

CITY OF PEABODY

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OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 12, 2012

**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 2013 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 2013 and complies with all the mandatory spending limitations imposed by Proposition 2 ½. Department heads have complied with my directive to level fund their Fiscal 2013 spending plans wherever possible, however, I have added funding for public safety, education and human services. 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 my first operating budget.

The Fiscal 2013 Operating Budget as submitted totals \$140,571,061. Of that amount \$65,513,014 (49%) is requested for salaries; \$33,499,871 (24%) for employee benefits and \$38,558,176 (27%) is for expenses. The Fiscal 2013 Budget is \$2,928,965 or 2.1% more than the Fiscal 2012 Operating Budget of \$137,642,096 as originally submitted.

The Fiscal 2013 Budget increase by Expense Category shows that 110% of the total increase (\$3,228,576) relates to salaries followed by a \$788,358 increase for employee benefits and \$424,000 for debt service. Professional Services decreased by \$1,761,503 which is primarily attributed to the transfer of Special Education expenses totaling \$2,040,000 to school grants.

The City portion of the Fiscal 2013 Budget totals \$76,395,268 and has increased \$1,357,253 or 1.8% from Fiscal 2012. Of that amount, \$25,552,551 or 33.5% is for salaries; \$22,521,685 or 29.5% is for benefits, funding 440 (FTE) employees, while 37% or \$28,321,685 is for operating expenses including Debt Service which totals \$5,994,000.

The largest increase in the City Budget is for Debt Service \$424,000 followed by a \$330,409 increase in Public Safety salaries and \$243,718 for the payment of Retirement benefits per the actuarial valuation schedule.

As you may recall, in September 2011, the City permanently financed \$6,750,000 of outstanding short term debt relating to the Library HVAC Project and City and School Capital Projects adding approximately \$756,000 to our 2013 Debt Service Schedule. We also authorized \$4.2 million for School Green Repairs and \$1.4 million for the Ice Skating Rink Refrigeration System of which, \$3.2 million was permanently financed in March 2012 to take advantage of the excellent long term interest rates. Moody's affirmed our long term credit rating of Aa1 and we received 4 very competitive bids from various financial institutions resulting in the net interest rate of 2.38%. The March sale added \$135,000 to the City's 2013 debt service schedule and \$74,000 for the Skating Rink's debt obligation which will be paid directly from their operating budget. We have also reduced the short term interest expense budget by \$200,000 in Fiscal 2013 to reflect the permanent financing of the outstanding debt authorizations.

The Fiscal 2013 Budget for Public Safety totals \$17.5 million of which salaries total \$16.2 million (93%) and operating expenses total \$1.3 million (7%). The Police Department Budget totals \$9,415,549, an increase of \$254,433 (2.8%) and includes staffing for 109 full time positions including 1 additional patrolman and 2 dispatchers. Currently there are 10 vacant positions that will be filled throughout the upcoming fiscal year. The Fire Department Budget totals \$7,551,192, an increase of \$287,627 (4.0%) over last year which funds 103 positions including 6 vacancies. In 2011, capital funding provided for the procurement of a new ladder and pumper truck for the Fire Department at a cost of \$1.3 million. I am happy to report that both state of the art pieces of equipment were put into service in April 2012.

In early March 2012, we received notice that the Healthy Peabody Collaborative may not receive their \$100,000 state grant. I have added \$75,000 to the Fiscal 2013 Budget to support the local match and provide some assurance that we do not also lose the \$200,000 federal grant that provides the resources for this very valuable substance abuse prevention and youth engagement program. We have allocated \$50,000 to salaries and \$25,000 for expenses.

The Fiscal 2013 Budget for Public Services totals \$21.0 million of which salaries total \$3.8 million (18%) and includes staffing for 65 full time positions while operating expenses total \$17.3 million (85%). The Fiscal 2013 Budget had a net decreased by \$19,821. Increases included \$30,000 for gasoline and diesel fuel, a \$27,000 increase in our SESD assessment now totaling \$9.0 million and the addition of 1 funded position and overtime in the Water Department totaling \$69,559. Reductions in the budget included a \$45,000 decrease in our MWRA assessment, a \$50,000 reduction in the cost of chemicals and a \$185,000 decrease in the cost of trash disposal as a result of less tonnage being sent to Wheelabrator for incineration. Last year the City entered into a new Trash Recycling and Collection Contract with JRM, Inc and as part of that contract began a program that provided for unlimited weekly recycling collection and imposed a 3 barrel per household limit. The program is very successful, we have collected 2,900 less tons of trash and our curbside recycling and yard waste is up 950 and 150 tons respectively. The 2013 budget continues to funds \$250,000 for sidewalk repairs city wide supported from local option taxes.

As a newly elected Mayor, I was very concerned about finding ways to control the spiraling costs of providing health insurance for active employees and retirees. The legislature had recently passed Chapter 69 of the Acts of 2011 – Municipal Health Insurance Reform that allowed municipalities to adopt the Section 21-23 of Chapter 32B to implement changes in the design of our health insurance plans. In late February 2012, I submitted a request to the City Council to consider the adoption of the aforementioned legislation while at the same time we were meeting with the newly formed Peabody Public Employees Coalition to discuss options. Shortly thereafter, the Coalition asked that we work together to develop solutions to control the escalating cost of health care in lieu of adopting the mandatory provisions of Sections 21-23. I am very happy to report, that we have come to a mutual agreement with the PEC to enroll all active employees and retirees into the GIC Health Plan effective either January 1, 2013 or July 1, 2013 whichever date is first allowable by law. The proposed agreement will begin on July 1, 2012 and run through June 30, 2016. The agreement allows for the continuation of the 85-15% contribution rate and establishes a mitigation fund to reimburse members for added deductibles and co-payments required under many of the GIC Plans. Over the course of the agreement, the City is very optimistic that we will save millions of dollars for the residents of the City of Peabody.

