



CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll
Mayor

May 26, 2011

Honorable Salem City Council
Salem City Hall
Salem, MA 01970

Re: Proposed FY2012 Operating Budget

Ladies and Gentlemen of the Council:

I am pleased to submit for your consideration a \$129,083,585 proposed Fiscal Year 2012 budget for the City of Salem. This represents a 1.5% increase over the FY2011 adjusted municipal budget.

As you know, 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 overboard 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. As you know, we are one of a handful of Massachusetts communities who annually qualifies for both a Certificate of Excellence for our Comprehensive Annual Financial Reporting (CAFR) and a Distinguished Budget Award from the GFOA.

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 we once again struggled with rising fixed costs in health insurance and pensions, made all the more difficult by uncertainties associated with revenues from the power plant. Undoubtedly, the plant's closure announcement will have an impact on both short and long term revenue streams and we are working diligently with our state legislative delegation on methods to help offset any loss in revenues during the transition and redevelopment of the 62 acre power plant site.

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

Education – Maintaining our commitment to first class public schools

This year, the budget proposes to increase funding to public schools by \$2,117,469 or 4.45% including an allotment for the new in-district Salem Community Charter School. Funding of this magnitude was necessary in order to support existing programs within our public schools, along with new expenditures related to the charter school. As you may be aware, the new charter

school is aimed at reducing the high school drop out rate and increasing graduation rates by providing an alternative option for students who are facing obstacles to completing high school within the traditional methods. There is a need for this type of school in Salem and last year an out of district charter school proposal sought to undertake a similar mission. The School Committee recognized the need for providing an alternative education model to help ensure more students are graduating and initiated a proposal for an in-district charter school to address the need, rather than risk an out of district charter school being approved and taking with it much needed per pupil state education revenues. While there are extra costs for this proposal, we also avoided losing dollars and believe strongly that school administrators are in a much better position to address the needs of Salem students who require an alternative option and greater assistance in order to graduate.

Public Safety – Keeping homes and neighborhoods safe

The City continues to reap the benefits associated with last year's move to implement civilian dispatchers in the Police Department. This enabled Chief Tucker to move five additional officers into patrol positions, in particular restoration of a traffic division and the creation of the Special Response Unit, which is able to drill down quickly on crime trends and quality of life nuisances. Work is underway on a noise enforcement program for the upcoming year and a grant in support of a regional dispatch operation is being pursued. These types of initiatives are aimed at improving operational efficiencies, while also being responsive to resident requests for service. As for the Fire Department, we will be maintaining all existing personnel and are hoping to invest in a new Ladder Truck (or at least one that is new to us) and station repairs as part of our CIP funding program.

Health Insurance – Proposing reforms aimed at protecting jobs and services

As you know, there is legislation pending at the State House that will likely give cities/towns greater flexibility to modify health insurance plans and bring them closer in line to savings associated with the state Group Insurance Commission (GIC) plans. I support this legislative effort and am hopeful a bill will be finalized soon between the House and the Senate. At present, our annual health insurance premiums are expected to increase 7.34% for next fiscal year for a total of \$899,645 dollars. We have asked our insurer to provide us with some alternative plan options in an effort to reduce costs and we are in discussions with our collective bargaining unions seeking the authority to slightly modify our current plans. Under the slightly modified "alternative options plan" minor modifications would be made to co-pays on emergency room visits (from \$50 to \$100), non-routine office visits (from 10/15/20 to 15/20/25), and a new co-pay would be required for MRI/CT scans (\$75). All other co-pays, including co-pays on prescriptions, would remain the same with the exception of routine office visits which will no longer have any co-pay and be decreased to zero as a result of national health care legislation. The cost of this "alternative options plan" would entail a 4.33% increase or \$529,645 dollars in additional costs next year.

We are hopeful that we can reach agreement with all of our employee groups to migrate to the "alternative options plan" as it would reduce the potential increase for health insurance for fiscal year 2012 from approximately 7.34% to 4.33% and allow us to avoid \$370,000 in increased premium costs. More importantly, this would enable the city to keep a very good health insurance plan in place for the full year, as we await final adoption of health insurance reform

legislation that is likely to incorporate greater flexibility to join the State GIC and/or at least the ability to design plans similar to that benchmark.

