

CITY OF PEABODY

24 LOWELL STREET
PEABODY, MASSACHUSETTS 01960



P. 978-538-5700
F. 978-538-5980

OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 16, 2015

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 2016 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 2016 which complies with all the mandatory spending limitations imposed by Proposition 2 1/2. Department heads have complied with my directive to level fund their Fiscal 2015 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 Fiscal 2016 Operating Budget as submitted totals \$156,631,009. Of that amount \$75,990,315 (49%) is requested for salaries; \$35,438,805 (23%) for employee benefits and \$45,201,889 (28%) is for expenses. The Fiscal 2016 Budget is \$4,603,876 or 3% more than the Fiscal 2015 Operating Budget of \$152,027,133 as originally submitted.

The Fiscal 2016 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$111,429,120 or 72% 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 \$14.1 million (9%) in 2016. Intergovernmental Services total \$11.3 million (7%) and includes assessments for the Northshore Essex Technical Vocational School (\$2.3 million) and the South Essex Sewerage District (\$9 million) a decrease of \$1.2 million from 2015 due to changes in assessments. Purchase of Services, Supplies and Other Charges total \$6.9 million while Debt Service and Capital Outlay total \$8.9 an increase of \$1.3 million from the Fiscal 2015 Operating Budget.

The City portion of the Fiscal 2016 Budget totals \$85,472,734 and has increased \$3,087,575 or 3.7% from Fiscal 2015. Of that amount, \$28,989,430 or 33.9% is for salaries; \$25,780,233 or 30.1% is for employee benefits, funding 425 (FTE) employees, while 36% or \$30,703,071 is for operating expenses including Debt Service which totals \$7,451,000. Increases include \$1,372,858 for salaries and reserve for the potential settlement of contractual salary obligations for Fiscal 2016 citywide; \$1,202,000 increase for Debt Service relating to the Higgins Middle School, Green Repairs and Capital Projects; \$975,000 for increases in cost of providing health insurance benefits for employees and retirees; \$493,252 for Retirement Benefits and \$260,393 for MWRA Water Charges. The SESD Assessment was reduced by \$908,360 to reflect retired debt service payments at the District.

The Fiscal 2016 Budget for Public Safety totals \$18.6 million of which salaries total \$17.3 million (93%) and operating expenses total \$1.26 million (7%). The Police Department Budget totals \$9,740,100, a net increase of \$75,285 (.8%) and includes staffing for 111 full time positions. Currently there are 6 vacant positions that will be filled in the very near future. The Fire Department Budget totals \$8,323,895, an increase of \$282,575 (3.5%) over last year. The budget funds 104 positions including the addition of 4 new Fire Lieutenants in place of firefighter's positions, to create a command staff for each division. We anticipate forwarding a change in the staffing ordinance in the very near future so we may begin to fill the positions.

The Fiscal 2016 Budget for Public Services totals \$22 million of which salaries total \$4.2 million (19%) and includes staffing for 65 full time positions while operating expenses total \$17.8 million (81%). The Fiscal 2016 Budget had a net decrease of \$943,106. Of that amount the SESD Assessment was decreased by \$909,096 and the solid waste budget was reduced by \$219,999 primarily attributed to the decrease in tipping fees for our new solid waste disposal contract with Covanta Haverhill, Inc. which goes into effect July 1, 2015.

The Fiscal 2016 Budget for Employee Benefits totals \$25.8 million or \$1.5 million more than 2015. 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 2016 GIC Health Insurance Premium Rates have increased approximately 6.5% or \$950,000 for the

City portion of the expense. Retirement Benefits increased by \$493,252 (5.6%) per our actuarial funding schedule

As you know, the City was able to come to a mutual agreement with the Peabody Public Employees Coalition (PEC) to enroll all active employees and retirees including Retired Municipal Teachers into the GIC Health Plan effective January 1, 2013. We were able to maintain stabilized premiums for Fiscal 2014 and Fiscal 2015. Unfortunately, the 2016 rates have increased by approximately 6.5% in the aggregate. Our total enrollment as of June 2016 is 2,665 members. Below is a table that summarizes our enrollment by plan and the projected cost.

Plan	Enrollment	% Increase	Total Cost
Unicare-OME	1215	6.5%	\$6,043,260
Unicare-Other	413	3.7%-4.4%	\$7,298,532
Harvard-OME	102	-.06%	\$480,096
Harvard-Other	243	9.2%	\$4,099,236
Tufts-OME	18	1.6%	\$72,672
Tufts-Other	583	.2%-7.5%	\$9,201,126
NHP	32	2.5%	\$348,504
Fallon	59	2%-6.4%	\$707,520
Totals	2,665		\$28,250,946

In comparison, our total combined costs with Blue Cross and GIC for medical costs were \$26.7 million for Fiscal 2013; \$27.3 million in Fiscal 2014 and our estimated expenses with the GIC for the fiscal year ending June 30, 2015 are \$26.8 million.

The City's total cost for Fiscal 2016 will be \$24.9 million and employees/retirees share will be \$3.3 million for Fiscal 2016 based on current enrollments of 2,665 participants. We continue to administer the Health Reimbursement Accounts that were set up with Group Benefit Strategies for both active employees and retirees who are eligible for reimbursements for copayments, deductibles or premium subsidy. The Peabody Public Employee Coalition Agreement expires June 30, 2016. We have recently begun discussions with the PPEC as outlined in the original agreement.

