

CITY OF PEABODY

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OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 1, 2018

Honorable Members of the City Council
Peabody City Hall
24 Lowell Street
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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 2019 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 2019 which complies with all the mandatory spending limitations imposed by Proposition 2 ½. Department heads have complied with my directive to level fund their Fiscal 2019 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 2019 Operating Budget as submitted totals \$171,286,426. Of that amount \$84,489,654 (49.3%) is requested for salaries; \$37,389,717 (21.8%) for employee benefits and \$47,016,435 (28.8%) is for expenses. The Fiscal 2019 Budget is \$6,768,852 or 4.1% more than the Fiscal 2018 Operating Budget of \$164,517,574.

The Fiscal 2019 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$121,879,371 or 71% 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 \$15.3 million (9%) in 2019. Intergovernmental Services total \$11.8 million (7%) and includes assessments for the Northshore Essex Technical Vocational School \$4.1 million an increase of \$124,508 due to increased enrollment and the South Essex Sewerage District \$8.3 million remaining stable from Fiscal 2018. Purchase of Services, Supplies and Other Charges total \$12.5 million a 2.2 million dollar increase for purchasing MWRA water. Debt Service and Capital Outlay total \$9.6 million a slight increase from the Fiscal 2018 Operating Budget.

The City portion of the Fiscal 2019 Budget totals \$93,472,226 and has increased \$4.8 million or 5.4% from Fiscal 2018. Of that amount, \$32,848,409 or 35.1% is for salaries; \$26,469,455 or 28.3% is for employee benefits, funding 444 (FTE) employees, while 36.5% or \$34,154,362 is for operating expenses including Debt Service which totals \$8,373,900. Increases include; \$609,850 for salaries which funds in part, an additional school resource officer, an additional school nurse and moving two positions from part time to full time at Tillies and in Human Resources. In addition, \$600,000 has been budgeted for anticipated City salary obligations. All union contracts expire on June 30, 2018 but negotiations are ongoing with several unions being close to final agreement. The purchase of MWRA water increased \$2.2 million. Health insurance increased \$700,000, retirement benefits \$363,791, and debt service \$337,900 which includes a \$250,000 repayment to our stabilization account.

The Fiscal 2019 Budget for Public Safety totals \$21.2 million of which salaries total \$20.2 million (95%) and operating expenses total \$1 million (5%). The Police Department Budget totals \$10,624,317 a net increase of \$56,405 (.5%) and includes staffing for 112 full time positions. Currently, there is 1 vacant position and 1 new position for an addition school resource officer. The Fire Department Budget totals \$9,587,260 a decrease of \$29,863 (-.3%) over last year. The budget funds 107 positions including 6 vacancies that the City is in the process of hiring.

The Fiscal 2019 Budget for Public Services totals \$25 million of which salaries total \$4.8 million (19.3%) and includes staffing for 71 full time positions. The Director of Facilities and 5 full time custodians were transferred from other budgets (Community Development (2), Police (1) and Library (2)) as part of creating a new Facilities Budget within the Public Services account group. Operating expenses total \$20.2 million (80.7%). The Fiscal 2019 Budget had an increase of \$2.5 million. Primarily due to increases in MWRA water \$2.2 million, SESD \$60,775, outside services and materials \$168,836.

The Fiscal 2019 Budget for Employee Benefits totals \$26.3 million an increase of \$1,077,791 from 2018. 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 2019 MIA Blue Cross Health Insurance Premium Rates have increased (9.8%). Fiscal 2019 Health rates increases along with Retirement Benefits increasing by \$357,791 (3.6%) per our actuarial

funding schedule brings total employee benefit costs to only \$574,00 above Fiscal 2016 levels.

Based on the Fiscal 2019 Health Rates and total enrollment as of June 2018 of 2,730 members. The table below summarizes our enrollment by plan and the projected cost for the City's 85% share.

Plan	Individual	Family	Total Cost
Blue Care Elect	326	488	\$8,663,832
HMO Blue/Select	161	379	\$12,801,716
MEDEX 2	1376		\$4,757,586
Totals	1,863	867	\$26,223,134

In comparison, our projected City share for Fiscal 2018 Blue Cross Blue Shield costs are \$24.4. An overall \$1.8 million dollar increase to the City.

