

State of the City  
William F. Scanlon, Jr.  
February 1, 2010

The State of the City address, always delivered early in the New Year, is an opportunity to reflect on the past, assess the present and peer into the future. It is appropriate to schedule the delivery of this address after the Governor's State of the State and the President's State of the Union addresses which have both been given in the past few days. At this time, we know the Governor's recommendation for Local Aid for fiscal 2011 which begins July 1<sup>st</sup>, and while that recommendation is better than had been feared, it will not alleviate the financial strain of these most difficult times.

Despite having been cut to a level \$2.5 million less annually than what we received a decade ago, Local Aid remains Beverly's second largest revenue source. The good news is that the Governor's recommendation is to level fund the coming year's Local Aid, based on recent improvements in State revenue collections. The bad news is that level funding Local Aid does not keep pace with the increases in our costs to deliver the same services. Additionally, there is no way to know at this time whether the Legislature will accept the Governor's budget recommendation or vote to reduce it. While all of that is largely beyond our control, we are doing a good job managing those things that are within our control.

We finished the last fiscal year ending June 30, 2009 with yet another Free Cash certification of slightly over \$1,000,000. Unfortunately, \$800,000 of that was required to pay off the snow and ice deficit caused by the difficult winter.

In Calendar 2009 we suffered not one but two separate cuts in Local Aid. We managed to absorb these cuts without layoffs of full time personnel but we did so by

encouraging any eligible City side employees to retire. Fourteen persons, roughly 5% of the City side workforce, chose to do so. Wherever possible, we have not replaced these employees.

In January we received several pieces of good news. You will recall that the entire project to build a new academic wing and renovate the balance of the high school has an \$81 million price tag. The Commonwealth of Massachusetts is paying for over 58% of the project, about \$47 million, leaving Beverly to pay the balance of \$34 million. As we have issued the first installment of long-term debt on the project, I am pleased to advise you that last month Beverly's bond rating was increased yet again, the eighth such increase during my time as mayor. As you know, that significantly reduces our costs to borrow money. We were able to borrow \$20 million for 25 years at 3.9%, more than a full percentage point less than the 5% we anticipated when the City Council courageously approved the project in February of 2006. Because the high school is being constructed to a standard of useful life of at least 50 years, we were able to issue the debt using a 25-year amortization period. The manner in which municipal projects are amortized results in higher payments in the early years, significantly lowering interest costs over the life of the loan, which further lowers our cost to borrow money. We also plan to refinance up to \$24 million of existing debt, which will save the City a substantial sum of money, most of it in the current fiscal year. Coincidentally, that refinancing will produce a savings to the State, as their reimbursement is partially based on the interest costs we will have reduced.

These bits of good news and a determined effort to control expenses should allow us to once again come in on budget for the current fiscal year. We expect this

despite weakness in several revenue accounts, including building permits, excise taxes and federal reimbursement of school related Medicaid costs, as well as the slowness in collecting golf course revenues. Of course our snow and ice expenses remain a wild card.

There are many important initiatives in our City at this time. The new commuter rail parking garage, which will help unlock the potential of Rantoul Street, is on track and only this week, the State's commitment to that project was personally reconfirmed by the Governor. With that in mind we continue to develop detailed design plans for a major upgrading of Rantoul Street. Those plans include renewing the entire street from the back of one sidewalk to the back of the other.

The state funded waterfront improvements presently underway will finally pave the way for a waterfront restaurant, which is now just one permit away from proceeding.

The senior living project on Conant Street is breaking ground soon. That project, representing a private investment in excess of \$20 million, will create 173 units of housing.

The new CVS on the corner of Rantoul and Elliott Streets is set to open any day now.

The high school project, the largest municipal project in the City's history, is on budget and on schedule. Construction has passed the halfway point.

We anticipate once again having the Music Theatre in operation with the prospective owner planning to pass papers this month.

The North Beverly Brook project is nearing completion. It brings needed relief to one of the last areas of the city plagued by large-scale flooding.

We recently received approval for two affordable housing projects, each with significant state funding.

We continue design work on the Brimbal Avenue Interchange upgrade. Full funding for further design work throughout this year is in place. This important project has the potential to generate the appropriate new growth needed to fund the middle school upgrade and a new public safety facility. Both the Metropolitan Area Planning Council and the North Shore Alliance for Economic Development are working closely with us to advance this essential initiative. While all of these projects will better position Beverly to sustain its quality of life, they are not a panacea for these most difficult of times.

