



## CITY OF NEW BEDFORD

JONATHAN F. MITCHELL, MAYOR

May 10, 2017

City Council President Joseph P. Lopes and  
Honorable Members of the City Council  
133 William Street  
New Bedford, Massachusetts 02740

Dear Council President Lopes and Members of the City Council:

I am pleased to submit for your consideration the Fiscal Year 2018 budget for the City of New Bedford.

### Overview

Each year, the City faces challenges in developing our annual budget blueprint, and this year is no different. For FY 2018, the principal challenge is the sizable and growing impact of nondiscretionary expenses across a range of categories.

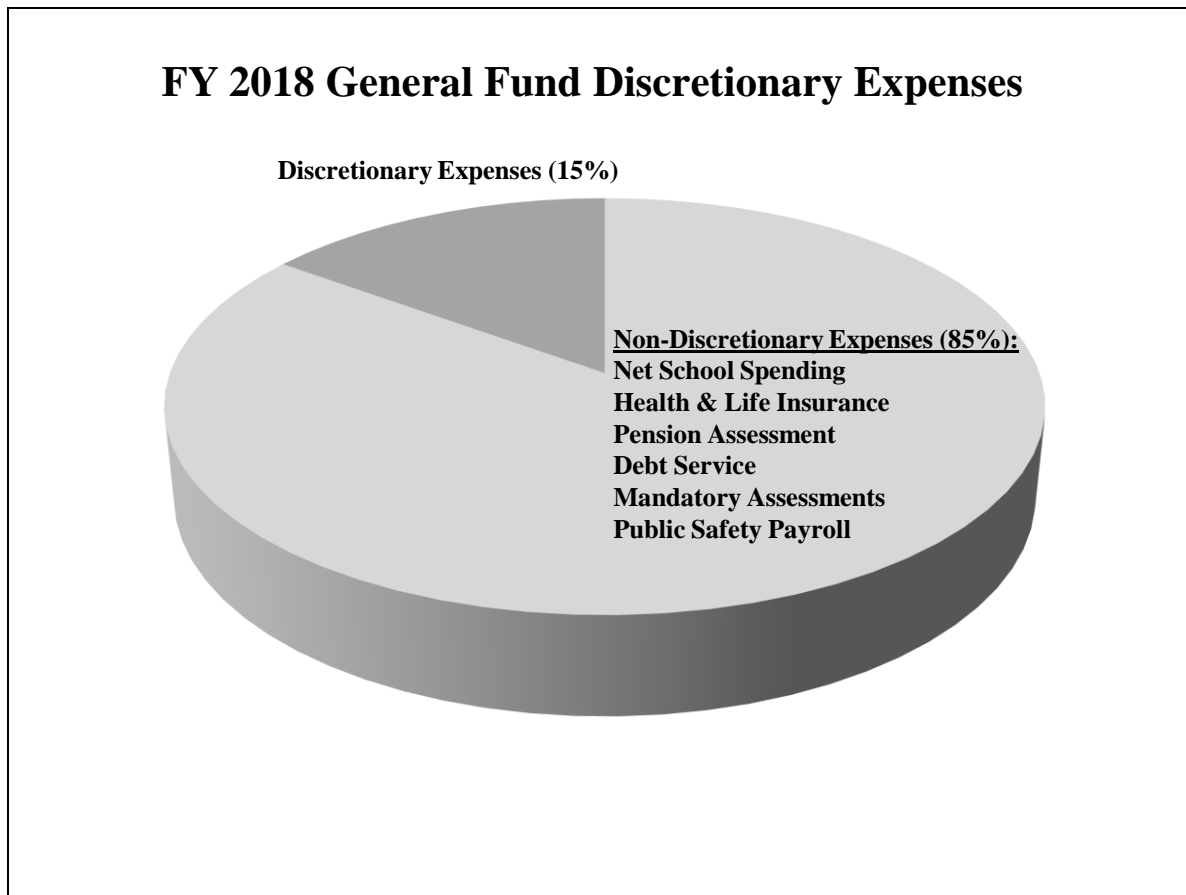
Nearly three-quarters of the FY 2018 budget is predetermined by State mandates or regional agreements, and only a relatively small portion can be considered truly discretionary. For example, about 63% of the city government's General Fund payroll consists of unionized public safety positions that are 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 2018 budget.

As you know, I have strongly opposed collective bargaining agreements for public safety departments that I believed were inequitable and 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.

