



**To:** The Honorable Commissioners of Cambridge  
**From:** Tom Carroll, City Manager *Tom Carroll*  
**Date:** May 31, 2022  
**Subject:** Fiscal Year 2022-2023 Draft Budget (FY 23 Budget) Transmittal Memorandum

Please find attached the draft FY 23 City of Cambridge Budget for your consideration and adoption before July 1, 2022.

A municipal budget is much more than a series of spreadsheets showing where funding comes from and how the municipality is spending it. A city budget is akin to a policy contract showing the taxpayers what the city will do for them in the upcoming year. It is both an operational plan for day-to-day services and a capital plan showing how public infrastructure such as parks, roads, sewers, and public facilities will be improved over twelve months. It is easy to become immersed in the line items when reviewing a budget. To be sure, these details matter. But it is also important to keep the overall picture in mind so that we can fully understand how this series of spreadsheets implements the community's goals and aspirations.

To assist with this process of shifting between the details and the big picture, this draft Budget makes several changes to the format. New to the draft Budget document this upcoming fiscal year is the establishment of a Special Projects Fund. This new fund will be used for tracking one-

time capital projects. This change allows Council to examine the General Fund as primarily an operating fund. Separating daily operations in one fund and accounting for larger, special projects (often continuing for more than one fiscal year) into another fund will improve our ability to use the budgeting process as a policy contract with the taxpayers. It will also strengthen the development of a Capital Improvement Plan (CIP) that began in 2016-2017.

Attached to this memorandum are two new tables that summarize the fiscal position of each of the City of Cambridge's five funds, both for the FY 22 Budget we are now concluding and the upcoming FY 23 draft Budget. These tables give a high-level overview of each fund's financial position, revenues, and expenditures. The key performance indicator in each fund is the projected ending fund balance. Using this as a tool, Council can always examine how much funding the City will carry forward so that we are controlling spending or making additional investments with a full understanding of what this will mean for future budgets. Table 1 shows the starting position on July 1, 2022 for each of the four current funds the City of

Cambridge has. Then it shows projected revenues and expenditures. In each case, revenues will meet or exceed expenditures in FY 22, meaning all four fund balances will be as good or better at the start of the upcoming fiscal year.

Table 2 includes the new Special Projects Fund and the City's existing funds. You will see that the General Fund and Marina Fund will draw down modestly on fund balances to implement the FY 23 plan reflected in the draft Budget.

Tables 1 and 2 allow Council to analyze the sum of all expenditures and see immediately how any changes to the draft Budget will impact the City's fiscal position over year. These are simple but valuable tools for guiding deliberations. Should the Commissioners elect to add or subtract expenditures from the draft Budget, these tables will instantly adjust, and we can measure each amendment's impact on the projected FY 23 ending fund balances.

Throughout the remainder of this budget message, I will detail the financial conditions and plans for each of the City of Cambridge's five funds.

In addition, I will detail recommendations to invest \$3,312,131 from the American Rescue Plan Act (ARPA) in FY 23. Please note staff is recommending \$1.2 million of ARPA funds be used for revenue replacement in the next three fiscal years. This includes \$500,000 in FY 23, \$400,000 in FY 24, and \$300,000 in FY 25.

To help understand where the City of Cambridge is with our ARPA investments, a short recap may help.

The City of Cambridge was provided \$12,079,282 from ARPA. In FY 22, the City spent or committed \$2,553,701 for a fire truck, police retention bonuses, non-

profit support, and fire truck repair. This leaves over \$9.5 million available.

### American Rescue Plan Act Summary

Allocation	Expenditure	Remaining ARPA
FY 22 Investments	(\$2,553,701)	\$9,525,581
Revenue Replacement for FY 23, FY 24, FY 25	(\$1,200,000)	\$8,325,581
Proposed FY 23 Investment	(\$3,312,131)	\$5,013,450

By using some ARPA funding for revenue replacement in the upcoming three fiscal years, the City of Cambridge still has over \$8.3 million remaining. I will detail an additional \$3,312,131 in recommended expenditures below, which will leave an unallocated total of \$5,013,450 for additional investment. Later in this budget message, I will outline a broad recommendation for allocating the remaining \$5 million in ARPA funding.

The draft Budget does not raise taxes or fees, maintains public service levels, and carries forward substantial unspent but available monies in each fund. The City of Cambridge is thus in a stable financial position, a reality enhanced by ARPA.

### General Fund

Overall, the General Fund in this draft Budget is not structurally balanced. That is, the General Fund as proposed will receive \$12,814,267 in revenues but will spend \$13,759,707 in expenditures. This imbalance between revenues and expenditures is \$945,440 for FY 23.

To adjust for this, the FY 23 Budget utilizes \$500,000 from ARPA as a "revenue replacement" and utilizes

\$445,440 of General Fund balance from unexpended appropriations in FY 22.

Having a structural imbalance is obviously not a sustainable long-term fiscal approach. That said, it is perfectly appropriate to utilize unspent funds from prior years to provide for operating expenses in a given budget year.

As shown in Tables 1 and 2 attached to this transmittal memorandum, the City of Cambridge began FY22 with \$5,309,303 in undesignated General Fund balance; the FY 23 Budget will end the fiscal year with a \$5,241,418 undesignated fund balance. In other words, if Council adopts the draft Budget as presented, the City will end the upcoming fiscal year in substantially the same fiscal position it began the fiscal year we are now completing.

