

CITY OF PEABODY

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OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 15, 2016

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 2017 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 2017 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 2016 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 2017 Operating Budget as submitted totals \$159,442,448. Of that amount \$78,780,276 (49%) is requested for salaries; \$34,271,705 (22%) for employee benefits and \$46,390,467 (29%) is for expenses. The Fiscal 2017 Budget is \$3,611,439 or 2.3% more than the Fiscal 2016 Operating Budget of \$155,831,009.

The Fiscal 2017 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$113,051,981 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 (10%) in 2017. Intergovernmental Services total \$11.2 million (7%) and includes assessments for the Northshore Essex Technical Vocational School \$3.4 million an increase of \$777,239 due to increased enrollment and the South Essex Sewerage District \$8.2 million a decrease of \$785,037 from 2016 due to changes in assessments. Purchase of Services, Supplies and Other Charges total \$10.2 million while Debt Service and Capital Outlay total \$9.6 an increase of \$730,816 from the Fiscal 2016 Operating Budget.

The City portion of the Fiscal 2017 Budget totals \$85,681,934 and has increased \$1 million or 1.2% from Fiscal 2016. Of that amount, \$30,154,095 or 35.2% is for salaries; \$24,773,758 or 28.9% is for employee benefits, funding 436 (FTE) employees, while 35.9% or \$30,754,081 is for operating expenses including Debt Service which totals \$8,079,330. Increases include; \$1,964,665 for salaries which funds contractual salary obligations for Fiscal 2017; \$628,330 increase for Debt Service primarily relating to the Higgins Middle School Project; \$350,936 for Retirement Benefits and \$33,209 for MWRA Water Charges. There are also budgetary reductions that help offset these increases. The SESD Assessment has decreased by \$785,037; moving health insurance benefits for employees and retirees to MIA Blue Cross Blue Shield \$1,250,000 and a reduction of \$200,000 was made to budgeted reserves.

The Fiscal 2017 Budget for Public Safety totals \$19.7 million of which salaries total \$18.5 million (93.9%) and operating expenses total \$1.2 million (6.1%). The Police Department Budget totals \$10,116,153, a net increase of \$376,053 (3.9%) and includes staffing for 114 full time positions. Currently, there are 2 vacant positions that will be filled in the very near future. The Fire Department Budget totals \$9,072,245, an increase of \$748,350 (9%) over last year. The budget funds 110 positions including the addition of 8 new Fire Lieutenants in place of firefighter's positions, to create a command staff for each division along with 3 new firefighter positions that are anticipated to be filled for the 2nd half of the fiscal year.

The Fiscal 2017 Budget for Public Services totals \$21.5 million of which salaries total \$4.3 million (20%) and includes staffing for 64 full time positions while operating expenses total \$17.2 million (80%). The Fiscal 2017 Budget had a net decrease of \$478,795. Primarily due to the reduction in SESD assessment.

The Fiscal 2017 Budget for Employee Benefits totals \$24.5 million a reduction of \$824,064 from 2016. 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 2017 MIA Blue Cross Health Insurance Premium Rates have decreased saving \$1,250,000 over FY 2016 and Retirement Benefits increased by \$350,936 (3.8%) 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 MIIA Blue Cross Blue Shield Health Plans effective July 1, 2016. We were able to obtain savings over our current GIC Plans and will have stabilized premiums for Fiscal 2017 and Fiscal 2018. The most significant rate decreases were on individual (7.3%) and retiree plans (13.5%). Family plans had only a slight (½%) decrease. Our total enrollment as of June 2016 is 2,656 members. Below is a table that summarizes our enrollment by plan and the projected cost.

Plan	Individual	Family	Total Cost
Blue Care Elect	198	291	\$8,079,819
HMO Blue	279	554	\$12,763,422
MEDEX 2	1334		\$5,268,633
Totals	1,811	845	\$26,111,874

In comparison, our Fiscal 2016 GIC costs were \$27.6 million and \$26.5 million in Fiscal 2015.

The total Health Insurance cost projected for Fiscal 2017 will be \$26.1 million and employees/retirees/mitigation fund share will be \$4.3 million based on current enrollments of 2,656 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, 2019.