While I greatly appreciate the flexibility to manage ever increasing health insurance costs and I am looking forward to adoption of legislation in support of same, I am also concerned about the impact making changes mid year might have on our employees and I would prefer to reduce costs for next fiscal year by adjusting (some would say “tweaking”) our current plans. By doing so, we will reap some immediate savings and then have the full year to work toward the best way to mitigate likely health insurance increases in FY2013. We’ll also have the benefit of understanding our rights and obligations under any newly adopted municipal health insurance legislation. If we are unable to reach agreement with our collective bargaining unions in the near term on the “alternative options plan” we may be looking at adjustments mid-year that will likely have to implement higher co-pays and deductibles, closer to the GIC benchmark, in order to reap the same savings.

Pension – Meeting our obligations today while planning for the long term

Pension costs this year are increasing \$372,276 or 4.44%. This annual increase would have been significantly higher had the Retirement Board not voted to extend slightly, to 2030, the timeline for full funding of the City’s pension obligations. This was necessary to off set the tremendous losses in the stock market experienced over the last two years, which unfortunately brought our annual returns below their anticipated rate of return. While we are still below the statutory timeline for full funding of the pension system, meeting this deadline will pose a major challenge. Assuming we meet our anticipated bench marks going forward, the annual contributions to the Retirement Board will grow substantially over the course of the next 18 years and put tremendous pressure on municipal operating budgets. Annual pension obligations, coupled with Other Public Employee Benefit (OPEB) costs which are currently estimated at \$109.5 million dollars, will cannibalize new growth revenues in much the same way health insurance does now, unless there are changes in the way in which we calculate these benefits. There is currently a pension reform bill pending that will help address this issue long term. It follows action by state officials last year aimed at curbing pension abuses. As you may recall, we have set up a stabilization account to help fund these long term employee benefit costs and this will be an item we will need to watch and plan for going forward.

Collective bargaining – Working toward an affordable and mutually beneficial accord

All current collective bargaining agreements will expire on or around the end of the present fiscal year (with the exception of the Police Patrol Union which currently is in mediation with the JLMC). We have been and will continue to meet with labor representatives to discuss new contracts going forward, however given our current finances it is unlikely we will be in a position to enhance compensation without some off set in employee benefit costs. We have been able to make strides in this manner with exempt employees and the proposed budget includes adjustments in compensation for exempt employees, while also incorporating a switch to the alternative health insurance plan and an increase in employee health insurance contribution rates. As we work together to deliver quality services in an efficient manner, it is not lost on me the job that municipal employees do day in and day out to make Salem a great place to live, work and visit. I appreciate the extra effort our team of employees goes to on behalf of constituents and

am hopeful we can reach agreement with all of our collective bargaining units in a timely and mutually beneficial manner.

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 so doing, we need to be mindful of the uncertainties that exist within our financial forecasting tied to power plant revenues and untimely, but necessary expenses, such as the remediation of McGrath Park, repairs to City Hall, Collins Middle and Saltonstall schools. The proposed budget strives to do both - preserve basic services and ensure that we are operating in as fiscally healthy a manner as possible.

I look forward to working with you over the coming weeks to enact the proposed FY 2012 spending plan for municipal operations.

Very truly yours,

A handwritten signature in dark ink, reading "Kimberley Driscoll". The signature is written in a cursive, flowing style.

Kimberley Driscoll
Mayor

City of Salem – Mission Statement

Vision

To ensure that visitors, businesses and residents are provided with the highest quality of services and amenities. The City is committed to providing an exemplary environment in which to live, work and play.

Mission

The mission of the City of Salem is to enact the will of the people through their active, inclusive participation and to provide the services they demand in a quality and cost effective manner. To accomplish our mission we will:

- Practice responsive, effective governance;
- Be unrelenting in our efforts to improve service quality, cost and effectiveness;
- Create and maintain effective partnerships;
- Value diversity in the organization and the community;
- Be accountable to citizens and each other for our actions;
- Uphold the highest professional and ethical standards.

Values

Responsiveness – being proactive; having a bias for action and a sense of urgency in getting things done; anticipating citizens' needs and taking fast action to surpass their expectations; encouraging citizen input.

Integrity – Possessing an unwavering commitment to doing the right things right, with consistent adherence to the highest professional standards; keeping commitments to our citizens, co-workers and others.

Innovations – dedicating ourselves to learning and growing; constantly searching for better ways to get the job done; using our collective imagination to creatively and effectively solve problems for our citizens; going beyond perceived boundaries to get desired results.

Teamwork – recognizing that every employee and every council member is important to the complete satisfaction of our citizens as well as the ultimate success of our City; feeling personally responsible for successful outcome, treating everyone with respect; communicating regularly, directly and honestly with our employees, council members, and citizens.

