



# 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 21, 2010**

**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 2011 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 2011 and complies with all the mandatory spending limitations imposed by Proposition 2 ½. Department heads have complied with my directive to reduce their Fiscal 2011 spending plans 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 eight years.**

**The development of the Fiscal 2011 Budget has been difficult due to the uncertainty about the level of state aid the City will receive in Fiscal 2011. As you may recall, in January the Governor released the House 2 Budget, which level funded Chapter 70 and Unrestricted Local Aid from the Fiscal 2010 aid levels. The House and Senate subsequently reduced that amount by another \$1.5 million or 5.7%. The budget is currently in Conference Committee and will most likely be released by the end of the week. I continue to be concerned about the final disposition of the State Budget as the state awaits approval for an additional \$700 million dollars in health care funding from the Federal Government for the extension of the Federal Medicaid Assistance Program to balance the Fiscal 2011 Budget. The continued use of one time AARA revenues to supplant the State Budget is of great concern to me as we try to develop structurally balanced operating budgets that can be sustained into the future.**

**The Fiscal 2011 Operating Budget as submitted totals \$136,283,353 of that amount \$65,536,129 (48%) is requested for salaries; \$31,497,531 (23%) for employee benefits and \$39,249,693 (29%) is for expenses. The Fiscal 2011 Budget is \$4,396,996 or 3.3% more than the Fiscal 2010 Operating Budget of \$131,886,357 as originally submitted.**

**On a functional level, the School Budget increased \$1,964,500, Employee Benefits increased \$1,224,520, Public Services increased \$447,815, Debt Service increased \$325,000 and Public Safety increased by \$324,112 while the remaining areas of the budget had very modest increases.**

**Fiscal 2011 Budget by expense categories shows 88.8% of the total increase in the budget relates to Salaries and Benefits. The increase for Employee Benefits is \$2,411,224 and \$1,496,518 for Personal Services which reflects the 3% contractual salary increase. Debt Service has increased \$325,000 and Capital Outlay has increased by \$279,629. Professional Services and Other Charges and Expenses were reduced by (\$120,851) and (\$84,624), respectively.**

**The City portion of the Fiscal 2011 Budget totals \$74,299,094 and has increased \$2,432,495 or 3.4% from Fiscal 2010. Of that amount, \$24,995,202 or 33.6% is for salaries; \$21,987,995 or 29.6% is for benefits, funding 450 (FTE) employees, while 36.8% or \$27,315,898 is for operating expenses including Debt Service.**

**The largest increase in the City budget is for Employee Benefits (\$1,300,423) which reflects a \$243,520 increase for Retirement Benefits per the actuarial valuation schedule; \$1.0 million for health insurance; \$50,000 for Medicare taxes and various increases for clothing allowances and weapons training in accordance with collective bargaining agreements. Salaries have increased \$533,479 reflecting the 3% contractual salary obligation.**

**As you may recall, during Fiscal 2010 we permanently financed the remaining City share of the Peabody Veterans Memorial High School Project, School Capital Improvements and the Water Treatment Plant totaling \$6.9 million. The additional principal and interest expense is \$775,806 which is offset by the \$250,000 reduction in the short term interest budget to reflect the retirement of short term bond anticipation notes for those projects along with decreases in the debt schedule. The net increase in the FY 2011 Debt Service Budget is \$325,000.**

**The FY 2011 Budget for Public Safety totals \$16.8 million of which salaries total \$15.7 million (93%) and operating expenses total \$1.1 million (7%). The Police Department Budget totals \$9,121,417, an increase of \$118,161 (4.3%) and includes staffing for 113 positions. 6 positions have not been filled and 5 vacancies will be filled on a laddered basis throughout the fiscal year. The Fire Department Budget totals \$7,219,213, an increase of \$199,227 (2.8%) over last year which funds 100 positions including 2 vacancies.**

The FY 2011 Budget for Public Services totals \$20.6 million of which salaries total \$3.7 million (17%) and includes staffing 65 positions while operating expenses total \$16.5 million (83%) The net increase in the operating expenses for the department totaled \$447,815 or 2.2% more than the Fiscal 2010 Budget. Increases in the budget include, \$36,267 for salaries, \$49,788 for the South Essex Sewerage District Assessment and \$50,000 for an estimated 8% increase in electricity. Additionally, as promised, we have committed \$250,000 from 2011 Local Option Taxes to fund sidewalk repairs city wide.

The City was notified by Blue Cross Blue Shield that based on our current level of claims we would see an 10.5% in our working rates which equates to a \$1.8 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 2011 is \$27.5 million of which the City of Peabody's share is \$23.9 million based on the new 85% - 15% split. The current enrollment including retirees enrolled in Medex totals 2,194 participants. Approximately \$0.18 cents of every budget dollar will be spent on health care expenses in Fiscal 2011. 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%	21,917	181	8,242	126	5,005,431	
Employee Share - 15%	3,868	181	1,454	126	883,365	
	\$25,785		\$9,696		\$5,888,796	307
HMO BLUE						
City Share - 85%	17,370	684	6,468	335	14,048,134	
Employee Share - 15%	3,065	684	1,141	335	2,479,085	
	\$20,436		\$7,610		\$16,527,219	1,019
Medex						
City Share - 100%		0	5,843	868	5,071,967	
	\$0		\$5,376	868	\$5,071,967	868
Total Employer Costs					\$24,125,254	
Total Employees Costs					\$3,362,392	
Totals		865		1,329	\$27,487,982	2,194

Over the past two years we were able to negotiate additional cost sharing with employees in our collective bargaining agreements increasing contribution levels from 10% to 15% effective January 1, 2009 along with implementing plan design changes that included increased co-payments for Emergency Room Visits, Dr's Office Visits, and Retail & Mail Away Drugs as of July 1, 2009. We have also made some modest changes in contribution rates for early retirees and effective September 1, 2009, new retirees pay 15% for Medex. Although we have made progress in the sharing the costs, we need to continue to work with all employees to find additional ways to control costs.