The focus this year has been to ensure that the City remains on a fiscally-sustainable path which will allow the city government to provide the reliable and effective services that our residents expect. The FY 2018 budget builds upon a sustained record of cost-cutting and operational efficiencies, which resulted in a 12.7% reduction to General Fund-supported staff complement from FY 2009 through 2016.



Finally, I want to note my appreciation that our annual budget process continues to be characterized by a collaborative effort between my Administration and the City Council to develop a spending plan that addresses the City's core priorities. The processes and mechanisms that we built together last year are especially important as we attempt to address these needs within a climate of fiscal constraint.

#### Key Drivers

The FY 2018 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 meets the needs of the community. Several factors stand out above the rest:

1. **Employee benefits costs are placing an increasing strain on overall finances.** 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. In addition, 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. It is essential that we bring these costs under control to ensure the continued viability of the City's finances.
2. **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.
3. **Baseline revenue growth is insufficient to maintain pace with the costs of doing business.** City departments identified approximately \$2 million in unmet needs, including contractual increases, and the School Department requested an \$8.5 million increase to its budget over FY 2017.

### Economic Overview

The New Bedford economy continues to experience a period of modest economic growth. According to the Massachusetts Office of Labor and Workforce Development, employment in the City has shown steady but significant growth, increasing by 1,419 jobs, or 3.3%, since March 2016, and by 4,471 jobs, or 11.1%, since 2012.

Other indicators of economic activity have also improved during this period. Motor vehicle excise tax revenue increased by 21%, and meals tax and room occupancy revenue tax rose by 26%, from 2012 through 2016. Building permit volume is also up, by about 25% 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 2016 totaled \$1.9 million, compared with the historic low of \$0.7 million in 2012. This trend, while welcome, is only sufficient to result in a marginal impact on the City's levy capacity, although recent developments indicate that this growth may begin to accelerate as new projects come on line.

Our priorities in developing the FY 2018 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 2018 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:

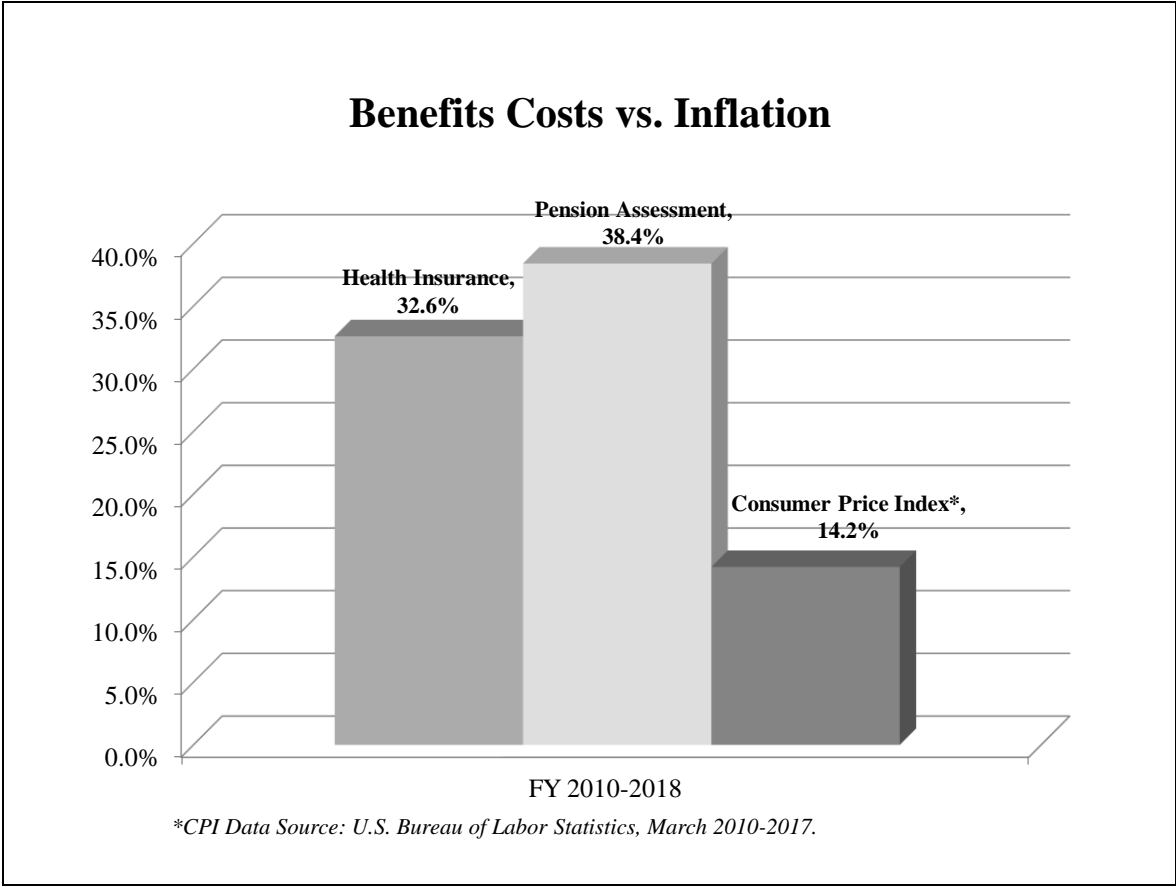
- The City has reinvented its asset management practices by utilizing automated systems and integrating the data with its performance management program.
- The City's performance management and budget transparency initiatives received national recognition from the Government Finance Officers' Association, which awarded New Bedford its Distinguished Budget Presentation Award.
- Fleet management initiatives and tracking systems have ensured that the City is better prepared to respond to severe winter weather.
- The City's Emergency Medical Service has been revamped to enable the department to better respond to medical calls and manage workload.
- New Bedford's Open Checkbook initiative allows anyone to view departments' use of public funds by posting departments' expenditure activity online using a searchable database.
- Improvements to the City's business processes, such as the migration to biweekly pay for City employees, Voice Over IP telecommunications improvements, and the new Employee Self-Service portal have resulted 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 nearly \$1.3 million reduction in annual energy expenses since FY 2014.