This is a great outcome and a perfectly acceptable policy decision, and provides time for the Commissioners and staff to discuss long term strategies and priorities, analyze our tax base now and into the future, develop plans to adjust our operations as needed to ensure structural balance, and decide how to maximize the benefits of the \$5 million in undesignated ARPA funds. It is worth pointing out that this budget fully funds at least six currently vacant positions which will not be filled by the start of FY 23. Inevitably, additional vacancies will occur, and vacancies are one of the primary reasons why the City's FY 22 revenues exceed our expenditures. So, our actual FY 23 structural deficit should be less than projected.

Thus, there is no reason for major concern from the mere fact that the General Fund spends more next year than

the it will receive. The City will need to be intentional about our financial planning in the months ahead.

### *Wages and Benefits*

This draft Budget provides an across the board 4% wage increase for all employees other than the City Manager. In addition, many positions are receiving an additional adjustment upwards to better compete in a very tight labor market. This is most pronounced within the Cambridge Police Department which has struggled with employee retention and recruitment for the last two years. Additionally, our Public Works employees and many office employees also have wages that are falling too far behind the market.

Tables 4-7 at the end of this draft Budget show position pay adjustments and total personnel costs for the City of Cambridge. These tables will become part of the annual budget document so Council and the public can see how our City of Cambridge employees are compensated and what our total organization human resource costs are.

In addition to increasing base pay for employees, this draft Budget recommends a one-time investment of \$300,000 from ARPA for the benefit of City employees. This will be discussed in greater detail below in the Special Projects Fund. Because it has operational impacts and positively impacts employees, I wanted to mention this here as part of the discussion about wages and benefits.

Between wage adjustments and one-time ARPA investments, the City of Cambridge is investing substantially in our workforce in FY 23. Our employees are our most important asset. Labor market conditions and inflation

necessitate that we increase compensation, and our current financial condition allows the City to do so. It is my expectation that through base-salary increases, one-time pandemic payments, and wellness incentives, the City of Cambridge can both demonstrate our commitment to our employees and compete in a very tight labor market.

#### *Operations*

Beginning in FY 22, the City of Cambridge entered into a lease program with Enterprise Fleet for Police cars and some Public Works utility pickup trucks. This is an approach I have used with success in other cities because it allows Enterprise to monitor the costs of operating each leased vehicle on a cost-per-mile driven basis. Enterprise will advise us as to the best time to replace leased vehicles because leased vehicles are either costing too much in maintenance or have a greater resale value on the secondary market. Lease costs are reflected in lines 385, 707, 858 in the draft Budget (all line items are numbered for easy reference). It is important to keep in mind these are recurring annual costs. This approach is worth exploring and enables an upgrade to our fleet. Staff will evaluate the costs and benefits in future years to ensure the City of Cambridge is netting optimal value through this approach.

The Information Technology Division has \$230,860 for hardware and software investments in FY 23. This is a greater IT investment than in years past. In addition to this funding in the General Fund, this budget recommends an additional \$57,231 in ARPA funding for yet-to-be-determined investments in technology. Staff looks forward

to working with the technology committee and Cambridge departments to determine the best use of this funding.

An additional major General Fund expenditure warrants discussion. Included in the Rescue Fire Company (RFC) budget is the financing of a replacement for an obsolete Fire Rescue Truck. The draft Budget includes \$140,880 in FY 23 for the first of 15 years of annual non-bonded debt payments for this replacement cost. A prior \$76,983 annual payment for a previous fire truck financing retired in FY 22. Thus, the non-bonded debt payment in the RFC budget is only increasing by approximately \$63,897 annually even as we prepare to replace an approximately \$1.70 million apparatus. Finance Director Deborah Cooper and I are continuing to analyze the best approach for financing this acquisition, and Ms. Cooper has been in contact with Cambridge-area banks to price out private placement financing options.

Other line items throughout the General Fund are adjusted as necessary. Inflation pressures are impacting our costs for fuel, electricity, supplies, materials, and professional services. Cost containment measures will be utilized where possible to control expenditures, and department heads will be invited to find additional ways to save wherever possible in the coming fiscal year. The City of Cambridge is experiencing the same inflationary pressures as our residents and small businesses are, and this has implications throughout the draft Budget in many line items.

#### *Position Controls*

The draft Budget increases the potential pay for the authorized-but-unfilled assistant city engineer and economic

development director positions to assist with recruitment. This draft Budget eliminates the authorized-but-unfilled grants coordinator and assistant personnel director positions but creates the Management Analyst position in the City Manager's Office. This budget eliminates a part-time clerical position in the Building Safety Services Division and adds an additional maintenance employee in the Department of Public Works to serve our new and refurbished parks.

This draft budget keeps the number of budgeted positions in the Cambridge Police Department the same as in FY 22, though one sworn officer position has been converted to a civilian at a lower rate of compensation. This will allow the City to retain a very promising employee who aspires to become a police officer but who was unable to complete the police academy this year.

Overall, the General Fund will maintain service levels the Cambridge community enjoys and expects. In the months ahead, staff will analyze operations, tax base, revenue opportunities, and costs to reduce the gap that exists between available revenues and expenditures.

