



Fiscal Year 2015 Budget Address

Mayor Jon Mitchell

[remarks as prepared]

Wednesday, May 14, 2014

Council President Lopes, Honorable Members of the City Council, Department Heads, staff, and citizens of New Bedford, good evening and thank you for this opportunity to present for your consideration my Fiscal Year 2015 Budget Proposal for the City of New Bedford.

Every budget is a reflection of values and priorities, and this year's City Budget is no exception. It was designed purposefully to address what everyone recognizes as the fundamental challenge facing our City:

That is, a long-struggling public education system which has undermined our children's ability to land good jobs and has weakened the competitiveness of local businesses.

We can, and we must, take on the heavy lifting necessary to fix what ails our schools, and fund them adequately.

We have no choice. Our success as a City depends on it.

At the same time we have to provide for education in a way that recognizes the very real economic and fiscal pressures on residents and the rest of city government.

The FY 2015 Budget was crafted to keep a brake on expenditures across city government as much as possible. It should be emphasized right up front, that non-school discretionary spending – that is spending on most of the activities we ordinarily associate with city government – would remain flat under in this proposal.

In other words, as you will hear in a moment, we have effectively frozen the City's operating budget in order to deal with the needs of our schools.

Keeping the Brakes on Expenditures

Let me take a moment to lay out for you the process used to formulate the budget, because it's an important part of the story.

We began by taking a hard look at the range of fiscal challenges facing city government to separate urgent issues from matters that can wait. New performance measurement initiatives we have been putting into place have played an important role in this exercise.

For the first time, all departments were directed to identify their most significant activities and develop goals, objectives, and measures to evaluate the effectiveness of their programs. You will see this spelled out in the new budget document you are about to receive.

The budget also benefits greatly from the recent department reorganizations and efficiency initiatives we have implemented over the past two years.

And there have been many.

For example, successful reorganizations of the City's public works functions have resulted in more effective services at minimal cost, as indicated by noticeable improvements to the City's streets, open spaces, and infrastructure.

The ongoing modernization of the City's financial system is allowing the City to more effectively analyze individual programs, resulting in improvements to facilities management, special events support, telecommunications, vehicle maintenance, and code enforcement.

The successful negotiation of eleven new Renewable Energy Power Purchase Agreements will allow the City to purchase "green" energy at deeply discounted prices, with roughly \$30 million in electricity savings expected over the next 20 years.

The City is embarking on a partnership with Siemens Corporation to modernize buildings, parks and other facilities to improve energy efficiency and reduce consumption.

And improvements in office automation and fleet management have resulted in improvements to service quality at a cheaper cost. We continue to explore other potential areas, such as telecommunications, that hold the potential of providing substantial benefit with a strong return on investment.

We have further stabilized the City's finances by increasing the Stabilization Fund, adopting fiscal policies, settling a major collective bargaining agreement and implementing a long-term capital plan.

All of this has garnered the approval of the Wall Street rating agencies, which act as a sort of Good Housekeeping seal of approval of a city's financial health, as evidenced by Standard & Poor's upgrade of New Bedford to a "AA-" bond rating, the City's best rating in at least forty years. That is a huge

achievement, and it speaks volumes about our success in managing the city's finances.

This success goes far in explaining how we have been able to avoid increases to our tax levy for four years in a row. Holding the line on any tax increase for this long is a remarkable accomplishment for an older industrial city. In fact, today New Bedford has the third highest capacity of untapped levy in percentage terms among the twenty-two so-called Gateway Cities. We have held the line on taxes better than just about every city in the state.

Like anything else, the price of government tends to go up over time. The idea that every budget pressure can be negated by managing government better is unrealistic.

The reality is that our schools are at a crossroads. Significant funding is now required to support the system's overall recovery and school turnaround plans imposed by the State. The plans at our High School and at Parker Elementary School will cost \$2.7 million alone.

Given these new education obligations, the simple adoption of the State-mandated minimum municipal contribution to the School District is no longer a plausible alternative.

And while efforts to restrain increases in health insurance are ongoing, the reality is that increases in benefits costs are largely unavoidable, having resulted from factors outside of our direct control.

And the reality is that the broadest driver of a municipal budget is the health of the local economy, which, despite encouraging signs, is still emerging from the recent recession.

Affordability and Future Risks -- Both Key Considerations

Facing this overall reality, it was imperative that controlling costs and managing future risks were prime considerations in preparing this Budget proposal.

As you well know, many families and seniors in our City continue to fight each month to make ends meet, paying the tax, insurance and utility bills that allow them to remain in their homes.

Effective cost control--so that city government is as affordable as possible--has therefore been a fundamental starting point for every budget I have crafted since taking office, and this year is no different.

A second major consideration was the need to continue to guard against a range of potential financial risks. For example:

City government continues to operate under the threat of a 2012 ruling from the state's Employment Relations Board regarding furloughs that were imposed on employees during the recession. The state's ruling could total \$1.8-\$1.9 million, and is currently awaiting the Board's transcription of the proceedings so that the City may proceed with its appeal.

Late last year the City received a renewal from the federal government funding firefighters through the so-called SAFER grant, which will fund roughly one-third of the Fire Department's firefighters through mid-FY 2016.

Developing a comprehensive plan that prepares the Fire Department for the expiration of the grant is a key consideration for FY 2015.

