	400,000	400,000	400,000	400,000
Penalties/Interest on Taxes and Excises	1,115,000	1,361,700	2.00%	950,000	816,000	832,320	848,966	865,946
Payments in Lieu of Taxes	550,000	550,000	0.00%	600,000	600,000	600,000	600,000	600,000
Other Charges for Services	1,278,180	1,278,180	0.00%	1,479,777	1,429,777	1,429,777	1,429,777	1,429,777
Fees	32,400	32,400	0.00%	36,700	36,700	36,700	36,700	36,700
Other Departmental Revenue	58,000	58,000	0.00%	58,000	58,000	58,000	58,000	58,000
Licenses/Permits	1,600,000	1,450,000	0.00%	1,450,000	1,300,000	1,300,000	1,300,000	1,300,000
Fines and Forfeits	758,000	875,160	2.00%	875,160	892,663	910,516	928,727	947,301
Investment Income	180,000	198,000	10.00%	668,176	734,994	808,493	889,342	978,276
Medicaid Reimbursement	1,600,000	1,800,000	5.00%	1,800,000	1,680,000	1,764,000	1,852,200	1,944,810
Miscellaneous Recurring	15,000	188,250	0.00%	188,250	188,250	188,250	188,250	188,250
Miscellaneous Non-Recurring	325,000	0	-100.00%	0	0	0	0	0
TOTAL Local Receipts	12,044,054	13,528,198		13,803,689	13,414,839	13,719,781	14,039,453	14,374,870
AVAILABLE FUNDS/OTHER FINANCING								
Free Cash Appropriated	3,308,556							
Stabilization Reserve for Litigation	400,000							
Free Cash - OPEB Trust		100,000		100,000	100,000	100,000	100,000	100,000
Free Cash - Compensated Absences		100,000		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	100,000
Free Cash - Injured on Duty Claim reserve (police & fire)		100,000		100,000	100,000	100,000	100,000	100,000
Transfer from Enterprise Funds: Indirect Costs	827,995	844,555	2.00%	890,402	908,210	926,374	944,902	963,800
TOTAL Available Funds	4,536,551	1,244,555		1,290,402	1,308,210	1,326,374	1,344,902	1,363,800
TOTAL GENERAL FUND REVENUES	288,072,208	289,133,484		300,204,780	308,820,115	317,266,041	321,220,766	330,187,852