### **Special Projects Fund**

This new fund will account for and reflect major capital projects paid for with transfers from the General Fund, grants, or other intergovernmental revenue such as ARPA. These larger capital projects are different from an operating expense and thus it is appropriate to account for them in their own fund.

In FY 23's Special Projects Fund, you will see a variety of revenues and expenditures associated with grants carried forward from FY 22. In most cases, these grants are

for specific, restricted projects. For instance, next year the City of Cambridge will receive a \$343,784 grant (line 946) from the State of Maryland for Cornish Park refurbishment. An equal expenditure shows up in the Special Projects Fund to reflect the expenses this grant will pay for (line 988). By separating capital grants for specific projects or restricted purposes in the Special Projects Fund, we strengthen our ability to plan for operating and capital costs. Staff will enhance the labeling and descriptions of each of these projects in future reports so that Council and the public can more easily understand each special project.

Through generous support from the State of Maryland, the Commissioners' remarkable success in advocating for the City, and outstanding staff work led by Pat Escher and George Hyde, the City of Cambridge has many capital projects in the draft FY 23 Budget totaling \$6,451,284. In addition, the Special Projects Fund shows several smaller feasibility or planning studies. These proposed projects are broad ranging, from addressing sea level rise to revitalizing the Pine Street Historic District to installing roadway improvements near the Packing House redevelopment project. This is a very sizable capital improvement program, approximately half the size of our General Fund. Simply put, the City of Cambridge is doing an amazing job obtaining competitive grants to revitalize our community.

Additionally, the draft budget recommends \$3,312,131 from the ARPA funds. This draft Budget utilizes \$500,000 for revenue replacement in FY 23 and recommends the City reserve \$700,000 more for revenue replacement in FY 24 and FY25.

Combined with ARPA investments already committed to in FY 22, the City will have spent or reserved \$7,065,832 from the total \$12,079,282 in ARPA funding. If Council implements the recommendations in this draft Budget, Council will have \$5,013,450 remaining for additional investments in strategic priorities.

Please note this draft Budget does not allocate ARPA funding for additional fire equipment or critical sewer projects. As detailed above, staff is recommending financing the requested \$1.7 million for a replacement rescue truck. Additionally, the City of Cambridge will need to spend more than \$6 million on the West End Sewer Upgrade and Trenton Street Pump Station Upgrade projects to reduce wet weather sewer overflows in the next two years. At this time, staff is still analyzing how to make these sewer investments. Council should expect additional presentations on these presently unfunded priorities in the months ahead. Should it prove necessary, some ARPA funding from the remaining \$5 million may be used to pay for these sewer projects. Staff remains hopeful these important sanitary sewer projects can be completed using grants, bonds, and sewer working capital.

Proposed ARPA investments for FY 23 are detailed in a separate table (Table 3) accompanying the Special Projects Fund. These investments are described in more detail below. These projects are listed and discussed in order of the City Manager's priority recommendation.

#### *Community Oriented Policing*

This budget provides \$100,000 in ARPA for training, consulting, and community engagement supporting

community-oriented policing. This is the top priority for ARPA investment in FY 23.

The nation has endured a sharp spike in violent crime over the last two years. Nationally, relationships between police agencies and communities—particularly communities of color—are increasingly strained because of so many high-profile incidents of police misconduct and tragic in-custody deaths. Across the country, police officers are being directed to change their tactics and approach to law enforcement. Officers feel beleaguered and are hesitant to insert themselves into high-stress situations when a split-second decision will be forever second guessed. With community trust low and officers hesitant, violent crime is rising and communities across the country feel less safe. The gap between the community and law enforcement seems to be widening.

These national trends are felt in Cambridge. Our community has large pockets of deep, intergenerational poverty and disinvestment. In some parts of Cambridge, the CPD is challenged with crimes often associated with larger, urban settings, including drug trafficking, prostitution, sexual assaults, overdoses, assaults, and murder. Residents on too many Cambridge streets see crime around them routinely, wonder why it continues, and question why the CPD cannot stop it. CPD officers wonder why community members who see this crime do not engage with officers sufficiently to allow CPD to arrest criminals and keep the community safe. This same story is occurring across the nation, and Cambridge is not immune to these trends. These broad societal problems are manifesting in ways that heighten tension, fear, and disinvestment locally.

At the very moment when Cambridge is experiencing a spike in violence, many CPD officers are resigning. As discussed above, this draft Budget includes significant measures to address wage and benefit concerns we have heard about from our police. Officers also need additional tools, training, and leadership to improve our community's partnership with our residents. It is incumbent upon us as a City to take measures to improve our working relationship with all residents. It is for this reason this draft Budget recommends \$100,000 for community-oriented policing.

Community-oriented policing is an approach to law enforcement that calls on all officers to partner with residents to prevent crime and solve community problems perpetuating crime. Police departments with successful community-oriented policing efforts expect each officer will build positive relationships with community members. This does not mean officers don't arrest criminals or take enforcement actions as necessary. But it does mean that police officers are expected to use both soft and hard skills to keep the community safe.

To achieve this, I am recommending we engage a paid consultant, former Baltimore Police Chief Melvin Russell. This budget invests \$65,000 to provide a year of consulting support from this proven leader who will partner with the CPD and the Cambridge community to advise how we reduce crime together.

