



City of Peabody, Massachusetts

Office of the Mayor

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Michael J. Bonfanti

Mayor

June 9, 2011

**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 2012 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 2012 and complies with all the mandatory spending limitations imposed by Proposition 2 ½. Department heads have complied with my directive to level fund or reduce their Fiscal 2012 spending plans wherever possible. 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 ten years.

The development of the Fiscal 2012 Budget has once again been difficult due to the uncertainty of the economy as well as its impact on the final amount of state aid the City will receive in Fiscal 2012. As you may recall, in January the Governor released the House 2 Budget, which slightly increased Chapter 70 and cut Unrestricted Local Aid by an additional \$459,449 from the Fiscal 2011 aid levels. The House and Senate Budgets are in line with the Governor's Budget however, additional cuts to other local government accounts may occur in Conference Committee. The final disposition of the State Budget is on track to be completed in late June. Since Fiscal 2008, Local Aid has been cut \$4.8 million.

The Fiscal 2012 Operating Budget as submitted totals \$137,642,096. Of that amount \$65,284,438 (48%) is requested for salaries; \$32,711,513 (24%) for employee benefits and \$39,646,145 (28%) is for expenses. The Fiscal 2012 Budget is \$1,358,743 or 1% more than the Fiscal 2011 Operating Budget of \$136,283,343 as originally submitted.

The Fiscal 2012 Budget by expense categories shows 89% of the total increase in the budget relates to Employee Benefits. The increase for Employee Benefits is \$1,213,982 while salaries decreased by \$251,691. Purchased Services increased by \$583,758 and professional services decreased by \$363,841. There were modest increases in the other expense categories totaling \$176,535.

The City portion of the Fiscal 2012 Budget totals \$75,038,015 and has increased \$738,920 or 0.99% from Fiscal 2011. Of that amount, \$25,037,151 or 33.4% is for salaries; \$22,187,011 or 29.6% is for benefits, funding 450 (FTE) employees, while 37% or \$27,813,853 is for operating expenses including Debt Service.

The largest increase in the City budget is for the added cost to purchase of MWRA Water (\$268,933) as a result of increased water consumption during the summer of 2010 when we were experiencing significant droughts due to record breaking temperatures. Other added costs include \$218,453 for an increase in the South Essex Sewerage District 2012 Assessment to the City and \$227,158 for the payment of Retirement Benefits per the actuarial valuation schedule.

As you may recall, during Fiscal 2011 we authorized and issued bond anticipation notes for the Library HVAC Project, City and School Capital Projects totaling \$7.8 million. The notes will mature in September 2011 and at that time we will make a determination based on market conditions of when to permanently finance the debt. The 2012 short term interest account increased by \$300,000 while the long term principal and interest payments decreased by \$320,000 resulting in a \$20,000 decrease in the debt service budget for 2012.

The FY 2012 Budget for Public Safety totals \$16.9 million of which salaries total \$15.7 million (93%) and operating expenses total \$1.2 million (7%). The Police Department Budget totals \$9,161,116, an increase of \$39,699 (0.44%) and includes staffing for 112 positions. Six positions remain unfilled and 6 vacancies will be filled throughout the fiscal year. The Fire Department Budget totals \$7,263,565, an increase of \$44,352 (0.61%) over last year which funds 102 positions including 2 vacancies. In late May 2011, 5 new firefighters were appointed to the department. In 2011 capital funding provided 4 new vehicles for the Police Department and procurement of a new ladder truck for the Fire Department. Also, significant repairs were made to the Tremont Street Fire Station and we have submitted a request to replace a Fire Pumper Truck specifically designed to fit in that station.

