



MAYOR JON MITCHELL

Fiscal Year 2018 Budget Address

City Council Chamber

Wednesday, May 10, 2017

[Remarks as Prepared]

Thank you, Council President Lopes, honorable Members of the City Council, department heads, invited guests, and residents of New Bedford.

I am pleased to stand before you tonight to present a municipal budget for the City of New Bedford for Fiscal Year 2018.

This year's budget builds on the highly collaborative effort between the City Council and my administration that began last year. Our collective work has been grounded in our recognition that the City must continue to steer itself through rough financial waters, which requires a deliberate approach by both branches of

municipal government to develop a budget that is aimed squarely at long-term stability.

Unfortunately, too many American cities, including some in this state, have forgotten this, and have landed themselves in deep trouble. We heard just last week about sizeable layoffs of municipal employees in other Massachusetts cities.

We in New Bedford have been living through a period of tight finances in part because of past neglect and poor planning. There are hundreds of millions of dollars of deferred building and road maintenance, retiree benefits obligations that are unwieldy because they weren't funded adequately, and under-investment in schools and basic services. Like it or not, we have to deal with it, and we've done a pretty good job of catching up.

But what makes it harder for us is that in Massachusetts, cities and towns wield far less control over their finances than their counterparts in many other states. Approximately three-quarters of our general fund budget this year is predetermined by state mandates and regional agreements. When you set aside the

public safety department budgets, which are driven by a labor arbitration system that puts municipalities at a severe disadvantage, nearly thirty non-public safety departments split the remaining 13% of the total budget. Cuts to those mostly small departments can cripple the delivery of important services but yield little in the way of overall budget savings.

Meanwhile, revenue to the City has not kept pace with rising costs. Unrestricted state aid has remained relatively flat. And the ongoing expansion of our local economy has not yet translated into sufficient new revenue from property taxes.

So we have made sacrifices, as we must. Over the last few years, certain city departments have been cut to the point where their ability to function is becoming compromised, and tax payers have been imposed upon, too.

And city government has shrunk. Today, there are 136 fewer positions paid for out of the general fund than there were in 2009, and far fewer than the municipal workforce in the early-2000's. So when you hear people assert that city government

has loaded up on employees, you can tell them that it's quite the opposite.

In the long run, neither indiscriminate program cuts nor reflexive tax increases will lead to long term financial sustainability. We've achieved tremendous efficiencies in city government, but efficiencies can take us only so far. If we want to keep a library in a particular neighborhood, for example, there's no getting around the fact that it must be staffed with a librarian. You can't downsize the position away, and still have a functioning library.

On the other hand, we can't continue to ask more of tax payers and expect that the City's budget decisions won't materially affect their quality of life or the competitiveness of their businesses. Achieving sustainability by balancing these competing interests requires thoughtful, and often difficult decisions, which must be explained to the public with candor and clarity.

Summary of this Year's Budget

Now if this presentation thus far sounds a lot like what I said last year, there's a good reason for it. Because of the growth of non-discretionary spending, it's a fairly static budget. There are no grand expansions of services, no broad initiatives. It's not that you and I don't have new ideas. It's just that right now the constraints don't afford us the ability to try many new things that cost money.

For the record, the proposed Fiscal Year 2018 budget totals approximately \$362 million, of which the general fund is the single largest component at approximately \$324 million. The general fund budget received a \$9.1 million increase in state funding, which consists largely of additional support for the School Department.

So this year's budget is marked by considerable restraint in spending. There is virtually no additional spending in those areas over which city government exercises full discretion.

The problem is with what we can't control. What's driving spending -- indeed, what is crowding out basic services and

putting increased pressure on tax payers -- are obligations that are dictated largely, if not entirely, by state policy.

This **chart** depicts the areas of the most significant growth.

First, the growth of employee health care benefits costs has accelerated. Medical claims have increased significantly over the past year, and the City's share of premium costs is projected to increase by \$3.5 million over the FY 2017 budget.

Second, the City's pension assessment will increase by approximately \$1 million as the City continues to meet its funding obligations to the regional retirement board. Pension eligibility and benefit levels, as you know, are dictated by state policy.

Third, charter school obligations continue to divert a growing share of funding away from the public school system. The growth in the City's obligation toward charter schools is exacerbated by the State's failure to meet its statutory obligation to partially reimburse localities' costs. As a result, the City's net obligation will increase from \$10.5 million in FY 2017 to nearly \$12.1 million in FY 2018.

Spending in our schools will increase some six percent or \$7.7 million, but it is supported by a significant boost in state aid as a result of a recounting of English Language Learner students. While the school budget is set at the state mandated net school spending level – and certain areas require more support still – we were able to fund important areas that will accelerate the reform effort, including the expansion of instructional technology, the addition of ELL teachers, and the introduction of a new science curriculum.

Looking Ahead

So how do we achieve our primary goals, which are to continue providing the first rate services our residents expect, to ease the demands on the City's tax payers, and to support the city's steady growth through key investments? I believe there are four prongs to our strategy in the next couple of years.

(1) *Budgeting Carefully.* The first is that we have to continue to budget really carefully. For those of you who have been on the council for a while, you may remember the days when an administration would load up on new spending in the hope that the council would end up somewhere in the middle. There's a understandable pragmatism underlying that approach, but when the budget is tight as it has been, it's not the right way to go. In my view, the public interest dictates that the administration clearly identify new spending, and explain why it is being proposed. That has been my administration's approach.