Beverly and its residents are not unaffected by the same damaged economy that is ravaging cities and towns across the State and throughout the Nation. While we have largely avoided the rash of home foreclosures seen elsewhere, organizations such as the Salvation Army and Beverly Bootstraps are struggling to meet record need. While we continue to move the city forward, we are struggling to adequately fund some of our most basic services, and sometimes we come up short. The money simply isn't there. Regrettably, as we look into the future, there are more clouds on the horizon.

As you all know, by law the City must prepare a balanced budget each year. Revenues and expenses must match. The process of building such budgets has grown more difficult each year. As part of that process, we created a Financial Forecasting Committee to peer into the future and assess ways to develop sustainable budgets. Many of you are no doubt aware that this committee, made up of city councilors, school committee members and members of the public, has predicted for next fiscal year a

large multi-million dollar gap between available revenues and required expenses. Worse, the Committee expects that gap to grow annually. Should the city fail to make further, necessary, changes to the way it does business, these predictions may well become true.

Historically, the subject of sustainability is annually raised during difficult budget resolutions and is then quickly forgotten once the immediate crisis has passed. I believe this is so because of the difficulty of making the painful decisions necessary to ensure long-term sustainability. We can no longer shy away from that difficulty.

Consider the Financial Forecasting Committee's review of our school budget. That review determined that this year's school budget relied on \$1 million in one-time school reserves. Those reserves are now fully exhausted. So even though we hope to add \$1 million in new additional funds to next year's school budget, the school system's total available funding will be level from this year to next. As I mentioned earlier, level funding does not keep pace with the increases in costs to deliver the same services.

Consider the costs of health insurance alone. Those costs increase every year, sometimes by more than 10% a year. In Beverly, the total cost of providing municipal health care coverage, including employee and retiree contributions, is now over \$18 million annually, of which over \$15 million falls on the city.

In an effort to hold down health care costs, I along with many other municipal leaders have lobbied hard for the same rights the Commonwealth of Massachusetts has to control its health care costs which it exercises through the so called GIC or Group Insurance Commission which insures over 300,000 persons. Those rights allow the Commonwealth to unilaterally modify employee co-pays and deductibles without the

need to obtain union consent. Contrarily, cities and towns cannot make any such cost saving changes absent union consent no matter how small the change. To date, the state legislature continues to deny to cities and towns the same tool the State uses to mitigate its own escalating health care costs. Local officials are not asking for the right to remove employee percentage contributions from negotiation. We are, in fact, simply trying to save jobs. As cities and towns can no longer afford the rising costs of health care, they are left with no alternative but to eliminate jobs to save enough money to pay for increased health care costs. This is not good for the cities and towns as it reduces their ability to provide services, and it's obviously not good for the individuals affected. I personally believe that most union members would come down in favor of allowing local leaders to modify their co-pays or deductibles in order to save their jobs. Now, having said that, I do need to yet again address another fact threatening the city's long-term sustainability – the sheer volume of people eligible for city-provided benefits, including health care coverage

Today, by recent count, Beverly provides health care coverage to over 3,000 persons. These include active employees and their dependents as well as retirees and their dependents. There are today 296 full-time equivalent employees on the city side and 650 full time equivalents on the school side for a total of 946. With regard to at least 150 of these positions, if the employee in question is covered by a family health care plan, the lifetime cost to the city for health care will exceed the total lifetime salary paid to that individual. So, what do we do?

As I have said repeatedly, I would not suggest any change in the treatment of present employees. But I again strongly suggest that we pursue a policy of hiring part-

time employees whenever possible. Under state law those working up to 19 ½ hours per week for a municipality do so without benefits. Those working 19 ½ hours or more receive full benefits including, after ten years of employment, a lifetime pension upon retirement as well as lifetime health care coverage upon retirement.

But these costs are not the only issue we must confront. There is the even more basic question of how many persons we can afford to employ. This question must be asked of both the city side and the school side. In the past year, the total of full-time equivalent employees in the school system has risen by 23 persons. All of these positions are likely educationally desirable and certainly education remains the number one priority in the mind of most Beverly citizens. It cannot, however, be our only priority.

Total educational spending in Beverly is now well over \$60 million per year. Some of this money does come from sources outside the General Fund such as grants and fees. And some of it is not under the control of the Superintendent such as payments to the Vocational Technical High school and payments by the City on behalf of the schools, but the entire sum represents educational spending. A 1% increase in that spending exceeds a half million dollars. Our total General Fund is less than \$100 million. The math says that this budget cannot grow much in percentage terms and we must focus our attention on spending it in the most advantageous manner.

