

CITY OF PEABODY

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OFFICE OF THE MAYOR EDWARD A. BETTENCOURT, JR.

June 7, 2017

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 2018 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 2018 which complies with all the mandatory spending limitations imposed by Proposition 2 ½. With the exception of contracted salary increases, department heads have complied with my directive to level fund their Fiscal 2018 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 2018 Operating Budget as submitted totals \$164,517,574. Of that amount \$82,021,173 (50%) is requested for salaries; \$35,479,966 (22%) for employee benefits and \$47,016,435 (28%) is for expenses. The Fiscal 2018 Budget is \$5,075,126 or 3.2% more than the Fiscal 2017 Operating Budget of \$159,442,448.

The Fiscal 2018 Budget by Expense Category breaks out where we allocate budget dollars based on the type of expense. Salaries and Benefits total \$117,501,139 or 72% 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 \$15.1 million (9%) in 2018. Intergovernmental Services total \$11.6 million (7%) and includes assessments for the Northshore Essex Technical Vocational School \$3.9 million an increase of \$505,578 due to increased enrollment and the South Essex Sewerage District \$8.2 million remaining stable from Fiscal 2017. Purchase of Services, Supplies and Other Charges total \$10.7 million while Debt Service and Capital Outlay total \$9.5 a slight decrease from the Fiscal 2017 Operating Budget.

The City portion of the Fiscal 2018 Budget totals \$88,643,482 and has increased \$2.9 million or 3.5% from Fiscal 2017. Of that amount, \$31,638,559 or 35.7% is for salaries; \$25,477,859 or 28.7% is for employee benefits, funding 440 (FTE) employees, while 35.6% or \$31,527,064 is for operating expenses including Debt Service which totals \$8,036,000. Increases include; \$1,484,464 for salaries which funds contractual salary obligations for Fiscal 2018; \$300,000 increase for health insurance and 63,000 increase in general liability insurance. There is a \$346,060 increase in retirement benefits, \$322,708 for MWRA water, \$221,000 in solid waste and \$297,527 for the addition of Tillies Farm to the budget.

The Fiscal 2018 Budget for Public Safety totals \$20.7 million of which salaries total \$19.5 million (94%) and operating expenses total \$1.2 million (6%). The Police Department Budget totals \$10,567,912 a net increase of \$451,759 (4.5%) and includes staffing for 112 full time positions. Currently, there are 3 vacant positions that will be filled in the very near future. The Fire Department Budget totals \$9,617,123 an increase of \$544,878 (6%) over last year. The budget funds 107 positions including 5 vacancies.

The Fiscal 2018 Budget for Public Services totals \$22.1 million of which salaries total \$4.4 million (19.9%) and includes staffing for 64 full time positions while operating expenses total \$17.7 million (80.1%). The Fiscal 2018 Budget had an increase of \$624,581. Primarily due to increases in Salaries \$89,000, MWRA water \$432,708 and solid waste contracts \$220,000.

The Fiscal 2018 Budget for Employee Benefits totals \$25.3 million an increase of \$709,060 from 2017. 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 2018 MIA Blue Cross Health Insurance Premium Rates have increased (7.045%) but despite this rate increase costs have been temporarily stabilized. Fiscal 2018 Health rates bring costs back to Fiscal 2016 levels. Retirement Benefits increased by \$346,060 (3.6%) per our actuarial funding schedule

Based on the Fiscal 2018 Health Rates and total enrollment as of June 2017 of 2,704 members. The table below summarizes our enrollment by plan and the projected cost.

Plan	Individual	Family	Total Cost
Blue Care Elect	190	293	\$8,651,238
HMO Blue/Select	287	574	\$14,191,829
MEDEX 2	1360		\$5,327,080
Totals	1,837	867	\$28,170,147

In comparison, our projected Fiscal 2017 Blue Cross Blue Shield costs are \$26.1.

The total Health Insurance cost projected for Fiscal 2018 will be \$28.1 million and employees/retirees/mitigation fund share will be \$5.4 million based on current enrollments of 2,704 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. We have made efforts to reduce costs by offering a limited HMO plan, an opt out opportunity for employees currently enrolled in a City Health plan and have offered a new Vision plan. Our current agreement with the Peabody Public Employee Coalition expires June 30, 2019.