Factors Affecting Economic Condition

The City of Salem is a historic waterfront community that has a rich cultural heritage, known worldwide for its architecture, maritime history, literary prominence, and witchcraft hysteria. For this reason, tourism is one of the City's major industries, accommodating almost one million visitors each year.

Salem originated as one of the earliest landing sites of the English colonists, and went on to rise as the first major port in the United States, opening up the East Indian trade. In its heyday, Salem was known as a thriving hub of American commerce and was the home of Nathaniel Hawthorne. Salem is well known for the infamous Salem Witchcraft Trials of 1692, when nineteen people were convicted for the crime of witchcraft and were put to their deaths.

The City's golden years have left her modern inhabitants with architectural treasures, fine museums, and a sparkling literary heritage. Equally important, the development of Salem has produced a rich ethnic history, to which people of all races, creeds, colors and origins have contributed over the generations. Long a trading, manufacturing and retail center, Salem has been making a slow, and sometimes painful, transition to a service-based economy. The City today serves as the home of Salem State College, the North Shore Medical Center, the Essex County District Superior and Probate Courts, and Registry of Deeds, the world-famous Peabody Essex Museum, and a host of banks and other financial institutions. It is the educational, medical, legal, cultural and banking hub of the North Shore.

Salem boasts an impressive collection of historically significant residential structures that are always in high demand. The uniqueness of these historic homes, coupled with a growing downtown condominium market, has helped boost home sales prices in Salem.

The City also enjoys a mix of commercial businesses and markets. Commercial development has been prominent in the Highland Avenue and Vinnin Square areas. Additionally, construction is underway on the new \$106 million J. Michael Ruane Judicial Center, as well as the \$12 million redevelopment of the Old Salem Jail, which will include 23 residential units, a restaurant, a jail history exhibit, and one affordable artist live/work unit. These projects, as well as the \$7.5 million redevelopment of the former Salem News building, will ensure long term vibrancy to Downtown Salem.

The City has also developed a comprehensive Capital Improvement Program (CIP), which identifies both short term and long term capital needs for the City. As part of the FY2012 CIP, the City will begin remodeling several parks and playgrounds in the City, including the \$789 thousand renovation of Furlong Park. Other highlights of the FY2010 CIP include the investment of \$1.5 million in neighborhood roadway improvements, \$515 thousand of vehicle and equipment replacement for the police, fire, and department of public services, \$100 thousand in technological advancements for the parking department, and \$150 thousand for the installation of new ballfield at the Witchcraft Heights Elementary School.

The Salem waterfront is also experiencing a great deal of investment from the addition of the Waterfront Hotel at Pickering Wharf to the South River Harborwalk waterfront development, which will include seawall and bulkhead improvements from Derby Street to Congress Street. The City received a \$3 million grant from the Governor's Seaport Council for this project, as well as the acquisition of land at the Blaney Street Wharf. The City welcomed its first cruise ship to the Blaney Street Wharf in 2008 when Blount Small Ship Adventures, operating out of Warren, Rhode Island, stopped in Salem to fill a cancellation and absolutely loved it. As a result, they have included Salem as part of the "Olde New England Sampler" cruise package with three scheduled stops in the City in the summer of 2010. Salem is emerging as a destination for small cruise ships making stops in historic ports that dot the New England seacoast. Once the Blaney Street wharf expansion is completed, the City expects to attract the large cruise liners, which is projected to have a significant impact on the local economy.

With the passage of House Bill 4560, Senate Bill 4864 and the approval of Massachusetts Governor Deval Patrick, Salem State College obtained University status. Salem State University is the largest institution of higher education on the North Shore of Massachusetts. Recent expansion at the University includes the construction of the college's newest campus on the former GTE Sylvania site. Central Campus, as it is currently known, houses the Bertolon School of Business, a recital hall, a 'green' and sustainable residence hall, and a small business incubator for the region. Expansion of the college continues and just recently finished construction of a new 525 bed residence hall and dining facility, and will soon work on the construction of a new library.

The City also boasts Shetland Park, a sprawling business park which houses more than 70 concerns and an industrial park on Technology Way which houses large or expanding companies. The North Shore Medical Center has recently invested \$12 million for their new 10,700 square foot cardiac surgical suite and also built a new 19,000 square foot Emergency Department, which is one of the most sophisticated and modern emergency facilities in the state.

According to the Massachusetts Workforce Development Agency, the City had a labor force of 24,247, of whom 22,122 were employed and 2,125, or 8.8% were unemployed. The Commonwealth, for the same period, had an unadjusted unemployment rate of 9.0%.

