



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

May 10, 2007

**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 2008 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 2008 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 2008 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 have diligently managed their budgets within the perimeters set forth during the past five years.

The Fiscal 2008 Operating Budget as submitted totals \$129,531,323 of which, \$61,615,613 (48%) is requested for salaries; 28,745,762 (22%) for employee benefits and \$39,169,948 (30%) is for expenses. The Fiscal 2008 Budget is \$4,246,611 or 3.4% greater than the Fiscal 2007 Operating Budget of \$125,538,948 as originally submitted. On a comparative basis, including \$1,431,000 of supplemental appropriations voted for contractual salaries, the adjusted 2007 budget totals \$126,969,948 equating to a net change between the two budgets of \$2,561,375 or 2%.

Of the \$4,246,611 increase in the Fiscal 2008 Budget, \$4,426,577 or 104% is for salaries (\$2,552,493) and employee benefits (\$1,874,084) which includes funding for the negotiated contracts city wide through June 30, 2007 only. Although the remaining increases were fairly minimal, the total increase was offset by a decrease of (\$580,575) for purchased services, primarily the projected cost for purchasing water from the Massachusetts Water Resource Authority.

The City portion of the Fiscal 2008 Budget totals \$70,892,882 and has increased \$2,436,611 or 3.6% from Fiscal 2007. Of that amount, \$23,234,802 or 33% is for salaries; \$20,302,312 or 29% is for benefits funding 443 (FTE) employees while 38% or \$27,355,768 is for expenses.

As in years past, the largest increase in the City budget is for salaries (\$1,254,826) and benefits (\$1,273,150), combined the increase totals \$2,527,976 or 104% of the total proposed increase. The increase in salaries includes the adjustment of salaries and wages to Fiscal 2007 rates in accordance with recently settled collective bargaining agreements for Public Safety and ordinance changes voted in July 2007. Other increases include \$186,822 for Retirement Benefits; \$25,000 for Medicare Taxes and a \$903,000 increase in the City Budget for Health Insurance Benefits.

The FY 2008 Budget for Public Services totals \$20.1 million, a net decrease of (\$234,128) or 1.2% less than the FY 2007 Budget. The decrease is primary related to the cost of purchasing water from the MWRA and a decrease in the SESD Assessment. In 2008, the cost of purchasing water from the MWRA is \$482,000 which reflects a \$510,000 decrease in the water assessment. The Fiscal 2008 South Essex Sewerage District Assessment is \$8,552,384 or \$73,823 less than the 2007 assessment. Increases include \$155,500 contractual obligation for Trash Removal and \$115,000 has been added for increases in the cost of chemicals, additional water meters and water testing services required under the Safe Drinking Water Act. The Department of Public Services Budget provides staffing at 67 FTE's.

The FY 2008 Budget for Public Safety totals \$15.3 million and includes an increase of \$1,234,279 or 8.8% over last year. The Budget includes staffing of 111 and 103 FTE for Police and Fire respectively. The Police Department Budget totals \$8,393,093, an increase of \$655,084 (8.5%) over last year which funds the recently settled union contracts. The Budget also includes \$120,000 for cruisers. The Fire Department Budget totals \$6,513,728 including an increase of \$595,303 (10.1%) over last year which funds the recently settled union contracts and also includes the hiring of 2 new firefighters.

The Debt Service Budget totals \$5.7 million which reflects an increase of \$197,000 or (3.6%) from Fiscal 2007. In July 2006, the City sold \$9,015,000 of bonds to permanently finance our share of the Brown and Carroll School Construction Projects and the City Hall Renovation Project. The additional principal and interest payments in the Fiscal 2008 Budget total \$567,000. Also, short term interest expenses are projected to decrease by \$370,000 as a result of permanently financing short term debt and the preliminary SBAB reimbursement for the Peabody Veterans Memorial High School Project.

In Fiscal 2007, the City received the final SBAB payment on the Carroll School in the amount of \$2,815,706 which was used to pay down outstanding short term debt. We also received

\$10,056,404 of which \$677,027 was deposited into the general fund for the reimbursement of short term interest expenses incurred for the project while the remaining \$9,379,377 was used to payoff short term debt for the High School Project.

In Fiscal 2008, the cost of providing employees benefits in the City Budget alone will total \$19,673,229 a net increase of \$1,022,977 or 5.5% over Fiscal 2007. The cost of retirement benefits increased \$186,822, in accordance with the adopted funding schedule, which reflects the cost for the Early Retirement Bill in Fiscal 2004. The City's share of providing health insurance for city employees and retirees will cost \$11,500,000 million in Fiscal 2008, which equates to a \$900,000 increase from last year.