The remaining \$35,000 of funding will provide resources for special activities and projects stemming from resident engagement and employee training. This is a sizeable investment in our community's social fabric instead of our bricks and mortar. But this investment has the

potential to be more enduring and more transformative. I believe this investment is essential to improving relations with the community which in turn will reduce crime and support our women and men working for the CPD.

#### *Public Works Equipment*

This draft Budget recommends \$500,000 for public works equipment. Public Works Superintendent Holden is still developing a plan for this \$500,000 allocation. Candidly, the entire DPW fleet and rolling stock inventory needs to be replaced. More investment will be needed in years to come, but this level of investment is an important first step. Because of the importance of the services DPW provides and because of the condition of our DPW fleet, this is my second highest priority recommendation from ARPA funding for FY 23.

#### *Health and Wellness*

The third highest ARPA priority is investing \$135,000 for wellness incentives for active employees eligible to receive Cambridge's health insurance. This investment is part of a longer-term strategy to control health costs for the taxpayers while improving the quality of life for our employees.

Starting in July, the City will offer for the first time a high-deductible healthcare plan option in addition to our more traditional health insurance plan. The City will provide employees choosing this new option \$2,000 in a health savings account (HSA) next year. We are still working out the details of when these HSA deposits will be made into employee accounts. This deposit is contingent upon these

employees both selecting the high deductible plan and participating in our wellness program described below.

An HSA is a pre-tax medical saving plan which has proven tremendously beneficial to both employers and employees. The City of Cambridge does not presently offer our employees the option to use payroll deduction to fund HSAs nor do we offer a high deductible healthcare plan that incentivizes employees to optimize their healthcare decisions. In addition to providing \$2,000 in an HSA, employee premiums will be reduced for those opting to enroll in the high-deductible healthcare plan. Employees will thus have choices guided by incentives encouraging a migration to consumer-driven healthcare.

For employees staying with the City's traditional plan options, the City will offer a \$1,000 bonus (gross) to participate in a wellness program in FY 23. This wellness program will simply require these employees have an annual physical with their primary care physician and obtain both a dental and vision examinations. The \$1,000 incentive will be disbursed after these appointments are completed and documented. Unfortunately, employees who elect to remain in the traditional health insurance plan in FY 23 are not allowed by law to set up their own HSAs through payroll.

This is the third highest priority from ARPA for two reasons. First, I have heard employee concerns about their health insurance expenses. Allowing all employees access through payroll to an HSA is an empowering tool for our employees. Second, the City's wellness program has had sub-optimal results, and the City's long-terms health cost risks are significant as a result.

I have been impressed with Cambridge's health insurance consultants at the McWilliams Group. They support incentives to improve wellness and manage long-term healthcare costs. This ARPA investment is part of a broader strategy to encourage employees to move from traditional health plans with modest co-pays and deductibles to a consumer-driven healthcare plan commonly used in other municipalities and the private sector. In FY 23, Cambridge will continue to offer its traditional health insurance plan. In future years, the costs to employees of participating in the traditional health plans will increase. But through a wellness program and smart incentives, employees will be able to manage their own health goals and align their interests with the City's. In future years, the City can evaluate what (if any) contribution it can make to employee HSAs depending on health costs.

#### *Cambridge Harbor*

The draft Budget recommends \$300,000 in FY 23 to support the Cambridge Harbor redevelopment project led by the Cambridge Waterfront Development, Inc. (CWDI). The Cambridge Harbor project is at a critical inflection point, thanks to significant support from Governor Larry Hogan, the State of Maryland, Dorchester County, and the City of Cambridge. The imminent demolition of the hospital will clear the land for private developers to see the economic potential of more than \$250 million of investment in the coming years. Because of the economic benefits to Cambridge, this funding recommendation is my fourth highest ARPA priority. If approved, the City of Cambridge



and CWDI will enter into an agreement on the uses of this funding.

CWDI requested \$1 million from ARPA from both the City and County. This \$300,000 investment, while sizeable, is a fraction of this request. At this time, it is not known what level of support Dorchester County will make. I will note staff is recommending that Council consider an additional \$500,000 for economic development from the \$5 million in undesignated ARPA resources. I fully expect staff will recommend investing more at Cambridge Harbor from the remaining \$5 million in ARPA later in FY 23 or in FY24.

#### *Additional Non-Profit Support*

This draft Budget recommends an additional \$500,000 to support Cambridge's non-profit organizations. Community organizations submitted more than \$3.5 million of requests on May 13<sup>th</sup> against an FY 22 allocation of \$500,000. This draft Budget will increase this non-profit support between the two fiscal years to \$1 million. The review process has yet to be begun, but our non-profit partners provide important health, social, cultural, and equity services. This is the fifth highest City Manager priority for the \$3.3 million in FY 23 ARPA funding recommendations.

#### *Harriet Tubman Mural and Cannery Way Improvements*

Recently Council challenged City staff to explore more comprehensive solutions for the siting of the Ben Morris (Harriet Tubman's father) replica cabin, including the potential to acquire more land. A Cannery Way public engagement process is already underway, including

representatives from the Harriet Tubman Museum and Education Center and Alpha Genesis. One objective of this process is to improve the overall experience visitors have who come to downtown Cambridge to view the powerful *Take My Hand* mural here. The area adjacent to this community anchor will benefit from improvements, including accessibility, seating, signage, and public rest rooms.