Financial Planning and Forecasting

In FY2009, the City modified its budget format to improve upon its content and layout. The goal was to have a comprehensive budget that would allow an average person to read and comprehend the budget and budget process of the City. It also was modeled after several budgets that were submitted and approved for the Government Financial Officer's Association (GFOA) "Distinguished Budget Presentation Award". The new model included much more narrative, including goals and objectives of each department, financial forecasts, policies and glossary of financial terms. It required a significant amount of work for all department heads and especially the finance division, who had to ensure all the materials were pulled together timely for submission to both the City Council and the

GFOA. As a result of our efforts, the City has been awarded the GFOA's "Distinguished Budget Presentation Award" for fiscal years 2009, 2010 and 2011. Salem is one of only nine municipalities in the Commonwealth to receive the Award in fiscal year 2011.

Included in the budget was the City's Five Year Financial Forecast. This is the fourth year that such a forecast has been completed. This forecast acts as a useful tool to the Mayor and Council to better identify "budget busters" on the expenditure side and to also determine whether forecasted revenue growth is adequate for future expenses. Also included in the budget was the City's Five Year Capital Improvement Plan (CIP) for the purpose of planning and maintaining the City's capital and infrastructure. The CIP includes policies on debt service and capital improvement budgeting.

Fixed Costs ~ Health Insurance and Pension Assessment

The City continues to struggle with the rising cost of health care for City employees/retirees, as well as increases in pension costs. Since the state law, known as proposition 2 ½, caps the City's ability to raise taxes to meet rising costs, the City is actively exploring the use of alternative, local revenue sources to help offset the aforementioned rising expenditures. In fiscal year 2006, the City Council accepted the provisions of Massachusetts General Law (M.G.L.) chapter 32B, section 18, a Massachusetts statute requiring all Medicare-eligible retirees who are currently on self-insured plans to move from self-insured coverage to a fully insured Medicare supplement plan. This provision saved the City approximately \$700,000 in fiscal 2007 and continues to realize savings for the City. This is a major cost saving initiative that will insure that all retirees over the age of 65 are treated consistently, while also providing greater control of costs associated with the City's Healthcare Insurance Trust account, the fastest rising municipal budget item for each of the last five years.

Another significant change in the health insurance budget for FY2010 was the finalization of the Police Patrolmen's contract which allowed the City to convert its final union to a contribution rate of 25% for the employee and 75% for the City. The patrolmen were the last of the groups to convert to the modified contribution rates. The City now has uniformity in the contribution rates with all collective bargaining units. This will help stabilize the ever increasing cost of providing health benefits to the employees of the City in FY2011 and beyond.

Not only has the City changed the contribution rates of health insurance, but also the plan designs of its Blue Cross Blue Shield products. In 2010, the City introduced HMO Network Blue Options (Options). Within the Options network, hospitals and groups of primary care providers are ranked into three benefit tiers based on cost and nationally accepted quality performance criteria selected by Blue Cross Blue Shield of Massachusetts.

This plan will ultimately replace both the HMO Blue \$5 co-payment plan, as well as the HMO Blue Value Plus. The migration of all employees to this plan is expected to be complete by FY2011. All health changes of this nature are required to be negotiated with the City's eight collective bargaining units. As of September 2010, the City has successfully converted six of its eight collective

bargaining units, as well as its “ninth” unit of management and non-union employees. The switch to the Options plan is expected to save the City between \$1 million to \$1.4 million, depending on the timeliness of getting all City employees migrated to the Options plan.

In FY2007, the Mayor appointed herself to the Salem Retirement Board. By doing so, Mayor Driscoll has taken an active role in managing the City’s retirement system. The annual assessment from the Retirement Board to the City continues to be one of the biggest budget busters year in and year out. During fiscal year 2009, the Retirement Board moved all available funds into the State’s Public Reserve Investment Trust (PRIT) to take advantage of its higher returns and lower administrative fees. Because of its size, the PRIT can diversify assets for maximum possible return. The Retirement Board shifted these assets voluntarily to the PRIT after a complete analysis and a vote of the Retirement Board. Over the last 10 years (as of June 30, 2008), the PRIT fund has returned 8.16% annually compared to the public fund median return of 6.00% over the same 10 year time period. This places the PRIT in the top one percentile ranking of all public pension plans with over one billion dollars in assets per the Trust Universe Comparison Services (TUCS) master trust report.

