



## CITY OF NEW BEDFORD

JONATHAN F. MITCHELL, MAYOR

May 9, 2018

City Council President Linda M. Morad and  
Honorable Members of the City Council  
133 William Street  
New Bedford, Massachusetts 02740

Dear Council President Morad and Members of the City Council:

I am pleased to submit for your consideration the Fiscal Year 2019 budget for the City of New Bedford.

### Overview

Each year, the City faces challenges in developing our annual budget blueprint, and this year the challenge is particularly pronounced. In FY 2019, continuing increases in nondiscretionary expenses and the transition of grant-funded positions to the general fund will crowd out other services and the City's ability to direct resources toward other opportunities.

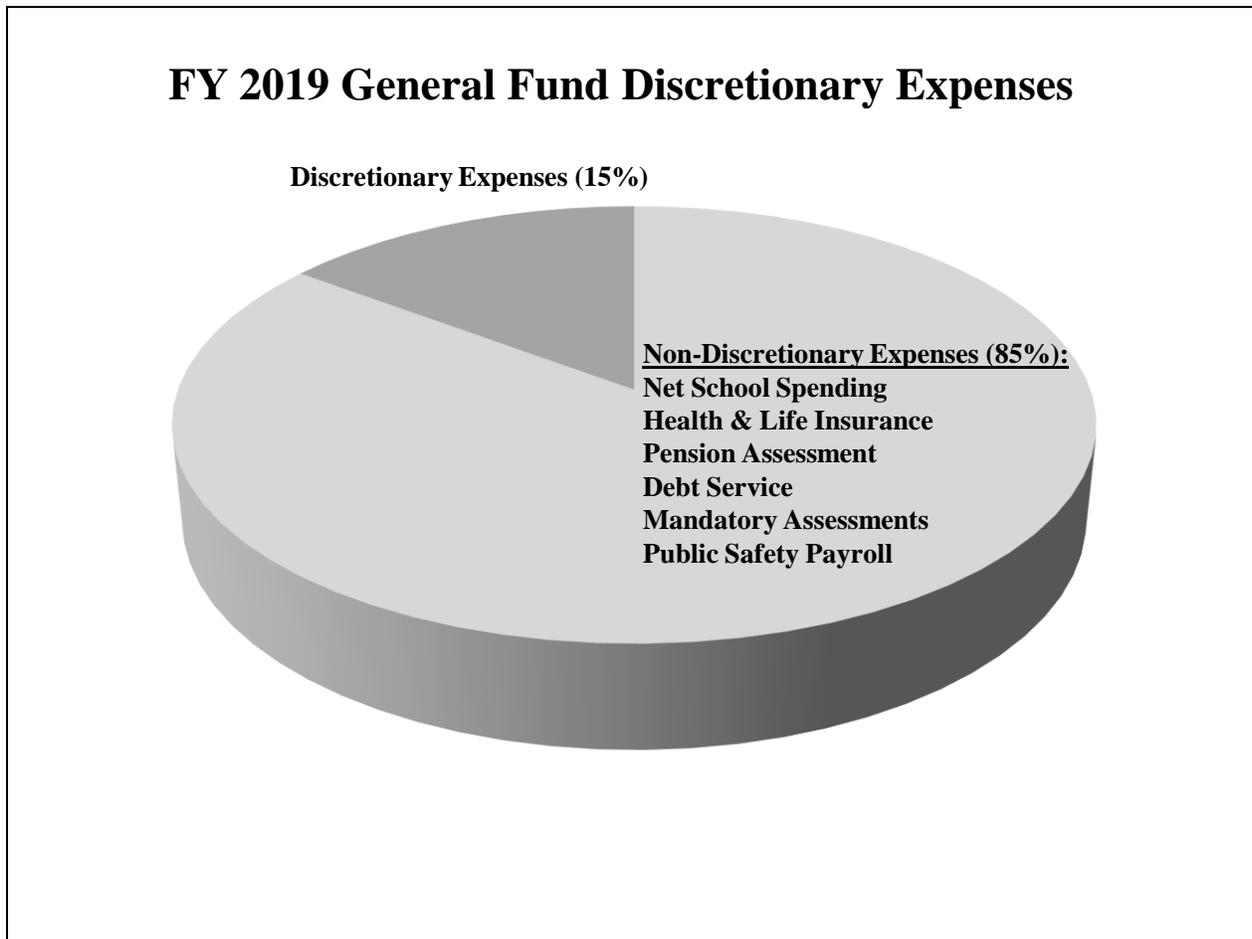
The "crowding out" that occurs as non-discretionary items consume a larger portion of the City budget has never been more apparent than in this budget. Nearly three-quarters of the FY 2019 budget is now predetermined by state mandates or regional agreements, and only a relatively small portion can be considered truly discretionary.

