



CITY OF SALEM, MASSACHUSETTS

Kimberley Driscoll
Mayor

June 3, 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 \$122,341,730 proposed Fiscal Year 2010 budget for the City of Salem. A budget that is \$2.8 Million less than our current FY2009 adjusted budget, very much reflective of the financial times in which we find ourselves. The FY 2010 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 \$100,653,897 for the General Operating Fund, essentially a 0% increase over last fiscal year, with spending for schools being level funded and spending for city side operations decreasing by 2%. In addition to the operating budget, I am also submitting a \$13,203,457 enterprise budget for FY 2010 water, sewer and trash services – a .31% increase over last year.

It has been an extremely difficult budget season, and I have found the circumstances surrounding preparation of this budget more challenging than any of my prior 10+ years involved in local government. **In order to meet our main objective to provide the City with the resources necessary to service core municipal functions, we will need to undertake a series of actions including cuts, further departmental consolidations, and enhancing regionalization opportunities.**

As you know, in January of this year, the City received notification that due to the worsening economic picture, the state would be cutting local aid this year by \$836,363. That was followed by the release of the Governor's proposed budget for next year, in which the City could expect to see a \$2.4 million dollar reduction in local aid. Unfortunately, since the submittal of the Governor's budget, the State's revenue expectations have experienced even greater shortfalls than anticipated, and under the budget proposed by both the House of Representatives and the Senate, the City's share of local aid dips even further. At present, we are estimating a net \$3.6 Million dollar reduction in Local Aid, based on a hybrid of the most recent state projections. While this is still a fluid situation and certainly circumstances could change between now and the end of June, there is no doubt that we will have substantially less local aid next year to fund city services. In addition to reductions in state aid, we have also lowered projected local receipts by approximately \$600,000 to reflect the economic downturn.

As a means to try and address the mid-year budget challenges, we reduced expenditures, left positions unfilled, offered early retirement incentives, and unfortunately had to lay off personnel.

However, these actions alone have not put us in a position to balance the FY2010 budget without further cuts. As such, nearly every department has been reduced in some manner (with the exception of veterans' services) and will be impacted by these cuts. In addition, we have eliminated 29.5 positions in the proposed budget (compared to last year), including 16 in schools and 13.5 on the city side of the budget. These cuts are especially difficult given that we will still have the same number of roads to plow, parks to keep clean, streets to patrol and children to educate, but we will have fewer dollars with which to do so.

As you know, we had hoped to work with our eight employee collective bargaining unions to reduce health insurance costs by migrating employees to a less costly plan. Acceptance of that option would have saved between \$800,000 to \$1.2 million this year, unfortunately that concept was not embraced by our bargaining units and resulted in savings of only \$150,000 - the majority of which is attributable to cost reductions associated with non-union employees who were required to switch plans. Meaning, most employees still have a \$5 co-pay for doctor visits and many prescription drugs. The most troubling aspect of this situation is that modest health insurance concessions (or compromises in other compensation areas) would have definitely helped to save jobs and avert the many personnel reductions that are now included in the proposed budget.

Nevertheless, the budget process has to move forward, and the focus has been on providing a fiscally sound and sustainable budget that preserves core services in classroom education, public safety, and public works. While the proposed budget preserves these services, it has also forced us to make the tough decisions that the current fiscal climate requires, while doing our best to position Salem for the future. Most economists are predicting that these difficult economic times will continue at least through 2010, so 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 our focus on consolidations within municipal government, in particular by exploring greater collaboration with the School Department in the areas of facilities maintenance, employee payroll and benefits management, and the delivery of information technology services.

We will also continue our focus on regionalization and must work to seize opportunities where it makes sense. We have had on-going discussions with local officials over the course of the last year in the areas of public health, public school services, public safety dispatch, police forensic services, green energy contracts, and vocational school services. We will continue much of this dialogue as we strive to deliver quality services in a more cost effective manner.

While the proposed budget is balanced, we have a few unresolved items that may impact our operating budget going forward. First, the State's share of Quinn Bill funding has been reduced by the Legislature and although the City has not contractually agreed to pay the State's share of these costs, unless the Legislature also acts to amend the Quinn Bill statute, there is a possibility that the City may be responsible for the State's share of the education incentive funding. This would likely require an additional \$270,000 (\$64,475 of state funding for this item is included in the proposed budget) for police personnel costs.

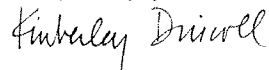
Second, we have not been able to reach agreement with our Police Patrol Union on a new contract and we are currently before the Joint Labor Management Commission (JLMC) on this matter. If the Union is awarded retroactive pay by the JLMC, that could have an additional impact of approximately \$250,000 on the proposed budget.

Lastly, we also have two retiree health insurance claims for long term care under review, dating back to when the City was self-insured for this item that could pose an additional impact to this year's budget. While I am concerned about the funding of these items, they are unresolved matters and as such have not been incorporated into the operational budget. Should these items require funding, either further budget cuts or new revenues would likely be necessary.

In terms of unresolved potential revenue options, it is still not known if local options in the form of meals and /or rooms taxes will be available to cities and towns. This matter is still under review within the Legislature, but should we be granted the authority to pursue these revenue options they are estimated to produce up to \$800,000 in new revenues to the City, which could substantially offset the reductions we are experiencing in both state aid and local receipts.

Certainly, the challenges we are facing in Salem are similar to those other localities in Massachusetts and around the nation are encountering. Notwithstanding the harsh realities of this budget, I am optimistic about our ability to position the City for the future and am confident that with the Council's continued cooperation we will overcome these very real hurdles. I look forward to working with you over the coming weeks to enact the proposed FY 2010 spending plan for municipal operations.

Very truly yours,



Kimberley Driscoll
Mayor