



City of Peabody, Massachusetts

Office of the Mayor

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Michael J. Bonfanti

Mayor

May 22, 2008

**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 2009 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 2009 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 2009 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 who have diligently managed their budgets within the perimeters set forth during the past six years.

The Fiscal 2009 Operating Budget as submitted totals \$132,521,527 of which, \$62,625,457 (48%) is requested for salaries; 30,009,029 (23%) for employee benefits and \$39,887,041 (29%) is for expenses. The Fiscal 2009 Budget is \$2,990,204 or 2.3% greater than the Fiscal 2008 Operating Budget of \$129,531,323 as originally submitted. There were no supplemental votes requested in Fiscal 2008.

Of the \$2,990,204 increase in the Fiscal 2009 Budget, salaries increased \$1,009,844 including an additional \$600,000 in funding of the Salary Reserve Account for the pending settlement of union contracts while employee benefits increased \$1,263,267 of which \$1,076,140 relates to health insurance costs and \$168,478 for Retirement Benefits. The remaining increases related to student transportation costs and increased costs of gasoline and diesel fuel (\$114,000) for all major departments.

The City portion of the Fiscal 2009 Budget totals \$73,043,369 and has increased \$2,150,487 or 3% from Fiscal 2008. Of that amount, \$25,770,833 or 35% is for salaries; \$20,343,294 or 28% is for benefits funding 458 (FTE) employees while 37% or \$26,929,242 is for expenses.

As in years past, the largest increase in the City budget is for salaries (\$1,115,886) and employee benefits (\$712,127), combined the increase totals \$1,828,013 or 85% of the total proposed increase. The increase in salaries includes an additional \$600,000 in the Salary Reserve Account to provide funding for the cost to settle pending union contracts including schools, based on proposed negotiations. The remainder of the increase in salaries is for Public Safety salaries and overtime. Employee Benefits increases include \$168,478 for Retirement Benefits; \$25,000 for Medicare Taxes and a \$525,000 increase in the City Budget for Health Insurance Benefits.

The FY 2009 Budget for Public Safety totals \$15.9 million of which salaries total \$14.7 (92%) and operating expenses total \$1.2 million (8%). The Police Department Budget totals \$8,753,396, an increase of \$360,303 (4.3%) and includes staffing of 114 positions including 2 new administrative positions. The Budget includes \$35,000 more for the escalating cost of fuel and \$120,000 for cruisers. The Fire Department Budget totals \$6,666,474, an increase of \$152,746 (2.3%) over last year which funds 103 positions and includes \$122,701 for steps increases and overtime expenses. Also, \$17,000 in additional funds has been added for fuel costs.

The FY 2009 Budget for Public Services totals \$20.2 million of which salaries total \$3.5 million (17%) staffing 64 positions while operating expenses total \$16.7 million (83%) The net increase in the operating expenses for the department totaled \$115,314 or .6% more than the Fiscal 2008 Budget. Increases in the budget include, \$52,000 more to purchase water from the MWRA and a \$50,000 increase in the principal payment for the MWRA Rehabilitation Loan Program (0 Interest Loan Program for Water Main Rehabilitation). Additionally, the budgets for gasoline, diesel and vehicle supplies have increased \$39,000 reflecting the escalating costs of fuel. The Fiscal 2009 South Essex Sewerage District Assessment is \$8,499,115 or \$43,269 less than the 2008 assessment.

The City was notified by Blue Cross Blue Shield that based on our current level of claims we would see a 9% or a \$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 2009 is \$24.2 million of which the City of Peabody's share is \$22.1 million based on our 90% - 10% split. The current enrollment including retirees enrolled in Medex totals 2,237 participants.

Approximately \$0.18 cents of every budget dollar will be spent on health care expenses in Fiscal 2009. Listed below are the annual plan costs for health insurance:

Plan	Enrollment	2009 Annual Cost	2008 Annual Cost	Annual Increase Per Subscriber	City Share (90%)	Employee Share (10%)
Blue Care Elect – Family	234	\$21,727	\$19,936	\$1,791	\$19,554	\$2,172
Blue Care Elect – Single	146	\$8,167	\$7,492	\$675	\$7,351	\$817
HMO Blue – Family	659	\$17,218	\$15,801	\$1,417	\$15,496	\$1,721
HMO Blue – Single	333	\$6,415	\$5,885	\$530	\$5,773	\$641
Medex	862	\$4,977	\$4,565	\$412	\$4,977	\$0
Totals	2,237	\$24,200,000	\$22,538,000	\$1,662,000	\$22,131,789	\$1,982,403

Since 2003, the City’s cost of providing health insurance has risen by \$11.8 million from \$14.1 million to \$24.2 million in Fiscal 2009, or 83% in 7 years. Interesting to note, during this same time period, gross salaries increased by only \$6.8 million. As a percentage of amounts paid for salaries and health benefits combined, health benefits costs represented 63% of the total increase while 37% of the increase went to salaries. Simply stated .63 cents of every new budget dollar allocated for salaries and expenses went to fund the cost of health care for active and retired employees.