For example, more than 60% of the city government's general fund payroll consists of unionized public safety positions that are subject to a binding arbitration process that weakens the City's negotiating position, all but guarantees unaffordable outcomes, and leaves the City struggling to maintain current levels of service. Overall, nondiscretionary items, including the Net School Spending requirement and payroll components that are subject to binding arbitration, will account for 85% of the general fund's FY 2019 budget.

As you know, I have strongly resisted raises in collective bargaining agreements that I believed were unaffordable, even when the state's binding arbitration law put the City at a disadvantage, and I remain ready to use all the tools at my disposal, including arbitration, to hold down these employee costs to the greatest extent possible.

The Commonwealth has complicated this process by not meeting its statutory funding obligations and continuing to impose requirements that serve as roadblocks to effective reform. In addition to the binding arbitration process, some significant examples include limitations placed on pension and health care management, as well as the state's failure to meet its commitments to neither fund the school system foundation budget nor provide its legally-established levels of support for charter schools.

These constraints have made it more difficult to ensure that the City remains on a fiscally-sustainable path while providing the reliable and effective services that our residents expect. Our ongoing efforts to improve efficiency and operational readiness have produced a lean organization where the most advantageous efficiencies have already been implemented, making future reforms much more challenging. Nevertheless, we must continue on this path in order to move New Bedford forward.



The development of a responsible and sustainable spending plan would not be possible without the active interest and engagement of the City Council. The processes and mechanisms that we have built together ensure that our collaborative efforts will help identify and address the City's core priorities within the current climate of fiscal constraint. I look forward to continuing this partnership as the new fiscal year gets underway.

## Key Drivers

The FY 2019 budget was shaped by several factors that required us to make a number of difficult choices to ensure that the spending plan adequately funds core operations and allows the City to meet its statutory obligations. Several factors stand out above the rest:

