



City of Peabody, Massachusetts

Office of the Mayor

24 Lowell Street

Peabody, MA 01960

(978) 538-5700 (978) 538-5980 Fax

Michael J. Bonfanti

Mayor

June 11, 2009

**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 2010 Operating Budget.

Over the past few months I, along with a number of department heads and school officials, have worked together to compile what we consider to be a financially responsible budget plan for Fiscal 2010 and complies with all the mandatory spending limitations imposed by Proposition 2 ½. Department heads have complied with my directive to reduce their Fiscal 2010 spending plans by 4% wherever possible except for contractual obligations that required increases in spending authorizations. Once again, I want to express my appreciation for the efforts of so many department heads who have diligently managed their budgets within the perimeters set forth during the past seven years.

The development of the Fiscal 2010 Budget has been difficult due to the uncertainty about the level of state aid the City will receive in Fiscal 2010. As you may recall, in January the Governor announced mid year reductions "9C Cuts" in state aid (\$875,468) which was followed by a 10% reduction of Chapter 70 funds (\$2,115,704) in early May based on a worsening economic climate. Chapter 70 funds were supplanted by AARA Stabilization Funds previously allocated for Fiscal 2010 & 2011 by the Federal Government. The use of one time revenues to supplant Chapter 70 funding is of great concern to me as we try to develop a structurally balanced operating budget that can be sustained in the future. With that being said, the Fiscal 2010 Budget was developed using the Senate's current projections for local aid, exclusive of local option taxes for Meals Tax and Hotel Taxes, resulting in a potential lost of \$4.1 million in Local Aid. In addition to the reductions in local aid we have adjusted local revenues downward by \$903,000 to reflect

current economic trends. All departments have fully cooperated and submitted budget requests that reflect reductions in their spending plans for Fiscal 2010.

The Fiscal 2010 Operating Budget as submitted totals \$131,667,357; of that amount \$64,014,611 (48%) is requested for salaries; \$29,086,037 (22%) for employee benefits and \$38,560,709 (30%) is for expenses. The Fiscal 2010 Budget is (\$860,170) or 0.6% less than the Fiscal 2009 Operating Budget of \$132,521,527 as originally submitted. Including supplemental appropriations of \$814,250 voted to date, plus \$1.0 million we anticipate for the settlement of school contractual salary obligations before year end, the Fiscal 2010 Budget is \$2,668,420 or 2% less than the adjusted Fiscal 2009 Budget. The proposed Fiscal 2010 funds the cost of contractual salary obligations through the current fiscal year.

Although the budget decreased by \$860,170, on a functional level the School Budget increased \$316,600 and Public Safety increased by \$609,496 while General Government decreased by \$1,137,337; Debt Service decreased by \$435,000 and Employee Benefits decreased by \$330,970. The remaining areas had modest increases.

Changes by expense type for Personal Services has increased \$1,389,154 to reflect the current costs for the settlement of collective bargaining agreements while employee benefits were reduced by \$922,722 which is net of the \$247,770 increase for Retirement Benefits. Additionally, the annual assessment at South Essex Sewerage District increased by \$215,420 and the remainder of the expense categories were reduced by \$1.5 million.

The City portion of the Fiscal 2010 Budget totals \$71,866,599 and has decreased \$1,176,770 or 1.6% from Fiscal 2009. Of that amount, \$24,461,723 or 34% is for salaries; \$20,687,272 or 28% is for benefits, funding 457 (FTE) employees, while 38% or \$26,717,604 is for operating expenses including Debt Service.

As in years past, the largest increase in the City budget is for salaries (\$1,538,978) which was offset by the reallocation of the Salary Reserve Budget of \$1,200,000; reductions in Worker's Compensation Benefits as a result of claim settlements (\$100,000) and savings in Employers Health Insurance Costs attributable to changes in the employee contribution rates from 90-10% to 85-15% along with anticipated savings from plan design changes relating to co-payments for Emergency Room visits, Dr's Office visits, and drug co-payments.