Expenditure Projections

	FY2017 Budget	FY2018 Budget	Projection Percent	FY2019 Projected	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected
GENERAL GOVERNMENT								
Personal Services Expenses	3,721,839	3,766,520	0.00%	3,751,091	3,751,091	3,751,091	3,751,091	3,751,091
	2,589,642	2,569,701	2.50%	2,464,559	2,526,173	2,589,327	2,654,060	2,720,412
TOTAL General Government	6,311,481	6,336,221		6,215,650	6,277,264	6,340,418	6,405,151	6,471,503
PUBLIC SAFETY								
Police Personal Services	12,147,936	12,618,732	0.00%	12,875,951	13,086,951	13,086,951	13,086,951	13,086,951
Police Expenses	702,703	693,703	2.50%	665,263	681,895	698,942	716,415	734,326
Police Total	12,850,639	13,312,435		13,541,214	13,768,846	13,785,893	13,803,366	13,821,277
Fire Personal Services	11,639,495	11,522,743	0.00%	11,788,336	12,021,336	12,021,336	12,021,336	12,021,336
Fire Expenses	734,274	748,899	2.50%	620,564	636,078	651,980	668,280	684,987
Fire Total	12,373,769	12,271,642		12,408,900	12,657,414	12,673,316	12,689,616	12,706,323
Inspectional Services Personal Services	1,073,312	1,091,087	0.00%	1,268,825	1,268,825	1,268,825	1,268,825	1,268,825
Inspectional Services Expenses	35,933	42,740	2.50%	42,740	43,809	44,904	46,026	47,177
Inspectional Services Total	1,109,245	1,133,827		1,311,565	1,312,634	1,313,729	1,314,851	1,316,002
TOTAL Public Safety	26,333,653	26,717,904		27,261,679	27,738,893	27,772,938	27,807,833	27,843,601
EDUCATION								
Lawrence Public Schools	166,678,265	167,587,089	See NSS	171,209,871	175,901,852	179,534,448	183,297,056	187,187,403
Transportation	8,372,566	9,028,987	5.00%	9,209,567	9,670,045	10,153,548	10,661,225	11,194,286
Leases of school buildings		602,851	5.00%	190,982	200,531	210,558	221,086	232,140
Adult Education	1,218,601	1,218,601	2.50%	1,218,601	1,249,066	1,280,293	1,312,300	1,345,107
Total Lawrence Public Schools	176,269,432	178,437,528		181,829,021	187,021,495	191,178,846	195,491,667	199,958,936
Greater Lawrence Assessment	2,515,325	2,470,616	4.00%	2,769,233	2,880,002	2,995,202	3,115,011	3,239,611
Essex Tuition	0	0	0.00%	0	0	0	0	0
TOTAL Education	178,784,757	180,908,144		184,598,254	189,901,497	194,174,049	198,606,677	203,198,547
PUBLIC WORKS								
DPW/Cemetery Personal Services	2,780,664	2,765,120	0.00%	2,664,109	2,664,109	2,664,109	2,664,109	2,664,109
DPW/Cemetery Expenses	6,350,414	6,360,018	5.00%	6,826,619	7,167,950	7,526,347	7,902,665	8,297,798
TOTAL Public Works	9,131,078	9,125,138		9,490,728	9,832,059	10,190,456	10,566,774	10,961,907
HUMAN SERVICES								
Personal Services Expenses	304,200	326,732	0.00%	346,818	346,818	346,818	346,818	346,818
	920,110	920,110	2.50%	915,111	937,989	961,438	985,474	1,010,111
TOTAL Human Services	1,224,310	1,246,842		1,261,929	1,284,807	1,308,256	1,332,292	1,356,929
CULTURE/RECREATION								
Personal Services Expenses	888,018	924,625	0.00%	935,107	935,107	935,107	935,107	935,107
	199,108	199,108	2.50%	210,108	215,361	220,745	226,263	231,920
TOTAL Culture/Recreation	1,087,127	1,123,733		1,145,215	1,150,468	1,155,852	1,161,370	1,167,027
DEBT SERVICE/CAPITAL PLAN								
Existing School Debt Service	8,279,274	6,943,584		6,778,095	6,593,475	6,555,225	1,950,100	1,894,650
Existing General Government Debt Service	2,713,464	3,245,703		3,134,068	2,609,313	2,578,012	2,423,438	2,399,338
Interest Short Term Borrowing	0	0		82,262	200,000	250,000	300,000	350,000
New Debt - Level percent general revenues	485,069	485,069		1,190,908	2,366,166	2,932,032	3,509,628	4,394,902
TOTAL Debt Service/Capital Plan	10,992,738	10,674,356		11,185,333	11,768,954	12,315,269	8,183,166	9,038,890