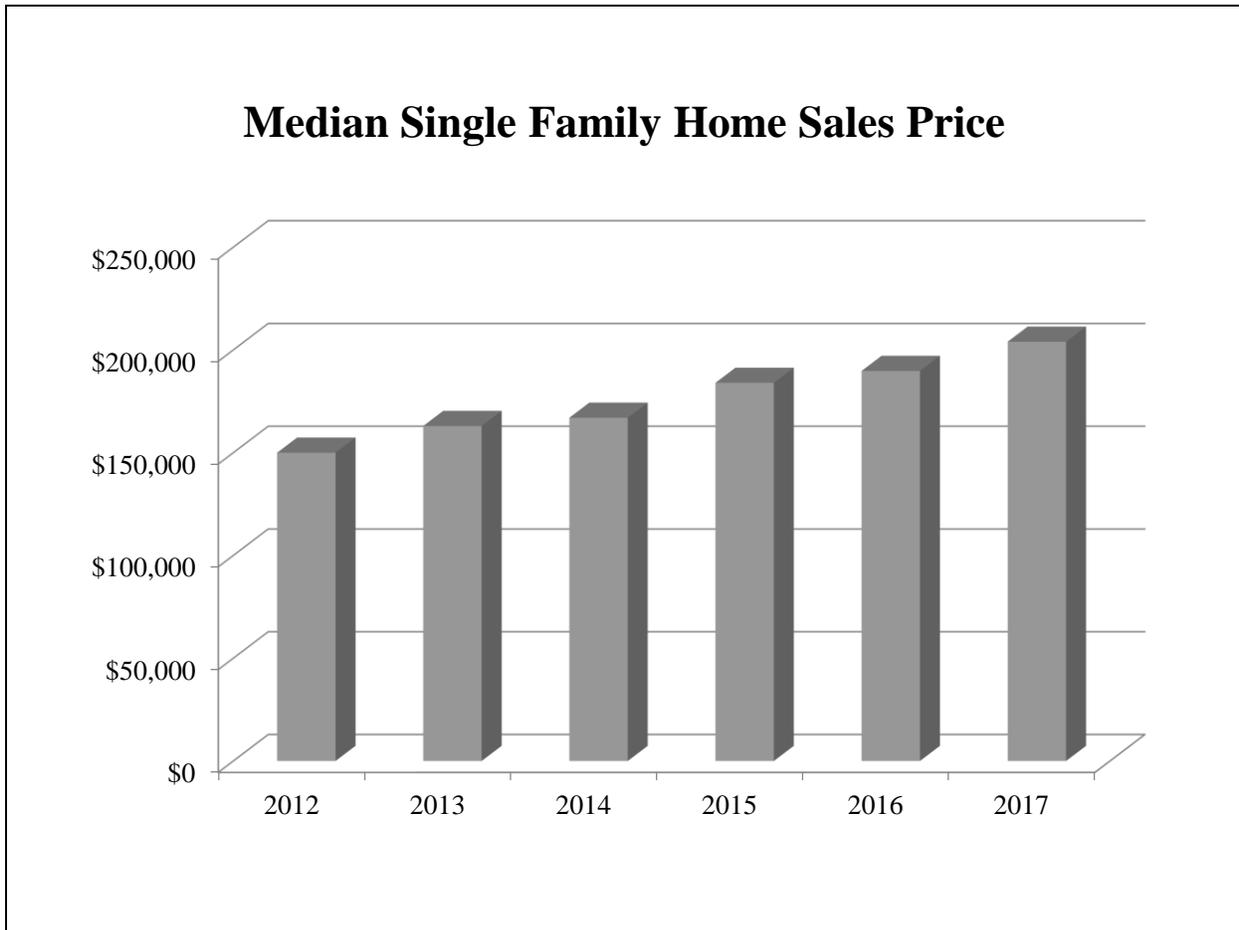
1. **Insufficient Revenue Growth:** Baseline revenue growth is insufficient to maintain pace with the costs of doing business. City departments requested approximately \$2.4 million to fund unmet needs, including required contractual increases, and the School Department requested a \$10 million increase to its budget over FY 2018. The FY 2019 budget is only able to accommodate \$0.8 million in department enhancements, while the School Department budget is increased by \$6.1 million to comply with the state's minimum spending requirements.
2. **The Expiration of a Major Federal Grant and Union Contract Costs:** The expiration of federal grant funding as well as collective bargaining will play a significant role in overall expenditures. The transfer of 21 firefighting positions, currently funded by the federal SAFER grant, will require about \$1.5 million annually, and new costs related to collective bargaining will total about \$3.1 million in FY 2019.
3. **Mandated Education Costs:** Net local support to operate the City's school system continues to rise, despite increases in state aid. The local share of School Department operating expenses required to meet Net School Spending requirements will increase by about \$1.4 million from FY 2018 to 2019. At the same time, the City's net obligation toward charter schools will total \$13.8 million, an increase of nearly \$1.6 million.
4. **Healthcare and Pension Costs:** Employee benefits costs will continue to place an increasing strain on overall finances. Projected increases in medical claims and the City's pension assessment will require \$2.1 million in additional general fund support.

## Economic Overview

The New Bedford economy continues to experience a period of steady growth. According to the Massachusetts Office of Labor and Workforce Development, employment in the City has shown steady but significant growth, increasing by 939 jobs, or 2.1%, since March 2017, and by 4,446 jobs, or 11.0%, since 2012.