The City was notified by Blue Cross Blue Shield that we would see a 10.2% or \$1.7 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 Fiscal 2008 is \$22,530,000 of which the City of Peabody's share is \$20.3 million based on our 90% - 10% split. The current enrollment including retirees enrolled in Medex totals 2,224 participants.

Approximately \$0.175 cents of every budget dollar will be spent on health care expenses in Fiscal 2008. Listed below are the annual plan costs for health insurance:

Plan	Enrollment	2008 Annual Cost	2007 Annual Cost	Annual Increase Per Subscriber	City Share (90%)	Employee Share (10%)
Blue Care Elect – Family	274	\$19,936	\$18,084	\$1,852	\$17,942	\$1,994
Blue Care Elect – Single	163	\$7,492	\$6,797	\$695	\$6,743	\$749
HMO Blue – Family	611	\$15,801	\$14,337	\$1,464	\$14,221	\$1,580
HMO Blue – Single	315	\$5,885	\$5,342	\$543	\$5,297	\$588
Medex	861	\$4,567	\$4,528	\$39	\$4,567	\$0

Since 2001, the City's cost of providing health insurance has risen by \$11.5 million from \$11 million to \$22.5 million in Fiscal 2008, or 104% in this 7 year period. Interesting to note, during this same time period, gross salaries increased by only \$7.1 million. As a percentage of amounts paid for salaries and health benefits combined, health benefits costs represented 61% of the total increase while 38% of the increase went to salaries. Simply stated .61 cents of every new budget dollar allocated for salaries and expenses went to fund the cost of health care for active and retired employees.

Although we have allocated funds for modest salary increases, the added cost of benefits has decreased the amount available for expenditure by \$1.7 million. Based on total salaries of \$61.6 million, the increase in health insurance benefits equates to a 2.7% salary increase. The City recently settled all outstanding contracts that will expire June 30, 2007. Negotiations with various collective bargaining units for new contracts have recently begun. We will work closely

with the membership and will continue to ask for their assistance and willingness to partner with the City to make changes to the current plan designs and percentage of co-payments. If there are no changes in the plan contribution or benefit levels, given limited resources and Proposition 2 ½ limitations, the City cannot afford to fund the escalating cost of benefits into the future without materially impacting staffing levels or foregoing salary increases. If necessary, we will seek legislative relief from a home rule petition to change contribution levels.

The Fiscal 2008 School Budget as recommended by me and approved by the School Committee totals \$58,638,441. The recommended budget allows for a 3.2% increase or \$1,810,000 over last years Budget of \$56,828,441, which is consistent with the overall increase in the Fiscal 2008 Budget. Of the amount recommended, 80% or \$46,824,261 of the School Budget is for salaries (\$38,380,811) and benefits (\$8,443,450), funding approximately 854.7 (FTE) employees while 20% or \$11,814,180 is for operating expenses. The increase in salaries (\$915,711) and benefits (\$496,640) totals \$1,412,351. The Budget assumes employee benefits contributions totaling \$801,665 from the School Lunch Program and various grants will be used as an offset to fund the estimated \$8.1 million cost of providing employee benefits for existing and new employees. Operating Expenses have increased \$397,649 primarily for the escalation in the cost of providing transportation for regular day and special education students, equipment and materials and supplies district wide.

In addition to their Fiscal 2008 Operating Budget of \$56,828,441, by year end, the Schools will have received \$1,477,024 from the State for the Special Education Circuit Breaker Program to offset special education tuition expenses. The reimbursements represent approximately 72% of the excess costs for students whose tuition bills are greater than \$31,616. By statute, the funds must be maintained in a separate Special Revenue Account "State Special Education Reimbursement Fund"; the actual expenses for those tuitions must be charged against those funds and the School Department is required to exclude instructional costs eligible under this program from the operating budget. The estimated 2008 Circuit Breaker offset included in the recommended School Budget is \$1,474,076.

