

## SECTION 1 – General Overview



## CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll  
Mayor

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Honorable Salem City Council  
93 Washington Street  
Salem, Massachusetts 01970

Ladies and Gentlemen of the Council:

I am pleased to submit for your consideration a \$117,965,796 proposed Fiscal Year 2008 budget for the City of Salem. The FY 2008 budget contains spending and revenue provisions for the operation of municipal government, as well as for water, sewer and trash enterprise accounts. The submission recommends expenditures of \$97,197,724 for the General Operating Fund, a 1.2% increase over last fiscal year, which as you may recall was budgeted at \$441,000 less than expenditures in the FY2006. In other words, over the last two years, the proposed budget has increased by only \$705,123. In addition to the operating budget, I am also submitting a \$13,228,857 enterprise budget for FY 2008 water, sewer and trash services. These combined budgets will ensure that the City has adequate resources to service core municipal functions related to public safety, education and public works.

As you know, last budget season the City faced two Herculean tasks: 1) untangling a multi-million dollar mid-year budget deficit, and 2) adopting a balanced operating budget for Fiscal Year 2007 without the use of one-time revenues – a very poor budget practice that had been used by the City in prior years. I am pleased to acknowledge that we were successful on both fronts. As challenging as those tasks were, by working together we were able to prepare a realistic budget based on practical revenue streams, spending cutbacks and a number of cost efficiencies. This budget season, we are facing similar budget challenges, however I remain confident that again, working together, we will be able to adopt a budget that is realistic and rational, given our current fiscal constraints.

As we have discussed and most recently documented in the City's first Five Year Financial Forecast, there are a number of "budget busters" that continue to monopolize city revenues. Most notably, the cost of health insurance, up 8.98 % or \$846,797, and retirement assessments, up 6.45% or \$455,844. These two items combined total in excess of \$1.3 million dollars, which is substantially more than the \$764,234 we will receive from the state in new local aid dollars this year. These expenses, coupled with uncertainties associated with both the power plant tax agreement and expenses related to employee collective bargaining agreements, continue to put pressure on this year and future year's municipal operating budgets. While the power plant agreement is unique to Salem, the other budget busters are impacting nearly all Massachusetts municipalities in very much the same way. In essence, revenue growth cannot keep pace with spiraling costs in segments of the budget where the city has little or no discretion. Sadly, this trend continues to plague the well being of nearly every community in the Commonwealth.

This year's spending plan is balanced, but extremely lean. We have yet to be able to fully restore cuts that were made last year or in prior years, and in turn have yet to see state aid return to the high of Fiscal Year 2001 when Salem received \$18.6 million from the State, a 9% increase from our current receipts.

During these lean times, it is even more important that we continue to professionalize our approach to governing and focus on short-term management and long-term solutions concurrently. To that end, we have stabilized the expected double-digit increase in health insurance by soliciting bids and entering into an 18 month premium based plan for employee health insurance. This effort, which took tremendous cooperation and collaboration with the city's seven collective bargaining units, has reaped lower than average increases in health insurance costs this year, while also providing stability for budgeting this year and next. In addition, the City continues to realize savings from last year's acceptance of MGL Chapter 32B, Section 18, which enabled us to transfer many of our retiree health insurance costs to a fully insured Medicare supplement plan. Lastly, recent changes in contribution rates for both the Firefighters Union and exempt employees will lower the municipal contribution for these individuals, reaping savings this year and beyond. Even with these pro-active management steps, the city's share of employee and retire health insurance costs is expected to climb to nearly \$10.2 million dollars this year.

While expenses are always challenging, we have managed to provide resources to fund important initiatives related to tourism, public safety and traffic management.

