

#328

CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll
Mayor

May 24, 2012

Honorable Salem City Council
Salem City Hall
Salem, MA 01970

Re: Proposed FY2013 Operating Budget

Ladies and Gentlemen of the Council:

I am pleased to submit for your consideration a \$133,331,131 proposed Fiscal Year 2013 budget for the City of Salem. This represents a 2.41% increase over the FY2012 adjusted municipal budget.

While this is not my first budget submittal to the Council, each budget cycle seems to bring its own unique twists and turns. This year our actions to balance the budget were significantly helped by two actions: 1) the adoption of municipal health insurance reform legislation which allowed us to significantly lower health insurance costs for the City, and 2) an increase in the annual Local Aid payment expected to be adopted by the Governor and Legislature for next fiscal year. These two items, coupled with a mild snow season and judicious budgeting for FY12, made balancing the operating budget for FY2013 much more manageable than recent years. While more manageable, there are always budget impacts and uncertainties that we need to plan for long term, such as the closure of the power plant and associated loss of tax revenues and rising pension and other post employment benefit costs that require us to refrain from any kind of spending spree.

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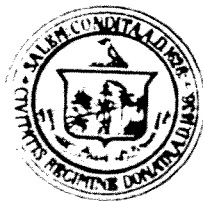
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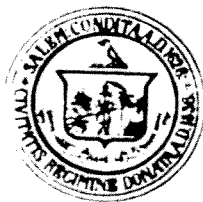
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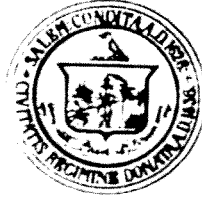
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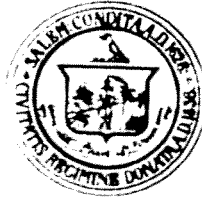
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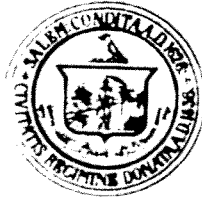
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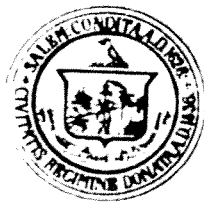
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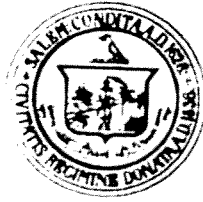
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As you know, this year we increased rates by 3% in water and 2% in sewer and held off on a multi year rate plan so we could evaluate the impacts of new meters and pump station upgrades. Over this time, we have made good progress in upgrading our water and sewer infrastructure systems, but with a system as old as ours we continually need to make improvements.

In this coming fiscal year, we will begin making payments for projects bonded and completed over the last three years to upgrade and improve the most antiquated parts of our water and sewer system. These projects include substantial investments in our infrastructure such as the replacement of the water transmission line on Rantoul Street in Beverly—a main supply line for providing water to the City from Wenham Lake; rehabilitation projects at both Gallows Hill and Folly Hill water storage tanks; a citywide water meter replacement program, as well as substantial upgrades of older, deteriorated mains throughout the City. In addition to increases related to capital expenditures, rates also need to account for the annual assessment from the Salem Beverly Water Supply Board and the South Essex Sewerage District.

If these recommendations are approved, the average household will see a combined annual bill of roughly \$966, which is still much lower than many surrounding communities. The annual combined rates, on average, for these communities are approximately \$1,370. Salem's average water/sewer bill for FY12 would be \$404 less per year than the average of our surrounding communities (see attached water/sewer rate comparison spread sheet).

While I know it is never easy to vote for an increase in water and sewer rates, we also don't want to find ourselves in the position of neglecting expensive, but necessary repairs and upkeep to our water and sewer system. Failing to make these types of investments, jeopardize the smooth operation of these systems and ultimately may cost taxpayers more in later years. We have done our best to plan for our capital needs, while also being mindful of the impact on ratepayers.

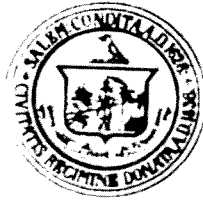
Lastly, balancing the City's operating budget is no easy task and I appreciate the hard work and cooperation our Department Heads have put forth in the preparation of this year's budget. In particular, I can't say enough about the extra effort made by our Finance Department, led by Rich Viscay and ably assisted by Nina Bridgman, who worked tirelessly to ensure that the budget was ready for submission and in compliance with the high standards we set for ourselves pursuant to Government Finance Officers Association (GFOA) Distinguished Budget guidelines. The purpose of the GFOA is to enhance professional management of governments for public benefit by identifying and developing financial policies and best practices and promoting their use. We are one of a handful of Massachusetts communities who annually qualify for both a Certificate of Excellence for our Comprehensive Annual Financial Reporting (CAFR) and a Distinguished Budget Award from the GFOA.