Expenditure Projections

	FY2017 Budget	FY2018 Budget	Projection Percent	FY2019 Projected	FY2020 Projected	FY2021 Projected	FY2022 Projected	FY2023 Projected
DEFICIT NOTES								
TOTAL Deficit Notes	1,581,325	1,684,040		1,746,561	1,900,100	1,894,000	1,896,775	1,898,125
STATE ASSESSMENTS								
Air Pollution	16,163	16,805	2.50%	17,264	17,696	18,138	18,591	19,056
RMV Non-Renewal Surcharge	362,960	350,380	2.50%	350,380	359,140	368,118	377,321	386,754
Regional Transit	913,191	981,497	2.50%	939,928	963,426	987,512	1,012,200	1,037,505
Special Education	139,432	156,988	5.00%	116,759	122,597	128,727	135,163	141,921
School Choice Sending Tuition	478,161	428,149	NSS	322,176	322,176	322,176	322,176	322,176
Charter School Sending Tuition	20,521,108	21,570,587	NSS	25,579,217	26,524,447	27,504,606	28,520,985	29,574,923
TOTAL State Assessments	22,431,015	23,504,406		27,325,724	28,309,481	29,329,277	30,386,437	31,482,335
EMPLOYEE BENEFITS								
Unemployment Compensation	150,000	150,000	1.00%	150,000	151,500	153,015	154,545	156,091
Medicare	580,000	602,400	5.00%	602,400	632,520	664,146	697,353	732,221
Retirement	8,520,262	8,862,391	3.60%	9,000,076	9,524,079	10,066,946	10,629,356	11,212,012
Non Contributory Retirement	64,714	51,415	0.00%	57,286	57,286	57,286	57,286	57,286
ILD, Work Comp, Compensated Absences	14,655,000	14,655,000	1.50%	1,020,506	1,035,814	1,051,351	1,067,121	1,083,128
Group Insurance Commission	14,000	14,140	4.50%	15,300,000	15,988,500	16,707,983	17,459,842	18,245,535
Group Life Insurance	600,000	624,000	2.00%	14,140	14,423	14,711	15,005	15,306
Dental Insurance	24,583,976	24,959,346	4.50%	26,774,408	28,062,471	29,403,413	30,799,443	32,252,865
TOTAL Employee Benefits								
RISK MANAGEMENT								
Property Insurance	47,000	56,500	10.00%	70,225	77,248	84,972	93,469	102,816
Auto Insurance	217,090	234,700	10.00%	300,000	330,000	363,000	399,300	439,230
TOTAL Risk Management	264,090	291,200		370,225	407,248	447,972	492,769	542,046
OTHER AMOUNTS TO BE RAISED								
Deficits/Judgements/Tax title	170,230	0	0.00%	0	0	0	0	0
Cherry Sheet Offsets	151,159	154,060	1.00%	152,636	154,162	155,704	157,261	158,834
Abatements & Exemptions (Overlay)	549,999	572,000	2.50%	575,000	750,000	589,375	604,109	619,212
TOTAL Other Amounts Raised	871,388	726,060		727,636	904,162	745,079	761,370	778,046
FREE CASH EXPENDITURES								
Free Cash Appropriated	3,308,556							
Free Cash - Stabilization Reserve for Litigation	400,000							
Free Cash - OPEB Trust		100,000		100,000	100,000	100,000	100,000	100,000
Free Cash - Compensated Absences		100,000		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	100,000
Free Cash - Injured on Duty Claim reserve (police & fire)		400,000		400,000	400,000	400,000	400,000	400,000
TOTAL Free Cash Appropriations	3,708,556	400,000		400,000	400,000	400,000	400,000	400,000
MISC./ OTHER FINANCING USES								
Intergovernmental- MVPC	27,186	27,863	2.00%	28,557	29,128	29,711	30,305	30,911
Intergovernmental- State retire board	50,000	50,000		50,000	50,000	50,000	75,000	75,000
Other Financing Uses - ch58 reserve	250,000	489,667		754,319	1,050,958	1,102,718	1,155,772	1,210,153
Other Financing Uses - contingency reserve	439,528	179,925	10.00%	0	0	0	0	0
TOTAL Misc./Other Financing Uses	766,714	747,455		832,876	1,130,086	1,182,429	1,261,077	1,316,064
TOTAL GENERAL FUND	288,072,208	288,444,845		299,336,218	309,067,489	316,659,408	320,061,136	328,707,886