Plan	Actual					FY 2008	FY 2009
	30-Jun-03	30-Jun-04	30-Jun-05	30-Jun-06	30-Jun-07	Budget 1-Jul-07	Projected Budget
Blue Care Elect	4,617,768	4,518,385	4,771,174	5,231,528	5,357,566	6,225,000	5,668,701
HMO Blue	5,422,728	6,421,911	7,104,383	8,724,768	9,803,710	10,847,000	12,982,459
Medex	2,424,778	2,614,520	2,916,828	3,196,215	3,368,952	3,700,000	4,057,509
Administrative Fees	1,090,836	1,118,460	1,194,684	1,246,636	1,187,740	1,222,000	1,093,781
Reinsurance - Stop Loss	366,282	390,047	320,403	312,850	296,312	512,000	365,550
Claims Monitoring	20,000	20,596	20,000	23,000	20,000	32,000	32,000
Working Deposit Increase	189,172	384,400	110,257	186	15,371	0	0
	14,131,564	15,468,319	16,437,729	18,735,183	20,049,651	22,538,000	24,200,000
Annual \$ Increase	1,739,437	1,336,755	969,410	2,297,454	1,314,468	2,488,349	1,662,137
Cumulative \$ Increase							\$11,808,010
Annual % Increase	14%	9%	6%	14%	7%	12%	7%
Cumulative % Increase							83.5%
Annual Budgeted Salaries	55,771,916	53,899,487	54,719,828	57,905,043	59,317,356	61,015,613	61,425,457
Net Change in Salaries							\$6,853,541
% Change in Salaries							11.1%
Annual Benefit Increases as % of Annual Salaries	3.1%	2.5%	1.7%	3.9%	2.2%	4%	2.7%

Although we have allocated funds for contractual salary increases in the Fiscal 2009 operating budget pending the outcome of ongoing contract negotiations, the increased cost of health benefits equated to an additional 4% salary increase in Fiscal 2008 based on total salaries of \$61 million and 2.7% in Fiscal 2009 based on total salaries of \$61.4 million. Negotiations with various unions are ongoing. We are asking the membership to partner with the City to make changes to the current plan designs in terms of co-payments along with changes in percentage contributions spread out over the life of the contract. 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.

The Fiscal 2009 School Budget as recommended by me and approved by the School Committee totals \$59,478,158. The recommended budget allows for a 1.4% increase or \$839,717 over last years Budget of \$58,638,441. Of the amount recommended, 79% or \$47,269,359 of the School Budget is for salaries (\$38,274,769) and benefits (\$8,994,590), funding approximately 847 (FTE) employees while 21% or \$12,208,799 is for operating expenses. The cost of employee benefits increased \$640,740 which represents 76% of the total increase. Although salaries decreased by \$56,042, a portion of the proposed costs for contract settlements is included in the City side of the budget. The Budget assumes employee benefits contributions totaling \$648,349 from the School Lunch Program and various grants will be used as an offset to fund the estimated \$8.9 million cost of providing employee benefits for existing and new employees. Operating Expenses have increased \$255,019 primarily for the escalation in the cost of providing transportation for regular day and special education students, and modest increases for equipment and materials. The Fiscal 2009 Budget has also been offset with funds generated by fees for athletics, transportation and building rental fees totaling \$393,000.

In addition to the Fiscal 2008 Operating Budget of \$58,638,441, by year end, the Schools will have received \$1,579,263 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 2009 Circuit Breaker offset included in the recommended School Budget is \$1,731,251.

Also, direct school expenses (Schedule 19) totaling almost \$11.5 million are included

in the City portion of the budget, bringing the Fiscal 2009 School Budget to almost \$71 million or 51% of the total FY 2009 Budget, exclusive of programs funded by federal and state grants which totaled \$5.4 million in 2008. Some of the major direct school expenses in the City Budget include \$614,513 for school nurses; \$2.1 million for school long term debt service; \$430,000 for short term interest expenses; \$3.0 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 2009 as we have done during the past 15 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
2009	60,071,594	58,044,809	59,478,158	11,500,000	70,978,158	20,118,092	50,860,066
Net Change	29,504,021	27,155,268	28,634,385	6,558,669	35,193,054	12,857,795	22,335,259
% Change	96%	88%	93%	133%	98%	177%	78%

Since the inception of the Education Reform Act, the Annual School Budget has grown \$28.6 million or 93% and the City has continued to meet both Net School Spending and Foundation Budget Requirement in each year of the program. Currently, the Fiscal 2009 Budget exceeds both the Net School Spending and Foundation Requirements by more than \$10.9 million.

As I have stated in past years, 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 the near future as resources become more limited and we approach the tax levy limitations of Proposition 2 ½. We need to find the best way to manage our resources and work together to plan for the future of our 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.

The Fiscal 2009 Budget as presented to you at \$132,521,527 is a balanced budget with proposed sources of revenue coming from local receipts, property taxes, available funds and state aid.

In FY 2009, 21.5% 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 \$30.2 million which includes a slight increase of \$46,000 as a result of anticipated revenues generated from licenses and permits and the resumption of operations at the Landfill to accept permitted ash from Covanta Energy, who recently purchased the landfill from Peabody Monofill Associates which is offset by decreases in interest income, refunds from SESD and other departmental revenue.

The budget was based on the premise that the City of Peabody would receive \$30,168,435 in State Aid and State Charges will total \$6,142,096 resulting in a net increase of \$130,945 or .5% in State Aid over Fiscal 2008. Fiscal 2009 State Aid represents 21.5% of our total revenues.

The remaining source of revenue will come from Property Taxes. We estimate that \$79.2 million or 56.5% of our total revenues will come from Property Taxes in Fiscal 2009. Based on market conditions as of January 1, 2008, the Board of Assessor's anticipates that the average values of single family homes will be further reduced by approximately 5% and we will see modest new growth primarily generated from construction activity at North Shore Mall. Preliminary projections indicate annual residential property tax bills may increase approximately \$52 depending on the final values, the outcome of the certified new growth amounts and the actual classification factor that is used for businesses.

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 above.

As you begin to finalize your deliberations on the Fiscal 2009 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 2009 Budget.

Respectfully Submitted,

Michael J. Bonfanti

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

Attachment: Fiscal 2009 Budget Summary