The City will continue to utilize Blue Cross Blue Shield as our health provider until such time that we know when we will transfer into the GIC Plan. In Fiscal 2013, our working rates are projected to increase 5% which equates to a \$700,000 increase in the cost of providing health insurance benefits for all employees and retirees. The total cost of providing health insurance will be \$28.7 million which is 18% of our entire operating

budget for Fiscal 2013. The City's share is \$25.0 million based on the 85-15% contribution split and our current enrollments of 2,186. If the legislature votes to allow municipalities to enter into the GIC on January 1, 2013, the City will potentially realize \$1.8 million savings and employees will also save \$243,000 in premiums.

The Fiscal 2013 School Budget as recommended and voted by the School Committee totals \$64,175,793 which allows for a 2.5% increase or \$1,571,712 in spending over last year's budget of \$62,604,081. Of the amount, 84% or \$53,939,302 of the School Budget is for salaries (\$42,960,463) and benefits (\$10,978,839), funding approximately 783 (FTE) employees while 16% or \$10,236,491 is for operating expenses. Salaries increased by \$2.7 million and the costs for health insurance increased \$454,337. The Budget also includes the addition of 31.7 new FTE's. Some of the new positions added include an Assistant Superintendent of Schools, Assistant Principal, and 3 new elementary teachers, 8 library paraprofessionals, one for each of the elementary schools and 10 special education positions affiliated with the IDEA Grant.

The 2013 School Budget will use \$5,160,013 in various offsets that increase the authorized spending levels in 2013 up to \$69,335,806 which equates to a \$2.1 million increase over 2012 or 3.1%. The offsets relating to salaries total \$701,000; and other offsets include School Lunch/Grants (\$583,513) for health insurance/Medicare taxes; \$1,450,000 from Circuit Breaker Reimbursements for Special Education costs and \$2,000,000 of special education tuition expenses have been transferred out of the operating budget and will be paid by the IDEA Grant. Additional offsets from building rentals, advertising revenues and building rental fees total \$425,000. We need to remain cautious about using one time sources of revenue to fund on-going operating budgets.

In addition to the approved operating budget there are direct school expenses (Schedule 19) totaling almost \$12 million that are included in the City portion of the budget bringing the total School Budget to \$76.2 million or 54% of the total Fiscal 2013 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$738,759 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 \$2.7 million state aid assessment for retired teacher's health insurance that is not included in Schedule 19 calculations for Department of Education purposes.

In the fall of 2011, the School was awarded a Green Repairs Grant totaling \$4,200,000 for the Burke and Welch School. The project included the replacement of the boilers, roofs and windows at the Burke School totaling \$2.9 million and the replacement of the Welch School Roof at \$1.3 million. The MSBA has approved a \$2.1 million grant for the program. The boilers and roof at the Burke School are complete. The windows at the Burke and the roof at the Welch will be completed late summer.

During the past few months I have worked very closely with the School Building Committee in reviewing the various options outlined in the feasibility study for the Higgins Middle School. As part of the Massachusetts School Building Authority application process, the SBC has voted after careful consideration of all the options available, that the best option would be for the City to construct a new Middle School which has been supported by the School Committee, City Council and the local community. The estimated cost for new construction, located on the same site as the Higgins would be between \$88.0 to \$89.0 million offset by a 54.5% grant from the MSBA. The estimated local share will be about \$42.0 million. We have submitted our application to the MSBA and are currently scheduled for a preliminary Facilities Assessment Subcommittee Meeting in late June to review our application before it is presented to the full Board of Education in July 2012. I will keep you informed as the process moves forward in the upcoming months.

The Fiscal 2013 Budget as presented to you at \$140,574,061 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 make adjustments in our spending plan for 2013 if aid is reduced.

In FY 2013, 20.2% 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. The budget is based on the premise that the City of Peabody will receive \$25,503,334 in State Aid based on the Senate Ways and Means Budget. This amount reflects the add back of General Government Aid (\$441,461) that was cut 2 years ago and added back as a one time revenue last fiscal year. State Charges will total \$4,449,152, a decrease of \$493,245 from 2012. Fiscal 2013 State Aid now represents 17.4% 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 \$90.3 million or 61.6% of our total revenues will come from Property Taxes in Fiscal 2013. Based on market conditions as of January 1, 2012, the Board of Assessor's anticipates that values have remained relatively stable. New construction growth is estimated at \$57.0 million generating approximately \$1.1 million in new tax dollars. In an effort to mitigate the impact of the \$2.9 million dollar increase in the 2013 Operating Budget we have allocated \$1,200,000 from reserves and available resources. That being said, preliminary projections indicate the tax levy will increase \$2.0 million and the average residential property tax bills may increase approximately \$88 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 2013 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 2013 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 2013 Budget.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Edward A. Bettencourt, Jr.", written in a cursive style.

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

Attachments:

Fiscal 2013 Budget Workbook