The Fiscal 2017 School Budget as recommended and voted by the School Committee totals \$70,286,793 allows for a 2.7% increase or \$1,825,000 in spending over last year's budget of \$68,461,793 exclusive of the Assessment for the Northshore Essex Technical Vocational School which totals \$3,471,721. The combined budget for Education totals \$73,760,514 and represents a 3.6% increase. Of that amount, \$58,124,128 or 78.8% of the School Budget is for salaries (\$48,626,181) and benefits (\$9,497,947), funding approximately 849.4 (FTE) employees while 21.2% or \$15,636,386 is for operating expenses. Salaries increased \$1,625,296 while employee benefits decreased \$160,625. Utilities decreased \$595,108; Contractual services increased \$280,590; tuition increased \$743,208; and the vocational school assessment increased by \$777,239.

The 2017 School Budget will also use \$3,941,815 million in various offsets that increase the authorized spending levels up to \$74,228,608 which equates to a \$1,948,382 increase (2.6%) over 2016. The offsets relating to salaries total \$1,344,215; School Lunch/Grants \$350,000 for health insurance/Medicare taxes; and \$1,801,749 from Circuit Breaker Reimbursements for Special Education costs. Other offsets coming from school choice, building rentals and transportation fees total \$445,851.

In addition to the approved operating budget there are direct school expenses (Schedule 19 – School Department End of Year Report) totaling \$9.1 million that are

included in the City portion of the budget bringing the total School Budget to \$83.3 million or 52% of the total Fiscal 2017 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$872,772 for school nurses; \$4.1 million for school long term debt service and \$3.4 million for retired school department's employees' health insurance and retirement benefits.

The Higgins Middle School is in its final stages of completion. The total estimated cost of the project has been reduced to \$86.6 million of which the MSBA has approved the maximum grant of \$40.8 million and the City's share is now \$45.7 million. The City has developed a financing plan that phases 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 \$29,750,000 in long term bonds and \$13,800,000 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 January of 2017 to cover the balance of the project's cash flow requirements. The School will open in September with outside field and landscaping work continuing through spring 2017.

The accelerated repair program for the McCarthy School Roof and Windows is in the 2nd phase. The roof was replaced last summer and windows are on schedule for installation this summer and will be completed for School opening in September. This project was authorized at \$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. The Peabody Square reconfiguration was bonded for \$2.0 million in March and the city will also receive grants in the amount of \$1.8 million from the Mass Works Grant Program bringing the total funding of the project to approximately \$3.8 million. Despite the disruption, the project is making fast progress and is scheduled for substantial completion by this fall. In addition to these projects, I am requesting a Bond Order for 3.75 million to allow for needed equipment purchases and repairs for various City and School Departments.

The Fiscal 2017 Budget as presented to you at \$159,442,448 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 2017 if aid is reduced.

In Fiscal 2017, 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 \$32.5 million which includes an anticipated increase in Water and Sewer Rates. I am recommending a 5% Water and Sewer Rates increase July 1, 2016 for both residential and commercial. Thereafter, each July 1st there will be an annual increase of 2.5% for residential and 2.5% for commercial multiplied times the most recent real estate CIP factor.

The budget is based on the premise that the City of Peabody will receive \$27,086,415 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase

of \$868,762. Education Aid increased \$560,568 and General Unrestricted aid increased \$286,143. State Charges will total \$2,249,550, a net increase of \$71,230 from Fiscal 2016. Fiscal 2017 State Aid represents 17% 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 \$101.6 million or 62% of our total revenues will come from Property Taxes in Fiscal 2017. Based on market conditions as of January 1, 2016, the Board of Assessor's anticipates values have continued to rise and we will see another 5% increase in residential values and CIP values should remain stable. New construction growth is estimated at \$39 million generating approximately \$700,000 in new tax dollars.

In an effort to mitigate the impact of the increase in the 2017 Operating Budget we have allocated \$2,308,200 from reserves and available resources. Of that amount \$1.65 million will come Unreserved Fund Balance; \$600,000 from Debt Service Fund to help offset the \$600,000 increase in the 2017 Debt Service budget and \$58,200 from parking fees will fund the parking meter account.

That being said, preliminary projections indicate the tax levy will increase \$2.6 million and the average residential property tax bills may increase approximately \$138.84 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 2017 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 2017 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 2017 Budget.

Respectfully submitted,



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