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CITY OF GLOUCESTER
OFFICE OF THE MAYOR

To: Council President McGeary and Members of the Gloucester City Council
From: Mayor Sefatia Romeo Theken
Date: May 5, 2015
Re: FY 2016 Budget Transmittal

I am pleased to present to the City Council the annual budget for the City of Gloucester for Fiscal Year 2016. This plan reflects our commitment to provide quality and essential services to all Gloucester residents. It also allows the City to begin the process of addressing the significant fiscal challenges that our team inherited this year when we took office.

The budget is progressive and practical. It addresses some of the major fiscal issues that confront our community and it provides the necessary resources to continue to improve our schools, to boost our visitor economy and to create economic development opportunities for our hard-working residents and small business owners. We are proud of this budget and we believe that it sets the right course for the City.

Our City workers and public safety officials deserve as much support as can be provided to them. Our taxpayers, especially those who manage on limited resources, also deserve protection from sudden, unexpected increases in their property tax bills and their water and sewer bills.

In any municipal budget, balance is required. Our team has stepped forward to propose a sound, sensible and sustainable budget that gives taxpayers the protections they need and ensures the City's long-term fiscal stability.

We must examine our decisions and weigh them against our future obligations. As a City, we have a moral duty to act in a manner that is fiscally responsible. As your mayor, I take that duty very seriously.

The FY 2016 budget we propose tonight uses a better, smarter and more responsible approach. When we looked at spending, our team employed long-term trend forecasting as the basis for covering ongoing expenses. We did the same with income, taking great care to treat recent and sudden increases of revenue as one-time occurrences. This is the right way to build a budget.

Our team is proud to tell you we are proposing a policy that will address the ongoing maintenance of equipment and facilities. Deferring maintenance is irresponsible and inevitably leads to higher costs in the future.

In this spirit, we hope that the City Council will support and adopt the proposed Capital Plan Funding and Free Cash Distribution Policy. The purpose of this policy is to improve the City of Gloucester's capital planning and investment. By creating and funding a Capital Stabilization

Fund and a Building Maintenance Stabilization Fund that leverages and invests certified 'free cash' into our existing assets, we will ensure that we have the resources to fix what we need and grow where we can.

We must not build a facility that we cannot maintain and we must not start a program that we cannot sustain.

We also ask the City Council to support and adopt our recommended policy change to link a fixed percentage of the local hotel tax to the City's tourism budget. This approach will create a predictable and growth-oriented stream of revenue to jobs and opportunity in a sector of our city's economy that is very important and on the rise.

As you can see by these proposals, our team has presented a budget that supports the best interests of our community. As all of you know, I am passionate about Gloucester. The budget before you and the recommended new policies represent our commitment--my commitment--to running the City with a responsible plan that respects our taxpayers and invests in our future.

We're proud to offer real solutions that are necessary to address the significant fiscal challenges that we face and ensure a sustainable financial future for the City.

We believe that this budget is the right course of action for Gloucester and we hope that you will support it and accept it.

Thank you for your time and I look forward to working with you in the coming weeks to right the City's fiscal ship.

What follows are some general comments on the changes in the budget from Fiscal 2015 to Fiscal 2016.

GENERAL FUND – REVENUES

- General Fund Revenues are projected to increase from \$100.6 million in Fiscal 2015 to \$103.4 million in Fiscal 2016 or 2.83%.
- Real and Personal property taxes are projected to increase by about \$2.45 million as a result of the statutory 2.5% increase on the Fiscal 2015 Levy Limit plus \$650,000 in new growth.
- State Aid, our second largest revenue source, will be virtually unchanged as small increases in Unrestricted Government Aid and Chapter 70 monies will be offset by a decrease in what had been Charter School support. We continue to be grateful to the State for its assistance but it is important to note that actual State Aid dollars for Fiscal 2016 are less than those received in 2002.
- Local Receipts are projected to increase by about 1.95% as we have budgeted for sustainable increases in Wind Turbine Metering Credits, Hotel/Motel Excise receipts, Ambulance fees and Beach Sticker/Daily Parking receipts. Such increases are unfortunately partially offset by the reduction in Medicare credits for retiree health insurance programs.
- Please note that we are projecting \$29,000 in revenue as a result of an Inter-Municipal agreement with the Towns of Rockport and Manchester-by-the-Sea to provide Veterans Agent support services to those Towns through our Veterans' Services Department. While modest in amount, it supports the concept of Regionalization as an efficiency tool and we will continue to look for other opportunities like this.
- The Administration will fulfill the commitment that the prior City Council made to the Firefighters' contract using free cash to fund in FY 2016.

GENERAL FUND – EXPENDITURES

- As with revenues, the projected increase is also 2.83% or from \$100.6 million to \$103.4 million.