Additionally, \$11.2 million for direct school expenses (Schedule 19) is included in the City portion of the budget, bringing the Fiscal 2008 School Budget to \$68 million or 52% of the total FY 2008 Budget, exclusive of programs funded by federal and state grants (\$4.5 million). Some of the major direct school expenses in the City Budget include \$616,418 for school nurses; \$2.3 million for school long term debt service; \$1.1 million for short term interest expenses; \$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 in the past few years, I am pleased to note that the City of Peabody has not only met but also exceeded the requirement of the Education Reform Act in Fiscal 2008 as we have done during the past 13 years. Listed below are the actual statistics by year:

Fiscal Year	Net School Spending	Foundation Budget	Annual School Budget	School Expenses in City Budget	Total School Budget	Chapter 70 Funding	Funded by Local Revenues
1995	30,567,573	30,889,541	30,843,773	4,941,331	35,785,104	7,260,297	28,524,807
1996	32,017,705	32,236,860	32,832,213	3,278,348	36,110,561	7,971,008	28,139,553
1997	33,438,975	33,731,015	34,100,000	3,673,014	37,773,014	8,742,427	29,030,587
1998	35,468,560	36,227,477	36,970,180	3,871,418	40,841,598	10,028,108	30,813,490
1999	38,560,944	39,237,974	39,124,657	4,280,392	43,405,049	12,193,412	31,211,637
2000	39,781,604	39,573,913	41,859,633	4,200,000	46,059,633	13,155,365	32,904,268
2001	41,783,977	41,949,192	45,018,302	4,592,619	49,610,921	13,655,362	35,955,559
2002	45,461,286	45,461,286	48,588,802	6,832,288	55,421,090	15,127,285	39,061,517
2003	47,450,429	47,450,429	51,588,802	7,424,238	59,013,040	16,281,941	42,731,099
2004	47,092,420	47,092,420	51,089,645	7,352,971	58,442,616	15,666,037	42,776,579
2005	49,118,043	49,118,043	52,289,695	7,567,732	59,857,427	16,453,772	43,403,655
2006	52,901,676	52,901,676	54,381,282	8,500,000	62,881,282	18,731,315	44,149,967
2007	55,237,118	54,459,414	56,828,441	10,100,000	66,928,441	19,195,873	47,732,568
2008	57,281,578	56,552,789	58,638,441	11,200,000	69,838,441	19,741,190	50,097,251
Net Change	26,714,005	25,663,248	27,794,668	6,258,669	34,053,337	12,480,893	21,572,444
% Change	87%	83%	90%	126%	95%	172%	75%

Since the inception of the Education Reform Act, the Annual School Budget has grown \$27.8 Million or 90% and the City has continued to meet both Net School Spending and Foundation Budget Requirement in each year of the program. Currently, the Fiscal 2008 Budget exceeds both the Net School Spending and Foundation Requirements by more than \$12.5 million.

We need to focus on the quality of our curriculum, instruction and the programs and services offered as well as our facilities. We need to find the best way to manage our resources and work together to maximize our investment in all areas of local government. 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.

The Fiscal 2008 Budget as presented to you at \$129,531,323 is a balanced budget with proposed sources of revenue coming from local receipts, property taxes, available funds and state aid. We have worked very hard with all departments to find ways to reduce or contain the escalation in the operating budget and we will continue to do so during the upcoming fiscal year. Any changes to current circumstances will require future adjustments that may impact the assumptions outlined below.

This budget was based on the premise that the City of Peabody would receive \$29,548,233 in State Aid and State Charges will total \$5,550,738 resulting in a net increase of \$451,740 or 1.9% in State Aid over Fiscal 2007. Fiscal 2008 State Aid represents 21.7% of our total revenues.

In FY 2008, 21.6% 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 a net decrease of \$286,108. We anticipate a decrease of \$451,108 from the loss of a Water Filtration Grant and based on current economic trends we anticipate approximately \$1.1 million less in revenues from excise taxes, landfill revenues, Medicaid reimbursements and assessment refunds from SESD. Interest Income has been increased slightly to reflect current interest rates and we expect federal reimbursements for the Medicare Part D Drug Program to be \$476,000 in Fiscal 2008. Additionally, our funding assumptions anticipate a phased-in increase for water and sewer in Fiscal 2008 through 2010.

The remaining source of revenue will come from Property Taxes. We estimate that \$75.1 million or 55% of our total revenues will come from Property Taxes in Fiscal 2008. Based on market conditions as of January 1, 2007, the Board of Assessor's anticipates that the average values of single family homes will be reduced by approximately 10%. Preliminary projections indicate annual residential property tax bills will increase approximately \$161 depending on the final outcome of the certified new growth amounts and the actual classification factor that is used for businesses.

As you begin to finalize your deliberations on the Fiscal 2008 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 2008 Budget.

Respectfully Submitted,



Michael J. Bonfanti
Mayor, City of Peabody

Attachment: Fiscal 2008 Budget Summary