

# CITY OF PEABODY

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## OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 5, 2019

Honorable Members of the City Council  
Peabody City Hall  
24 Lowell Street  
Peabody, Massachusetts 01960

Honorable Members:

In accordance with Section 32 of Chapter 44 of the Massachusetts General Laws, I hereby submit to your Honorable Body my recommendations for the City of Peabody's Fiscal 2020 Operating Budget.

Over the past few months I, along with our department heads and school officials, have worked together to compile what we consider to be a financially responsible budget plan for Fiscal 2020 which complies with all the mandatory spending limitations imposed by Proposition 2 1/2. Department heads have followed my directive to level fund their Fiscal 2020 spending plans wherever possible. I want to express my appreciation for the efforts of so many department heads who have diligently managed their budgets and have worked with me over the past five months as we developed this operating budget.

The FY 2020 Budget removes Water & Sewer and other direct costs from the City's Operating Budget to a separate enterprise fund for Water & Sewer. The result of this change is a reduction in the FY 2020 Operating Budget from FY 2019. For comparison purposes statistics for FY 2019 have also been reduced by the FY 2019 value of Water & Sewer and other direct costs.

The Fiscal 2020 Operating Budget as submitted totals \$158,836,940. Of that amount \$84,538,303 (53%) is requested for salaries; \$38,170,217 (24%) for employee benefits and \$36,128,420 (23%) is for expenses. The Fiscal 2020 Budget is \$5,995,926 or 3.9 % more than the adjusted Fiscal 2019 Operating Budget [\$171,286,426 less Water & Sewer \$(18,445,412)] of \$152,841,014.

The Fiscal 2020 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$122,708,520 or 77% and

accounts for the largest expense category citywide. Professional Services includes contracted services for special education services, tuition, transportation, trash and recycling, snow and ice removal as well as contracted services for architectural, engineering and construction, totals \$15.5 million (10%). Intergovernmental Services total \$3.7 million (2%) and is primarily the assessment for the Northshore Essex Technical Vocational School \$4.3 million an increase of \$244,025 due to increased enrollment less school choice receipts of \$(640,213). Purchase of Services, Supplies and Other Charges total \$2.9 million (3%). Debt Service and Capital Outlay total \$9.5 million a slight decrease from the Fiscal 2019 Operating Budget.

The City portion of the Fiscal 2020 Budget totals \$77,193,715 and has decreased \$12.4 million because of the transfer of water and sewer costs to its own enterprise fund. Of that amount, \$31,467,724 or 40.7 % is for salaries; \$26,646,038 or 34.5% is for employee benefits, funding 423 (FTE) employees. Five plus positions were eliminated from the FY2020 budget totaling approximately \$300,000. Operating expenses including Debt Service are \$19,079,953. Increases include; \$966,204 for public safety funding a staffing change moving four fire lieutenants to captain; An additional \$53,000 for the Healthy Peabody Collaborative which will lose grant funding in October and increases for school nursing \$82,398, retirement contributions \$122,900 and payroll processing \$45,000. Salary lines are fully budgeted at actual or anticipated FY2020 rates for all unions and ordinance positions. Most of the major unions, police, fire, teachers, administrators, school afscme, and library are under agreement with 2% rate schedule increases for FY2019 to FY2021. Any remaining units are expected to be settled and paid in FY2020.

The Fiscal 2020 Budget for Public Safety is \$21.6 million of which salaries total \$20.6 million (95%) and operating expenses total \$1 million (5%). The Police Department Budget totals \$11,133,583 a net increase of \$509,266 (4.8%) and staffing for 111 full time positions down from 112 in FY2019. One unfilled patrolman position budgeted in FY2019 was cut \$ (58,260). The Fire Department Budget totals \$10,108,787 an increase of \$521,527 (5.4%) over last year funding 106 positions including 4 vacancies that the City is in the process of hiring. The Fire Alarm Budget was reduced \$(57,194) (-17.65%) by not filling one signal maintainer position.

The Fiscal 2020 Budget for Public Services totals \$8.3 million of which salaries total \$2.8 million (33.8%) and includes staffing for 37 full time positions. Operating expenses total \$5.5 million (66.2%). There is a \$ (16.7 million) decrease primarily cause be moving sewer and water budgets to an enterprise fund.

The Fiscal 2020 Budget for Employee Benefits totals \$26.4 million an increase of \$134,900 from FY2019. This budget category includes Retirement Benefits, Workers Compensation Benefits, and Insurance Administration for Health Insurance, Property, Casualty and Liability Insurances, Life Insurance and Medicare Taxes. The 2020 MIA Blue Cross Health Insurance Premium Rates increased an average of (5%) and along with retirement benefits increasing \$122,900 (1.2%) In addition, there is \$955,970 for employee

benefits budgeting in the water & sewer enterprise including \$575,000 for Health and \$327,970 for retirement.

The table below is based on Fiscal 2020 health rates and total enrollment as of May 2019 of 2,735 members. It summarizes our enrollment by plan and the projected cost for the City's 85% share for HMO and 84% share for PPO.

| Plan                | Individual | Family | Total Cost   |
|---------------------|------------|--------|--------------|
| Blue Care Elect PPO | 189        | 333    | \$9,378,457  |
| HMO Blue/Select     | 279        | 548    | \$13,202,791 |
| MEDEX 2             | 1386       |        | \$4,677,704  |
| Totals              | 1854       | 881    | \$27,258,952 |

In comparison, our projected City share for Fiscal 2019 Blue Cross Blue Shield costs are \$26.2 million. A \$1 million dollar increase to the City.

