

# CITY OF PEABODY

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## OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 10, 2013

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 2014 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 2014 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 2014 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 2014 Operating Budget as submitted totals \$146,036,794. Of that amount \$72,560,038 (50%) is requested for salaries; \$33,682,269 (23%) for employee benefits and \$39,794,487 (27%) is for expenses. The Fiscal 2014 Budget is \$5,461,133 or 3.8% more than the Fiscal 2013 Operating Budget of \$140,571,061 as originally submitted. Of that amount \$2.1 million of health insurance expenses have been reallocated from State Charges for Retired Teachers Health Insurance into the City's Operating Budget – Health Insurance Benefits. The net increase in the Operating Budget reflecting the reallocation is \$3.7 million or 2.6% over last year.

The Fiscal 2014 Budget increase by Expense Category shows that 74% of the total increase (\$4,047,024) relates to salaries which reflect recently settled collective bargaining agreements or salary authorizations allowing for a 2% salary increase in both 2013 and

**2014. Salary amounts detailed in the City budget reflect 2014 pay rates. Other increases by expense type also include \$300,000 for debt service and \$459,861 for contracted services.**

**The City portion of the Fiscal 2014 Budget totals \$80,599,001 and has increased \$4,201,733 or 5.5% from Fiscal 2013. Of that amount, \$26,837,625 or 33.3% is for salaries; \$24,205,065 or 30% is for benefits, funding 418 (FTE) employees, while 36.7% or \$29,556,311 is for operating expenses including Debt Service which totals \$6,294,000. Other increases included \$369,841 for the SESD Assessment; \$354,568 for the payment of Retirement Benefits per the actuarial valuation schedule and \$184,000 for MWRA Water Charges.**

**In April 2013, the City permanently financed \$5,898,000 of new debt relating to the Library Renovations, Water Treatment Plant upgrades and flood mitigation for Scouting Way. Additionally, we were able to refinance \$4,450,000 of old debt thereby saving \$327,000 over the life of the bonds. Moody's affirmed our long term credit rating of Aa1 and we received 6 very competitive bids from various financial institutions resulting in the net interest rate of 2.03%. The April sale added \$384,000 to the City's 2014 debt service. We have also increased the short term interest expense budget by \$400,000 in Fiscal 2014 to reflect a portion of the upcoming Higgins Middle School Project and new short term interest assessment of \$293,000 for the Northshore Regional Vocational Technical School.**

**The Fiscal 2013 Budget for Public Safety totals \$17.9 million of which salaries total \$16.5 million (92%) and operating expenses total \$1.4 million (8%). The Police Department Budget totals \$9,614,400, an increase of \$198,851 (2.1%) and includes staffing for 109 full time positions. Currently there are 12 vacant positions that will be filled in the very near future. The Fire Department Budget totals \$7,758,380, an increase of \$207,188 (2.7%) over last year which funds 102 positions including 8 vacancies. We anticipate filling the vacancies in July 2013.**

**The Fiscal 2014 Budget for Public Services totals almost \$22.0 million of which salaries total \$4.1 million (18.6%) and includes staffing for 60 full time positions while operating expenses total \$17.9 million (81.4%). The Fiscal 2014 Budget had a net increase of \$984,939. Increases included \$369,841 for the SESD assessment now totaling \$9.4 million; \$184,500 in our MWRA assessment for water; \$125,000 increase in contractual services to assist in various regulatory compliance issues relating to water distribution; and \$100,000 for recycling related to yard waste.**

**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. I am happy to report that the transition into GIC Program went very well. We successfully enrolled**

2,641 members into various GIC plans and set up Health Reimbursement Accounts with Group Benefit Strategies for both active employees and retirees who are eligible for reimbursements for copayments, deductibles or premium subsidy.

Based on preliminary numbers pending the final run out of actual claims from Blue Cross Blue Shield for Fiscal 2013 (July-December), the City's total costs for the combined 12 month period is \$28.1 million dollars which represents a savings of almost \$1.0 million dollars for Fiscal 2014 for the 6<sup>th</sup> month period. Although GIC Rates have increased by approximately 3.1%, based on our current enrollments, we anticipate our total costs to be \$27.1 million for Fiscal 2014 generating an additional \$1.0 million in savings. The City's total cost will be \$23.8 million and employees/retirees share will be \$3.2 million for Fiscal 2014 based on current enrollments.