The FY 2010 Budget for Public Safety totals \$16.5 million of which salaries total \$15.4 (93%) and operating expenses total \$1.1 million (7%). The Police Department Budget totals \$9,003,256, an increase of \$319,860 (4.3%) and includes staffing for 113 positions. 2 positions have been eliminated and 4 vacancies would be filled on a ladder basis throughout the fiscal year. The estimated cost for Career Incentive in the 2010 Budget is \$1,057,000 which is offset by \$434,119 in reimbursements from the Commonwealth. If the

Legislature completely eliminates the reimbursement for the Quinn Bill as set forth in the Senate Budget; we will lose \$434,119 in reimbursements which is reflected in our budget estimates. The Fire Department Budget totals \$7,019,986, an increase of \$369,158 (5.3%) over last year which funds 102 positions and includes eliminating one position and reduces overtime. Combined reductions in public safety expenses totaled \$102,776.

The FY 2010 Budget for Public Services totals \$20.2 million of which salaries total \$3.7 million (17%) and includes staffing 65 positions, with a reduction of 2 positions, while operating expenses total \$16.5 million (83%) The net decrease in the operating expenses for the department totaled \$25,031 or .1% less than the Fiscal 2009 Budget. Increases in the budget include, \$215,420 for the South Essex Sewerage District Assessment; \$125,000 for the escalating cost of chemicals for the Water Treatment Plants. On the other side, the MWRA Assessment for Water decreased by \$221,211 and tipping fee to deliver solid waste to Wheelabrator North Andover has decreased by \$7.50 per ton resulting in projected savings of approximately \$200,000 during the next year.

The City was notified by Blue Cross Blue Shield that based on our current level of claims we would see an 8% or a \$1.3 million increase in the cost of providing health insurance benefits for all employees and retirees based on our actual claims paid. The projected cost of providing health insurance in Fiscal 2010 is \$25.6 million of which the City of Peabody's share is \$22.5 million based on the new 85% - 15% split. The current enrollment including retirees enrolled in Medex, totals 2,235 participants. Approximately \$0.19 cents of every budget dollar will be spent on health care expenses in Fiscal 2010. Listed below are the annual plan costs for health insurance:

	Family Plan Cost	Enrollment	Individual Plan Cost	Enrollment	Total Annual Cost	Total Enrollments
Blue Care Elect						
City Share - 85%	19,947	221	7,499	144	5,488,143	
Employee Share - 15%	3,520	221	1,323	144	968,432	
	\$23,467		\$8,822		\$6,456,575	365
HMO BLUE						
City Share - 85%	15,805	650	5,888	352	12,345,826	
Employee Share - 15%	2,789	650	1,038	352	2,178,226	
	\$18,594		\$6,926		\$14,524,052	1002
Medex						
City Share - 100%		0	5,376	868	4,666,368	868
	\$0	\$0	\$5,376	\$868	\$4,666,368	868
Total Employer Costs					\$22,500,337	
Total Employees Costs					\$3,146,658	
Totals		871		1,364	\$25,646,995	2,235

I am pleased to report that we have completed contract negotiations with almost all bargaining units. We were successful in negotiating a change in employee contribution levels from 10% to 15% effective January 1, 2009. We will also be implementing plan design changes that include increased co-payments for Emergency Room Visits, Dr's Office Visits, and Retail & Mail Away Drugs on July 1, 2009. The estimated savings for all changes will be approximately 10% each year. Additionally, we will be looking at changing contribution percentages for Retirees in the upcoming year. Although we have made progress in the sharing the costs, we need to continue to work with all employees to find ways to control costs.