Although the City reached a contract agreement with the police union that will ensure stability through FY 2016, negotiations remain ongoing with other municipal unions.

The City also continues to maintain significant outstanding liabilities for retiree benefits, a situation that will only become more serious as average life spans grow and the “Baby Boomer” generation retires.

Because the City must remain prepared for all eventualities, my Administration is committed to maintaining a robust reserve in case of the proverbial rainy day, increasing the reserve fund’s balance by 73% since 2012, to nearly \$7.7 million. Another \$500,000 addition to the reserve was proposed earlier this year and is now under consideration by the Council.

Summary of the Budget

So let me sketch out the contours of my budget proposal. To begin, the FY 2015 Budget restrains spending to the greatest extent possible, targeting resources toward specific areas either due to mandatory requirements or strategic focus.

City operating expenditures increase by only 0.2%. In fact, if the Council approves the transfers now pending before it, the proposed budget will represent a *decrease* in spending over this year. This effective spending cut will have happened despite the added costs of additional EMS coverage, the recent police union contract, a 10% reduction in SAFER funding for the Fire Department, and financing costs for the two new fire apparatuses. We have really tightened our belt.

“Fixed” costs, such as debt service, health insurance, life insurance and pension, will increase by 2.8%, or roughly \$2 million. This reflects the ongoing challenge involved in providing health care and pensions for the City’s employees and retirees.

State mandated assessments, which include the cost of funding charter school payments, will increase by 14.6%, or roughly \$1.8 million, reflecting a

category of the budget that continues to have a noteworthy impact on City finances, with annual expense now totaling more than \$12 million.

This Budget provides significant additional resources for the City's school system, increasing funding by about \$7 million over FY 2014. Roughly \$3.3 million in additional local funding will be required to support the increase.

The cost of implementing turnaround plans at Parker Elementary School and New Bedford High School are key drivers of this increase. The FY 2015 budget also begins to address other needs that have long been neglected in the School Department.

Breaking out appropriations by category is instructive. This year fixed costs and state mandated assessments will account for more than \$85 million, or about 30% of all General Fund spending.

It is imperative that we work to control these expenses through the careful management of the City's pension-, retiree health-, and debt-related liabilities.

In summary, the budgetary pressures of fixed costs as well as local funding for the School Department, suggest at the present moment a necessity for some increase in the City's real estate levy later this year.

The City has engaged in a strenuous effort to forego tax increases for the past four years, but it is not realistic to expect that this trend can continue indefinitely.

That said, my Administration remains committed to mitigating the impact of levy requirements of this Budget on residents and businesses, and I intend to take further action as more information becomes available in months ahead regarding changes in projected growth, valuation revisions, and state and local resources that may become available.

The FY 2015 Budget itself significantly mitigates the impact of additional levy requirements through revenue-positive measures such as the expansion of EMS services and additional code inspection staff, while restraining expenditures to the greatest extent possible.

The bottom line is—as I have said many times--we will continue to take a proactive approach toward reducing the impact of resource requirements on the City's taxpayers.

That is what people expect, and that is what we will continue to do.

Concluding Thoughts

Several months ago I asked a team of department heads to identify the set of core values that underlie our approach to serving the residents of our City.

The fruit of their work, The New Bedford Way, is a set of core principles that defines the reasons we have decided to serve the public.

As the embodiment of our community, our city government is in the business of keeping people safe, educating children, and providing services that, for many of our residents, make life worth living. The people of New Bedford need to know that they can count on us when it matters most.

Our willingness to embrace the New Bedford Way in the months and years ahead will speak volumes about our commitment to making our City a better place in which to live.

To be clear, the statement is not about my Administration's core values, and the New Bedford Way is not a decree from the person who happens to occupy the office of Mayor at any particular point in time. The statement was the work of career employees, and it is meant to endure beyond the current Administration.

Over the past two years, we have instituted a number of reforms and other measures that have resulted in material improvements to City government operations and residents' quality of life:

The opening of Custom House Square last Fall provided a welcoming green space in the heart of the City's downtown. Ongoing improvements at New Bedford's parks and at the Buttonwood Park Zoo are providing enhanced recreational opportunities for residents and visitors.

The implementation of the City's Capital Improvement Program will provide long-needed maintenance and equipment replacement to our service agencies while managing the our overall debt load.

New businesses are coming into New Bedford at an increasing pace, and the upcoming opening of the New Bedford Marine Commerce Terminal will mark a new era for our harbor as a cargo port and the potential epicenter for the offshore wind industry.

Our city's downtown and neighborhoods are becoming ever more vibrant, with 479 establishments added since 2008, an 18% increase that outpaced the State's 3.6% growth rate over the same period.

In fact, more than 300 jobs have been added in the Upper Harbor district alone during the past year, with \$87 million invested in historic mill redevelopment, retail construction and equipment acquisition.

The City has tremendous momentum right now.

Councillors, more than anything during this budget season, I encourage you to ask questions. I will make my team readily available to you to clarify or explain any aspect of our proposal. My goal is to make sure that the Council has all the information it needs to make its budget decisions on the merits.

Whatever the opportunity, whatever the challenge, I have confidence that we can work together to ensure a bright future for our residents. Like you, I remain very optimistic about New Bedford's prospects going forward.

Thank you.