### Fiscal Stability

The ongoing drive toward crafting a budget that ensures long-term stability will continue into FY 2018. As a matter of necessity, the City's spending plans have been marked by restraint and operational efficiencies. Over the past eight years, the number of full-time positions supported by the General Fund was reduced by 136, or 12.7%. In the meantime, General Fund expenditures increased by only 3.2% over the same period, when accounting for inflation, demonstrating the impact of nondiscretionary items on the overall budget.

Looking forward, we must continue to guard against potential risks to the City's financial health. The long-term growth in benefits costs is placing an increasing burden on the City's finances, as health care and pension obligations continue to outpace the rate of inflation.

The most urgent consideration 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. In addition, the City must be prepared for near-term increases in compensation resulting from collective bargaining expenses, as well as the FY 2019 transition of 21 firefighting positions from the Federal SAFER grant to the General Fund.



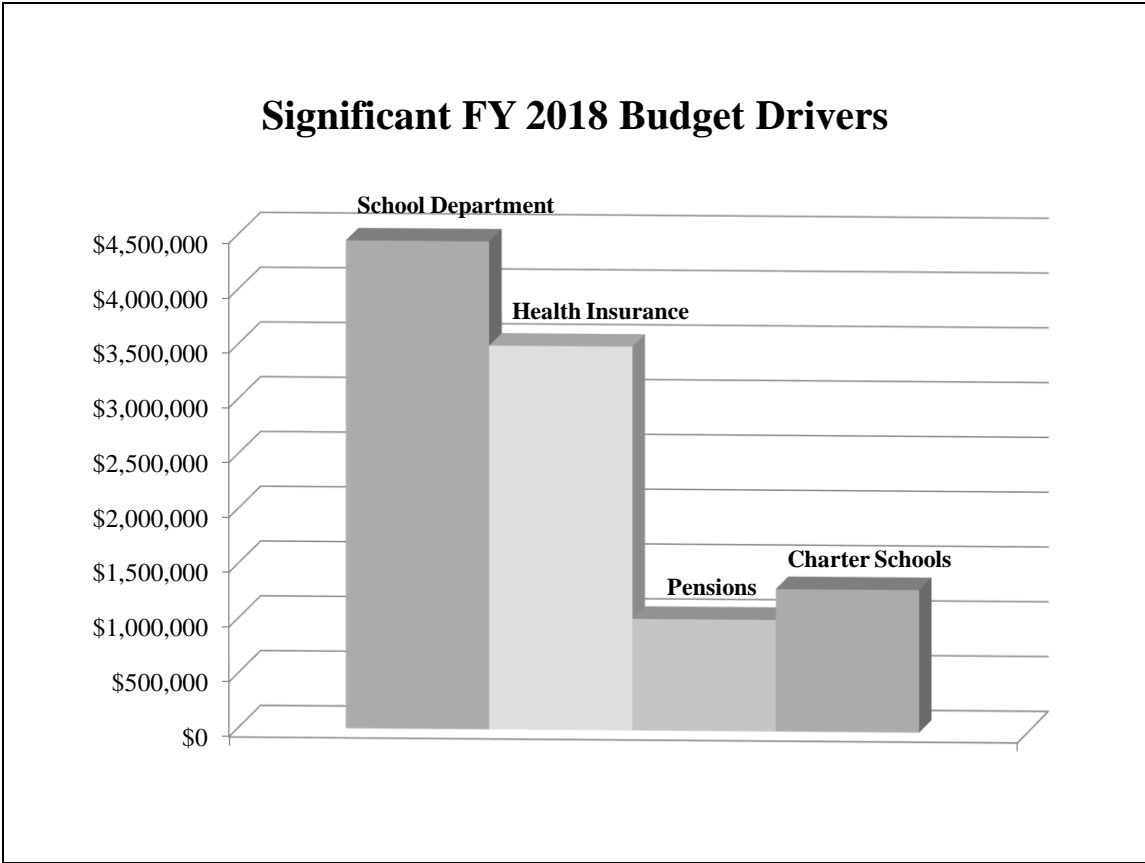
The City must also be prepared for the unexpected. My administration is committed to establishing and maintaining a robust stabilization reserve, and the City Council has been fully engaged in adopting a strong reserve policy. It is the maintenance of a robust reserve that will allow us to address episodic 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 were instrumental in our successful efforts to secure 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.