Total Health Insurance costs projected for Fiscal 2020 will be \$32.2 million and employees/retirees/mitigation fund share will be \$5 million based on current enrollments of 2,735 participants. A new four-year agreement has been negotiated with the Peabody Public Employee Coalition expiring June 30, 2023.

We have made efforts to reduce costs by offering a limited HMO plan, and in FY2021 a high deductible plan with an HSA (Health Savings Account), and an opt-out opportunity for employees currently enrolled in a City Health plan. In addition, premium contributions for employees enrolled in the PPO Blue Care Elect plan will increase to 16%, 17%, 18% and 20% over the life of the agreement.

The Fiscal 2020 School Budget as recommended and voted by the School Committee totals \$77,295,393 and allows for a 4.3% increase or \$3,160,000 in spending over last year's budget of \$74,135,393 exclusive of the Assessment for the Northshore Essex Technical Vocational School which totals \$4,347,832 an increase of 5.9% over last year's assessment. The combined budget for Education totals \$81,643,225 and represents a 4.4% increase. Of that amount, \$64,594,758 or 79.12% of the School Budget is for salaries (\$53,070,579) and benefits (\$11,524,179), funding approximately 848 (FTE) down from 863.7 (FTE) in FY2019 employees while 20.88% or \$17,048,467 is for operating expenses. Salaries increased \$1,004,334 and employee benefits increased \$603,917.

The 2020 School Budget will also use \$3,986,899 million in various offsets that increase the authorized spending levels up to \$81,282,292 which equates to a \$2,949,263 increase (3.8%) over 2019. The offsets relating to salaries total \$726,469; Grants \$300,000 for Health Insurance/Medicare taxes; and \$1,900,031 from Circuit Breaker Reimbursements for Special Education costs. Other offsets coming from school choice, building rentals and transportation fees total \$1,060,399.

**In addition to the approved operating budget there are direct school expenses (Schedule 19 – School Department End of Year Report) totaling \$10.1 million that are included in the City portion of the budget bringing the total School Budget to \$91.3 million or 57.4% of the total Fiscal 2020 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$1,021,371 for school nurses; \$5.2 million for school long term debt service and \$3 million for retired school department's employees' health insurance and retirement benefits.**

**The Higgins Middle School project is in the close out phase. To date, we have issued \$47,368,000 in long term bonds and \$750,000 in short term bond anticipation notes to fund final close out items. I anticipate the last permanent bonding will take place in March of 2020.**

**In July we will go to market and sell short term notes to finance City Capital \$4,650,000 and Water Infrastructure improvements \$1,800,000. This financing will begin the process of purchasing new equipment, a fire truck, safety/security equipment for schools and other public buildings, a microwave communications system for public safety and repairs for various City and School Departments. The \$1,800,000 will fund the design and engineering for both the water transmission line and Winona rehabilitation which are both well underway.**

**The Fiscal 2020 Budget as presented to you at \$158,836,940 is a balanced budget with proposed sources of revenue coming from local receipts, property taxes, available funds and state aid. However, state aid has not been finalized so we may need to adjust our spending plan for 2020 if aid is reduced.**

**In Fiscal 2020, 12% of our total revenues will be generated at the local level including excise taxes, landfill, permits, billboards and fees. Based on initial projections, we have estimated local receipts to be funded at \$19.9 million which includes an anticipated increases in landfill and building permit fees.**

**The budget is based on the premise that the City of Peabody will receive \$29,963,593 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase of \$2 million over FY2019. Education Aid increased \$1.8 million and General Unrestricted aid increased \$201,520. State Charges will total \$2,601,821 a net increase of \$81,868 from Fiscal 2019. Fiscal 2020 State Aid represents 19% of our total revenues. We remain optimistically cautious as to what the final State Aid funding will be, pending the outcome of the Budget Conference Committee scheduled for later this month.**

**The remaining source of revenue will come from Property Taxes. We estimate that \$111.1 million or 68% of our total revenues will come from Property Taxes. Based on market conditions as of January 1, 2019, the Board of Assessor's anticipates values will continue to rise and we will see another 5% increase in residential values. CIP values should remain stable with increases anticipated in some sectors but an overall reduction in value due to the North Shore Mall Renovations. New construction growth is estimated at \$45 million generating approximately \$812,000 in new tax dollars.**

To reduce the impact of the increase in the 2020 Operating Budget we have allocated \$1,371,200 from reserves and available resources. Of that amount \$1 million will come from Unreserved Fund Balance; \$250,000 from Health Trust to offset health rates increases; \$21,200 from parking fees to fund the parking meter account; \$60,000 from receipts reserved sale of cemetery lots and \$40,000 from cemetery interest to offset the cemetery budget.

That being said, preliminary projections indicate the tax levy will increase \$2.99 million, \$1 million less than the FY2019 levy increase of \$3.9 million. The average residential property tax bills may increase approximately \$213.30 depending on the final outcome of revenue projections, property values, certified new growth and using a 175% classification factor.

We have worked very hard with all departments to prepare a fiscally responsible Operating Budget for Fiscal 2020 that is structurally balanced. I have presented what I consider to be a balanced approach to address our budgetary issues and made adjustments in a few areas, however, any changes to current circumstances will require future adjustments that may impact the assumptions outlined above.

As you begin to finalize your deliberations on the Fiscal 2020 Budget for the City of Peabody, we will be available to assist you and explain to you the various components that went into the development of the budget. I look forward to working with you and addressing any questions you may have concerning the Fiscal 2020 Budget.

Respectfully submitted,



Edward A. Bettencourt, Jr.  
Mayor, City of Peabody