

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 17, 2014

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 2015 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 2015 and 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 that have diligently managed their budgets and have worked with me over the past five months as we developed this operating budget.

The Fiscal 2015 Operating Budget as submitted totals \$152,027,133. Of that amount \$73,710,835 (49%) is requested for salaries; \$33,570,264 (22%) for employee benefits and \$44,746,034 (29%) is for expenses. The Fiscal 2015 Budget is \$5,994,939 or 4.1% more than the Fiscal 2014 Operating Budget of \$146,032,194 as originally submitted. Of that amount, \$2.9 million represents the new assessment for the Northshore Essex Technical Vocational School that will open in September 2014.

The Fiscal 2015 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$107,281,099 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 \$14.0 million (9.2%) in 2015. Intergovernmental Services total \$12.5 million (8.4%) and includes assessments for the new Northshore Essex Technical Vocational School (\$2.9 million) and the South Essex Sewerage District (\$9.9 million). Purchase of Services, Supplies, Other Charges total \$6.8 million and Debt Service and Capital Outlay total \$7.5 million of the Fiscal 2015 Operating Budget.

The City portion of the Fiscal 2015 Budget totals \$82,385,159 and has increased \$1,788,758 or 2.2% from Fiscal 2014. Of that amount, \$27,610,072 or 33.5% is for salaries; \$24,357,441 or 30% is for employee benefits, funding 422 (FTE) employees, while 36.9% or \$30,417,646 is for operating expenses including Debt Service which totals \$6,249,000. Increases include \$772,447 for 2% contractual salary obligations for Fiscal 2015; \$540,109 for SESD assessment, \$492,272 for Retirement Benefits and \$420,000 for MWRA Water Charges. Reductions in the budgets for Health Insurance, Workers Compensation and short term interest helped offset the increases noted above.

The Fiscal 2015 Budget for Public Safety totals \$18.2 million of which salaries total \$16.9 million (93%) and operating expenses total \$1.26 million (7%). The Police Department Budget totals \$9,664,815, a net increase of \$50,415 (.5%) and includes staffing for 111 full time positions. Currently there are 9 vacant positions that will be filled in the very near future. The Fire Department Budget totals \$8,041,320, an increase of \$282,940 (3.6%) over last year which funds 102 positions including 8 vacancies. We anticipate filling the vacancies very shortly.

The Fiscal 2015 Budget for Public Services totals almost \$22.9 million of which salaries total \$4.1 million (18.1%) and includes staffing for 61 full time positions while operating expenses total \$18.8 million (81.9%). The Fiscal 2015 Budget had a net increase of \$952,701. Increases included \$492,272 for the SESD assessment now totaling \$9.4 million; \$420,000 in our MWRA assessment for water charges (\$1.2 million) and the remainder relates to contractual salary obligations for Fiscal 2015.

The Fiscal 2015 Budget for Employee Benefits totals \$23.9 million. 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. While Retirement Benefits increased by \$491,431 per our actuarial funding schedule, \$190,000 in reductions were made to Workers Compensation and our Health Insurance Appropriation.

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. As of July 1st, we will have been enrolled in the program for 18 months. I am happy to report that our transition has gone very well and our costs for health insurance have stabilized. Our total

costs for the combined 1st year (Fiscal 2013) were \$26.7 million; our estimated total expenses for the fiscal year ending June 30, 2014 are \$27.2 million and preliminary estimated costs for Fiscal 2015 are \$27.0 million. The Fiscal 2015 GIC Rates were very stable with many of the plans having a slight decrease in the monthly rates. The average for all plans offered was a .71% increase. The City's total cost will be \$24.0 million and employees/retirees share will be \$3.0 million for Fiscal 2015 based on current enrollments of 2,677 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 Fiscal 2015 School Budget as recommended and voted by the School Committee totals \$66,674,793 which allows for a 1.89% increase or \$1,239,000 in spending over last year's budget of \$65,435,793, exclusive of the new 2015 Assessment for the Northshore Essex Technical Vocational School which totals \$2,967,181. The combined budget for Education totals \$69,641,974 and represents a 6.43% increase. Of the amount, 83% or \$55,306,786 of the School Budget is for salaries (\$46,093,963) and benefits (\$9,212,823), funding approximately 814.5 (FTE) employees while 16% or \$11,368,007 is for operating expenses. Salaries increased by \$371,550 and the employee benefits decreased by \$264,381.