FY 2018 Priorities

The constrained nature of the FY 2018 budget necessitated a bottom-line review of every department’s budget. Program expansion proposals were deferred and, after accounting for mandatory assessments and fixed costs, the limited available funding was directed towards efficiency improvements and core service needs. Some highlights include:

- Resources to enhance security and ensure the effectiveness of core services at the City’s libraries;
- Funding for targeted organizational efficiency studies, enhanced performance management, and employee training;
- Resources to continue addressing the City’s vehicle replacement backlog, with an emphasis on public safety and capital maintenance, and;

In addition, the FY 2018 budget includes funding to address long-running shortfalls in departments’ operating accounts in order to ensure that agency budgets accurately reflect the current level of service.

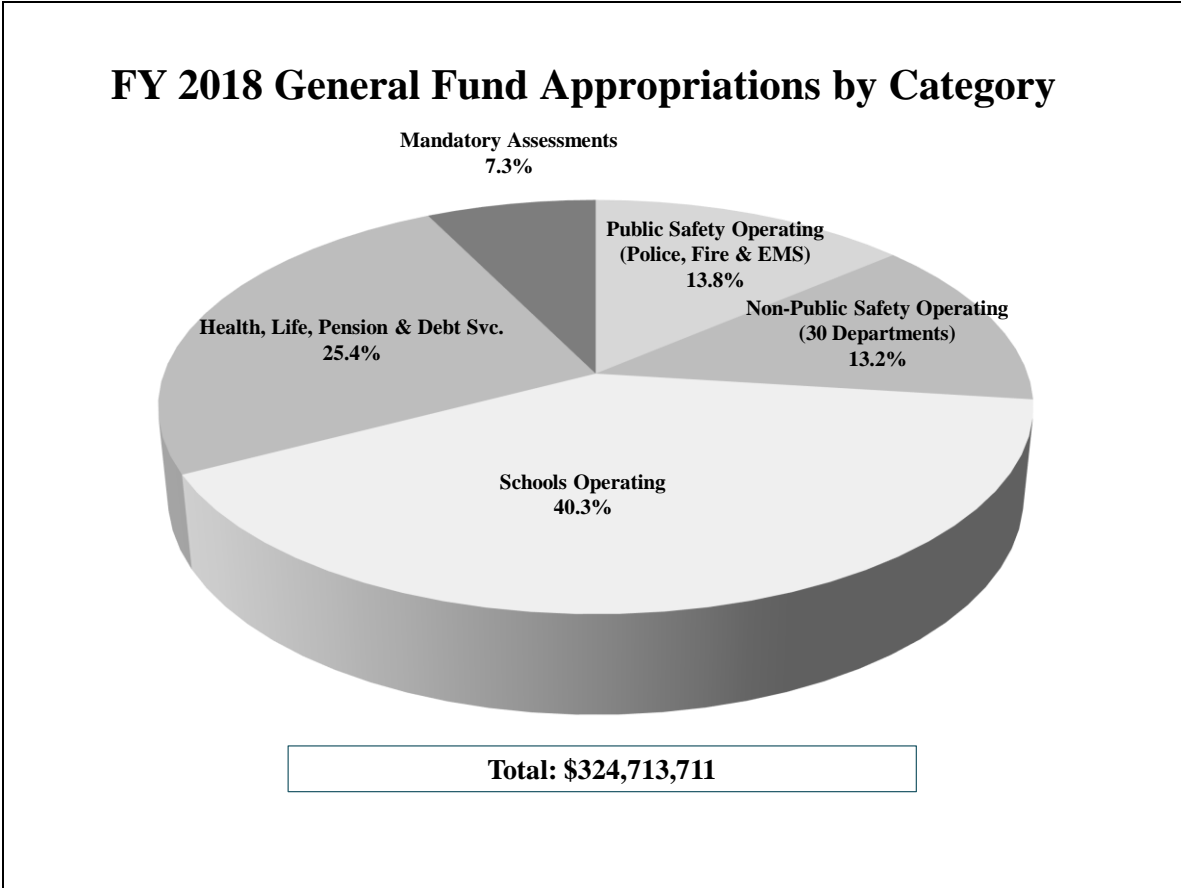


Budget Summary

The FY 2018 budget totals \$361,960,253, of which the General Fund is the largest component at \$324,713,711. The General Fund budget benefits from a \$6.1 million increase in State aid, largely consisting of support for the School Department and Unrestricted General Government Aid. Expenditures were restrained wherever possible in order to target the limited available resources toward core priorities.

The FY 2018 budget is heavily influenced by increases in fixed and mandated costs. Funding for the City’s health insurance, life insurance and retirement programs increases by \$4.5 million, or 6.8%, due to increased claims expenses and pension funding requirements. In addition, funding for the School Department increases by \$4.45 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 2017, the net cost of funding charter school payments increased by \$8,081,489, or 327%. This trend will continue in FY 2018, with the City’s charter school assessment increasing by another \$1.3 million, while State reimbursements will decline by \$0.2 million. As a result, the City’s net obligation will surpass \$12 million, significantly reducing the funding available to address the School Department’s myriad needs.



Fixed costs and mandated assessments will account for \$106.1 million, or 32.7%, of General Fund expenditures in FY 2018, while Net School Spending requirements will account for another \$130,950,000, or 40.3%, meaning that 73% of the General Fund budget has been predetermined by State mandates or regional agreements.

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 2018 budget makes it clear that our work is not finished. The ongoing demands placed upon the General Fund by mandatory assessments and pension and benefits costs pose a continuing challenge to the City's ongoing fiscal sustainability. 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 2018 budget has been greatly aided by the engagement of the City Council and the work of its Budget Review Committee. I believe that our meetings and discussions have been very helpful to the process of identifying upcoming priorities and challenges, and I look forward to continuing our partnership in the weeks ahead.

