



Town of Saugus
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TO: The Honorable Board of Selectmen

FROM: Scott C. Crabtree, Esquire, Town Manager

DATE: February 15, 2024

SUBJECT: Preliminary Operating Budget Estimate for Fiscal Year 2025

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 2025.

The total estimated Expenditure Budget is \$117,979,688.00 for the General Fund and \$15,013,473.00 for the Water and Sewer Enterprise Funds, for a total Fiscal Year 2025 estimated expenditure amount of \$132,993,161.00.

This preliminary estimate of expenditures and revenues has been prepared based on Fiscal Year 2024 Local Aid estimates. As you know, the final recommendations will not be available from the Legislators until much later in our budget cycle, at which time, we will have to revisit our revenue and expenditure estimates. The Governor will likely not finalize the upcoming fiscal year budget estimates until the fall as is usually the practice.

The estimates for the Fiscal Year 2025 tax revenue have been calculated 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, fines, etc., continue to be estimated conservatively. We will be reviewing the estimates as we go further through the current fiscal year.

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 rates continue to increase. 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 for Fiscal Year 2025 is in the amount of \$5,572,229.00. This is a decrease from the amount appropriated in Fiscal Year 2024 as a result of the most recent funding schedule prepared by PERAC (Public Employees Retirement Administration Commission) and voted by the Saugus Contributory Retirement Board. This funding schedule is based on the Actuarial Valuation completed as of January 1, 2023 and reflects a 4.2% increase in Fiscal Years 2026 - 2028 with the final amortization payment being made in Fiscal Year 2028 to fully fund the pension obligation. This is one year longer than the previous funding schedule that reflected the final amortization payment being made in Fiscal Year 2027.

As an offset to the decrease in the Fiscal Year 2025 Pension Contribution, this amount has been included in the Other Financing Sources portion of the budget as a transfer to the Other Post Employment Benefits Trust Fund. The public discussion at various budget meetings since the creation of the OPEB Trust in 2017 has been that as the pension appropriation is reduced, nearing the end of the funding schedule, the funds will be appropriated to the OPEB Trust to reduce the amount of the unfunded liability associated with these benefits included on the financial statements which contributes to maintaining our AA+ bond rating.

4. Regional School Assessments – Vocational education, inclusive of Northeast Regional Vocational Technical School and Essex North Shore Tech is budgeted for \$3,237,678.00 based on estimated numbers provided by DESE on our minimum required contribution. As you know, enrollment information, which can have an impact on our assessment, is not confirmed by the Department of Elementary and Secondary Education (DESE) until April 2024. In October 2024 we will receive final enrollment #'s from Essex North Shore Tech regarding the number of Saugus students they have accepted to their school. Northeast Metropolitan Regional Vocational School will have their budget voted by the School Committee in March 2024 and determine our assessment at that time. Adjustments may be required to be made accordingly. The Fiscal Year 2025 estimated assessments reflect a 13.7% increase.

Northeast Metropolitan Regional Vocational School has begun construction on a MSBA approved construction project in the amount of \$324,922,541.00. Based on the most recent debt information provided by Northeast Regional our share of the existing debt service for Fiscal Year 2025 is \$488,201.00. 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.

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. We have created the Northeast Regional School Construction Project Stabilization Fund in an effort to provide a funding source for future capital assessments for the construction project.

5. Other Insurance - The various property, liability, and workers compensation insurance premium estimates have been budgeted based on an increase of approximately 12% over actual fiscal year 2024 premiums recommended by the provider. The premiums will not be finalized until sometime later 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, infrastructure such as roadways, public safety equipment such as fire apparatus and other equipment that is nearing end of life and requiring expensive repairs, as well as funding the Northeast Regional Vocational School capital assessment for the MSBA School Construction Project.

The estimated fixed costs mentioned above don't take into consideration the contractual wage adjustments. The collective bargaining agreements expired on June 30, 2023 and are currently in negotiations.

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 costs, 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 such as motor fuel, electricity, and heating fuel, we will continue to monitor these items and may have to adjust accordingly.

As we have seen in the past, circumstances can change dramatically effecting the budgetary estimates for revenue and expenditures. Steps were taken during the pandemic and in the fiscal years immediately following to minimize the impact on the budget, stabilize services to the residents, and maintain current staffing levels. In partnership with yourselves, the Finance Committee, and Town Meeting, we have been able to present a balanced budget at each of the three prior Annual Town Meetings and preserve our current AA+ bond rating.

As we prepared the Fiscal Year 2025 estimated revenue and expenditure budgets, many of the same concerns exist as when the Fiscal Year 2024 budget was approved. The estimated revenues continue to return to levels prior to the pandemic as economic recovery continues. The fixed cost increases and contractual obligations continue to absorb the Proposition 2 ½ and new growth projections. Our estimates do not include the use of one-time source of funds in order to present a balanced budget. Our estimates are based on historical trend and the use of recurring sources of revenue.

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

The School Department Fiscal Year 2025 estimated budget recommendation is \$33,107,625.00, an increase of \$1,500,000.00 over the Fiscal Year 2024 budget voted by Town Meeting. The 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 is always 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.