Other indicators of economic activity have also improved. The average single family home sold for a median price of \$204,500 in 2017, a 7% increase over 2016, and the first year above \$200,000 since 2007, and sales volume totaled 1,280 in 2017, 15% higher than 2016, and the most active year since 2005.

In addition, motor vehicle excise tax revenue increased by nearly 36%, and meals tax and room occupancy revenue tax by nearly 32%, from 2012 through 2017. Building permit volume is also up, by about 30% since 2012. Although these sources constitute a relatively small portion of general fund revenue, their performance is a good indicator of economic activity.



However, continued growth in the economy has not fully translated into construction-related growth in the tax base. New growth in 2017 exceeded \$2 million for the first time since 2007. This compares favorably with the historic low of \$0.8 million in 2012. But the overall trend, while welcome, is having only a marginal impact on the City’s levy capacity.

Our priorities in developing the FY 2019 budget were grounded in the knowledge that the impact of an improving economy can be uneven. Many in our City continue to fight each month to make ends meet, paying the taxes, insurance and utility bills that allow them to remain in their homes. The combination of unfunded mandates, nondiscretionary expenses and the costs of maintaining essential services have resulted in significant increases to the City’s tax levy over the past several years. The FY 2019 budget works to restrain the growth in spending to ensure that the cost of government remains affordable.