Providing \$200,000 for this evolving project is an investment that will enhance learning and healing. It will also support our Main Street businesses. This \$200,000 allocation should allow the City of Cambridge to acquire additional property to enable public responsibility for the vicinity around this civic and cultural treasure.

#### *Diversity, Equity, Inclusion*

The seventh highest ARPA priority is a modest expenditure of \$36,000 to provide consulting assistance to develop a diversity, equity, and inclusion (DEI) initiative within our organization. I believe our organization can better mirror the Cambridge community and can ensure that all within the organization have a voice. Staff will benefit from enhancing our own cultural competencies so we can serve our residents, visitors, and each other better. I believe public sector organizations must be intentional about making this type of investment.

#### *Pandemic Pay*

I recommend the City provide \$165,000 for one-time pandemic pay for active employees who worked for the City of Cambridge during the first 15 months of the COVID-19

pandemic. This will provide an additional \$1 per hour worked between March 20, 2020 (the first pay period during the initial lockdown phase) and June 18, 2021 (when vaccines were widely available to all).

Each employee's actual pandemic pay will vary depending on actual hours worked during this time frame. For full-time employees who worked throughout this period, gross pay will vary between \$2,000 and \$2,400.

Employees who started after that period will not receive pandemic pay, and people who worked some or all of this period who are no longer employed will not receive pandemic pay.

This approach recognizes that employees who served the public during the height of the pandemic exposed themselves to the virus and provides modest compensation to them for the risks they assumed before vaccines were widely available. This is one of the explicit eligible expenses in the American Rescue Plan Act, and will be a helpful, one-time payment to our employees for their dedicated service during the pandemic.

#### *Road Resurfacing*

The ninth ARPA priority in the draft Budget is \$500,000 for road resurfacing. A 2018 pavement analysis recommended a minimum annual investment of \$500,000 per year in our road system. Unfortunately, the City has been unable to provide this level of support in the intervening years. This ARPA investment will enable the City to resume road maintenance and improvements, though costs have gone up and road conditions have worsened since 2018.

It is hoped this allocation will be deployed on Woods Road in partnership with Dorchester County since both jurisdictions have responsibility for this job-center arterial roadway. These discussions with state and county officials are ongoing. If for some reason the City and County are unsuccessful in obtaining grants to undertake Woods Road in FY 23, this funding can be redeployed by the City Engineer to maximize its benefit on other roadways identified in the 2018 pavement analysis.

#### *Technology*

The tenth ARPA priority included in the draft Budget is \$57,231 for investments in technology. As discussed above, the Information Technology Division has \$230,860 for key investments in FY 23. This \$57,231 ARPA allocation will supplement that funding and provide the chance to invest in additional solutions.

For instance, the technology committee has expressed the goal of placing GPS devices on critical City equipment such as the streetsweeper, snowplows, and patrol cars. This will not only improve transparency, but will also enable the City to analyze service effectiveness. Other technology needs include City Council packet management software, records management software, video monitoring at parks and other public spaces, and investments in a tiered system for rental inspections. More staff research is needed to optimize the allocation of this \$57,231 funding.

#### *Public Facilities Investments*

The eleventh priority is to provide \$100,000 for small public facilities improvements. These include:

- \$35,000 for restoration of the exterior and façade at the Council Chambers on Gay Street,
- \$55,000 for reroofing public works facilities and one of the two shelters at Gerry Boyle Park,
- \$10,000 for the demolition of a storage shed at the Department of Public Works which is in very poor condition.

These types of projects will ideally become a normal part of our robust capital improvement program.

#### *Demolition*

Cambridge has an aging housing stock with far too many properties at the end of their useful life. Some have been essentially abandoned by their last owner, and it therefore falls to the City to raze these structures so they do not become attractive nuisances. Cambridge currently has two homes which have been through the court process to demolish them, but the City has no funding for razing the structures. This \$100,000 will provide a source of funding to pay for these two vacant structures as well as a reserve to raze another four to five vacant structures in the future. Demolitions will be overseen by Building Safety Services.

#### *Cannery Park*

This draft Budget provides \$500,000 in ARPA for investments to advance the work at Cannery Park adjacent to the Packing House. The combination of public greenspace and revitalized industrial space creates a unique

opportunity for Cambridge to attract employers to our community and revitalize a community landmark. Our Planning Director believes this \$500,000 investment will enable the City to obtain additional grants to advance this project further.

#### *Public Safety Video Monitoring*

The 14<sup>th</sup> ARPA priority included in the draft Budget is \$100,000 to replace broken video monitoring equipment within the Public Safety Building. This equipment is critical for security, risk management, and accountability, and has not functioned for approximately four years.

#### *Art in Public Places Reserve*

The last ARPA funding priority included in the FY 23 draft Budget is \$18,900 to establish an Art-in-Public-Places reserve. This figure is 1% of the capital investment from the FY 23 ARPA recommendations. The idea of setting aside 1% of a capital budget for public art is borrowed from cities such as Denver and Kansas City, though a few smaller and forward-leaning jurisdictions do this. Over time, this 1% for the arts accumulates and will enable the City to commission significant public art which might include murals, sculptures, banners, or any other art medium.

