



## **CITY OF SALEM, MASSACHUSETTS**

Kimberley Driscoll  
Mayor

June 21, 2009

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 \$127,718,869 proposed Fiscal Year 2011 budget for the City of Salem. This has easily been the most difficult budget to prepare, given the fact that the City is facing our third year in a row of local aid reductions, coupled with anticipated reductions in many local receipts. We have however been able to balance this year's budgets through a combination of activities, including proposed major health insurance reform changes with each of the city's eight collective bargaining units. By reducing savings in our health insurance costs, we will be able to preserve vital services in education, public safety and public works, while also providing tools to limit budget impacts to property taxpayers.

As you know, under Massachusetts General Law Chapter 32B, municipalities are currently prohibited from implementing changes in health insurance plans without first obtaining approval from municipal unions. Thus, communities may not modify health insurance benefits, such as co-pay amounts for prescriptions and/or office visits, without first obtaining the approval of a majority of the city's or town's collective bargaining units. We attempted to make changes last year with our eight collective bargaining units that would have averted layoffs and saved over \$800,000 dollars, but unfortunately all eight employee units rejected the notion. With another decrease in local aid, we simply could not absorb a 12%+ increase (\$1.2+ million dollars) in health insurance costs, without gaining some concessions from our unions. We began the negotiations earlier this Spring and worked diligently to educate all our employees about the short and long term fiscal challenges we face as a community. In fact, I met openly with small and large groups of city workers over a six week period of time at the DPW garage, in City Hall Annex, at the Public Library, and in the Police and Fire stations (nearly a dozen meetings in all) to discuss our overall finances, hear their suggestions for savings, and answer questions or concerns they might have about the city budget.

I am happy to report that this year's negotiations fared much better than last year, with nearly every city union being open to accepting a major health insurance plan change that brings municipal insurance closer in line with the State Group Insurance Commission (GIC) plans. As part of this effort, the City will save over \$1 million dollars in health insurance increases.

This effort, combined with revenues from the recently adopted local option taxes and additional operational efficiencies, will enable the City to maintain a strong commitment to public schools; boost our public safety efforts; continue advancing much needed capital improvements, and set

aside dollars to reduce the levy and protect taxpayers from impacts associated with reductions in the current power plant agreement.

#### Education – Maintaining our commitment to first class public schools

This year, the budget proposes to increase funding to public schools by \$1.6 million dollars. This is due in large measure to the willingness of our teachers, paraprofessionals and other school department employees to accept changes in existing health insurance plans that will increase co-pays for services, but sharply reduce municipal premiums. This fact, combined with a second year funding commitment of ARRA dollars, will enable us to maintain modest class sizes, keep innovative programs in operation, and advance the current strategic planning process which we believe will lead to continued advances in Salem Public Schools.

#### Public Safety – Keeping homes and neighborhoods safe

In particular, the proposed budget will enable us to civilianize police dispatch operations and transfer the equivalent of 5 police officers from inside duty to patrols. As you know, the SPD is severely short staffed (currently down 17 police officers) as a consequence of the budget challenges we have faced the last several years. This year, through Chief Tucker's efforts, we will reorganize staffing in the Police Department and by utilizing civilians inside the station to answer calls for service, we can be more proactive and devote trained police personnel outside to respond to those calls. In addition, by deferring filling the vacancy of retiring Captain John Jodoin, the City will be able to hire an additional police officer to aid in patrol and community policing efforts, providing us an opportunity to catch up and fill long overdue vacancies in the SPD. In compliance with the terms of the current contract, we will also fill vacancies in the Salem Fire Department, helping to insure that we can keep current stations open and maintain apparatus in service.

#### Capital Improvement Program – Capital delayed is capital denied

Given the funding challenges we face this year, our goal with the CIP is to focus on a Pay As You Go (PAYG) effort for our capital needs. Thus, the bulk of our capital needs, from roadway improvements to upgrades in Fire Department apparatus, will be included in this year's operational budget, limiting our long term debt exposure and easing pressure on the operational budget both this fiscal year and next. This is important given that we are in the last year of the power plant tax agreement and local aid is not expected to fully recover by FY12.

#### Building Reserves – Planning for our future

The proposed operating budget provides us an opportunity to set aside \$600,000 in a reserve account to help offset taxpayer increases. We can utilize this funding in a couple of ways, depending upon the wishes of the Council. The funding can be used in the next fiscal year to reduce the property tax levy, thereby limiting increases in property taxes for the average Salem homeowner. In the alternative, the funding can be held in the reserve account for the following year, pending our ability to reach final agreement with Dominion on a new tax agreement, thereby setting up an offset we can tap should power plant revenues diminish. The good news is that the funding is set aside in the proposed FY11 budget, allowing us to make a decision on which alternative-or a combination of the two- we want to pursue in the best interests of Salem taxpayers.

Mayor and Council - Working together to make good decisions in bad financial times

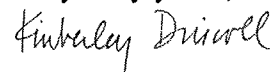
While FY11 will be the third year in a row the City has had to weather cuts to local aid, the tough decisions we made in prior years have aided in our efforts to produce a balanced budget today. For instance, four years ago, the Administration and the Council partnered on the adoption of M.G.L. chapter 32B, section 18, a Massachusetts statute that requires all Medicare-eligible retirees to move to a fully insured Medicare supplement plan, saving the city hundreds of thousands of dollars both then and now in retiree health insurance costs. In each of the last several municipal budgets the City has reduced expenditures, left positions unfilled, offered early retirement incentives, and/or unfortunately laid off personnel. Those reductions, combined with re-organization of several municipal departments and outsourcing of some municipal services, have resulted in 27 fewer positions today than there were just a few short years ago. All of these combined efforts have helped us in preparing a modest, but realistic budget based on practical revenue streams.

As you know, our focus has been on trying to make good decisions in bad financial times with a goal of achieving long-term cost savings to minimize the burden on property taxpayers and alleviate the impact on direct services. In that vein, we will continue to work with employee groups on more cost efficient ways to deliver benefits and pensions. We are already seeing dividends from prior contractual agreements in which employees picked up a greater share of health insurance, in exchange for modest wage increases. This year, we hope that trend will continue by eliminating high cost and low co-pay/deductible plans, in exchange for sharing a portion of the revenue savings.

Lastly, we do believe it is more important that we continue to work together to seize opportunities for regionalization and greater school/city collaboration where it makes sense. This year we will embark on a joint purchasing effort with the Town of Swampscott, which will save both communities money and allow for even greater savings through economies of scale in bidding joint products and services. We have had on-going discussions with local officials over the course of the last year in the areas of public school services, public safety dispatch, police forensic services, green energy contracts, and vocational school services. We will continue much of this dialogue and explore new opportunities as we strive to deliver quality services in a more cost effective manner.

I look forward to working with the Council on the adoption of the FY11 budget.

Very truly yours,



Kimberley Driscoll  
Mayor