I look forward to working with you over the coming weeks to enact the proposed FY 2013 spending plan for municipal operations.

Very truly yours,

Kimberley Driscoll

Kimberley Driscoll
Mayor



#328

CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll
Mayor

May 24, 2012

Honorable Salem City Council
Salem City Hall
Salem, MA 01970

Re: Proposed FY2013 Operating Budget

Ladies and Gentlemen of the Council:

I am pleased to submit for your consideration a \$133,331,131 proposed Fiscal Year 2013 budget for the City of Salem. This represents a 2.41% increase over the FY2012 adjusted municipal budget.

While this is not my first budget submittal to the Council, each budget cycle seems to bring its own unique twists and turns. This year our actions to balance the budget were significantly helped by two actions: 1) the adoption of municipal health insurance reform legislation which allowed us to significantly lower health insurance costs for the City, and 2) an increase in the annual Local Aid payment expected to be adopted by the Governor and Legislature for next fiscal year. These two items, coupled with a mild snow season and judicious budgeting for FY12, made balancing the operating budget for FY2013 much more manageable than recent years. While more manageable, there are always budget impacts and uncertainties that we need to plan for long term, such as the closure of the power plant and associated loss of tax revenues and rising pension and other post employment benefit costs that require us to refrain from any kind of spending spree.

Some of the key factors to consider in reviewing this year's budget include the following:

Education – Strengthening our commitment to first class public schools

This year, the budget proposes to increase funding to public schools by \$1,899,151 or 3.83%. Funding of this magnitude was necessary in order to support existing programs within our public schools, along with new expenditures related to school improvement plans. The School Committee is still in the process of finalizing the School Department budget, but the proposed number for education funding is consistent with our talks to date and will enable us to move forward with important goals, such as investing in human capital, adding time to the day at the Bentley School, and providing additional intervention for struggling students. These investments are critical components of the District's turnaround plans and will help ensure that we make progress on achieving success meeting our annual goals with respect to student achievement.

Public Safety – Keeping homes and neighborhoods safe

A key priority of the FY13 operating budget is a higher investment in public safety. The proposed budget includes additional funding for three new police officers to help restore positions lost in prior budget years. Working with Chief Tucker, we will be assigning any new staff based on an analysis of workload needs to ensure maximum value to the Department and the community at large. In addition, we are re-purposing some of our public safety grant dollars for a civilian crime analyst who can assist the department with collecting and assessing crime and performance data, as well as technology upgrades and repairs. This type of assistance is critical to meeting the needs of both patrol and prevention and I am in full support of these personnel additions. With respect to the Fire Department and consistent with the existing collective bargaining agreement, we have proposed funding for hiring and additional 2 firefighters, with staggered start dates in the new fiscal year. This will enable us to keep more apparatus in service throughout the year and be better prepared to respond to fire incidents and medical aid calls within Salem.

Collective bargaining – Working toward an affordable and mutually beneficial accord

Current collective bargaining agreements in the City with all of our nine unions are currently up. We have been and will continue to meet with labor representatives to discuss new contracts going forward and have set aside a 1% increase within the current budget to help defray anticipated new contract costs. As you know, we were able to reach accord with all of our unions for new health insurance options that will migrate all employees into the GIC as of the new fiscal year. A portion of the savings from this health insurance change, +25%, were required to be shared with our employees and we have done so as part of that agreement. With that issue resolved, I am hopeful we can reach agreement with all of our collective bargaining units in a timely and mutually beneficial manner.

Water and Sewer Enterprise

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Very truly yours,

Kimberley Driscoll

Kimberley Driscoll
Mayor

FY2013 Operating Budget and Capital Budget Overview

Kimberley Driscoll, Mayor
Richard Viscay, Finance Director
June 6, 2012

Proposed FY13 Capital Budget

- Capital Improvement Program (CIP) is the long term plan for capital improvements throughout the City (multiple year)
 - General Fund and Enterprise Funds
- Capital Budget is the spending plan for the upcoming fiscal year (FY13)
- Combined, the CIP and Capital Budget are tools that help professionalize how capital projects are identified, prioritized, and funded for all City departments.