The 2015 School Budget will also use \$3,718,146 in various offsets that increase the authorized spending levels in Fiscal 2015 up to \$70,392,939 which equates to a \$1,577,246 increase (2.3%) over 2014. The offsets relating to salaries total \$1,062,900; School Lunch/Grants (\$375,000) for health insurance/Medicare taxes; \$1,848,246 from Circuit Breaker Reimbursements for Special Education costs. Other offsets from building rentals and transportation fees total \$432,000.

In addition to the approved operating budget there are direct school expenses (Schedule 19) totaling almost \$8.6 million that are included in the City portion of the budget bringing the total School Budget to \$79.0 million or 53% of the total Fiscal 2015 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$812,984 for school nurses; \$2.5 million for school long term debt service; \$3.6 million for retired school department's employees' health insurance and retirement benefits.

Last year, the MSBA approved and authorized the City to move forward with the construction of the new \$92.6 million Higgins Middle School Project. The MSBA approved the maximum grant of \$43.6 million and the City is responsible for remaining \$49.0 million. In an effort to mitigate the budgetary impact of the debt service costs, we have developed a plan to permanently finance \$10.0 million each year, for five years and issue short term debt as needed during the construction phase of the project to meet cash flow requirements. In January 2014 the City issued \$9,650,000 of General Obligation Bonds to

permanently finance the 1st phase of the project. We received 8 very competitive bids on the 20 year bonds with NIC interest rates ranging from 3.3 down to 3.133% (NIC). The bid was awarded to Fidelity Capital at 3.133%. We also financed an additional \$9.9 million in short term bond anticipation notes in March 2014 with a NIC of .132%.

I am extremely happy to report that the Higgins Middle School Project is well underway. The decision to separate out the site work prior to awarding the construction contract has worked out very well. We awarded the site work contract in March and expect the contractor will be completing preliminary site work by the end of this month. We have solicited bids for the various sub-trades and the general contractor for the construction of the new school. We have received competitive bids for the various sub-trades associated with the project and we eagerly await final bids from qualified contractors that are due on June 17, 2014. We anticipate construction of the New Higgins Middle School to begin in July 2014. I will keep you updated as this most exciting project continues to move forward.

The Fiscal 2015 Budget as presented to you at \$156,178,625 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 2015 if aid is reduced.

In FY 2015, 21% 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 \$32.5 million which includes a slight increase in local fees and taxes, added revenue for billboards, debt service reimbursements and an anticipated increase in Water and Sewer Rates. We are updating our 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 \$25,799,263 in State Aid based on the Senate Ways and Means Budget. This amount reflects a decrease of \$504,221 in Education Aid for the transfer of students to the new Northshore Essex Technical Vocational School and a \$173,322 increase in General Government Local Aid. State Charges will total \$2,228,325, a net decrease of \$604,734 from Fiscal 2014. Tuition charges for Essex Aggie (\$414,254) have been eliminated and are now part of the new assessment for the vocational school and the Charter School assessment has been reduced by \$191,404. Fiscal 2015 State Aid now represents 16% of our total revenues. 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 \$96.7 million or 62% of our total revenues will come from Property Taxes in Fiscal 2015. Based on market conditions as of January 1, 2013, the Board of Assessor's anticipates that values have stabilized and we will see a 10% increase in residential values and 5% for CIP values. New construction growth is estimated at \$32.6 million generating approximately \$677,000 in new tax dollars. In an effort to mitigate the impact of the increase in the 2015

Operating Budget we have allocated \$1,100,000 from reserves and available resources. That being said, preliminary projections indicate the tax levy will increase \$3.5 million and the average residential property tax bills may increase approximately \$189 depending on the final outcome of revenue projections, property values, certified new growth and the actual classification factor that is used for businesses. As a point of reference, the vocational school assessment of \$2,967,181 equates to \$115.00 of the total increase on the average residential tax bill for Fiscal 2015.

We have worked very hard with all departments to prepare a fiscally responsible Operating Budget for Fiscal 2015 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 2015 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 2015 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 2015 Budget Workbook