The FY 2012 Budget for Public Services totals \$21.0 million of which salaries total \$3.8 million (15%) and includes staffing 63 positions while operating expenses total \$17.3 million (85%) The net increase in the operating expenses for the department totaled \$390,455 or 1.89% more than the Fiscal 2011 Budget. As promised, the 2012 budget includes \$250,000 to fund sidewalk repairs city wide supported from local option taxes. Other increases as previously discussed, include \$218,453 for South Essex Sewerage

District Assessment, \$268,933 for the MWRA which were offset by cost savings in Solid Waste.

As you may recall, in Fiscal 2011 the City entered into a new Trash Recycling and Collection Contract with JRM, Inc and as part of that contract, the City will begin a new program on July 5, 2011 that provides for unlimited weekly recycling collection and imposes 3 barrel trash limits. Although the base contract was increased by \$142,000 for 2012 as a result of mandatory prevailing wage regulations, we anticipate a net savings of approximately \$110,000 as a result of increased recycling thereby reducing tonnage that goes to Wheelabrator for incineration.

As part of our ongoing Capital Program, Public Services and Forestry have added a number of new vehicles to their fleet at a cost of \$1.0 million. We have purchased 3 dump trucks, a Sewer Vacuum Truck, a 10 ton Hotbox Truck, a Street Sweeper, a new Bucket Truck and replacement vehicles. These vehicles will enhance the efficiency of operations with their respective departments.

I am pleased to report that the City was notified by Blue Cross Blue Shield that based on our current level of claims we would see an increase of 2.7% in our working rates which equates to a \$700,000 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 2012 is \$28 million of which the City of Peabody's share is \$24.5 million based on the 85% - 15% split. The current enrollment including retirees enrolled in Medex totals 2,176 participants. Approximately \$0.18 cents of every budget dollar will be spent on health care expenses in Fiscal 2012. 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%	22,499	168	8,466	118	5,005,431	
Employee Share - 15%	3,970	168	1,494	118	883,365	
	\$26,469		\$9,960		\$5,622,132	286
HMO BLUE						
City Share - 85%	17,833	692	6,643	322	14,479,242	
Employee Share - 15%	3,147	692	1,172	322	2,555,198	
	\$20,980		\$7,815		\$17,034,441	1,014
Medex						
City Share - 100%		0	5,775	876	5,058,690	
	\$0		\$5,775		\$5,058,690	876
Total Employer Costs					\$27,715,263	

Effective July 1, 2011 we have implemented modest increases in the co-payments for Medex III and anticipate we will save approximately \$300,000 during the upcoming year. Although we have made progress in sharing 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. The legislature is struggling in its efforts to provide meaningful healthcare reform that addresses concerns raised by municipalities and labor unions.

The House Plan offered local adoption to accept the new law and gave municipalities the opportunity to make health care plan design changes or to transfer into the GIC based on a structured process. It further provides for a Public Employee Committee with representatives from every union and a retiree representative (each with 1 vote) to negotiate with the City over the proposed changes and how to share 10% of the first years cost savings with employees and retirees. If, after 30 days, there is not an agreement regarding the changes, the CEO can implement the changes but must set aside 20% of the first year’s savings into a Health Reimbursement Account for employees and retirees.

The Senate Plan requires local adoption each time there is any plan design changes or a move into GIC is considered. It added a restriction that the percentage of premiums that retirees contribute must match the average contribution of active employees and also requires a Public Employee Committee (PEC), however, each union has a vote in proportion to its membership and retirees have a 10% vote. A majority vote is required for any changes for plan design or enrollment in GIC. The Senate added stricter limits on the changes in co-pays and deductibles – they can not exceed the median level of the GIC’s plan and communities can only opt into the GIC if overall savings are greater than 10%. If after 30 days there is no agreement regarding proposed changes, the Senate Plan establishes a “Municipal Health Insurance Review Panel” with oversight from the state Office of Administration and Finance with many added restrictions and review processes at the state level that will take control away from municipal officials. At the present time the issue remains in conference committee and we await the final disposition of this legislation.