#### Progress to Date

Our efforts to craft an effective budget have benefited from a range of initiatives that we have implemented over the past four years. These reforms have helped restrain spending, ensure accountability and improve transparency throughout the City government. To summarize just a few initiatives:

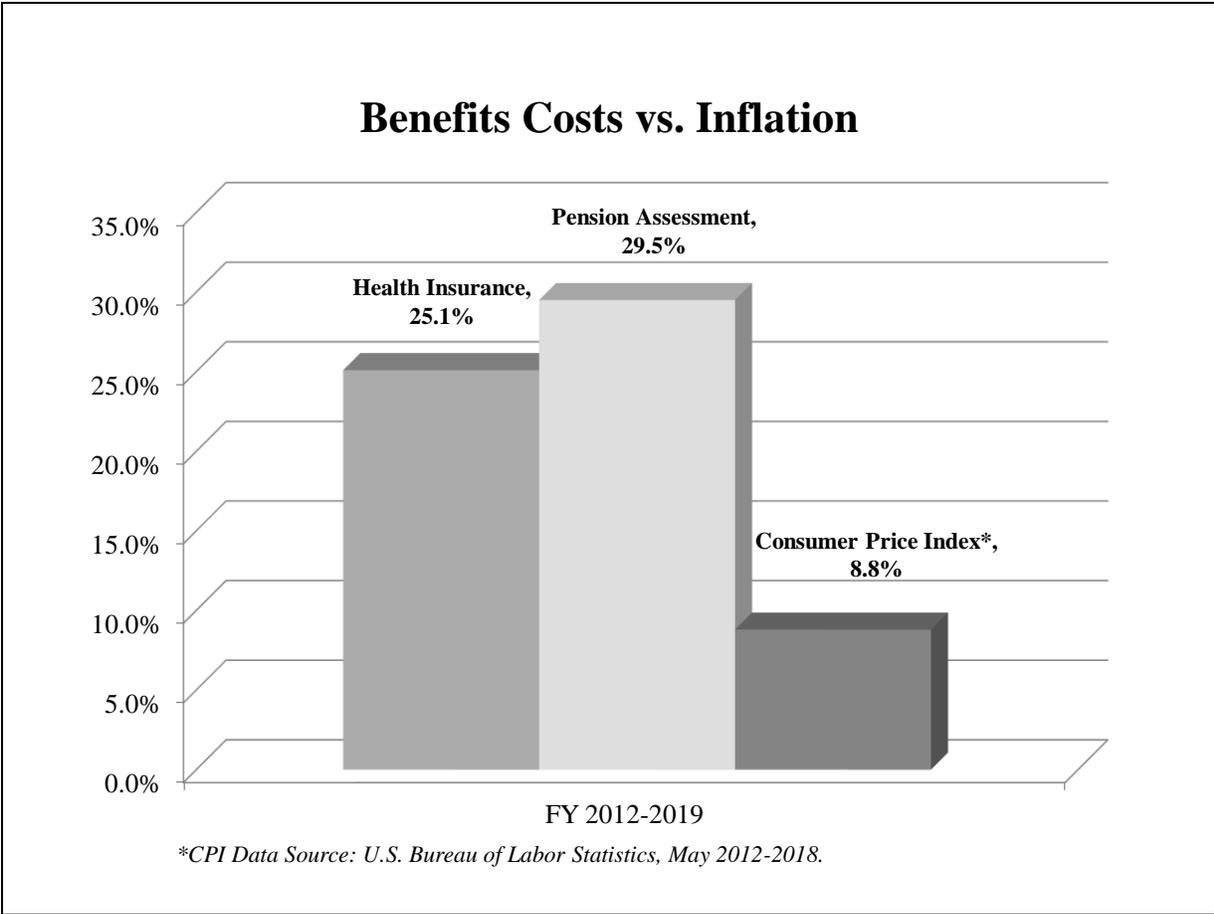
- The City's performance management and budget transparency initiatives received national recognition from the Government Finance Officers' Association, which awarded New Bedford its Distinguished Budget Presentation Award for the second year in a row. The City has advanced transparency efforts through its Open Checkbook initiative and the development of our first-ever Comprehensive Annual Financial Report (CAFR).
- Fleet management initiatives and tracking systems have ensured that the City is better prepared to respond to severe winter weather, and the City has reinvented its asset management practices by utilizing automated systems and integrating the data with its performance management program.
- The City's Emergency Medical Service has been revamped to enable the department to better respond to medical calls and manage workload.
- All municipal and employees are now paid biweekly and notified of their pay electronically. The move to biweekly pay is part of an ongoing program to improve the City's business processes, with such earlier initiatives as Voice Over IP telecommunications improvements and the new Employee Self-Service portal resulting in improved service quality at a cheaper cost.
- New Bedford's continued commitment to "green" energy, as illustrated by our successful Renewable Energy Power Purchase agreements and our citywide energy management program, has produced a 5 million kilowatt-hour reduction, equivalent to 11.4% of the City's usage, in annual electricity consumption since FY 2014.