- The Assessors' Department is showing an approximate \$125,000 increase from the previous year. Most of this increase is due to the need to fund outside services to complete the triennial revaluation during Fiscal 2016 to take effect in Fiscal 2017. \$75,000 in funds has been set aside in Fiscals 2014 and 2015 and those will be transferred in to the General Fund to offset some of the costs of this project.
- The Treasurer/Collectors office is showing an almost \$670,000 year to year decrease primarily as a result of the decrease in debt service due to retirement of debt and the impact of refunding operations to reduce interest rates during Fiscal 2015.
- The almost \$740,000 increase in Personnel is primarily due to increases in Health Insurance rates through the Government Insurance Commission (GIC). Rates in the more popular GIC plans increased by more than 9% from year to year. This took us, and many others, by surprise as even as late as this past October the GIC was projecting rate increases as small as 2%.
- I am recommending an increase of \$134,000 to the Management Information Systems budget. We acknowledge that, like many municipalities, we have often shortchanged this function in the past. As technology becomes increasingly interwoven in all of the services that we deliver as a City we must strive to find the most efficient way to deliver the services our citizens expect. We will be talking more about IT upgrades in the near future.
- In the Community Development Department a proposed increase in Contractual Services for economic development and public relations drives most of the approximate \$62,000 or 12.55% increase.
- Police and Fire budgets, representing almost 14% of the total General Fund budget, are proposed at a combined 3.7% increase. The vast majority of this increase is driven by labor costs. It should be noted that the Fire budget represents the second year of expanded station opening and it was always felt that this would take two or more fiscal years to be fully absorbed.
- The Veterans Services budget is increasing both because of additional personnel stipends being paid for the services to be delivered under the aforementioned Inter-Municipal agreement and an increase in the level of benefits budgeted. Please remember that Veterans benefits paid are reimbursed by the State at 75% in the following year.
- I am proposing to link the Tourism Commission budget to approximately 30% of the revenue received from the Hotel/Motel Excise. The proposed Tourism Commission budget accomplishes that.
- We are currently on a 6.15% increasing schedule for our annual Pension appropriation. This has allowed us to reduce our timing to fully fund the City's Unfunded Actuarial Liability from a maximum of 2040 to 2034. By scheduling the payment of the entire annual Pension Cost on July 1 of the new fiscal year we are able to save significant interest costs when compared to paying the amount later in the year. Such interest savings reduces the year to year increase to \$291,964 or 4.6%.
- The preliminary Fiscal 2016 Assessment for the Essex North Shore Agricultural & Technical School District is estimated to be \$1,543,337. While this is an approximate \$143,000 or 10.25% increase from the budgeted Fiscal 2015 amount of \$1,400,000, it should be noted that the budgeted Fiscal 2015 amount did not reflect the actual first year enrollment of Gloucester students in the new combined school. The actual Fiscal 2015 assessment was \$1,494,435.
- The single line appropriation to the Gloucester Public Schools is proposed at \$39,188,748, a \$1.15 million or 3.02% increase from Fiscal 2015. As you well know, the actual allocation of the annual School Department budget is at the discretion of the School Committee.

COMMUNITY PRESERVATION FUND

- The Citizens of Gloucester voted to implement a 1% surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing in

2010. The Fiscal 2016 budget proposes \$625,000 in revenues and expenditures for this fund.

SEWER ENTERPRISE FUND

- Total Fiscal 2016 revenues and expenditures are proposed at \$7,471,391, a slight decrease from the Fiscal 2015 level. Because the year to year budgets are essentially equal, I am proposing no change in the current rate of \$13.80 per 1,000 gallons of consumption.

WATER ENTERPRISE FUND

- For Fiscal 2016, the significant change in the Water Enterprise Fund is the addition of approximately \$970,000 in debt service added as a result of the conversion of Interim Loan Notes at the Massachusetts Clean Water Trust to permanent debt in January 2015. This increased the year to year budget by approximately \$660,000. As a result, the proposed rate must increase from the current \$5.97 per 1,000 gallons of usage to \$7.00. We have been proactive in reducing the overall budget for the Water Fund by reducing a number of expenditure lines to the average of recent annual total costs. We are confident that a comfortable level of free cash will be certified in October 2015 to backfill these accounts if necessary.

TALBOT RINK ENTERPRISE FUND

- A modest increase of approximately \$5,000 or 1.45% is being proposed for both revenues and expenditures in this fund for FY 2016.

WATERWAYS ENTERPRISE FUND

- Revenues and expenditures for Fiscal 2016 are proposed to increase by about \$10,000 or 2.97% for Waterways operations in the next year.

As always, my staff and I will be available to answer questions and provide more information as necessary during the budget reviews conducted by the Budget and Finance Committee as well as any inquiries that may come from Councilor's individually. The following two pages provide a snapshot of year to year department /fund level changes as proposed.



