



**Town of Saugus**  
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TO: The Honorable Board of Selectmen

FROM: Scott C. Crabtree, Esquire, Town Manager

DATE: February 15, 2022

SUBJECT: Preliminary Operating Budget Estimate for Fiscal Year 2023

I am transmitting to you, under Article 2, Section 34, of the Town of Saugus Charter, a proposed *estimated* Expenditure and Revenue Budget for the Town of Saugus for Fiscal Year 2023.

The total estimated Expenditure Budget is \$106,684,649.00 for the General Fund and \$13,730,114.00 for the Water and Sewer Enterprise Funds, for a total Fiscal Year 2023 estimated expenditure amount of \$120,414,762.00.

This preliminary estimate of expenditures and revenues has been prepared based on Fiscal Year 2023 Preliminary Local Aid estimates as recommended by the Governor of the Commonwealth of Massachusetts with one exception – Chapter 70. The current Fiscal Year 2023 Chapter 70 recommendation by the Governor is \$3m higher than Fiscal Year 2022 levels and it is not fiscally prudent to propose those estimates as presented by the Commonwealth of Massachusetts at this time. As you know, the final recommendations will not be available from the Legislators until later in our budget cycle, at which time, we will have to revisit our revenue and expenditure estimates.

The estimates for the Fiscal Year 2023 tax revenue have been determined based on the Proposition 2 ½ increase on the tax levy, as well as, estimates of new growth provided by the Deputy Assessor. The local receipts, such as motor vehicle excise, local room and meal excise, licenses and permits, fine, etc., have been estimated conservatively. Local receipt estimates are based on trend since the pandemic began in 2020.

There are challenges in preparing the estimates of expenditures in this Budget, such as, Town-wide fixed cost increases:

1. Health Insurance - The rates have not been finalized by the provider. The Town can expect that the rate will be set within the next few months. We have made a conservative estimate based on the current enrollment. We will have to revisit our estimate later in the budget cycle.



2. Trash hauling and incineration has been increasing at a concerning rate over the last couple of fiscal years. In addition, the cost of disposal of recyclable materials continues to increase and have been impacted with increased tonnage and contamination charges. We will continue to monitor this budget for any fluctuations in tonnage and will consider making adjustments later in the budget cycle.
3. Pension Contribution - The pension appropriation increase of \$400,703.00 for a total payment in Fiscal Year 2023 of \$8,057,422.00 is based on a funding schedule prepared by PERAC (Public Employees Retirement Administration Commission). This schedule reflects the cost increasing 5.2% per year until Fiscal Year 2026 with final payments in Fiscal Years 2027 – 2029 decreasing to fully fund the pension obligation. The most recent funding schedule is based on the Actuarial Valuation completed as of January 1, 2021 and voted by the Saugus Contributory Retirement System.
4. Regional School Assessments – Vocational education, inclusive of Northeast Regional Vocational, Essex North Shore Tech, and Medford Public Schools is budgeted for \$3,777,750.00 based on estimated numbers provided by DESE on our minimum required contribution. The DESE enrollment estimates for Northeast Regional School have decreased in FY23 as compared to FY22. DESE estimates indicate 153 students next year. As you know, enrollment information is not confirmed by the Department of Elementary and Secondary Education (DESE) until April 2022. At that time, we will receive information from Medford Public Schools and Essex North Shore Tech regarding the number of Saugus students they have accepted to their school(s) in September (final in October) and Northeast Regional School will have their budget voted and determine our assessment. We will reach out to Medford Public Schools for that assessment. Adjustments may be required to be made accordingly.

Additionally, as we know, Northeast Metropolitan Regional Vocational School has been approved for a school construction project with the Massachusetts School Building Authority in the amount of \$318,000,000.00. As of the most recent information provided by the administration, the estimated debt service to Saugus has been reported as principal in the amount of \$40,636,073.00 beginning in Fiscal Year 2023. Our financial advisors at Hilltop Securities, who have partnered with Northeast Metropolitan Regional Vocational School on their project, have indicated that they are moving quickly on the project and could result in the first issuance of debt service prior to July 1, 2022. If that is the case, based on preliminary estimates, we could have our first debt payment on this project of approximately \$250,000.00 in Fiscal Year 2023. This amount has been included in the Vocational Education Assessment budget. In addition to the debt service for the construction of the facility impacting the amount appropriated for vocational education is the operational budget for a new school. A new facility with new systems and services could also impact our annual assessment for the education operational budget.



