



**MEDFORD, MASSACHUSETTS
MAYOR BREANNA LUNGO-KOEHN**

June 20, 2024

Via Electronic Delivery

To The Honorable President and
Members of the Medford City Council
Medford City Hall
Medford, MA 02155

Re: Fund General Stabilization & Establish and Fund Capital Stabilization Funds

Dear President Bears and Members of the City Council:

I respectfully request and recommend that your Honorable Body vote to appropriate Free Cash in the amount of Six Million Dollars (\$6,000,000) into the General Stabilization Fund established earlier this year by your Honorable Body. As you know, the vast majority of cities and towns in the Commonwealth of Massachusetts have a General Stabilization Fund in order to provide for emergencies and unforeseen expenses. A simple majority of the City Council is required to appropriate funds into a stabilization fund.

Further, in accordance with Chapter 40, Section 5B of the General Laws, I respectfully request and recommend that your Honorable Body take the following actions, each requiring a 2/3rds majority vote of the City Council for establishment:

- Establish a Capital Stabilization Fund and vote to appropriate Five Million Dollars (\$5,000,000) of Free Cash to this fund; and
- Establish a Water & Sewer Capital Stabilization Fund and vote to appropriate Two Million Dollars (\$2,000,000) of Retained Earnings to this fund.

As you are aware, Free Cash and Retained Earnings are only available after certification through June 30th of each year. Each year without a stabilization fund, the City could face significant challenges in addressing emergencies or capital needs from July 1st until certified.

Chapter 40, Section 5B of the General Laws stipulates that "Cities, towns, and districts may create 1 or more stabilization funds and appropriate any amount into the funds..." The Division of Local Services, Financial Management Resource Bureau, notes in a published article:

"A city or town's capital assets are a vital part of providing essential services to residents. Capital assets include public buildings and structures, roadways, parks and fields, large equipment like dump trucks, mowers, fire engines, fire breathing apparatus, police cruisers, radio equipment, as well as land acquisitions. Major repairs to a capital asset, or when it needs to be replaced unexpectedly or reaches its expected useful life early, can be a significant shock to the budget. Additionally, deferred maintenance of existing capital assets is a major contributor to capital failures, as these necessary upkeep costs are sometimes avoided in the interest of balancing the budget. One way to better prepare for capital expenditures, both planned and unexpected, is to



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establish a special purpose capital stabilization fund dedicated to funding regular, required capital repairs and maintenance.”

Enclosed, please find a draft Free Cash plan for your review and input.

Thank you for your kind attention to this matter.

Respectfully submitted,


Breanna Lungo-Koehn
Mayor

Enclosure



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To The Honorable President and
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Medford, MA 02155

Re: Free Cash and Retained Earnings Update / Request for Input

Dear President Bears and Members of the City Council:

On June 18, 2024, the City of Medford received Notification of Free Cash Approval from the Massachusetts Department of Revenue, Division of Local Services as follows:

“Based upon the un-audited balance sheet submitted, I hereby certify that the amount of available funds or "free cash" as of July 1, 2023 for the City of Medford is:

| | |
|-------------------------------|-----------------|
| General Fund | \$34,241,981.00 |
| Enterprise Fund WATER & SEWER | \$11,164,741.00 |

This certification is in accordance with the provisions of G. L. Chapter 59, §23, as amended.”

As per requests to the City Council dated June 18, 2024, I am requesting the following funds be appropriated from Free Cash.

\$ 6,000,000 – General Stabilization Fund
\$ 5,000,000 – Capital Stabilization Fund
\$ 3,000,000 – MSBA needs
\$14,000,000

The Capital Stabilization funding mentioned above would be a source for FY24 and prior year capital improvement needs. For the remaining funds, I anticipate the following future appropriation requests. I welcome the City Council’s input on future appropriation requests before my office and the finance team work to finalize an initial roadmap for the funds.

\$ 1,000,000 – Additional funding to renovate the Hegner Center
\$ 2,500,000 – Fire Department Fleet replacements
\$ 2,000,000 – Pension Liability
\$ 2,000,000 – Fiscal Year 2025 Capital Improvements
\$ 2,000,000 – Fiscal Year 2026 Capital Improvements
\$ 9,500,000



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Please note that we do not anticipate future certifications to be as large as the last few years. There are many factors that contributed to the balance in free cash today, including conservative estimating of revenues in the pandemic years, vacancies in personnel positions, health insurance budget turn backs and the availability of ARPA funds. While best practices still dictate that we should be somewhat conservative on revenue estimates, we push the envelope for FY25 with our finance director's help. We are now able to process personnel hires faster than we were able to in the past, are not expecting any health insurance turn backs (instead, actuals are showing a deficit for FY24) and the ability to appropriate ARPA funds ends December 31, 2024.

Finally, as the Council may know, the Division of Local Services' general stabilization recommended goal is five to seven percent of the current operating budget range. For Medford, five to seven percent of the FY25 budget would be \$9.47 to \$13.26 million.

On the funds certified for the Water & Sewer Enterprise, as the Council knows, \$2 million is proposed for a capital stabilization fund specifically for water & sewer and the City is presently performing a water system analysis, capital plan and rate study, which will help further inform the City in its planning efforts to address the aging water infrastructure across the City.

Thank you for your kind attention to this matter.

Respectfully submitted,


Breanna Lungo-Koehn
Mayor