Lawrence Financial Forecast: Users' Guide and Assumptions

FY 2019 TO FY 2023

May 2018

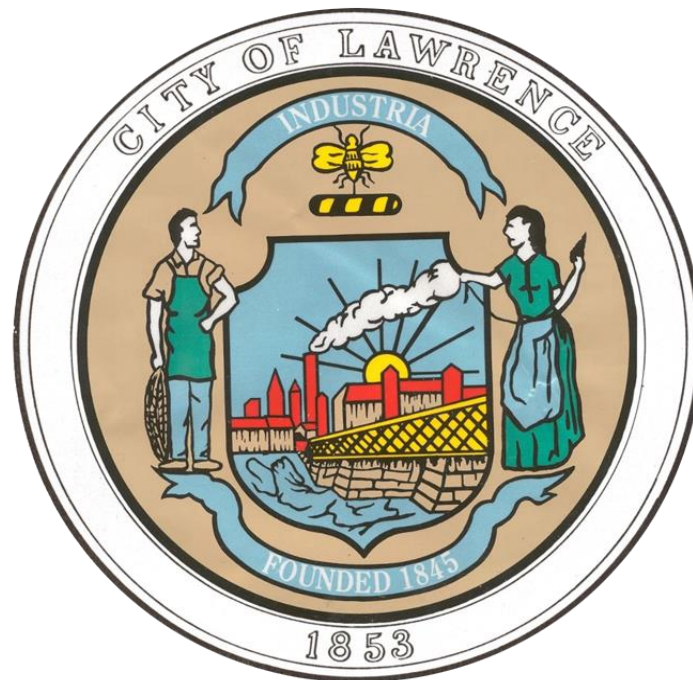


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FINANCIAL FORECAST: USERS' GUIDE AND ASSUMPTIONS

INTRODUCTION

The object of the City of Lawrence financial forecast is to conservatively project revenues and expenditures five years into the future (FY2019-FY2023). 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 FY2019-FY2023 forecast projects new growth at \$1.6 million each year of the forecast. Actual new growth has exceeded \$1.6 million for the last 3 years in a row.

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. For example, the Washington Mills property is expected to contribute about \$5 million in new growth value as the valuation of this property becomes 100 percent taxable in FY2017. 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. In FY2016, these properties contributed about \$200,000 to Lawrence’s certified new growth and additional 121A properties are scheduled to return to the tax rolls, generating about \$200,000 in new growth in FY2020.

The forecast anticipates that in FY2019 the city will not increase the tax levy by the full 2.5% allowed (\$1.76 million). Rather, \$353,306 of this amount will add to the city’s unused levy capacity increasing this amount to \$3.9 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 \$184.6 million of the city’s \$210.3 million total FY2019 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 3.9 percent. This takes into account the relatively low levels of inflation (about 0.2 percent) that will be applied to the FY2019 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 4.9 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 2.5 percent consistent with the historical growth rate in this account. 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 FY2017 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 increase about 3.7 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 budget expectation for estimated receipt revenues has changed little from FY2011 to FY2019, approximately 1.2% annually. However, actual receipts grew by a moderate 6.5 percent per year from FY2011 to FY2017 and actual receipts have exceeded budget estimates by an average of \$3.6 million for the most recent three years (FY2014 to FY2017). In contrast, in the two years before FY2014, actuals only exceeded estimates by an average of \$1.8 million.

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. For example, modest growth is projected in motor vehicle, meals and rooms excises while licenses and permits are estimated to decline.

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 – In prior years, the city has appropriated free cash after the tax rate was set such that these appropriations are reflected on the following year’s tax recapitulation sheet. For example, appearing on the FY2018 tax rate is \$4,856,029 in free cash appropriated for FY2017 costs. For the most part, these appropriations were for capital items, a litigation reserve, snow and ice deficit and a court judgment. As a best practice, the forecast includes no routine future use of available funds for the city’s operating budget. However, given that the snow and ice account is traditionally underfunded, future appropriations from free cash to offset these expenses may be necessary in future years.

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.

Enterprise Funds – For forecasting revenues and expenditures for the water/sewer enterprise fund we assumed that rates would be unchanged for the forecast years. We assume that future debt service for capital needs will be offset by appropriations from the enterprise’s substantial retained earnings (\$19.1

million on 7/1/2017). We forecast both revenues and expenditures to remain the same and have increased the payments from the enterprise funds to the general fund for indirect costs by 2 percent per year to reflect rising forecast health insurance and pensions costs.

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 enterprise fund employees or school employees. The rationale for this is that any negotiated increases to enterprise fund employees will be accommodated within existing enterprise fund revenues. In a similar manner, school salary 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 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 FY2018 charter and choice assessments (\$19.8 million net of the estimated charter reimbursement) is subtracted as well as the forecasted municipal expenditures that support the schools (\$1.8 million). The remaining amount is the appropriation necessary to meet net school spending (See chart below for summary).

Projected FY2019 School Appropriation	
LPS Foundation budget	\$194,712,670
Less Minimum contribution	(10,120,196)
LPS Chapter 70 Aid	\$184,592,474
Required Net School Spending	\$194,712,670
Less Net Charter/Choice Assessments	(21,492,530)
Less qualifying city costs	(2,010,269)
School appropriation required to meet Net School Spending	\$171,209,871

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 have been projected to increase by 5 percent per year each year. Adult education leases are forecast to grow a modest 2.5 percent per year.