### *Tourism*

As detailed in the recent financial forecast, it is imperative for the city to develop new revenue streams in order to maintain the current level of city services. Without new growth dollars, the City will not be able to keep up with rising costs, let alone, fund new initiatives. To that end, the proposed FY2008 budget hopes to restore a small, but significant, segment of funding for citywide tourism promotion and marketing, a key economic engine for Salem. As many of you may recall, when the City Council accepted legislation for the collection of a local option hotel/motel tax in 1988, we agreed that the funds would be used to fund tourism promotion and marketing activities for the City – essentially visitor generated dollars would be spent to attract tourists and enhance visitor services. For several years that did indeed occur and hotel/motel tax proceeds increased substantially over the years. This clearly was an indication that every dollar spent marketing the city, was typically returned to the local economy as visitors coming to Salem began staying longer, all of which was good for the local economy and helped to increase hotel/motel tax proceeds. Unfortunately, in the last few years, during tight fiscal times, the City has curtailed our spending on tourism promotion and marketing which has proved to be a poor financial decision. While this practice provided much needed dollars for municipal services, it has significantly detracted from our marketing efforts. While our efforts to market Salem slowed, other communities were enhancing their tourism promotion efforts making it more competitive to attract visitors during the busy summer season. This has had a two-fold impact, one our hotel/motel tax proceeds have not increased as rapidly, and two we have not kept pace with our prior visitor trends. With all of this in mind, the City is very much interested in re-committing 25% of our hotel/motel tax proceeds (approximately \$65,000) to funding a citywide

tourism promotion and marketing effort and think that this money, over time, will be a smart financial investment. We have been actively working with members of the tourism, restaurant and retail community on the formation of a new unified marketing and promotion effort, and recently received a grant from the Massachusetts Cultural Council to help form a new public-private organizational structure for citywide tourism promotion. All agreed that with Salem's diverse and multiple offerings, an organization with a coordinated approach that involved both the public and private sectors is the preferred model to confront many of the challenges that have long held the city back from a more flourishing and prosperous tourist trade. As such, the city is working with local and state tourism officials on this public-private model to market and promote Salem, as initially contemplated during the original 1988 hotel/motel tax discussion, and the proposed funding will be a key piece of this new initiative.

#### *Public Safety - Police Department*

Over the course of the last few months, I have been meeting with Chief St. Pierre and members of the command staff to discuss ways in which the City could enhance patrol efforts within the framework of our tight fiscal constraints. As you know, staffing in the Police Department has been decreasing over the last few years, while calls for service have not. With that in mind, the Police Department is proposing the initiation of a Community Impact Unit to help augment patrol staffing. Essentially, a Community Impact Unit (CIU) is a specialized, problem solving patrol unit that can respond strategically to criminal activity, gang activity, graffiti and other types of nuisance activities that impact the quality of life of residents and businesses.

As in most communities, there are problems that re-occur time and time again that lend themselves to some intervention. However, it can be difficult for patrol officers responding to these matters to undertake the follow-up and problem solving necessary to resolve the situation, as their time is limited due to the number of calls for service, the multitude of reports that are required to be generated, as well as general police surveillance and traffic enforcement responsibilities. In order to be effective problem-solvers, time is needed to determine the actual problem, to consider possible responses and then coordinate the responses with others, including neighbors, city departments, business leaders and beat patrol officers. This new three-person Community Impact Unit would undertake such activity throughout the City. In order to implement this initiative, we are proposing to hire one additional patrol officer this year. The remainder of the unit would be filled with existing personnel and anticipated additional overtime costs for this program would be picked up with grant dollars. The program has been successfully implemented in several other communities in Massachusetts and the Chief and command staff are enthusiastic about the work this new unit will undertake. Certainly, having an ability to combine core community policing effort with a strong anti-crime mission will benefit the police department, the citizens and the community as a whole.

#### *Public Safety - Fire Department*

As you know, we recently reached agreement with the Firefighters Union on two, new three year agreements, ending a protracted contract dispute that had gone on for more than two years. As part of that new contract, the City reached consensus with the Union on staffing levels, an area where the City and the Union had previously clashed. Under the terms of the agreement, the City will be hiring an additional firefighter this year, two next fiscal year, and three more in the next fiscal year, bringing the total number of uniformed personnel to 82 in three years. The

additional staff members will aid in keeping apparatus at each of the City's stations in service throughout this year and beyond and will limit the need for overtime to backfill vacant shifts.