The Fiscal 2014 School Budget as recommended and voted by the School Committee totals \$65,435,793 which allows for a 1.96% increase or \$1,260,000 in spending over last year's budget of \$64,175,793. Of the amount, 84% or \$55,199,617 of the School Budget is for salaries (\$45,722,413) and benefits (\$9,477,204), funding approximately 826 (FTE) employees while 16% or \$10,236,176 is for operating expenses. Salaries increased by \$2.7 million and the costs for health insurance decreased by \$1.3 million. The Budget also includes the addition of 11.1 new net FTE's. Some of the new positions added include 2 ELL Teachers, 2 Kindergarten Teachers, 3 Elementary Teachers, 1 Science Teacher and 3 Special Education Teachers.

The 2014 School Budget will also use \$3,379,900 in various offsets that increase the authorized spending levels in 2014 up to \$68,815,693 which equates to a \$1,479,887 increase (2.2%) over 2013. The offsets relating to salaries total \$938,900; School Lunch/Grants (\$375,000) for health insurance/Medicare taxes; \$1,450,000 from Circuit Breaker Reimbursements for Special Education costs and \$200,000 credit for prepaid special education expenses. Other offsets from building rentals and transportation fees total \$400,000. We need to remain cautious about using one time sources of revenue to fund on-going operating budgets.

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 \$77.4 million or 53% of the total Fiscal 2014 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$786,020 for school nurses; \$2.7 million for school long term debt service; \$3.7 million for retired school department's employees' health insurance and retirement benefits.

**Just this month, your honorable body approved the loan order in the amount of \$92.6 million dollars for the New Higgins Middle School and authorized the City to enter into a project funding agreement with the Massachusetts School Building Authority. The MSBA has approved a maximum grant of \$43.6 million for the project. The funding agreement has been submitted for final approval to MSBA and DiNisco Design Partnership, Ltd continues to work closely with the School Administration to finalize design development of the new school. I will keep you updated as this most exciting project continues to move forward.**

**As part of our grant application to the MSBA, the City of Peabody was required to submit a “Maintenance Plan” detailing staffing and procedure for the general maintenance of our public school buildings. In order to meet that requirement, I have included funding in the amount of \$100,000 in the Community Development Budget to fund a new “Facilities Manager” position in the upcoming fiscal year. The addition of a Facilities Manager has added 1.47% to our total rate of reimbursement on the entire Higgins Middle School Project.**

**The Fiscal 2014 Budget as presented to you at \$146,032,794 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 2014 if aid is reduced.**

**In FY 2014, 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 \$30.0 million which includes a slight increase in estimated local receipts. The budget is based on the premise that the City of Peabody will receive \$26,035,420 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase \$152,450 in Education Aid and \$278,775 increase in Charter Tuition Reimbursements. State Charges will total \$2,833,059, a net decrease of \$1.6 million from 2013. The decrease reflects the reallocation of Retired Municipal Teacher Health Insurance Costs (\$2,187,535) that were transferred from the State Teachers Retirement Board to the City of Peabody effective January 1, 2013. Tuition Assessments for School Choice, Charter School and Essex County Technical School totaled \$540,395 in added expenses for 2014.**

**Fiscal 2014 State Aid now represents 17% of our total revenues down from 11% in Fiscal 2008. 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 \$93.4 million or 62% of our total revenues will come from Property Taxes in Fiscal 2014. Based on market conditions as of January 1, 2012, the Board of Assessor’s anticipates that values have remained relatively stable. New construction growth is estimated at \$55.0**

million generating approximately \$1.1 million in new tax dollars. In an effort to mitigate the impact of the \$3.8 million dollar increase in the 2014 Operating Budget we have allocated \$1,000,000 from reserves and available resources. That being said, preliminary projections indicate the tax levy will increase \$2.8 million and the average residential property tax bills may increase approximately \$59 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 2014 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 2014 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 2014 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 2014 Budget Workbook**