The Fiscal 2018 School Budget as recommended and voted by the School Committee totals \$71,894,793 allows for a 2.3% increase or \$1,608,000 in spending over last year's budget of \$70,286,793 exclusive of the Assessment for the Northshore Essex Technical Vocational School which totals \$3,979,299. The combined budget for Education totals \$75,874,092 and represents a 2.9% increase. Of that amount, \$60,384,721 or 83.9% of the School Budget is for salaries (\$50,382,614) and benefits (\$10,002,107), funding approximately 886.4 (FTE) employees while 16.1% or \$11,510,072 is for operating expenses. Salaries increased \$1,756,433 and employee benefits increased \$504,160. Utilities decreased \$100,000; Contractual services increased \$138,050; tuition decreased \$671,460; and the vocational school assessment increased by \$505,578.

The 2018 School Budget will also use \$4,252,592 million in various offsets that increase the authorized spending levels up to \$76,147,385 which equates to a \$1,918,777 increase (2.5%) over 2017. The offsets relating to salaries total \$1,056,736; Grants \$350,000 for health insurance/Medicare taxes; and \$1,726,749 from Circuit Breaker Reimbursements for Special Education costs. Other offsets coming from school choice, building rentals and transportation fees total \$1,119,107.

In addition to the approved operating budget there are direct school expenses (Schedule 19 – School Department End of Year Report) totaling \$10 million that are included in the City portion of the budget bringing the total School Budget to \$86.1 million or 52% of the total Fiscal 2018 Budget, exclusive of federal and state grants. Some of the major direct school expenses in the City Budget include \$926,245 for school nurses; \$4.2 million for school long term debt service and \$3.6 million for retired school department's employees' health insurance and retirement benefits.

The Higgins Middle School project is winding down with a total estimated cost of projected at \$86.6 million of which the MSBA has estimated the maximum grant of \$38.6 million and the City's share is now \$48 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. To date, we have issued \$39,750,000 in long term bonds and \$7,300,000 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 and notes in March of 2018 to close out the project.

The accelerated repair program for PVMHS School Roof is scheduled to begin when school ends in June and will be completed over the summer. This project was authorized at \$3,100,000 but bids came in very favorable at 1.3 million so the City will receive a maximum grant of \$712,270 (54.79%) from the MSBA and the City's share will be approximately \$587,730. The Crystal Lake project is making progress with dredging scheduled to be completed by the end of July. Various bond issues and grants have been used to finance this project and it is anticipated that approximately 1 million of \$2.0 Bond Order adopted in October 2016 will be needed to complete the project. The Bond Order for 3.75 million for equipment purchases and repairs for various City and School Departments has enabled departments to replace equipment and renovations of the high school gym floor and auditorium to be completed over the summer.

The Fiscal 2018 Budget as presented to you at \$164,517,574 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 2018 if aid is reduced.

In Fiscal 2018, 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 \$33.5 million which includes an anticipated increase in Water and Sewer Rates. I am recommending a 10% Water and Sewer Rates increase July 1, 2017 for both residential and commercial.

The budget is based on the premise that the City of Peabody will receive \$27,659,564 in State Aid based on the Senate Ways and Means Budget. This amount reflects an increase of \$621,050. Education Aid increased \$307,336 and General Unrestricted aid increased \$270,685. State Charges will total \$2,294,686, a net increase of \$35,007 from Fiscal 2017. Fiscal 2018 State Aid represents 16% 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 \$104.2 million or 62% of our total revenues will come from Property Taxes in Fiscal 2018. Based on market conditions as of January 1, 2017, the Board of Assessor's anticipates values will continue to rise and we will see another 5% increase in residential values and

CIP values should remain stable. New construction growth is estimated at \$40 million generating approximately \$721,000 in new tax dollars.

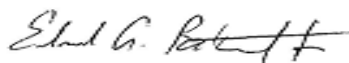
In an effort to mitigate the impact of the increase in the 2018 Operating Budget we have allocated \$2,573,200 from reserves and available resources. Of that amount \$1.5 million will come from Unreserved Fund Balance; \$500,000 from Unreserved Fund Balance Capital to help fund Debt Service; \$500,000 from Health Trust to offset Health rates increases and \$73,200 from parking fees will fund the parking meter account.

That being said, preliminary projections indicate the tax levy will increase \$2.5 million and the average residential property tax bills may increase approximately \$156.73 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 2018 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 2018 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 2018 Budget.

Respectfully submitted,



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