Should Northeast Regional amend their funding schedule based on the current borrowing environment, with interest rates being so low, this would also impact the amount of debt service assessed in the upcoming fiscal year. As you know, the amount of debt service that will be assessed to communities in the district for the project is a fluid number as it based on enrollment. As our enrollment changes each year, so can the amount we are required to pay.

5. Other Insurance - The various property, liability, and workers compensation insurance premium estimates have been budget based on an increase of 8% over actual fiscal year 2022 premiums recommended by the provider. This includes an increase on the premium for the Middle School/High School Complex, Belmonte Steam Academy, and Veterans Memorial Schools all coming back on the Town's policy post construction/renovation at full replacement cost. The premiums will not be finalized until sometime in the spring.
6. Capital Improvements – There are significant capital needs that the Town will need to plan and identify funding sources for. Those include but are not limited to such things as local capital facility needs, public safety equipment such as fire apparatus that is nearing end of life and requiring expensive repairs, and funding the Northeast Regional Vocational School capital assessment.

The estimated fixed costs mentioned above don't take into consideration the contractual wage adjustments. All collective bargaining agreements have been funded.

In preparation of this or any other budget, there are concerns for those items that can vary and may change due to circumstances that occur during the fiscal year. Some items that continue to be a concern are building maintenance, utilities, motor fuel, waste collection and recycling, vehicle maintenance, and health insurance. As a result of the supply chain issues and the rising cost of goods and services, we will continue to monitor these items and may have to make adjustments accordingly.

As we have seen over the past two years, circumstances can change dramatically effecting the budgetary estimates for revenue and expenditures. Steps were taken to minimize the impact on the budget, stabilize services to the residents, and maintain current staffing levels. In a partnership with yourselves, the Finance Committee, and Town Meeting, we have voted a budget at each of the two prior Annual Town Meetings with the use of the Stabilization Fund then further voting to rescind the Stabilization Fund vote replacing that with the use of Free Cash in order to not jeopardize our current AA+ bond rating.

As we prepared the Fiscal Year 2022 estimated revenue and expenditure budgets, many of the same concerns exist as when the Fiscal Year 2022 budget was approved. The estimated revenues have not returned to levels prior to the pandemic as economic recovery continues, and the fixed cost increases and contractual obligations continue to absorb the Proposition 2 ½ and new growth projections. In this budget, Town departmental estimates are recommended at levels

equal to or less than Fiscal Year 2022 appropriations amounts with few exceptions including fixed costs and contractual obligations. As a result, to balance the Fiscal Year 2023 budget, maintaining current services to the residents and preventing reductions to staffing through layoffs, the recommendation is to use \$1,175,000.00 from the American Rescue Plan Act (ARPA) federal grant awarded to the Town of Saugus intended to help municipalities impacted by COVID-19. This grant, which has very specific uses, is approved for revenue replacement which had not been available prior to Fiscal Year 2023. As a reminder, this is the use of one-time funds for ongoing operational appropriations which is not a sound financial practice that Saugus should be continuing with.

In addition to estimated appropriation expenditures, this Budget contains estimates for items such as state assessments, again based on recommendations from the Governor of the Commonwealth of Massachusetts, overlay, and cherry sheet offsets. Those items are itemized on the Sources and Uses of Funds document, under the heading "Use of Funds"

The School Department Fiscal Year 2023 estimated budget recommendation is \$30,275,250.00, an increase of \$400,000.00 over the Fiscal Year 2022 budget voted by Town Meeting. This increase does not include the indirect costs paid by the Town on behalf of the School Department and included as part of the total Net School Spending (NSS) calculation required by the Massachusetts Department of Elementary and Secondary Education (DESE).

One appropriation that is not included on the Source and Use Document is the snow and ice deficit. The cost of snow and ice events continue to be a concern as at any time we can have a snow or sanding/salting event in the upcoming weeks.

As this Budget process moves forward, there are areas of this estimated budget that will continue to evolve and change such as State aid, local revenue estimates, State assessments, and other fixed costs.