The current school committee is aware of all of this and I believe that committee is fully committed to developing sustainable budgets. The city side too must take every available step to operate more efficiently by minimizing manpower and maximizing productivity. In this regard we are now pursuing a policy of reduction through attrition wherever possible. Since March of 2009, total city side full-time equivalents have

dropped by ten persons, from 306 to 296. Along with measures such as these to reduce our expenses, we are also pursuing means by which to stabilize our revenues.

In life there is a need for balance between conflicting objectives. Last Spring, the State Legislature, mindful of the dramatic cuts in Local Aid made to cities and towns, created Local Options for cities and towns to add their own meals tax and hotel tax. The legislature took this action specifically to allow cities and towns to partially offset their losses in Local Aid and I believe we have no choice but to do just that.

I have requested that our City Council pass these measures. Believe me, I take no pleasure whatsoever in doing so and I can tell you that I have reached out to restaurant owners to discuss this matter. I will not repeat here the many reasons these measures have already been enacted by a great many communities in Eastern Massachusetts, but I will tell you that our failure to stabilize our revenues through measures such as these will result in layoffs and a consequent decline in our ability to provide basic services. We expect these measures, if enacted, will produce about \$400,000 annually. As I said earlier, we hope to provide the school system with \$1,000,000 in additional funds for next year, and \$400,000 would get us a part of the way there.

On other fronts, during the past year, we completed studies on the condition of City Hall and the Main Library. Work on both of these buildings had already been anticipated in our Capital Expenditure Plan, but the studies determined that their conditions are worse than anticipated. In the case of City Hall, there are leaks in the roof and in some side walls. Unaddressed, these will only get worse and lead to additional and more costly damage. The cost of repair is estimated at \$2 million.

The Library has long suffered failing stairs at its main entrance and leaking skylights. The study estimates the cost of repair at \$1.1 million. In the near future, I will be submitting to the Council proposals to correct both the City Hall and Library issues.

There is one more capital project needing mention. The high school project includes the demolition of the current bus maintenance garage. We are studying the feasibility of moving the bus maintenance function to the Public Services location on Park Street. Whether this location is feasible or not, we will need to construct a suitable facility at an estimated cost of \$1 million. I will be presenting a proposal in this regard to the City Council at its February 16<sup>th</sup> meeting.

As I speak, there is before this Council a proposed ordinance, related to the sale of unused public buildings, which would add value to the former McKay School property. Proceeds from the sale of that property will help pay down a part of the high school project debt. Our success in lowering that debt through reduced borrowing costs has not lessened our desire to maximize those proceeds. I urge the Council to move favorably on the ordinance after giving the matter full consideration.

As we look at balancing next fiscal year's budget, there can be no question that it will be a very difficult process. While we have some hope that a reduction in the city's workforce through employee attrition will benefit the process, we cannot deny the very real possibility that attrition alone will not be enough. As I said, the ability to control health care costs by in effect mirroring the State's GIC through the modification of employee co-pays and deductibles would alleviate our need to make some terribly painful decisions in this regard, but that is up to the State Legislature. I will continue to press for this legislation through the Massachusetts Municipal Association and the

Metropolitan Area Planning Council which coordinates the North Shore Coalition of Mayors and Town Managers.

The city does possess some modest level of reserves, due in part to the efforts of so many of our residents who take the time to diligently separate their recyclables from their trash, sparing the city the unnecessary cost to otherwise remove and dispose of recyclable goods. These reserves might be used if the Council so chooses to lessen adverse inputs from next year's budget. But even so, facing the subject of sustainability in next year's and the following year's budget is essential. We simply must find ways to live within our means. As we have seen, a strong majority of our citizens has little appetite for overrides.

Somewhat related, let me confirm once again that I am fully in favor of consolidating school maintenance functions within the Department of Public Services, but in order for this concept to work, not just the responsibility, but also the hiring authority must transfer to the City. It is regrettable that this process has taken so long. In my view, we are missing the opportunity to do a better job than is being done presently, and to save money.

In closing, let me once again put out a call for volunteers for our Boards and Commissions. If you have an interest in serving your community and can spare the time, please drop me a line describing your interest and your background. We would love to have your help.

Lastly, I will try to answer any questions councilors may have. Thank you for listening.