Again, 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 that was included in the Municipal Partnership Act last year and the subsequent Senate proposal was far worse than what we currently have. As recent as June 9, 2010, the Massachusetts Tax Payers Foundation petitioned the legislature urging them to reject the Senate Proposal and take decisive action to provide real relief to municipalities. We await final disposition of the proposal.

The Fiscal 2010 School Budget as recommended by me and approved by the School Committee totals \$61,982,258. The recommended budget allows for a 3.3% increase or \$1,964,500 over last years Budget of \$60,017,758.

Of the amount recommended, 81% or \$50,050,463 of the School Budget is for salaries (\$40,540,927) and benefits (\$9,507,536), funding approximately 782 (FTE) employees while 21% or \$11,933,795 is for operating expenses. Salaries increased \$963,039 inclusive of a 3% salary increase in accordance with collective bargaining agreements; employee benefits increased \$1,110,801, \$1.1 million for health insurance and \$175,000 for employer Medicare taxes. The 2011 Budget will use \$491,000 from IDEA Grant to offset special education costs and if additional AARA funding becomes available they will be used to mitigate budget reductions.

The School Budget includes the use of offset receipts totaling \$3.1 million which include employee benefits contributions totaling \$875,000 from the School Lunch Program and various grants for employees of those programs; \$843,000 for receipts generated by fees for athletics, transportation and building rental. In addition, \$660,831 from Special Education Circuit Breaker Program funds will be used to offset special education tuition expenses and \$70,000 from the ROTC Program to offset expenses.

Direct school expenses (Schedule 19) totaling almost \$12 million are included in the City portion of the budget, bringing the Fiscal 2011 School Budget to \$73.9 million or 54% of the total FY 2011 Budget, exclusive of programs funded by federal and state grants totaling \$6.7 million in 2010. Some of the major direct school expenses in the City Budget include \$693,118 for school nurses; \$2.9 million for school long term debt service; \$3.5 million for retired school department’s employees’ health insurance and retirement benefits and a \$3.7 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 2011 as we have done during the past 16 years. Since the inception of the Education Reform Act, the Annual School Budget has nearly doubled from \$30.8 in 1995 to \$61.9 in 2011. During this time the City has continued to meet both Net School Spending and

**Foundation Budget Requirement in each year of the program. I am happy to report, we voted to become a member of the Essex North Shore Agricultural and Technical High School and we committed \$200,000 to partner with the Simon Youth Foundation for the construction of the Education Resource Center to be located at the Northshore Mall that will serve high school students at risk.**

**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 Fiscal 2011 as the Commonwealth continues to make budget reductions that could impact Local Aid and Chapter 70 revenues based on economic forecasts and the potential loss of ARRA funds that have been used to supplant the State Budget for the past three years. We need to find the best way to manage our budget and take a hard look at some alternative programs to maximize our resources and work together to plan for the future of the 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 that can be sustained in future years.**

**The Fiscal 2011 Budget as presented to you at \$136,283,352 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 2011. I must caution as we go forward, as a community, we need to be mindful that we are fast approaching the Proposition 2 ½ limitations and we can not continue to depend on reserves to balance our operating budgets.**

**In FY 2011, 20% 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 \$28.5 million which includes a \$413,100 increase in estimated local receipts based on adding \$1,073,100 for local option taxes and making adjustment for projected decreases in permits, landfill revenue, interest income and Medicaid reimbursement.**

**The budget was based on the premise that the City of Peabody would receive \$25,147,095 in State Aid based on the Senate Budget. State Charges will total \$5,739,099 resulting in a net decrease of (\$1,361,192) or (5.1%) decline in State Aid over Fiscal 2010. Since 2009, State Aid has decreased by \$4.9 million. Fiscal 2011 State Aid now represents 17.6% of our total revenues down from 22% in Fiscal 2008. We remain cautious as to what the final State Aid funding will be pending the final outcome of the Budget Conference Committee scheduled for later this week.**

**The remaining source of revenue will come from Property Taxes. We estimate that \$87.3 million or 61% of our total revenues will come from Property Taxes in Fiscal 2011. Based on market conditions as of January 1, 2010, the Board of Assessor's anticipates that the average values of single family homes will be further reduced by approximately 5% and CIP may also decrease between 5-10%. New construction growth is estimated at \$60**

**million generating approximately \$932,000. In an effort to mitigate the full impact of the \$4.4 million dollar increase in the 2011 Operating Budget coupled with the reduction of \$1.4 million in State Aid, we have allocated \$2,000,000 from reserves. That being said, preliminary projections indicate annual residential property tax bills may increase approximately \$195 depending on the final outcome of revenue projections, property values, certified new growth 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 2011 that is structurally balanced. We have increased the budget for contractual obligations, not filled positions where possible and reduced discretionary spending. 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 2011 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 2011 Budget.**

**Respectfully Submitted,**

*Michael J. Bonfanti*

**Michael J. Bonfanti  
Mayor, City of Peabody**

**Attachment: Fiscal 2011 Budget Summary**