The Fiscal 2012 School Budget as recommended by me totals \$62,604,081 which allows for a 1% increase or \$619,823 in spending over last year’s budget of \$61,984,258. The School Committee has recommended \$62,911,992 for the Fiscal 2012 Budget.

Of the amount recommended by me, 81% or \$50,771,789 of the School Budget is for salaries (\$40,247,287) and benefits (\$10,524,502), funding approximately 783 (FTE) employees while 21% or \$11,832,292 is for operating expenses. Salaries decreased by \$296,640 while costs for health insurance increased \$828,261 and employer Medicare taxes increased \$70,500. The 2012 School Budget will use \$4,626,535 in various offsets that actually increase the authorized spending levels in 2012 to \$67,228,616 which reflects a \$2.5 million increase over 2011 or 3.9%. The offsets relating to user fees/charges total

\$806,000. Additional offsets include School Lunch/Grants (\$773,257) for health insurance/Medicare taxes; \$1.6 million from Circuit Breaker Reimbursements for Special Education costs and \$1,071,000 in a one time payment for the Education Job Grant and the balance is from projected savings in the operating budget.

Direct school expenses (Schedule 19) totaling almost \$12 million are included in the City portion of the budget, bringing the Fiscal 2012 School Budget to \$74.6 million or 54% of the total FY 2012 Budget, exclusive of programs funded by federal and state grants totaling \$6.3 million in 2011. Some of the major direct school expenses in the City Budget include \$728,898 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 \$3.5 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 2012 as we have done during the past 17 years. Since the inception of the Education Reform Act, the Annual School Budget has more than doubled from \$30.8 in 1995 to \$62.6 in 2012. 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 affirmed our vote to become a member of the Essex North Shore Agricultural and Technical High School and in partnership with the Simon Youth Foundation we opened the Peabody Learning Academy located at the Northshore Mall that serves high school students at risk. I'm proud to report, we had 8 students graduate this year. In conjunction with MSBA we are conducting a feasibility study for the Higgins Middle School and are in the process of soliciting bids for new roofs and boilers in the green repair program for the Burke and Welch Schools.

As I have stated many times, we need to focus on the quality of our curriculum, instruction and the programs and services offered as well as our facilities. We must be mindful of our current economic climate and what changes may be required in Fiscal 2012 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. I am particularly concerned that we have used \$1.0 million from the Education Job Grant that will not be available next year to fund the current operating budget – the loss of those revenues will have a significant impact on the 2013 School Department Budget. As we go forward, collectively 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 2012 Budget as presented to you at \$137,642,096 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 2012. I must caution as we go forward, as a community, we need to be mindful that we are approaching the Proposition 2 ½ limitations and we can not continue to depend on reserves to balance our operating budgets.

In FY 2012, 20.5% 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 \$29.5 million which includes a slight increase in estimated local receipts based on additional local option taxes, interest & fees and departmental revenue. The budget was based on the premise that the City of Peabody would receive \$24,751,849 in State Aid based on the Senate Budget. State Charges will total \$4,942,397. Since 2008, State Aid has decreased by \$4.8 million. Fiscal 2012 State Aid now represents 17.2% 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 month.

The remaining source of revenue will come from Property Taxes. We estimate that \$88.5 million or 61.5% of our total revenues will come from Property Taxes in Fiscal 2012. Based on market conditions as of January 1, 2011, the Board of Assessor's anticipates that values have remained relatively stable. New construction growth is estimated at \$50 million generating approximately \$925,000. In an effort to mitigate the impact of the \$1.4 million dollar increase in the 2012 Operating Budget we have allocated \$1,000,000 from reserves. That being said, preliminary projections indicate annual residential property tax bills may increase approximately \$148 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 2012 that is structurally balanced. We have and continue to work with our unions to hold contractual salary obligations to the Fiscal 2011 level and we have 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 2012 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 2012 Budget.

Respectfully Submitted,

Michael J. Bonfanti

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

Attachment: Fiscal 2012 Budget Summary