Cambridge is already blessed with amazing public art. The community has considerable artistic talent that could be engaged to create more, and we could commission national artists too. More discussion and research are needed to establish an art in public spaces program. Including this

modest 1% of the arts set aside from the ARPA is a small step in that direction.

I hope Council will consider including this as an experiment in FY 23 and we can work together to grow this into an annual program if it is as successful as it has been in other communities. Public art can be part of a broader revitalization, tourism, and place making strategy.

As detailed above, this draft Budget recommends an additional \$3,312,131 in ARPA spending while still leaving more than \$5 million for future allocation.

### **Sanitary Sewer Fund**

The Sanitary Sewer Fund is one of three enterprise funds maintained by the City of Cambridge. An enterprise fund can be thought of like a separate business entity owned and operated by the Commissioners of Cambridge. The City charges customers fees every month to collect and treat wastewater, and the more wastewater a customer generates the higher their fee. The City can only spend sewer revenue on the provision of sewer services, and cannot spend sewer revenue for policing, fire services, or road maintenance. So, all business activities associated with sewers are shown exclusively in the Sanitary Sewer Fund.

Municipal wastewater treatment is vital to public health and is heavily regulated by state and federal agencies. The City of Cambridge has partnered with Maryland Environmental Services for more than two decades to oversee our eight million-gallon-per-day (8 mgd) capacity sewer treatment plant. To transport sewage to the plant, the City maintains a complex underground system of gravity mains, manholes, pressurized mains, and pump stations.

During heavy rain events, stormwater filters into this collections system, and at times this combined water exceeds the capacity of the system to transport both the rain and sewage to the treatment plant. This unfortunately leads to sewer overflows, both a threat to public health and a violation of regulations.

The worst locations in Cambridge for these overflows are along Water Street and Hambrooks Boulevard in the West End, and at the Trenton Street Pumping Station. Both areas need substantial investment in the next two years. The West End Sewer Upgrade is expected to cost more than \$2.5 million, and the Trenton Street Pumping Station project will be \$3.5 million. (By way of comparison, the Sanitary Sewer Fund revenue is less than \$4.5 million annually, so these near-term projects are a major investment relative to the size of our sewer enterprise.) The City is truly fortunate to have received \$504,000 in direct allocation from the federal government thanks to U.S. Senator Cardin, but the City still must provide \$5.5 million for these projects.

Fortunately, the Sanitary Sewer Fund recently retired a bond that should free up working capital in the coming years. This may enable the Commissioners to issue a new municipal bond to pay for these projects. Additionally, substantial funding is expected to begin to be made available as a result of the 2021 Bipartisan Infrastructure Law (BIL). Federal agencies are still writing rules on the disbursement of this funding, so it is not clear at this time how much help the BIL will be for the City of Cambridge's sewer needs.

Sewer rates were last raised in 2013. In the coming months, staff will be developing a five-year *pro forma* for all enterprise funds with the greatest attention being paid to the

Sanitary Sewer Fund because of the \$6 million in revenue requirements for these two near-term projects. This *pro forma* will help Council develop policy around rates, debt, grants, and impact fees to ensure the long-term solvency of the Sanitary Sewer Fund.

This draft Budget provides \$350,000 for engineering services for the West End Sewer Upgrade project which may be ready to bid as early as January of 2023. The draft Budget does not provide the \$2.5 million needed for construction. It is clear Council can expect additional deliberations in the next six months or so to determine a funding plan for these two important, yet expensive sewer construction projects.

### **Municipal Utilities Commission (MUC)**

The City of Cambridge is fortunate to have a well-run water utility with ample, affordable, and high-quality drinking water. The MUC has a resident commission appointed by the City Commissioners to advise and oversee our most important municipal function: the provision of clean drinking water to our residents.

Like the Sanitary Sewer Fund, MUC is an enterprise. Customers pay for the water they use and the fees Cambridge collects for this service are segregated into a restricted fund which is not co-mingled with other revenues or expenses. Water rates, like our sewer rates, have not been increased since 2013. It will be important to also develop a *pro forma* examining revenue requirements so that MUC can implement its long-term capital plan. This is less urgent than with sewer, but is an important part of ensuring the long-term stability of this enterprise.

City employees working at MUC will also receive a cost-of-living and market-based adjustment in FY 23. Moreover, these MUC employees will also receive pandemic pay and wellness compensation from ARPA assuming Council approves these investments.

### **Marina Fund**

The City's third enterprise fund is the Marina Fund. Our marina supports working watermen, recreational boaters, cruise ships, transient boaters, dockside fishing, and visitors simply enjoying the views of our lighthouse and scenic beauty.

For the first time in several years, the Marina Fund has no debt obligations. The annual debt service of approximately \$255,000 was essentially paid for from the General Fund as sufficient revenue was not available within the Marina Fund to meet this obligation. Paying off this obligation in FY 22 is of benefit to both the General Fund and the Marina Fund.

The Marina Fund will end FY 22 with a surplus of \$71,086 and will have an FY 23 operating deficit of almost \$76,480. The Marina Fund is projected to end FY 23 with over \$328,894 in working capital, so this is an acceptable fiscal position.