#### Projects Going Forward: Fiscal Restraint a Focus on Long-Term Stability

An extremely restrained and conservative approach to staffing and manpower has been, and continues to be, the hallmark of our budget blueprints, and essential to long-term stability. Since 2001, the number of full-time positions supported by the general fund has been reduced by 205 employees, or nearly 18% (it is worth noting that, in the meantime, general fund inflation-adjusted expenditures increased by nearly 11% over the same period, which clearly demonstrates the underlying impact of nondiscretionary items on the overall budget).

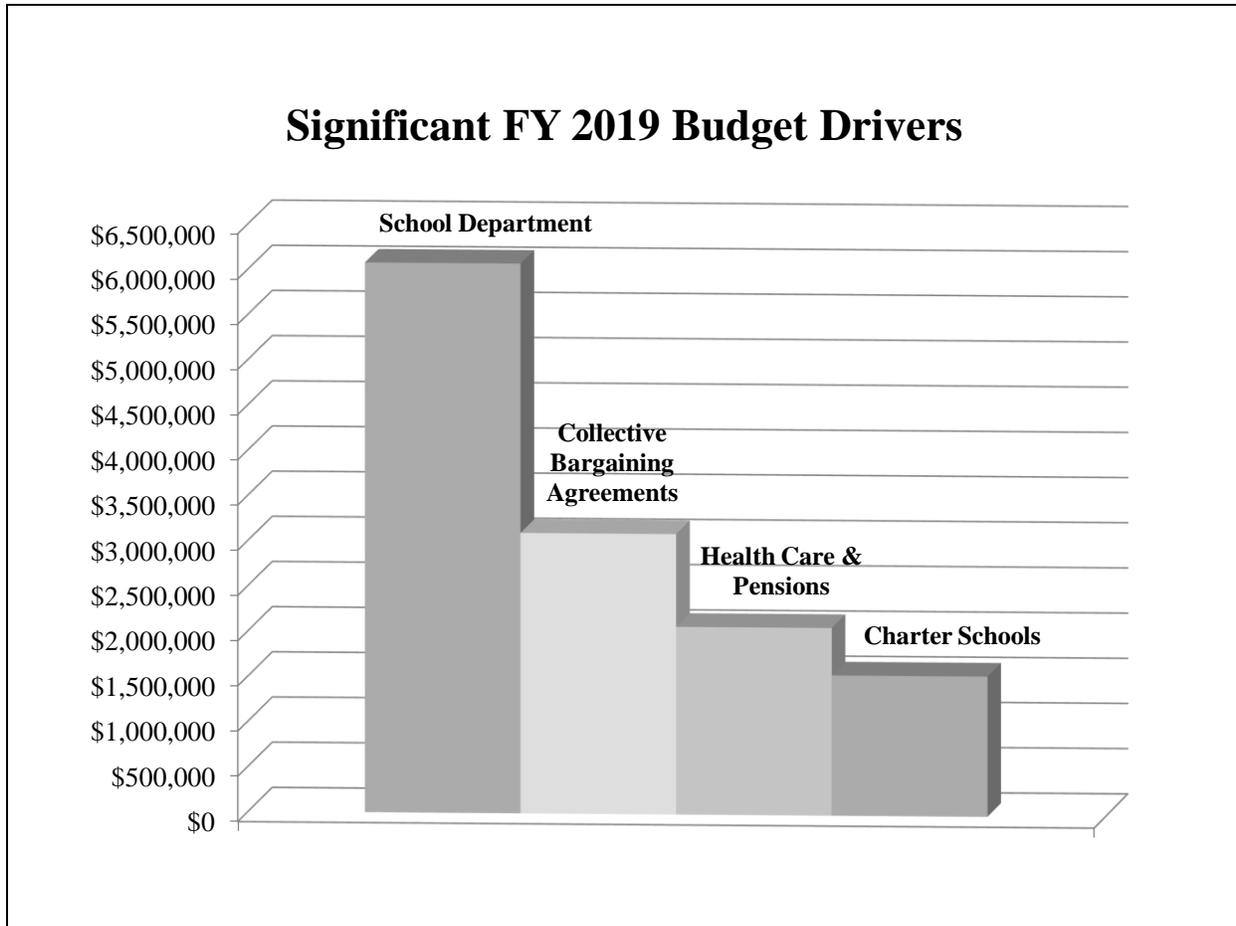
Looking forward, we must continue to be vigilant about risks to the City's financial health, especially the growth in benefits costs. The long-term growth in benefits costs is an increasing burden on the City's finances, as health care and pension obligations continue to outpace the rate of inflation. That is why it is so important that we continue to discuss the path forward for health care, including the acceptance of state law allowing the City to implement health plan redesign.

Our commitment to sustainability extends beyond the operating budget. The City's capital improvement plan is our vehicle for addressing decades of deferred maintenance. My administration will continue to work with the City Council to ensure that our most essential renovation and repair projects are funded.



The City must also be prepared for the unexpected. My administration is committed to establishing and maintaining a robust stabilization reserve, and the City Council has been fully engaged in adopting a strong reserve policy. It is the maintenance of a robust reserve that has allowed us to address episodic needs, such as the AFSCME furlough award, without placing an undue burden on the City’s taxpayers. In addition, our commitment to positive cash flow and a strong reserve policy have been instrumental in our successful efforts to secure and maintain the City’s AA- bond rating from Standard & Poor’s’, New Bedford’s highest in at least forty years. We are continuing to make efforts to ensure that the City is able to utilize the strengthening economy to improve our overall financial position.

The constrained nature of the FY 2019 budget has necessitated a bottom-line review of every department’s budget. Program expansion proposals have been deferred and, after accounting for mandatory assessments and fixed costs, the limited remaining funding has been directed toward core service needs and to address anticipated shortfalls in departments’ operating accounts. .