Over the past several years, we have instituted a number of reforms and other measures that resulted in material enhancements to the City's operations, better transparency, and improvements to residents' quality of life. Parks improvements such as the Cove Walk provide welcoming green spaces, enhanced recreational opportunities for residents and visitors, and encourage development. The new Taylor Elementary School was completed last year and construction on the new Jacobs Elementary School is currently underway. Cost-effective renovations are planned or underway at several facilities, reversing a decades-long pattern of neglect. Our alternative energy and energy conservation programs are generating significant reductions to the City's utility bills. Crime is down citywide, and our efforts to bring more effective and professional management to the city government have continued to bear fruit.

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 4,471 since 2012. Our continued efforts to promote the City as a business destination are producing results, and the development of the City's industrial port is in full swing.

Improvements to the economy have also begun to have a material impact on property values. The City's overall valuation has reversed its long slide from the Great Recession, leveling out in 2015 and beginning to increase in 2016. That trend has begun to accelerate, as the overall valuation increased by 10.1% from 2014-2017. Current indications are that we can expect additional growth in FY 2018, with property values projected to increase by at least 3% overall.

However, despite these modest improvements, the city government remains constrained, as fixed and mandated costs continue to grow faster than the City's resources can accommodate. The



ongoing increases in health care and pensions are, to a great degree, the result of a state-mandated structure which does not provide the City with sufficient ability to address these issues directly. In addition, the State's failure to meet its statutory obligations has placed a large and growing obligation on the City to fund the cost of charter schools. Looking forward, the expiration of the Federal SAFER grant, combined with the potential impact of outstanding collective bargaining discussions, will mean that the General Fund's personnel expenses will increase significantly in FY 2019. 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 continue to be optimistic about New Bedford's prospects going forward, and am confident that we can continue to work together to ensure a safe and secure future for our residents. Thank you for your consideration of the FY 2018 budget. I look forward to our work together in the weeks ahead.

Sincerely,

Jon Mitchell