#### *North Shore Transportation Management Association*

The proposed Fiscal Year 2008 budget includes \$15,000 in funding for the North Shore Transportation Management Association (NSTMA). The NSTMA is a newly formed entity aimed at becoming a full service transportation organization providing alternative commute options, by working with North Shore business, institutional, and community members to address the impacts of traffic on the environment, economic development, and land use/corridor planning. In addition, the NSTMA will serve as a resource and ally for its members with regional, state, and federal government agencies to advocate for infrastructure improvements; identify and strive to address gaps in service that are barriers to the use of transit and other alternative commute modes; and develop and implement innovative solutions to regional congestion and access. TMA's exist in several other regions of Massachusetts and have proven to be a major asset in helping to reduce and mitigate commuter congestion. The proposed municipal funding represents only a portion of the costs, with the remainder of dollars coming from the state and private sector.

#### *Staffing and Salary Adjustments*

The proposed Fiscal Year 2008 budget includes funding to restore one administrative position that was cut during the last budget season and one additional administrative position related to the trash fee program. The restored administrative position will be housed in the Assessor's Office, where the position was eliminated, but will have added responsibilities to serve as a "floater" in other departments as necessary. As you may recall, the Department of Revenue (DOR) recommended the return of this position, as many Assessing staff hours were being spent on administrative functions at the expense of property re-valuation inspections, which generate revenues to the City. The administrative position related to the trash fee program is currently housed in the Engineering Division and handles the daily administrative functions related to that program. In addition, the budget is proposing to end the current practice of contracting out for GIS services in favor of hiring a full-time GIS coordinator. Currently, the City expends approximately \$50,000 per year on a contracted service that assigns GIS personnel to the Engineering Division on a less than part-time basis. Rather than continue that practice, we would like to retain a GIS coordinator that will work full-time for the City. We anticipate that this will provide enhanced municipal GIS capabilities and services, at little or no additional cost.

The proposed budget also includes a modest wage increase for exempt employees and members of the Firefighters Union, the only collective bargaining contract that has been settled for the new year. As you know, exempt employees did not receive a wage increase last year and over the last six years their salaries have only been adjusted by approximately 9%, while AFSCME union wages have seen an 18% increase over the same time period. At present, many of our exempt salaries are less than what is paid in similar size communities, making it difficult to attract and retain quality staff for key positions. While I know it is never easy to request a salary increase, I do believe it is necessary in this instance. We have an extremely hard working, dedicated group of employees who go above and beyond their job descriptions on a daily basis. Because they are not part of a collective bargaining agreement, they do not receive the same level of benefits and protections and over the last few years the inequities between the two groups have risen. In addition, exempt employees will be picking up additional health insurance costs, consistent with

the recently agreed to Firefighters Union contract, thus freeing up some of the city's share of this burden. As you know, the City is in the midst of negotiations with several other collective bargaining groups and I hope to be able to settle those agreements in a timely fashion. Since funding for those contracts is not included in the current budget, I would expect to seek a supplemental appropriation to fund any additional costs associated with those agreements.

#### *Revenues*

As detailed in the Five Year Financial Forecast, the City is relying on approximately \$787,000 of new growth to balance this year's budget. These new growth dollars are vital to maintaining services, as we are nearly at our levy limit, meaning we do not have the ability to raise additional dollars through real estate taxes. In addition to taxes and state aid, we anticipate raising \$800,000 from trash receipts to offset the more than \$3,000,000 we incur in annual solid waste collection costs. While this fee has sparked debate, the revenues it produces are necessary in order for the City to have a balanced annual budget. Any modification or reduction to this fee will need to be off set by an equal reduction in city expenditures. Lastly, the enclosed budget does include an increase to the existing parking fine from \$10 to \$15. Currently, it is cheaper to park at a meter and receive a ticket than it is to park at one of the municipal garages. Both the State Department of Revenue and the Parking Board have previously recommended this change to the ticket fine structure to encourage greater use of the parking garage by long term parkers, thus freeing up additional spaces for short term use downtown.

Notwithstanding the harsh realities of this budget, I believe wholeheartedly that we are making strong moves in the right direction. I am confident that with the Council's continued cooperation we will overcome these very real hurdles and the result will be a more fiscally healthy city. This proposed budget allows us to meet the challenges ahead, as well as build a strong foundation for the future of this great city. I look forward to working with you over the coming weeks to enact the proposed FY 2008 spending plan for municipal operations.

Very truly yours,



Kimberley Driscoll  
Mayor