The total Health Insurance cost projected for Fiscal 2019 will be \$32.2 million and employees/retirees/mitigation fund share will be \$6 million based on current enrollments of 2,730 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. We have made efforts to reduce costs by offering a limited HMO plan, an opt out opportunity for employees currently enrolled in a City Health plan and have offered a new Vision plan. Our current agreement with the Peabody Public Employee Coalition expires June 30, 2019.

The Fiscal 2018 School Budget as recommended and voted by the School Committee totals \$73,710,393 allows for a 2.5% increase or \$1,815,600 in spending over last year's budget of \$71,894,793 exclusive of the Assessment for the Northshore Essex Technical Vocational School which totals \$4,103,807. The combined budget for Education totals \$77,814,200 and represents a 2.6% increase. Of that amount, \$62,561,507 or 84.9% of the School Budget is for salaries (\$51,641,245) and benefits (\$10,920,262), funding approximately 863.7 (FTE) employees while 15.1% or \$11,148,886 is for operating expenses. Salaries increased \$1,258,631 and employee benefits increased \$918,155.

The 2019 School Budget will also use \$4,622,636 million in various offsets that increase the authorized spending levels up to \$78,333,029 which equates to a \$2,185,644 increase (2.87%) over 2018. The offsets relating to salaries total \$1,177,736; Grants \$400,000 for Health Insurance/Medicare taxes; and \$1,908,744 from Circuit Breaker Reimbursements for Special Education costs. Other offsets coming from school choice, building rentals and transportation fees total \$1,136,156.

In addition to the approved operating budget there are direct school expenses (Schedule 19 – School Department End of Year Report) totaling \$10.1 million that are included in the City portion of the budget bringing the total School Budget to \$88.4 million

or 52% of the total Fiscal 2019 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$938,473 for school nurses; \$4.9 million for school long term debt service and \$3 million for retired school department's employees' health insurance and retirement benefits.

The Higgins Middle School project is winding down with a total estimated cost of projected at \$86.6 million of which the MSBA has estimated the maximum grant of \$38.6 million and the City's share is now \$48 million. To date, we have issued \$44,596,000 in long term bonds and \$4,000,000 in short term bond anticipation notes to fund the current cash flow requirements. We are in the process of working with MSBA to close out the project and anticipate final permanent bonding will take place in March of 2019.

The Crystal Lake project is in the final stages with the development of the park area underway. Various bond issues and grants have been used to finance this project with the final shaping and capping of the landfill still in progress. I will shortly be proposing a \$7 million Bond Order for capital improvements including an addition at the Torigian Senior Center, upgrades to PVMHS athletic fields, a new fire truck, Safety/security equipment for schools and other public buildings, a microwave communications system for public safety and equipment purchases and repairs for various City and School Departments.

The Fiscal 2019 Budget as presented to you at \$171,286,426 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 adjust our spending plan for 2019 if aid is reduced.

In Fiscal 2019, 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 funded at \$34.4 million which includes an anticipated increase in Water and Sewer Rates. I am recommending a 7.5% Water and Sewer Rates increase July 1, 2018 for both residential and commercial.

The budget is based on the premise that the City of Peabody will receive \$29,923,731 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase of \$367,084. Education Aid increased \$135,935 and General Unrestricted aid increased \$229,192. State Charges will total \$2,461,713, a net increase of \$135,388 from Fiscal 2018. Fiscal 2019 State Aid represents 16% of our total revenues. We remain optimistically cautious as to what the final State Aid funding will be, pending the outcome of the Budget Conference Committee scheduled for later this month.

The remaining source of revenue will come from Property Taxes. We estimate that \$107.4 million or 62% of our total revenues will come from Property Taxes in Fiscal 2019. Based on market conditions as of January 1, 2018, the Board of Assessor's anticipates values will continue to rise and we will see another 6.5% increase in residential values and CIP values should remain stable. New construction growth is estimated at \$45 million generating approximately \$831,000 in new tax dollars.

In an effort to mitigate the impact of the increase in the 2019 Operating Budget we have allocated \$4,571,200 from reserves and available resources. Of that amount \$1.5 million will come from Unreserved Fund Balance; \$400,000 from Unreserved Fund Balance Capital to help fund Debt Service; \$400,000 from Health Trust to offset health rates increases; \$21,200 from parking fees to fund the parking meter account; \$1,000,000 from insurance proceeds and \$1,250,000 from stabilization to offset additional MWRA costs.

That being said, preliminary projections indicate the tax levy will increase \$3.3 million and the average residential property tax bills may increase approximately \$192.86 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 2019 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 2019 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 2019 Budget.

Respectfully submitted,



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