However, because of a global economic downturn, the investments of the City’s retirement funds decreased by 28% in 2008. This decrease was offset by a 15.4% increase in 2009. While this fluctuation did not have an adverse affect on either the FY2010 or FY2011 budgets (due to the fixed contribution rates set by the Salem Retirement Board’s 2008 actuarial report), it will certainly have an adverse affect on the FY12 budget once the 2012 actuarial report considers that effect of 2008 and 2009. As of the 2009 annual report of the Public Employee Retirement Administration Commission (PERAC) report, the Salem Retirement Board’s unfunded liability is \$79.4 million with a funding schedule of 2025 to be fully funded. The City of Salem represents 86% of the Salem Contributory Retirement System.

Other Significant Financial Matters

The City implemented a trash fee for fiscal year 2007 which went into effect in September 2006. The revenue received from the trash fees totaled \$450,000, for the ten months of collections during fiscal year 2007. The City has averaged \$750,000 in collections over fiscal years 2008, 2009, and 2010. These amounts are based on the number of residential and commercial units that are currently being billed for trash. The fees collected are used to offset the cost of collecting solid waste. The City adopted an Enterprise Fund for solid waste collections in fiscal year 2008.

In FY 2008 a committee was formed to develop a Request for Proposal (RFP) for trash collection for a term of five years. As a result of the procurement, the City was able to reduce its cost of collection by 20%, approximately \$600,000 in total. As a result of this, the City has reduced its fee by 20% for trash collection as well, reducing non-owner occupied tenements from \$20 per unit to \$16 per unit, and businesses from \$30 per unit to \$24 per unit. The City continues to offset the costs of solid waste collection for FY2009 by the collection of the trash fee.

The procurement of the solid waste collection not only saved the City \$600,000, but it also increased the pick up of recyclables from bi-weekly to weekly. Weekly recycling, combined with a newly negotiated rate for cardboard recycling from \$25 per ton to \$65 per ton is estimated to save the City an additional \$100,000 by crediting these new revenues to the Enterprise Fund for solid waste collections as another way to offset the net cost of collection the City's solid waste and recyclables.

The City is in the last year of its PILOT tax agreement with Dominion energy (FY2009-FY2011). As part of the agreement negotiated between the City and Dominion, the City receives \$3 million in tax dollars within the tax levy and \$1.75 million dollars as a "host fee" that is accounted for as miscellaneous non-recurring revenues. Dominion is the largest tax payer in the City, and without an agreement in place for FY2012, the City would have to bill Dominion "ad valorem", which could present a potential liability issue if there is a disagreement on the fair cash value of the plant. As part of determining the value and future viability of the plant, the City has received a grant of \$150 thousand to do a complete assessment of the plant that is scheduled to be complete by the end of 2010.

Financial Policy

The City has set a target level for the Stabilization fund of 5% of the City's current operating budget. The target funding date is projected to occur by fiscal year 2015. The Stabilization fund shall be funded by appropriations from free cash (available funds), operating budget appropriations when available, and other one time non-recurring revenues that become available for appropriation per Massachusetts General Law.

In fiscal 2008, the City established a second Stabilization fund for the funding of retirement buyouts for both City and School employees. During the fiscal 2011 budget process, all department heads were asked to estimate those employees who may retire and to calculate the estimated cost of each person's buyout for fiscal 2012. It was determined that the estimated liability for fiscal 2012 would be \$400,000. It is the hope of the Finance Department that this fund will grow so that if there are any unanticipated retirements, the City will be able to fund these unanticipated costs within the fund instead of using the general fund appropriations to fund unanticipated retirement payouts of active employees within department budgets. This will allow the departments to backfill vacancies in a timely manner without having to request a supplemental appropriation by the Council to their salary line.

Free cash is the remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax rate recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Free cash is not available for appropriation until certified by the Massachusetts Director of Accounts. Free cash is the term used for a community's funds that are available for appropriation. Once free cash is certified, it is available for appropriation by City Council. The balance for free cash has been certified for fiscal year ending 6/30/2010 in the amount of \$750,607.

Free cash may be used for any lawful municipal purpose and provides communities with flexibility to fund additional appropriations after the tax rate has been set. Free cash balances do not carry forward to the next fiscal year (July 1st); the Director's certification expires on June 30th at the end of the fiscal year.