This year, a meager amount of new discretionary spending is being proposed, and only on one of two grounds: that it will

actually save the city money in the long run, or it is needed to restore a previously-cut core service to a bare minimum level. In the course of the council's budget hearings, you'll have a chance into dig into details but let me offer a couple of examples of what I mean.

The new budget proposes the addition of a training officer in the personnel office. Now you might say that under our current financial constraints that might seem like a luxury. I would submit, however, that better trained employees are less likely to make mistakes that lead to law suits against the city. A position like that pays for itself in the long run.

When it comes to the restoration of core services, take a close look at the library system budget, where there are a couple of new positions being proposed. The library system just completed a strategic planning study that recommended certain investments to enable the system, which has lacked real investment for a long time, to provide the basic services its patrons expect. So for instance, the budget proposes a "youth

service librarian," something every employee in the library system would tell you the place needs. You've probably heard it from them before. The reason is simple: any respectable library system has at the heart of its mission the cultivation of child literacy.

Given that our school libraries are decidedly understaffed -- if staffed at all -- it's critical that our library system have the capacity to connect effectively with kids.

These are a couple of examples. But the main point is, this is hardly ambitious spending. All of the newly proposed discretionary spending amounts to peanuts in the overall budget, and even at that, it's geared toward providing nothing more than basic government service.

(2) *Health Care Spending*. The most urgent problem in this year's budget involves the City's healthcare program, which has experienced significant increases in claims expenses over the past year and whose budget is projected to increase by 9.8% in FY 2018. If left unchecked, it will inevitably crowd out our ability to provide basic services and lead to a significant tax increase.

Inevitably. It also will enlarge what is already an enormous looming liability associated with retiree health care.

Now you may note that health care is an area where state policy makes it very difficult for a municipality to manage. And you would be correct. The state makes it practically impossible, for instance, to change the city's shares of employee premiums, as private sector employers routinely do.

But there is one arrow left in our healthcare quiver. Under Section 21 of the municipal health care reform bill of five years ago, a city has the authority to work with its collective bargaining units to redesign employee health care plans so that employee health care is less costly to city government, and better tailored to the needs of employees. It would require a vote of the City Council to accept Section 21, which many, if not most of the communities around the state, have already done.

My administration will have a proposal before the City Council in the coming weeks to begin this process.

(3) *Advocacy for State Reform.* The third imperative of our fiscal strategy is advocacy at the state level. Other than accepting Section 21, we have little wiggle room on health care and the other state-dictated drivers of our budget, namely pensions and charter schools. It is therefore incumbent upon us to speak up, through our state delegation, to the legislative leadership, and to the Baker administration. We cannot stand silent, and we need to join with other communities that are feeling the same pinch to amplify our message.

(4) *Becoming More Efficient.* We also need to become more efficient still. Our efficiency reforms in the last few years have helped to restrain spending, ensure accountability and to improve transparency throughout the City government. The list is long but they prominently include the City-wide performance measurement initiative, the City's solar energy program, voice-over-internet service, payroll modernization, and targeted reorganization of city management.

We need to keep pushing, and there are a couple of ideas in this budget. We've come a long way in the development of performance management in city government, and Christina Mills has done a fabulous job in guiding city departments in focusing on their core missions and quantifying what they do -- just like the private sector. To see the improvement, you need look no further than your budget book itself. Compare this year's version to the one the counsel received five years ago. It is entirely different. It now spells out for the reader in plain English what the departments do, and how well they are doing it. It is a reflection of the level of transparency and accountability our residents expect and deserve.

We need to continue to build our capacity to modernize our measurement of services and our management of them.

I also firmly believe that despite all of the efficiency measures we've implemented, we need to take a hard look at whether we've missed anything. As I've said before, I believe, as I know you do, that New Bedford should have the most efficiently

run city government in the state. That's what we owe our residents, who are entitled to have their hard earned tax dollars utilized fully.

To that end, we have included in the budget, funds for an outside consultant to perform an analysis of our operations -- basically to see whether we've streamlined everywhere we can.

If they find anything we can do better, that's great. The study will have paid for itself. And even if it doesn't, it'll give all of us, including and especially the residents of our city, the confidence that we've done everything we can to make the most of every taxpayer dollar.

(5) *Working together.* As important as anything else, we need to continue working together on this. The dialogue between the counsel and the administration has improved markedly of late, and we need to redouble our common commitment to solving our financial challenges. My financial team and I will be readily available to answer your questions as we work through the

budget in the coming weeks. Please don't hesitate to sit down with us.

Concluding Thoughts

I conclude by acknowledging that if you just happened into town, and heard my remarks just now, you might think this was a city on the ropes. We of course know better than that. The City is undergoing a remarkable resurgence. We've seen the creation of nearly 5,000 jobs in the last five years, a decline in crime, the highest bond rating in the city's history, and a stronger school system. Everybody is noticing it.

I am highly optimistic about our city's prospects, and I believe that optimism is well-placed. My words of concern about the city's finances are not an expression of pessimism, but are meant to state with clarity what I believe is necessary for us to continue our positive momentum.

The key for us now is to understand that the rebuilding of our City is taking shape. Together we're making the right moves, but it takes time, and it will require a steady hand on our finances. We

are clearly on a healthier, more sustainable path that will lead to a more effective and responsive city government and a higher quality of life for our residents.

Thank you for your consideration. I look forward to our work together in the weeks ahead.