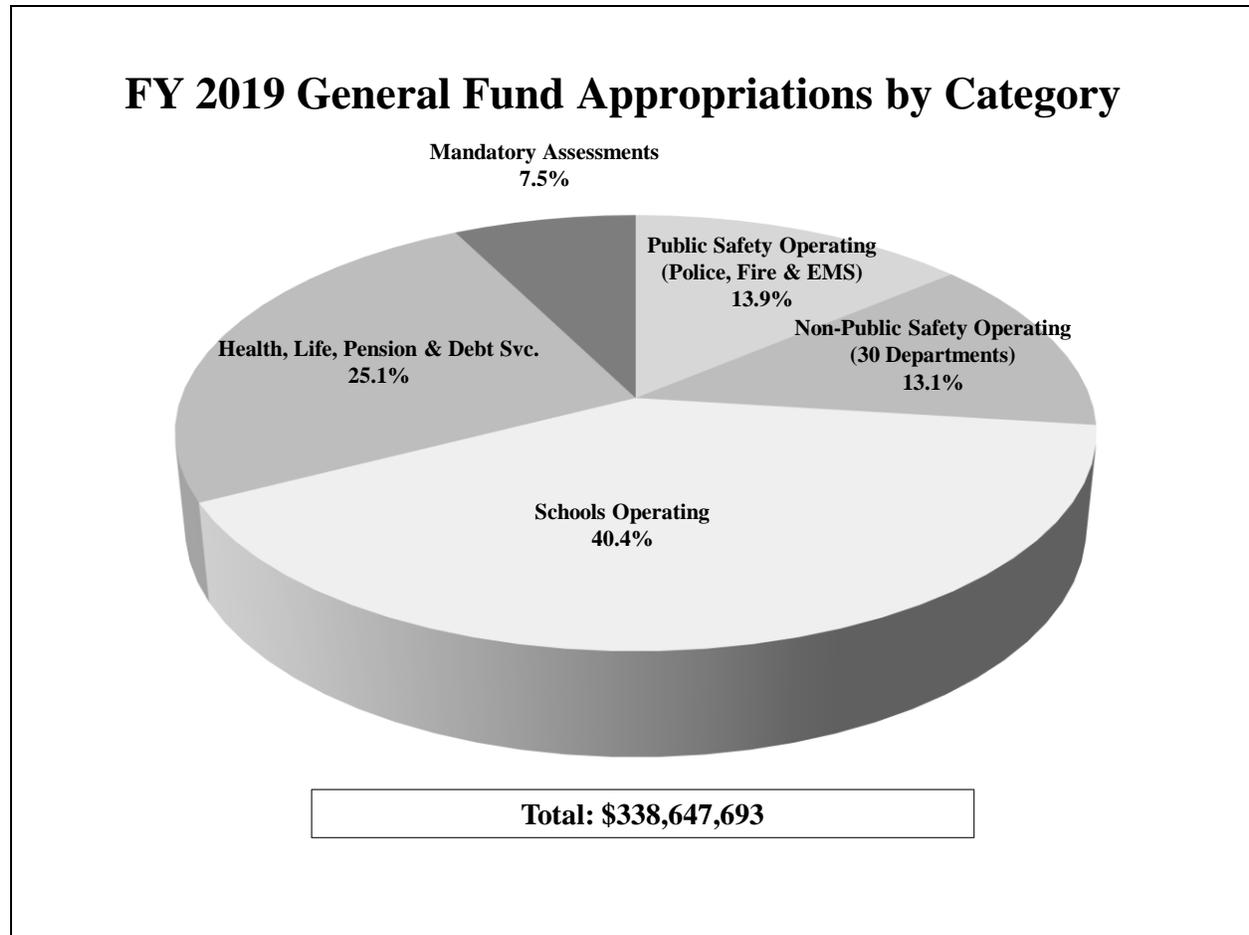


The FY 2019 budget totals \$379,252,124 of which the general fund is the largest component at \$338,647,693. The general fund budget benefits from a \$6.2 million increase in state aid, largely consisting of support for the school department and unrestricted general government aid, and partially offset by reductions in charter school reimbursements and veterans' benefits. Expenditures were restrained wherever possible in order to target the limited available resources toward core priorities.