The City's policy is to use free cash for reserves, capital, and special uses in accordance with the policies set forth by the Mayor and Finance Director. Any drawdown of the Stabilization Fund from the prior fiscal year should be allocated from the certified free cash if the free cash exceeds such drawdown. Twenty percent of any free cash available after funding a prior year drawdown will also be allocated from free cash to Stabilization Fund up to the goal of stabilization fund equaling 5% of the current operating budget of the City. Twenty percent of any free cash available after funding a prior year drawdown of Stabilization fund will also be allocated to the Capital Improvement Fund for funding Capital. Any free cash available after funding the above may be used to augment trust funds related to fringe benefits and unfunded liabilities related to employee benefits, including Health Insurance Trust Fund, Workers' Compensation Fund, Unemployment Fund, and any health benefits payable through Police and Fire operating budgets (111f settlements). Free cash available may also be used to augment general fund appropriations for expenses that increased due to extraordinary and/or unforeseen events as detailed by the department head of the affected budget.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement of Excellence in Financial Reporting to the City of Salem for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2010. This was the sixth year that the City submitted a CAFR to the GFOA. In order to receive this prestigious award, a government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The GFOA also awarded a Distinguished Budget Presentation Award to the City of Salem for its budget document for the fiscal year beginning July 1, 2010. The GFOA established the Distinguished Budget Award in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality that reflect both the guidelines established by the National Advisory Council on State and Local Budgeting and the GFOA's recommended practices on budgeting and then to recognize individual governments that succeed in achieving that goal.

Documents submitted to the Budget Awards Program are reviewed by selected members of the GFOA professional staff and by outside reviewers with experience in public-sector budgeting. The City will also submitted its budget document for fiscal year beginning July 1, 2011 for consideration of the award for the third year and has received that award.

It should be noted that the Distinguished Budget Award was awarded to only nine of the 351 communities in the Commonwealth for the fiscal period beginning 2010 and that only five entities in the entire Commonwealth received both the Certificate of Achievement of Excellence in Financial Reporting and the Distinguished Budget Presentation Award in 2007.

The preparation of both the CAFR and the Distinguished Budget Presentation Award would not have been possible without the efficient and dedicated services of the Finance Department's staff. We would like to express our appreciation to all the members of the departments who assisted and contributed to the preparation of this report. Credit must also be given to the City Council and Mayor for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Salem's finances.

City of Salem - Long and Short Term Strategic Plan Summary - Fiscal Year 2012

Goal/Objective		Priority	Schedule	Division or Department	Status
General Government	Work with Dominion to ensure continued use of Power Plant and renegotiate tax agreement	1	Short & Long Term	Executive	Ongoing
General Government	Feasibility study for other uses for Dominion Power Plant property	1	Short & Long Term	Executive	Ongoing
Economic Development	Blaney Street Wharf development	1	Planning - Short term, Implementation - medium to long term	Planning & CD	Underway
General Government	Work with Commonwealth of Massachusetts for Plan Design for Employees Health Insurance	1	Short & Long Term	Executive	Ongoing
Infrastructure & Facilities	New mixed use parking garage facility at MBTA commuter rail station	1	Planning - Short term, Implementation - medium	Planning & CD	Ongoing
Finances	Submit a balanced budget to City Council	1	Short & Long Term	Executive & Finance	Ongoing
Finances	Financial stability - stabilize property taxes and build up reserves	1	On-going, medium and long term	Executive & Finance	Ongoing
Infrastructure & Facilities	New Senior Center	1	Short Term	Planning & CD	Pending
General Government	Five year financial plan and capital improvement plan	1	Short & Long Term	Executive & Finance	Ongoing
Public Safety	Maintain high level of Police and Fire Services	1	Short & Long Term	Executive, Police & Fire	Ongoing
Education	Improvement of MCAS Scores	1	Short & Long Term	School	Ongoing
General Government	Improve communication with citizens	1	Short & Long Term	Executive/MIS	Ongoing
Economic Development	South River dredging & development	2	Planning - Short term, Implementation - medium to long term	Planning & CD	Pending
Economic Development	Enhance and encourage use of waterfront	2	Planning - Short term, Implementation - medium to long term	Planning & CD	Pending
Infrastructure & Facilities	Lafayette Street improvement project	2	Planning - Short term, Implementation - medium term	Planning & CD	Pending
Human Resources	Negotiate New Union Contracts that expire 6/30/2011	2	Short Term	Human Resources	Pending
Recreational	Winter Island master plan	2	Planning - Short & Long term, Implementation - medium to long term	Planning and Park and Rec	Ongoing
General Government	Look for ways to deliver City services more efficiently and effectively	2	Short & Long Term	Executive & All Departments	Ongoing
General Government	Implement regionalization when beneficial	2	Medium & Long Term	Executive	Ongoing
Cultural	Continue to Improve upon Citywide management & implementation of Haunted Happenings & other community events	3	Planning - Short & Long term, Implementation - medium to long term	Executive & Tourism	Ongoing