During the past year, the Massachusetts Municipal Association on behalf of cities and towns has been "aggressively advocating for strong, real and meaningful reform in the area of municipal health insurance". They have petitioned to allow cities and towns to simply have the same authority that the state has relative to health insurance. Allow communities to adjust plans by increasing contribution levels, copayments, deductibles and instituting tiered network plans outside of the collective bargaining process. Unfortunately, the version of health insurance reform included in the Municipal Partnership Act is far worse than what we currently have. The proposal would require communities to continue to bargain any changes relative to health insurance and would institute a form of "Binding Arbitration" when parties can not come to an agreement. "Binding Arbitration" would remove the final decision making relative to benefits from the local level into the hands of an un-elected unaccountable arbitrator who could impose unaffordable financial burdens. If you recall "Binding Arbitration" was repealed by the voters as part of Proposition 2 ½ because the process was unfair and unaffordable. I strongly oppose the current proposal and ask for your support to voice opposition with our legislative delegation.

I'd like to thank all those throughout the Peabody School District who worked very hard to make the difficult decisions needed in an effort to achieve a level funded budget in tough economic times. The Fiscal 2010 School Budget as recommended by me and approved by the School Committee totals \$59,792,758. The recommended budget allows for a .6% increase or \$314,600 over last years Budget of \$59,478,158.

Of the amount recommended, 79% or \$47,269,359 of the School Budget is for salaries (\$39,552,888) and benefits (\$8,398,735), funding approximately 794.5 (FTE) employees while 21% or \$11,841,135 is for operating expenses. Salaries increased \$1,278,119 as a result of recently settled collective bargaining agreements; employee benefits help offset the increase with a \$497,931 reduction in health insurance and a \$140,000 reduction in worker's compensation expenses. Across the board cuts were voted to reduce the 2010 Budget for supplies, equipment, utilities, professional development and special education contracted services. Staffing levels were reduced by 54 FTEs at the elementary, middle and high school levels along with elimination of lunch monitors,

reductions in library, high school and special education para-professional positions. The 2010 Budget will use \$491,000 from IDEA Grant to offset special education costs. If additional AARA funding becomes available they will be used to mitigate budget reductions.

The Budget includes the use of offset receipts totaling \$2.5 million which include employee benefits contributions totaling \$668,114 from the School Lunch Program and various grants for employees of those programs ; \$627,958 for receipts generated by fees for athletics, transportation and building rental. In addition, \$1,191,342 from Special Education Circuit Breaker Program funds will be used to offset special education tuition expenses.

Direct school expenses (Schedule 19) totaling almost \$11.5 million are included in the City portion of the budget, bringing the Fiscal 2010 School Budget to \$71.3 million or 54% of the total FY 2010 Budget, exclusive of programs funded by federal and state grants which totaled \$5.7 million in 2009. Some of the major direct school expenses in the City Budget include \$670,150 for school nurses; \$2.4 million for school long term debt service; \$200,000 for short term interest expenses; \$3.1 million for retired school department's employees' health insurance and retirement benefits and a \$3.8 million state aid assessment for retired teacher's health insurance that is not included in Schedule 19 calculations.

Despite the financial issues we have faced this year, I am pleased to note that the City of Peabody continues to meet the requirement of the Education Reform Act in Fiscal 2010 as we have done during the past 16 years. Listed below are the actual statistics by year:

Fiscal Year	Net School Spending	Foundation Budget	Annual School Budget	School Expenses in City Budget	Total School Budget	Chapter 70 Funding	Funded by Local Revenues
1995	30,567,573	30,889,541	30,843,773	4,941,331	35,785,104	7,260,297	28,524,807
1996	32,017,705	32,236,860	32,832,213	3,278,348	36,110,561	7,971,008	28,139,553
1997	33,438,975	33,731,015	34,100,000	3,673,014	37,773,014	8,742,427	29,030,587
1998	35,468,560	36,227,477	36,970,180	3,871,418	40,841,598	10,028,108	30,813,490
1999	38,560,944	39,237,974	39,124,657	4,280,392	43,405,049	12,193,412	31,211,637
2000	39,781,604	39,573,913	41,859,633	4,200,000	46,059,633	13,155,365	32,904,268
2001	41,783,977	41,949,192	45,018,302	4,592,619	49,610,921	13,655,362	35,955,559
2002	45,461,286	45,461,286	48,588,802	6,832,288	55,421,090	15,127,285	39,061,517
2003	47,450,429	47,450,429	51,588,802	7,424,238	59,013,040	16,281,941	42,731,099
2004	47,092,420	47,092,420	51,089,645	7,352,971	58,442,616	15,666,037	42,776,579
2005	49,118,043	49,118,043	52,289,695	7,567,732	59,857,427	16,453,772	43,403,655
2006	52,901,676	52,901,676	54,381,282	8,500,000	62,881,282	18,731,315	44,149,967
2007	55,237,118	54,459,414	56,828,441	10,100,000	66,928,441	19,195,873	47,732,568
2008	57,281,578	56,552,789	58,638,441	11,200,000	69,838,441	19,741,190	50,097,251
2009	60,071,594	58,044,809	59,478,158	11,500,000	70,978,158	20,118,092	50,860,066
2010	60,662,220	60,596,792	59,792,758	11,500,000	71,292,758	20,118,092	51,174,666
Net Change	30,094,647	29,707,251	28,948,985	6,258,669	35,507,654	12,480,893	22,649,859
% Change	98%	96%	94%	126%	99%	172%	79%