That said, the Marina Fund will need to replace three piers (E, F, and H) in the next five years. Each pier replacement is expected to cost \$1 million. Retrofits to several other piers are also necessary so that the marina can rent out 30- to 40-foot boat slips instead of the much less desired 50+ foot slips which often go unrented. The Marina has additional long-term capital needs from rising sea levels

and subsurface waves which will necessitate additional investment. The modest slip rental fees and earned income from fuel and electricity resale will not provide enough revenue to meet these major capital investments needed in the next few years.

Accordingly, the Marina enterprise requires more research, attention, and resident engagement in order to develop plans for its continued viability. Additionally, the City's contract with Oasis will need to be renegotiated in 2023, and this has to be part of the City's overall approach to ensuring the long-term health of the Marina and the Marina Fund.

The only notable capital expenditure in FY 23 included in the Marina Fund is a \$20,000 routine replacement of a gator and accessory equipment.

**Remaining ARPA**

If Council adopts the draft Budget, the City still has more than \$5 million of remaining ARPA funding to designate over the next 18 months. This is over 40% of the total ARPA funds Cambridge has received. Still, there is far more need than available resources.

Some additional areas I think deserve the most consideration include affordable housing preservation, homeownership support, economic development, environmental sustainability, land banking, youth services and youth safety, and investments in municipal operations that reduce costs or improve efficiencies.

I believe the following general priorities should be considered for the remaining \$5 million:

- Capitalizing a land bank to acquire land for redevelopment, \$1 million.
- Affordable housing preservation and home ownership assistance, \$1 million.
- Environmental sustainability investments with the twin goals of reducing Cambridge's ongoing municipal energy costs and reducing the City's carbon footprint, \$750,000.
- Support for school violence reduction and direct support for non-profit organizations serving youth, \$750,000. This could include school security improvements and support for the Mace's Lane Community Center project's Girls and Boys Club.
- Economic development, \$500,000.
- Additional investments in equipment and technology to improve municipal efficiency, \$500,000.
- Downtown revitalization and streetscape enhancements, \$500,000.

This recommended allocation does not fund the restoration of the treasured City Hall on Gay Street or investments in bike paths and intermodal transportation. To be sure, there are far more needs than there are resources. And as mentioned already, it is possible some of the remaining balance of ARPA funding may be needed for sewer upgrades. Holding off for another six months on spending the remaining balance of ARPA funding is therefore prudent.

## Financial Reserves

The Government Finance Officers Association (GFOA) recommends a full-service municipal government like the City of Cambridge have two months of operating cash set aside in a “rainy day” fund or emergency reserve.

For the City of Cambridge, with annual General Fund expenditures of \$13.7 million, this would equate to a rainy-day fund of \$2,286,000. This draft Budget leaves \$5.241 million in undesignated fund balance in the General Fund at the end of FY 23. Thus, the City of Cambridge will end the fiscal year with more than double the balance it needs to meet GFOA’s best practice. This is an excellent position to be in and is a testament to fiscal prudence and hard work of prior Councils and City staff.

In the coming years, staff will develop a financial reserve policy to present to Council. Having this policy and knowing what reserve levels should be will facilitate future conversations about capital plans, debt, operating expenses, and other priorities. This same analysis is essential for the City’s enterprise funds too. It may be advisable to set up additional financial reserves such as a debt reserve, a capital equipment reserve, and an art-in-public-places reserve.

## Conclusion

This draft Budget is a provisional document. It is not a comprehensive analysis of all the investments that will be made in the upcoming fiscal year. More staff research and analysis will be needed before staff is prepared to make recommendations on several key policy issues, including:

- Developing a funding plan for essential sanitary sewer projects such as the West End Sewer Upgrade and Trenton Avenue Pump Station Upgrade.
- Preparing a five-year forecasts for all of the City’s enterprise funds to guide future planning, investment, and rates.
- Determining specific uses of technology investments to improve efficiency, enhance services, or cut costs.
- Formalizing reserve policies.
- Determining the strategic use of the remaining \$5 million in ARPA that is not specifically allocated in the FY 23 budget or reserved for FY24 and FY 25.
- Reviewing and analyzing the Marina’s needs and developing a plan for implementing these needs.
- Listening to suggestions emerging from community engagement around law enforcement, DEI, non-profit support, economic development, and perhaps public art.
- Developing plans to ensure the operating budget is structurally balanced with revenues equaling or exceeding expenditures.

This budget does, however, provide a plan for continuing key services, leveraging considerable grant and intergovernmental investment, and of significant importance, investing in our City of Cambridge workforce.

I have had the pleasure of working for the City for six weeks. My co-workers are hard working and professional with deep commitments to the Cambridge community. None is more so than our Finance Director, Deborah

Cooper. She and I have spent numerous hours together developing this draft Budget. She too is new to the organization, having only been our Finance Director for a year. For both of us, this is our first annual budget we are preparing to present to City Council. Ms. Cooper and I are learning together how our finances reflect the organization and community priorities. I am extremely grateful for her intellect, hard work, patience, insightful questions, and grace. She and I are looking forward to having more time together for future budget processes when we will be able to prepare more comprehensive fiscal plans.