Proposed FY13 Capital Budget: Executive Summary – General Fund

- This Capital Plan has multiple funding sources, including grant funds, capital lease, one-time appropriations, and bonding.
- The total proposed Capital Plan for the City of Salem for FY13 is \$6,791,660.
 - \$1,790,000 ~ long term debt
 - \$4,194,160 ~ grants and other financial sources
 - \$340,000 ~ Capital Outlay Fund
 - \$467,500 ~ Capital Lease
- The list proposed is a scaled down list from departmental requests, with priority given to those projects that are supplemented by grant dollars or any other revenue sources that will keep net general fund expenditures to a minimum.
- Details on the General Fund CIP can be found in Section 7 of your budget book

Proposed FY13 Capital Budget: Executive Summary – Enterprise Funds

- The Enterprise Fund's Capital Plan has multiple funding sources, including retained earnings, SESD funds, and bonding.
- The total proposed Capital Plan for the City of Salem's Enterprise Funds for FY13 is \$785,000.
- There will be no bonding for water and sewer capital for FY2013, as all projects will be funded with retained earnings and from SESD retained earnings.
- The list proposed has been reviewed and approved by the City's Engineer.
- Details on the Enterprise Funds CIP can be found in Section 7 of your budget book

Proposed FY13 Operating Budget

- General Fund total: \$118,612,358
- Enterprise Funds: \$ 14,718,773
 - Water, Sewer, and Trash
- Total Budget: \$133,331,131
- 2.41% increase over the FY2012 adjusted municipal budget
- Revenues = Expenditures...
 - Therefore, budget is balanced!!

Proposed FY13 Operating Budget: Key Factors of FY2013 budget

- Education ~ Strengthening our commitment to first class public schools
- Public Safety ~ Keeping homes and neighborhoods safe
- Collective Bargaining ~ Working toward an affordable and mutually beneficial accord
- Water and Sewer Enterprise ~ Improving aging infrastructure, increasing efficiencies, and maintaining affordable rates for users

Financial Overview – Revenues

- Revenues of the City are budgeted into the following categories:
 - Tax Levy (including new growth)
 - Local Receipts
 - State Aid (Cherry Sheet Revenue + MSBA Revenues)
 - Other Financing Sources (Golf Course, Witch House, and Harbormaster Receipts; supplemental appropriations from Free Cash/Available Funds)
 - Enterprise Fund Revenue

Revenues – Tax Levy

- FY12 Tax Levy Limit = \$75,492,988
- FY13 Tax Levy Limit = \$77,880,313
 - FY13 Levy Limit is an estimate
 - Needs final approval from DOR in Nov/Dec
 - Prop 2 ½ increase = \$1,887,325
 - New Growth Increase = \$500,000
 - Estimated by Assessing Department
 - Reflects development from FY2012

Revenues - Local Receipts

- Local Receipts
 - FY12 Estimated = \$15,004,337
 - FY13 Projected = \$13,967,835
 - \$1,036,542 decrease
 - PILOT: 4.9% increase (+\$65K)
 - Weir Property to come onto PILOT program for FY2023
 - Parking Fees: 10% decrease (\$230,000)
 - Parking Study Implementation
 - Fines and Forfeits: 20% decrease (\$190,000)
 - Parking Study Implementation
 - Miscellaneous Recurring Revenue: 18.5% decrease
 - \$691,377 decrease due mainly to supplemental UGGA in FY12 currently budgeted in Cherry Sheets revenue for FY13
 - Reductions in Medicare reimbursements anticipated for school related special education services

Revenues - Local Receipts

- Parking Study: Impacts on Revenue
 - The parking study made many recommendations on changes in rates, hours, and time limits that will make it challenging to estimate the impact to local receipts
- Changes include:
 - Sharp reductions in rates in certain areas
 - Increased time limits at meters
 - Additional meters with tiered rates
 - Increased hours of enforcement
 - Changes in fine structure for violations

Revenues – Local Receipts: Non- Recurring

- Dominion Agreement: \$1.75m for FY2012
 - One year deal signed for FY2012
 - \$1,490,000 in commercial and personal property taxes assessed in tax levy
 - \$260,000 "host fee" is budgeted as a miscellaneous non-recurring revenue
- Valuation of Plant is very difficult to assess at this point.
- Hold Harmless agreement of \$3m made up the difference from FY2012 actual receipts from Dominion (\$4.75m) and FY13 agreement (\$1.75m)
- Hold Harmless agreement good for five years from FY12 to FY16

Revenues – State Aid

- FY12 State Aid
 - Ch 70: 18.5m
 - UGGA: 5.4m
 - Other: 1.1m
 - TOTAL: \$25.0m
- FY13 State Aid (HWM budget)
 - Ch 70: \$20.2m
 - UGGA: 5.8m
 - Other: 1.5m
 - TOTAL: \$27.5m
- Increase of \$2.5m in local revenue estimated for FY13