City of Salem - Long and Short Term Strategic Plan Summary - Fiscal Year 2012

Goal/Objective		Priority	Schedule	Division or Department	Status
General Government	Community recycling incentives and green energy initiatives	3	Short & Long Term	Planning & Engineering	Ongoing
General Government	Maintain and upgrade City building & infrastructure	3	Short & Long Term	ISD, DPW, School	Ongoing
Below are Priorities Taken From On-Line Citizens Survey conducted in 2010					
General Government	Improve responsiveness and assessability to City departments and employees	1	Short & Long Term	All	Ongoing
Education	Offering Quality Education	1	Short & Long Term	Executive & School	Ongoing
Employee Benefits	Restructure Employee Health and pension benefits	1	Short & Long Term	Executive & Human Resources	Ongoing
Economic Development	Revitalization and Improvement of the Essex Street Pedestrian Mall	2	Short & Long Term	Planning	Ongoing
Infrastructure & Facilities	Improve parking in downtown	2	Short & Long Term	Planning & Parking	Ongoing
Public Safety	Traffic & parking enforcement in neighborhoods	2	Short & Long Term	Executive & Police	Ongoing
Infrastructure & Facilities	Maintain and upgrade City infrastructure - roads, parks, water & sewer	2	Short & Long Term	Planning, Engineering, & DPW	Ongoing
General Government	Regionalization of Services with other Communities	2	Short & Long Term	Executive	Ongoing
Infrastructure & Facilities	Maintenance and upgrade of parks and recreational facilities	3	Short & Long Term	Recreation & DPW	Ongoing

FY2012 Budget Presentation

June 1, 2011

Kimberley Driscoll, Mayor

Richard Viscay, Finance Director

FY2012 Budget – GFOA Budget

(Government Finance Officers Association)

- The GFOA budget is meant to be presented in a manner that serves as:
 - ❑ A policy document
 - ❑ An operational guide
 - ❑ A financial plan
 - ❑ A communication device
- The City has been awarded the Distinguished Budget Award by the GFOA for the last three fiscal years (FY09, FY10, FY11)

FY2012 Budget – General Overview (1-1)

- Mayor's Proposed FY2012 budget = \$129,083,585*
 - 1.5% increase from FY2011 adjusted municipal budget**
 - *(3-4 of budget book)
 - **(3-46 of budget book – general fund only)
- Mayor's Proposed Budget Highlights:
 - Education:
 - Maintaining our commitment to first class public schools
 - Public Safety:
 - Keeping our neighborhoods safe
 - Health Insurance:
 - Proposing reforms aimed at protecting jobs and services
 - Pension:
 - Meeting our obligations today while planning for the long-term
 - Collective Bargaining:
 - Working toward an affordable and mutually beneficial accord

FY2012 Budget – General Overview

continued (1-1)

■ Factors affecting economic condition

- ❑ Dominion Power Plant closing in FY2014
- ❑ Fixed Costs (Health Insurance and Pension)
- ❑ Collective Bargaining Agreements
- ❑ Other Post Employment Benefits Liability (OPEB)
- ❑ Capital Needs of the City (FY2012 CIP)
- ❑ Expiration of ARRA funds (and the impact on the Salem Public Schools)
- ❑ New Charter School
- ❑ Essex Aggie/North Shore Vocational School Construction

FY2012 Budget - Overview (3-1): Revenues

■ Tax Levy:	\$75,417,957
■ Local Receipts:	12,198,000
■ Cherry Sheet:	25,008,703
■ MSBA:	3,521,535
■ Enterprise Funds:	13,766,502
■ <u>OFS:</u>	<u>1,037,042</u>
TOTAL REVENUE:	\$130,949,739

FY2012 Budget Overview - (3-1): Expenses

■ General Gov:	\$ 4,329,537
■ Public Safety:	16,728,235
■ Public Works:	3,220,697
■ Human Services:	920,210
■ Cultural/Recreation:	2,318,374
■ Fixed Costs:	23,262,179
■ Debt Service:	6,676,058
■ Cherry Sheet:	6,761,693
■ <u>OFU:</u>	<u>1,866,154</u>
TOTAL:	\$130,949,739

FY2012 Budget Overview – School Dept. (4-1)

- FY2011 Budget: \$47,532,631
- FY2012 Budget: \$48,886,000 (2.85% inc.)