Even though this budget document leaves some important questions yet to be answered, it accomplishes a great deal. The draft Budget:

- Engages the community to reduce violent crime.
- Invests heavily in our City of Cambridge work force.
- Maintains or enhances our service levels.
- Demonstrates that we exceed best practice reserve targets.
- Accelerates the deployment of ARPA funding on key community and organizational priorities.
- Provides a path to ensure structural balance to the City's General Fund is obtained over the next three fiscal years.
- Makes needed investments in our fleet and public facilities.
- Formally initiates conversations in the City of Cambridge organization around diversity, equity, and inclusion.

This is truly rewarding and important work, and I am honored to be part of these discussions.

Budget workshops are scheduled for 6:00 p.m. on June 6<sup>th</sup> and June 21<sup>st</sup>. The first readings of the 2022-2023 Appropriation ordinance and the 2021-2022 Reappropriation ordinance are set for June 21<sup>st</sup> with adoption expected on June 27<sup>th</sup>. Staff will also present a fee resolution and a wages and classification table at one of the June budget meetings.

Staff will advertise a budget public hearing for June 21, 2022 at 6:00 p.m. Final passage of the budget is expected on June 27, 2022.

Setting forth the annual budget is truly one of the most important policy activities of the year, and I look forward to discussing next year's draft Budget starting on June 6<sup>th</sup>, and continuing this discussion throughout the year as further plans are developed and prioritized.

Respectfully Submitted,

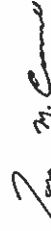




Table 1. Fund Summary Fiscal Year 2021-2022 Projection

FUND SUMMARY - 2021-2022 Projection	City of Cambridge, 2021-2022 Fiscal Year				
	7/1/2021	2021-2022 Revenues	2021-2022 Expenses	Net Change	6/30/2022 Unassigned Fund Balance
General Fund	5,309,303	20,237,972	19,860,418	377,554	5,686,857
Special Projects Fund (newly created in FY 23)	Unrestricted Cash Balance	2021-2022 Revenues	2021-2022 Expenses	Net Change	Unrestricted Cash Balance
	0	0	0	0	0
Sanitary Sewer Fund	533,280	4,771,993	4,063,491	708,502	1,241,782
Marina Fund	334,288	790,558	719,472	71,086	405,374
Municipal Utilities Commission	1,236,087	2,459,231	2,459,231	0	1,236,087
Ending Balance FY2022 Projection	7,412,958	28,259,754	27,102,611	1,157,142	8,570,100

Table 2. Fund Summary Fiscal Year 2022-2023 Budget

FUND SUMMARY - 2022-2023 Budget	City of Cambridge, 2022-2023 Fiscal Year				
	7/1/2022	2022-2023 Revenues	2022-2023 Expenses	Net Change	6/30/2023 Unassigned Fund Balance
General Fund	5,686,857	13,314,267	13,759,707	(445,440)	5,241,418
Special Projects Fund (newly created in FY 23)	Unrestricted Cash Balance	2022-2023 Revenues	2022-2023 Expenses	Net Change	Unrestricted Cash Balance
	3,485,940	13,270,925	12,831,284	439,641	3,925,581
Sanitary Sewer Fund	1,241,782	4,676,542	4,655,016	21,526	1,263,308
Marina Fund	405,374	681,500	757,980	(76,480)	328,894
Municipal Utilities Commission	1,236,087	2,617,899	2,617,899	0	1,236,087
Ending Balance - FY2023 Budget	12,056,040	34,561,133	34,621,886	(60,753)	11,995,287

**Table 3. ARPA**

	Description	Revenue	Expenditures	Committed	Total
1023	<b>Release #1</b>				
1024	Tower Fire Truck	6,039,641			6,039,641
1025	Police Retention		(1,613,701)		(1,613,701)
1026	Non-Profits		(340,000)	(500,000)	(500,000)
1027	Fire Truck Repair			(100,000)	(100,000)
1028					
1029	ARPA Balance - Release #1	6,039,641	(1,953,701)	(600,000)	3,485,940
1030					
1031	<b>Release #2</b>				
1032	Community Policing	6,039,641			6,039,641
1033	Public Works Vehicles			(100,000)	(100,000)
1034	Health and Wellness Incentives			(500,000)	(500,000)
1035	Cambridge Harbor			(135,000)	(135,000)
1036	Non-Profits			(300,000)	(300,000)
1037	Cannery Way Project			(500,000)	(500,000)
1038	Diversity, Equity, and Inclusion			(200,000)	(200,000)
1039	Pandemic Pay			(36,000)	(36,000)
1040	Road Resurfacing			(165,000)	(165,000)
1041	Technology			(500,000)	(500,000)
1042	Public Facilities			(57,231.00)	(57,231.00)
1043	Housing Demolition			(100,000.00)	(100,000.00)
1044	Cannery Park			(100,000)	(100,000)
1045	Public Safety Video Monitoring			(500,000)	(500,000)
1046	Art-in-Public-Spaces Reserve			(100,000)	(100,000)
1047				(18,900)	(18,900)
1048					
1049					
1050	Revenue Replacement, 2022-2023				-
1051	Rev Replacement, 2023-2024			(500,000)	(500,000)
1052	Rev Replacement, 2024-2025			(400,000)	(400,000)
1053				(300,000)	(300,000)
1054					
1055					-
1056					-
1057	ARPA Balance - Release #2	6,039,641	-	(4,512,131)	1,527,510
1058					
1059	<b>ARPA Undesignated Balance</b>				\$ 5,013,450