Since the inception of the Education Reform Act, the Annual School Budget has grown \$28.9 million or 94% and the City has continued to meet both Net School Spending and Foundation Budget Requirement in each year of the program. Currently, the Fiscal 2010 Budget exceeds both the Net School Spending and Foundation Requirements by more than \$10.7 million inclusive of school expenses included in the city portion of the budget.

As I have stated in past years, we need to focus on the quality of our curriculum, instruction and the programs and services offered as well as our facilities. Now more than ever, we must be mindful of our current economic climate and what changes may be required in the Fiscal 2010 as the Commonwealth continues to make budget reductions in both Local Aid and Chapter 70 revenues based on economic forecasts. We need to find the best way to manage our resources and work together to plan for the future of our entire school district. As Mayor and Chairperson of the School Committee, I want the City to provide the best education possible to all students of the Peabody Public School System.

The Fiscal 2010 Budget as presented to you at \$131,661,357 is a balanced budget with proposed sources of revenue coming from local receipts, property taxes, available funds and state aid. However, be aware if additional reductions in state aid above the Senate Budget occur, we may need to made additional reductions in our spending plan for 2010.

In FY 2010, 21.4% of our total revenues will be generated at the local level including excise taxes, water & sewer charges, permits and fees. Based on initial projections, we have estimated local revenues to be \$29.7 million which includes a \$903,000 reduction in estimated local receipts based on declining motor vehicles excise tax base and projected building permit activity now that the Mall is completed.

The budget was based on the premise that the City of Peabody would receive \$26,020,867 in State Aid based on the Senate Budget exclusive of local option taxes for Meals Tax and Hotel Taxes. State Charges will total \$5,963,226 resulting in a net decrease of (\$4,062,124) or (16.8%) decline in State Aid over Fiscal 2009. Fiscal 2010 State Aid represents 18.7% of our total revenues – down 2.8% from last year.

The remaining source of revenue will come from Property Taxes. We estimate that \$80.9 million or 58.4% of our total revenues will come from Property Taxes in Fiscal 2010. Based on market conditions as of January 1, 2009, the Board of Assessor's anticipates that the average values of single family homes will be further reduced by approximately 5% and we will see new growth primarily generated from construction activity at North Shore Mall. Preliminary projections indicate annual residential property tax bills may increase approximately \$47 depending on the final values, the outcome of the certified new growth amounts and the actual classification factor that is used for businesses.

We have worked very hard with all departments to prepare a fiscally responsible Operating Budget for Fiscal 2010 that is structurally balanced. We have reduced spending, reduced anticipated local revenues to reflect the economic climate and we will share the remaining local aid gap with the use of reserves and modest increases in property taxes. I have presented what I consider to be a balanced approach to address our budgetary issues, 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 2010 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 2010 Budget.

Respectfully Submitted,

Michael J. Bonfanti

Michael J. Bonfanti

Mayor, City of Peabody

Attachment: Fiscal 2010 Budget Summary