The Fiscal 2016 School Budget as recommended and voted by the School Committee totals \$68,461,793 allows for a 2.7% increase or \$1,789,000 in spending over last year's budget of \$66,672,793 exclusive of the Assessment for the Northshore Essex Technical Vocational School which totals \$2,696,482. The combined budget for Education totals \$71,158,275 and represents a 2.2% increase. Of the amount, \$56,659,457 or 79.6% of the School Budget is for salaries (\$47,000,885) and benefits (\$9,658,572), funding approximately 835.7 (FTE) employees while 20.4% or \$14,498,818 is for operating expenses. Salaries increased by \$906,922 for steps and lanes while employee benefits increased by \$494,551. Contractual services increased \$370,253, leasing for technology

and special education equipment increased by \$198,183 while the vocational school budget decreased by \$272,699.

The 2016 School Budget will also use \$3,818,433 in various offsets that increase the authorized spending levels up to \$71,158,275 which equates to a \$1,516,301 increase (2.2%) over 2015. The offsets relating to salaries total \$1,067,377; School Lunch/Grants (\$375,000) for health insurance/Medicare taxes; and \$1,929,558 from Circuit Breaker Reimbursements for Special Education costs. Other offsets from building rentals and transportation fees total \$446,498.

In addition to the approved operating budget there are direct school expenses (Schedule 19) totaling almost \$8.5 million that are included in the City portion of the budget bringing the total School Budget to \$79.6 million or 51% of the total Fiscal 2016 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$812,984 for school nurses; \$3,645,000 for school long term debt service; \$3.6 million for retired school department's employees' health insurance and retirement benefits.

In June of last year, the City awarded the contract for Higgins Middle School Construction Project to Agostini Bacon Construction, the low bidder at \$68.8 million. The bids were significantly below the estimated costs of construction and the MSBA has adjusted our grant accordingly. The total estimated cost of the project has been reduced to \$88.6 million of which the MSBA has approved the maximum grant of \$40.8 million and the City's share is now \$45.8 million down from the original estimate of \$49 million. As highlighted last year, the City has developed a financing plan that will phase in the permanent financing of the project to mitigate the impact of increasing debt service payments all in one year. To date, we have issued \$14,750,000 in long term bonds and \$19,800,000 in short term bond anticipation notes to fund the current cash flow requirements through the remainder of the calendar year. We will issue additional bonds in the January of 2016 to cover the balance of the projects cash flow requirements.

Overall, the Higgins Middle School Project is currently progressing very well. The project construction is on schedule despite the most difficult winter and expenses are within the budget. The project is scheduled to be completed in late summer of 2016. I will keep you updated on this most exciting project.

Recently, the Council authorized a loan order for the accelerated repair program for the McCarthy School Roof and Windows in the amount of \$4,850,000 of which the City will receive a maximum grant of \$2,646,210 (54.79%) from the MSBA and the City's share will be approximately \$2.2 million based on the final bids. Bids have been received for the roofing portion of the project and we anticipate final bids for the windows in January 2016. The loan order for the Peabody Square Reconfiguration in the amount of \$2.0 million was also recently approved. The City will receive a grant in the amount of \$1.5 million from the

Mass Works Grant Program bringing the total cost of the project to approximately \$3.5 million. The project is currently advertised and the closing date for submission of bids for project construction is June 30, 2015. I will keep you apprised as both projects move forward.

The Fiscal 2016 Budget as presented to you at \$156,631,009 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 2016 if aid is reduced.

In Fiscal 2016, 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 level funded \$32.7 million which includes an anticipated increase in Water and Sewer Rates. We are completing our update for the Water and Sewer Rate Study and will come forward this fall with rate recommendations.

The budget is based on the premise that the City of Peabody will receive \$26,321,933 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase of \$626,693. Education Aid increased \$405,333 and General Unrestricted aid increased \$231,237. State Charges will total \$2,222,612, a net increase of \$83,765 from Fiscal 2015. Fiscal 2016 State Aid represents 16% of our total revenues. We remain optimistically 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 \$99.3 million or 62% of our total revenues will come from Property Taxes in Fiscal 2016. Based on market conditions as of January 1, 2015, the Board of Assessor's anticipates that values have stabilized and we will see a 5% increase in residential values and CIP values will remain stable. New construction growth is estimated at \$42 million generating approximately \$656,000 in new tax dollars.

In an effort to mitigate the impact of the increase in the 2016 Operating Budget we have allocated \$2,400,000 from reserves and available resources. Of that amount \$1.5 million will come Unreserved Fund Balance; \$500,000 from Debt Service Fund Balance to help offset the \$1,2 million dollar increase in 2016 Debt Service budget and \$400,000 from the Employers Health Insurance Trust Fund will be used to offset the \$1.5 million dollar increase in employer health insurance premiums.

That being said, preliminary projections indicate the tax levy will increase \$2.6 million and the average residential property tax bills may increase approximately \$185 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 2016 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 2016 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 2016 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 2016 Budget Workbook