The FY 2019 budget is heavily influenced by increases in fixed and mandated costs. After accounting for a partial prepayment in FY 2018, funding for the City's health insurance, pension and life insurance programs increases by \$2.1 million due to increased claims expenses and pension funding requirements. In addition, recently-executed collective bargaining agreements will require \$3.1 million, and general fund support for the Fire Department increases by \$0.8 million to account for the conversion of 21 firefighter positions from the expiring federal SAFER grant. Finally, funding for the School Department will increase by \$6.1 million to comply with the state's minimum spending requirements.

Mandatory assessments, most of which consists of funding for charter schools, are also consuming an increasing share of the City's resources. From FY 2010 through FY 2018, the net cost of funding charter school payments increased by \$9,799,708, or 397%. This trend will continue in FY 2019, with the City's charter school assessment increasing by another \$1.1

million, while state reimbursements will decline by nearly \$0.5 million. As a result, the City's net obligation will approach \$14 million, significantly reducing the funding available to address the School Department's myriad needs.



Fixed costs and mandated assessments will account for \$110.2 million, or 32.6%, of general fund expenditures in FY 2019, while Net School Spending requirements will account for another \$136.8 million, or 40.4%, meaning that 73% of the general fund budget has been predetermined by state mandates or regional agreements.

The increasing demands of mandatory expenses, combined with insufficient revenue growth, means that the FY 2019 budget includes little room for discretionary enhancements. The budget limits enhancements to two positions: a staff planner to assist with ongoing studies and economic development-related activity, and an associate city solicitor position, which will allow the Solicitor's Office to advance its focus on cost recovery and mitigating the impact of litigation.

Over the past several years, the City has engaged in strenuous efforts to mitigate the requirement for additional tax revenue. While this process has generated efficiencies, the FY 2019 budget makes it clear that our work is not finished. The ongoing demands placed upon the general fund by mandatory assessments and benefits costs pose a continuing challenge to the City's ongoing fiscal sustainability, and limit our ability to fund initiatives that will move the City forward. My

administration is committed to identifying ways to mitigate the impact of the City's revenue needs on our residents, and will continue to work closely with the City Council to implement effective, common sense measures to address this issue.

### Concluding Thoughts

The development of the FY 2019 budget has been greatly aided by the active engagement of the City Council, utilizing the mechanisms that we have built together to ensure that everyone's priorities are heard, and that the City's core needs are addressed. Institutions such as the City Council's Budget Review Committee have played an essential role in our efforts to navigate our fiscal challenges and I look forward to continuing our partnership in the weeks ahead.

Despite the challenging budgetary environment, there is cause for optimism in that New Bedford's economy is gaining momentum. The City's major businesses have generated a rising tide of job creation, and the Massachusetts Department of Labor reports that the number of employed City residents has grown by 4,446 since 2012. Improvements to the economy have also begun to have a material impact on property values. The City's overall valuation began to reverse its long slide from the Great Recession in 2016, and the overall valuation has increased by 12.7% since 2014. Current indications are that we can expect additional growth in FY 2019, with property values projected to increase by at least 5% overall.

However, the central fact remains that the city government is seriously constrained. Fixed and mandated costs continue to grow faster than the City's resources. The FY 2019 budget is therefore largely driven by required increases resulting from net school spending obligations, collective bargaining agreements, expired grants and fringe benefits. The state's failure to meet its statutory and policy commitments, particularly as related to the school foundation budget and charter schools, means that the City's taxpayers are being asked to pay a larger share. We therefore have no choice but to adhere to a disciplined approach to managing the City's finances – one that extracts the greatest possible value from every tax dollar.

I know that the City Council shares these same sentiments, and that is why I am confident that we will be able to work together in the weeks ahead to enact an FY 2019 budget that ensures a secure and successful future for our residents. Thank you for your consideration of this FY 2019 budget proposal.

Sincerely,

Jon Mitchell  
Mayor