- Charter School – New for FY2011
 - FY2012 Appropriation: \$764,000

FY2012 Budget Overview – Enterprise Funds: Water, Sewer, and Solid Waste (5-1)

- Sewer: \$ 7,884,510 (3.9% budget increase)
 - Rate increase of 2% and a retained earnings appropriation of \$148,000 will be needed to cover costs of FY2012 budget.
 - Retained earnings appropriation used as a “one time” means to stabilize rates while we install new meters during FY2012.
- Water: \$ 5,231,992 (10.6% budget increase)
 - Rate increase of 3% and a retained earnings appropriation of \$360,000 will be needed to cover costs of FY2012 budget.
 - Retained earnings appropriation used as a “one time” means to stabilize rates while we install new meters during FY2012.
- Trash: \$ 2,739,981 (4.6% budget increase)
 - General Fund subsidy of \$2,089,981 will be needed to cover costs of FY2012 budget.

FY2012 Budget Overview – Enterprise Funds: Water, Sewer, and Solid Waste (5-1)

- 2011 Combined Retail Water and Sewer Rate Community Charge Comparison (5-50) compares the City's current and proposed rates against similar communities.
- Salem's proposed annual costs per household (120 HCF or 90,000 gallons) would be \$915.12 per year compared to the average of \$1,336.70 per year of surrounding communities.
 - Chelsea, Beverly, Danvers, Lynn, Gloucester, Peabody, Swampscott, Marblehead, and Revere were used as comparisons.

FY2012 Budget Overview – Five Year Financial Forecast (6-1)

- Used as a budget tool that enables municipal officials to:
 - ❑ Review operational needs
 - ❑ Identify fiscal challenges and opportunities
 - ❑ Develop long term budget policies
 - ❑ Develop overall strategic plan
 - ❑ Communicate with the City Council and public as to factors affecting revenues and expenditures.

FY2012 Budget Overview – Capital Improvement Plan (7-1)

- The City of Salem relies on the Capital Improvement Program and Capital Budget to ensure that the capital needs are being addressed in a responsible manner based upon priorities and thoughtful planning.
 - The Capital Plan is a critical component of the overall budget strategy.
 - Goal is to professionalize how capital projects were indentified, improve planning, and accountability.
-

FY2012 Budget Overview – Capital Improvement Plan (7-1)

■ Executive Summary (7-7):

- ❑ The total proposed Capital Budget for FY2012 is \$43,093,673. (General Fund only)
 - ❑ The amount to be funded by grants and other financing sources is \$30,807,528.
 - ❑ The amount to be funded by anticipated Bond Authorization is \$12,056,927.
 - ❑ The amount to be funded by one time appropriations from the Capital Outlay account is \$254,217.
-

FY2012 Budget Overview – Capital Improvement Plan (7-1)

■ Executive Summary (7-16):

- ❑ The total proposed Capital Budget for FY2012 is \$685,000. (Enterprise Fund only)
 - ❑ The amount to be funded by grants and other financing sources is \$25,000.
 - ❑ The amount to be funded by anticipated Bond Authorization is \$375,000.
 - ❑ The amount to be funded by one time appropriations from Water/Sewer retained earnings is \$285,000.
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FY2012 Budget Overview – Departmental Budgets (8-1)

- Total increase in General Fund budget = 1.5% (3-46)
 - \$113,012,330 in FY2011 vs. \$114,704,176 in FY2012
 - General Government: 1.3% increase
 - Public Safety: 1.85% increase
 - Public Works: 0.56% increase
 - Human Services: -6.05% increase
 - Culture and Recreation: 1.95% increase
 - Debt Service: -0.26% increase
 - Employee Benefits: 4.68% increase
 - Municipal Insurance: 4.62% increase
 - OFS: -35.96% increase
 - Education: 2.85% increase

FY2012 Budget Overview – Departmental Budgets (8-1)

- Total increase in Enterprise Fund budgets = 6.60% (3-46)
 - \$13,489,159 in FY2011 vs. \$14,379,409 in FY2012
 - Sewer Enterprise: 4.18% increase
 - Water Enterprise: 12.00% increase
 - Solid Waste: 4.56% increase
- Total increase combined General Fund and Enterprise Funds = 2.04% (3-46)

FY2012 Budget Overview – Summary

- The FY2012 budget is a lean budget while allowing us to plan for the future while meeting the needs of today.
 - Losses of anticipated revenues from the Power Plant (\$875,000) and the exhaustion of ARRA dollars have made FY2012 budget a challenge.
 - The rising costs of fringe benefits continues to be a budget buster.
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