



Transmittal Letter

Honorable Mayor Gary Christenson

Dear Members of the City Council,

I'm pleased to present a balanced budget for Fiscal Year (FY) 2024 which covers the period from July 1, 2023 to June 30, 2024. While balanced, this budget does require the use of one-time funds which is something we all need to be aware of as we think about our collective goals and future budgets. We are, I believe, entering a new phase that will impact our local finances in a myriad of ways.

I have mentioned multiple years in a row the anticipated cost increases associated with public education. We know the great work that was done by our State Delegation in delivering for our public schools through the Student Opportunity Act (SOA), and this year, Malden benefited greatly with an additional \$9 million in Chapter 70 aid. I've also reminded everyone of the additional burden that the SOA will place on our local finances. The formula that drives the local contribution component is deeply flawed and will continue to overburden our local finances with required contribution increases that will force us to make some tough decisions in other areas of city services. At the same time, this year's budget reflects the continued ramp up in our share of the debt associated with the Northeast Voke building project, which at the full run rate in two years will result in an annual cost of about \$1.3 million for Malden. Both will be key drivers for us in future budget planning and they are things we will not have any control over.

On the revenue front, FY24 shows that revenue is slowing across the board, which is consistent with what is being reported at the state level. Last year in particular, our budget benefited from significantly increased local receipts which were benefits from the 'return to normal'. Clearly, that pattern is changing as everything from new growth to meals taxes to excise taxes level off. As mentioned at the beginning, these things tend to run in waves, so this is unlikely to be a one-year trend.

On the expense front, the FY24 budget reflects several trends that we should all be mindful of as they are likely to impact future budgets. In addition to the education cost drivers outlined above, our health care consultants have advised us to plan on significant claim increases for FY24. We have talked often about the impact of COVID on the health care system, the delay in elective procedures, and in general the uncertainty it injected into the health care systems. Locally, that had the positive effect of capping health care costs increases the past couple of years. Those days appear to be ending. This budget reflects a 7.5% increase in costs, and even at that, we are at the very low end of where our consultant has advised us to be. This has the potential to significantly impact our budget for the next few years.

For many years now, we have been in a low interest rate environment, which has been very friendly to municipal finances. The cost of money has been extremely low by any historical standard, and the low inflationary environment has kept a lid on the increase in personal costs, our number one expense. Both of those trends have ended. We've all seen the spike in interest rates, and that increases our costs for every borrowing we undertake. Perhaps even more significantly, our employees have, of course, been hit by the rising costs of everything, and with that comes the expectation that the cost-of-living increases will keep pace. This all is happening as we find revenues flattening out, and other costs increasing.

On a positive note, we have continued to utilize the once in a lifetime opportunity presented by the American Rescue Plan Act (ARPA) in a way that will leave a lasting impact on our community, while also helping to take some pressure off of future local budgets. We have put these funds to work in a way that has allowed us to do things we might not otherwise have been able to do or would have done so at the expense of something else. Of course, as these funds end in December of 2024, it will require adjustment and discipline to recognize that, given all of the above, the reality will be that we simply can't continue ARPA funded initiatives without sacrificing something else in its place.

This budget also reflects the third year presenting the budget using the ClearGov platform. The implementation of the new online budgeting tool last year represented a tremendous leap forward by the City in modernizing our budget process, increasing the depth of information shared with the public and generally making the annual budget a more comprehensive exercise. We were thrilled when our efforts were recognized with our first ever Government Finance Officers Association's (GFOA) Distinguished Budget Presentation Award. This is the gold standard for budgets, and we should all be proud to have achieved this recognition. I expect that each year, we will fine tune our use of this new platform and improve our budgeting process going forward. Each year, our budget not only sets the financial plan for our community but also acts as a policy

document, an operations guide, and a communications tool. To that end, we are embracing our commitment to sustainability and the environment by presenting this budget for review by the City Council utilizing the online digital budget book. I know you will find this easy to navigate as you review and discuss the budget.

This budget book also includes appropriations and relevant data for three additional funds, specifically the Water and Sewer Enterprise Fund, Community Preservation Act Fund and the Cable Access Enterprise Fund. Please note that the appropriation order for the General Fund is less than the total budget shown in this document as several line-item expenses are funded through assessments from the state which do not require an appropriation. In following best practices recommended by Cleargov and the GFOA, we will continue to add content to the digital budget book prior to the final submittal of the same for the GFOA award.

In closing, the FY24 Budget is hereby submitted as a fiscally responsible plan, and a foundational basis of the City's annual operations. I would like to once again thank Chief Strategy Officer Ronald Hogan and Chief Financial Officer Chuck Ranaghan who have been working on this budget and for the continued improvement of our transformative approach since January. I also want to thank our Department Heads who actively participated in the budget process through this platform.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Gary Christenson".

Mayor Gary Christenson