Revenues – Enterprise Funds

- Three year rate structure proposed for water and sewer enterprise funds
 - Sewer rate increase:
 - FY13 ~ 4% increase
 - FY14 ~ 4% increase
 - FY15 ~ 4% increase
 - Water rate increase
 - FY13 ~ 9% increase
 - FY14 ~ 4% increase
 - FY15 ~ 4% increase

Revenues – Enterprise Funds

- What are the effects of the FY13 rate increases?
 - A 9% increase in water will increase the average water bill by \$26 (\$292 to \$318)
 - A 4% increase in sewer will increase the average sewer bill by \$25 (\$623 to \$648)
 - The overall annual cost of a typical household (90,000 gallons/yr.) would increase by \$51 (\$915 to \$966)
 - The average annual cost of surrounding communities is \$1,370, making Salem's average cost \$406 less than the surrounding communities

Revenues = Other Financing Sources

- FY2012
 - Golf Course: \$562k
 - Witch House: 179k
 - Harbormstr: 255k
 - Electrical: 40k
 - TOTAL: \$1.04m
- These funds pay for the operations of the respective departments.
- FY2013
 - Golf Course: \$562k
 - Witch House: 178k
 - Harbormstr: 267k
 - Electrical: 40k
 - TOTAL: \$1.05m
- Harbormaster budget increased due to additional security for boat storage.
- Increased revenues in boat storage more than cover the add'l cost of security.

Revenues – Enterprise Funds

- FY2012
 - Water: \$5.2m
 - Sewer: 7.8m
 - Trash: 0.7m
 - TOTAL: \$13.7m
- Revenues for Water and Sewer enterprise funds were augmented by r/e appropriations for
 - \$360k from Water
 - \$148k from Sewer
- FY2013
 - Water: \$5.5m
 - Sewer: 7.9m
 - Trash: 0.7m
 - TOTAL: \$14.1m
- Debt service due to aging infrastructure is the main driver of increased costs
- Rate increases necessary in both water and sewer for FY2013
- Three year rate structure recommended to ensure long term sustainability and to continue with infrastructure improvements.

Enterprise Funds

- Current capital improvement programs
 - Water Transmission Main (Rantoul St.)
 - Citywide Meter Replacement Program
 - Gallows Hill and Folly Hill water storage tanks
 - South River Basin upgrade
 - Forrester Street relief drain

Financial Overview - Expenses

- Expenses of the City are broken into the following categories:
 - City Expenses: (General Government, Public Safety, Public Works, Human Services, and Culture/Recreation)
 - Fixed Costs (including Health Ins and Retirement)
 - Debt Service
 - Education
 - Enterprise Funds
 - State Assessments
 - Other Financial Uses

Expenses – City (no fixed costs)

- FY2012
 - General Gov: \$ 4.3m
 - Public Safety: 16.7m
 - Public Works: 3.2m
 - Human Svc: 0.9m
 - Cult/Rec: 2.3m
 - TOTAL: \$27.4m
- FY2013 (estimated)
 - General Gov: \$ 5.0m
 - Public Safety: 17.5m
 - Public Works: 3.3m
 - Human Svc: 0.9m
 - Cult/Rec: 2.3m
 - TOTAL: 29.0m
- Collective Bargaining Reserve of \$525k budgeted in Human Resource budget
- Most other increases due to increased staffing in public safety

Expenses – Fixed Costs

- FY2012
 - Health Ins: \$11.1m
 - Retirement: 8.7m
 - Anticipated Retirements: 0.4m
 - CIP: 0.2m
 - All other: 2.0m
 - TOTAL: \$22.4m
- FY2013 projected
 - Health Ins: \$11.8m
 - Retirement: 9.1m
 - Anticipated Retirements: 0.9m
 - CIP: 0.3m
 - All other: 2.1m
 - TOTAL: \$24.2m
- Fixed Costs are estimated to increase \$1.8 million for FY13, however, the increase is due to retired teachers health insurance (\$2.3m) moved from a cherry sheet assessment to the operating budget

Expenses – Education (NSVRSD)

- North Shore Vocational
 - FY2012 Assessment: \$1.601m
- The City has voted to join into the Essex Aggie – NSV merger:
 - This will add a “debt service” assessment to the “tuition” assessment
 - Debt service assessment will begin in FY14
- North Shore Vocational
 - FY2013 Assessment: \$1.604m
 - Preliminary assessment
- Essex Aggie/NSV merger – new school
 - FY14: \$276k (int. only)
 - FY15: \$579k (p & i)
 - FY16: \$514k (p & i)
 - Assumed that FY15 will be the highest payment (level principal bond payments)