City of Gloucester

Proposed FY16 Budget Expense Summary

Department #	Department Name	FY15 Approved	FY16 Proposed	Difference	% Change
General Fund					
111	City Council	\$ 104,400	\$ 104,600	\$ 200	0.19%
121	Mayor	\$ 287,679	\$ 301,541	\$ 13,862	4.82%
135	City Auditor	\$ 425,114	\$ 443,007	\$ 17,893	4.21%
138	Purchasing	\$ 324,460	\$ 310,174	\$ (14,286)	-4.40%
141	Assessors	\$ 400,527	\$ 525,198	\$ 124,671	31.13%
145	Treasurer/Collector	\$ 14,784,224	\$ 14,114,862	\$ (669,362)	-4.53%
151	City Legal	\$ 336,770	\$ 334,823	\$ (1,947)	-0.58%
152	Personnel	\$ 7,917,160	\$ 8,656,575	\$ 739,415	9.34%
155	Mng Info Systems	\$ 394,536	\$ 528,704	\$ 134,168	34.01%
161	City Clerk	\$ 281,162	\$ 291,636	\$ 10,474	3.73%
163	Registration	\$ 89,655	\$ 116,280	\$ 26,625	29.70%
165	Licensing Board	\$ 25,188	\$ 16,792	\$ (8,396)	-33.33%
176	Zoning Board of Appeal	\$ 7,725	\$ 7,750	\$ 25	0.32%
181	Community Development	\$ 538,220	\$ 600,394	\$ 62,174	11.55%
2XX	Total Police	\$ 6,114,778	\$ 6,336,704	\$ 221,926	3.63%
220	Fire	\$ 8,238,117	\$ 8,551,318	\$ 313,201	3.80%
241	Inspectional Services	\$ 451,085	\$ 468,545	\$ 17,460	3.87%
291	Civil Defense	\$ 34,970	\$ 34,970	\$ -	0.00%
296	Shellfish Control	\$ 76,899	\$ 79,281	\$ 2,382	3.10%
4XX	Total DPW	\$ 9,881,583	\$ 10,009,851	\$ 128,268	1.30%
510	Public Health	\$ 432,741	\$ 449,710	\$ 16,969	3.92%
541	Council on Aging	\$ 109,606	\$ 119,886	\$ 10,280	9.38%
543	Veterans Services	\$ 350,329	\$ 400,620	\$ 50,291	14.36%
563	Tourism Commission	\$ 140,739	\$ 154,381	\$ 13,642	9.69%
610	Library - Admin	\$ 859,018	\$ 898,497	\$ 39,479	4.60%
820	Cherry Sheet Assessments	\$ 2,045,869	\$ 2,077,000	\$ 31,131	1.52%
911	Pensions	\$ 6,347,992	\$ 6,639,956	\$ 291,964	4.60%
942	Voc School Assessments	\$ 1,400,000	\$ 1,543,337	\$ 143,337	10.24%
992	Special Revenue Fund	\$ 120,000	\$ 100,000	\$ (20,000)	-16.67%
3XX	Total School	\$ 38,038,748	\$ 39,188,748	\$ 1,150,000	3.02%
	Total General Fund	\$ 100,559,294	\$ 103,405,140	\$ 2,845,846	2.83%



City of Gloucester

Proposed FY16 Budget Expense Summary

Department #	Department Name	FY15 Approved	FY16 Proposed	Difference	% Change
Community Preservation Fund					
172	CPA - Open Space	\$ 61,000	\$ 62,500	\$ 1,500	2.46%
183	CPA - Community Housing	\$ 61,000	\$ 62,500	\$ 1,500	2.46%
194	CPA - Historic Preservation	\$ 207,300	\$ 207,650	\$ 350	0.17%
195	CPA - Admin 5% of Funds	\$ 30,500	\$ 31,250	\$ 750	2.46%
196	CPA - General	\$ 250,200	\$ 261,100	\$ 10,900	4.36%
	Total CPA	\$ 610,000	\$ 625,000	\$ 15,000	2.46%
Sewer Enterprise					
440	Sewer	\$ 7,407,911	\$ 7,280,121	\$ (127,790)	-1.73%
991	Transfers out - GF	\$ 170,574	\$ 191,270	\$ 20,696	12.13%
	Total Sewer	\$ 7,578,485	\$ 7,471,391	\$ (107,094)	-1.41%
Water Enterprise					
450	Water	\$ 4,459,210	\$ 5,096,772	\$ 637,562	14.30%
991	Transfers Out - GF	\$ 170,574	\$ 191,270	\$ 20,696	12.13%
	Total Water	\$ 4,629,784	\$ 5,288,042	\$ 658,258	14.22%
Talbot Rink Enterprise					
475	Talbot Rink	\$ 335,972	\$ 340,848	\$ 4,876	1.45%
Waterways Enterprise					
492	Waterways	\$ 333,402	\$ 343,316	\$ 9,914	2.97%