Finally, the education category includes the city's assessment to the Greater Lawrence Vocational 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 13 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 \$25.6 million in FY2019, or 95 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 \$438,935 in FY2019 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 only slightly (1 or 1.5 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 2036. 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 90 percent, with the Greater Lawrence Vocational School District, the Lawrence Housing Authority, and the regional transit system contributing the remaining 10 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 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 4.5 percent per year. The forecast assumes the same 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 1 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. The forecast increases the overlay to \$750,000 in FY2020 when the city will undergo state certification of its property values.

Cherry sheet offsets consist of Public Library aid in the amount of \$154,060. 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 workers 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 workers 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 \$28,557 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 FY2022, 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.

PROCESS FOR UPDATING FORECAST MODEL FOR NEXT YEAR

The process for updating the forecasting spreadsheet to reflect a new base year is fairly straightforward, but it must be done systematically and with care to update formulas as necessary. Consequently, it is strongly recommended that users save a separate back-up file of the spreadsheet before any changes are saved in the spreadsheet they are updating. Generally, the updating of the spreadsheet should occur at the very end of the current fiscal year or early in the next fiscal year, after the city's budget for next year has been adopted by the city council and final cherry sheets are issued. This also coincides with when the city prepares a pro-forma recap for submission to the Division of Local Services. As such, the city should use the revenue estimates from the pro-forma recap to populate the revenue side of the model as the new base year. The city's budget for the upcoming year should be used as the new base year data on the expenditure side and the previous year's budget data updated to reflect actual spending as this becomes available after the city's books are closed.

The forecasting spreadsheets consist of the following worksheets: Revenues, Expenditures, Summary, Growth, Net School Spending (NSS), Receipts, Debt (percentage calculations), and Cost-of-Living adjustments (COLAs). In general, these sheets should be updated by inserting a new column to the left of the "Projection Percent" column. After this is completed, cell references in the first forecast year should be updated. Specific processes for each sheet are described below.

Revenues – Add a column to the left of the Projection Percent column that is shaded in yellow. This will be the column where the new budget data will be entered which at first will be based on the city's pro-forma recap submission. Next, the formulas in the first projection year will need to be updated to reference the new column where the budget data will be input. Formulas in subsequent years of the forecast should update, but care should be taken to make sure that they are working as expected. Finally, the fiscal year labels for the projection years will have to be updated (for example, as FY2018 becomes the base year of the forecast, FY2019 will become the first forecast year). A new column is then added at the far right for a fifth forecast year and formulas can be copied as appropriate from the adjacent, prior year column.

Expenditures – Similar to the Revenue worksheet update, a new column must be added to the left of the Projection Percent column for entering the new budget approved by city council. Cell references in the first projection year will need to be updated so that they refer to the appropriate cells in the new column with the budget data. Labels on the column headings of the projection years will also need to be updated and a column added at the far right so that the model continues to be a five year forecast. Formulas can be copied into this column from the adjacent column to the left.

Summary – In the Summary worksheet, cell references should be updated to reflect the new base year (e.g., FY2018 rather than FY2017) and a new column (with formulas) added to the right for a fifth forecast year.

Receipts – In the local receipts detail sheet, it is likely that two columns need to be added to the left of the columns that measure average percent change. One of the columns is for the FY2017 actual receipts

when they are available and the other is for the FY2018 budget estimates. The two percent change columns then need to be updated so that the historical averages include the new data added. Next, cell references should be updated in the first forecast year to reference the new budget data entered for FY2018. Column headings for forecast years should be updated to reflect new fiscal years and a column should be added to the far right for an additional forecast year. Formulas for subsequent forecast years should be checked to be sure they are working properly as well.

NSS – To update the NSS sheet, add a column to the left of the average percent change column in the spreadsheet. In late June or early July, the Department of Elementary and Secondary Education (DESE) releases the final net school spending, minimum local contributions and Chapter 70 aid figures, so these numbers should be available when the city prepares its pro-forma recap for DLS. The average percent change formulas will need to be updated to include the new year of historical data and cell references in the first forecast year should now refer to the data in the new column with the most recent actual data. The charter and choice historical data will need to be re-arranged slightly with the “cut and paste” functions so that it isn’t separated by a blank column (due to the column added above).

Growth – The new growth sheet provides a ten year history of prior certified new levy growth for the city. Updating this sheet merely requires replacing forecasted growth with actual certified growth as this occurs each year.