Expenses – Education (SPS)

- FY2012 budget:
 - Salem Public: \$48.9m
 - Charter School: \$764k
 - TOTAL - \$49.6m
- FY2013 budget:
 - level services (estimated) \$50.5m
 - Charter School: \$1.0m
 - TOTAL - \$51.5m
 - 3.8% increase

Fixed Costs – Health Insurance

- City Council adopted Health Care Reform Legislation in FY12
- City and Public Employee Commission (PEC) negotiated on savings projections – estimated to be \$1.9 million.
- Per legislation, City has to share 25% with PEC (\$475,000)
- Savings used by PEC in the following manner
 - Decrease employee and retirees under 65 share of joining a PPO plan from 35% to 30% (estimated costs of \$525,000)
 - Rollover of FY2012 HRA account for use in FY2013
 - Supplemental Appropriation of \$100,000 to HRA for FY2013.
- Migration of 1500+ active/retirees completed as of 5/7/12
 - Very time consuming
 - Now we need to compare actual vs. estimated migration of those 1500+ employees/retirees for FY13 budget.
 - We also now include all RMT's as part of our health insurance budget

Expenses – Debt Services

- FY2012
 - Long Term: \$6.7m
 - Short Term: \$.1m
 - TOTAL: \$6.7m
- This represents only General Fund Debt Service (including schools).
- FY2013 – projected
 - Long Term: \$ 6.5m
 - Short Term: \$.1m
 - New Debt: \$ 1.0m
 - TOTAL: \$ 7.6m
- \$15 million of new debt for FY13 represents the following:
 - \$3.6m for FY12 CIP
 - City Hall \$2m
 - Road Repairs \$800k
 - \$10.2m for Building Repairs (Collins & Salts MSBA @ 78% reimbursement)
 - \$1.4m for McGrath Park

Expenses – Enterprise Funds

<input type="checkbox"/> FY2012	<input type="checkbox"/> FY2013
<ul style="list-style-type: none"> ■ Water: \$4.5m ■ Sewer: 7.1m ■ Trash: 2.7m ■ TOTAL \$14.3m 	<ul style="list-style-type: none"> ■ Water: \$4.8m ■ Sewer: 7.1m ■ Trash: 2.8m ■ TOTAL: \$14.7m
	<ul style="list-style-type: none"> <input type="checkbox"/> Increases expenses largely due to increases in debt service for ongoing CIP projects.

Expenses – State Aid (assessments)

<input type="checkbox"/> FY2012	<input type="checkbox"/> FY2013
<ul style="list-style-type: none"> ■ Total Assessment: \$6,773,027 ■ Breakdown (major acts): <ul style="list-style-type: none"> ■ Retired Teachers Health Insurance: \$1.9m ■ MBTA: \$830K ■ Charter School: \$3.1m ■ Essex Aggie: \$368K ■ School Choice: 222k 	<ul style="list-style-type: none"> ■ Total Assessment \$5,510,721 ■ Estimated on House Final Budget Proposal \$1.26m decrease however... <ul style="list-style-type: none"> ■ If you add in the Retired Teachers Health Insurance (\$2.34m), which is a decrease in the current assessment, then there would be an increase of \$1.1m ■ Increased assessments: <ul style="list-style-type: none"> ■ Charter Sch.: \$3.9m ■ MBTA: \$877K ■ Sch. Choice: \$176K ■ Aggie: \$262K

Expenses – Other expenses

- FY2012 = \$2.26m
- FY2013 = \$1.09m
- Snow and Ice deficit:
 - \$592k
 - \$926k
 - \$640k
- Snow and Ice deficit:
 - \$0
 - Overlay
 - \$975k
 - Other
 - \$116k

Other things to consider...

- Future of Dominion Power Plant site
 - Long term financial ramifications
 - Options for reuse/redevelopment
- OPEB liability = \$171 million
 - Started OPEB Trust in FY2012 - \$375k in fund
 - Financial reserves policy has been modified to continue funding the Trust
- Aging Infrastructure
 - South River Drainage - \$16m estimated cost
 - Water Tank Repairs/Upgrades – total costs t.b.d.
- Fixed Costs containment
 - Pension Liability
 - Health Insurance
 - Sick Leave Buyback

Summary

- FY2013 budget is balanced and manageable.
- Health care savings and judicious budget practices in prior years is allowing us to make needed investments in public safety and schools.
- Collective bargaining will begin once the budget is approved, as all contracts are expired with the City's eight bargaining units.