



CITY OF NEW BEDFORD  
JONATHAN F. MITCHELL, MAYOR

May 8, 2019

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 2020 budget for the City of New Bedford.

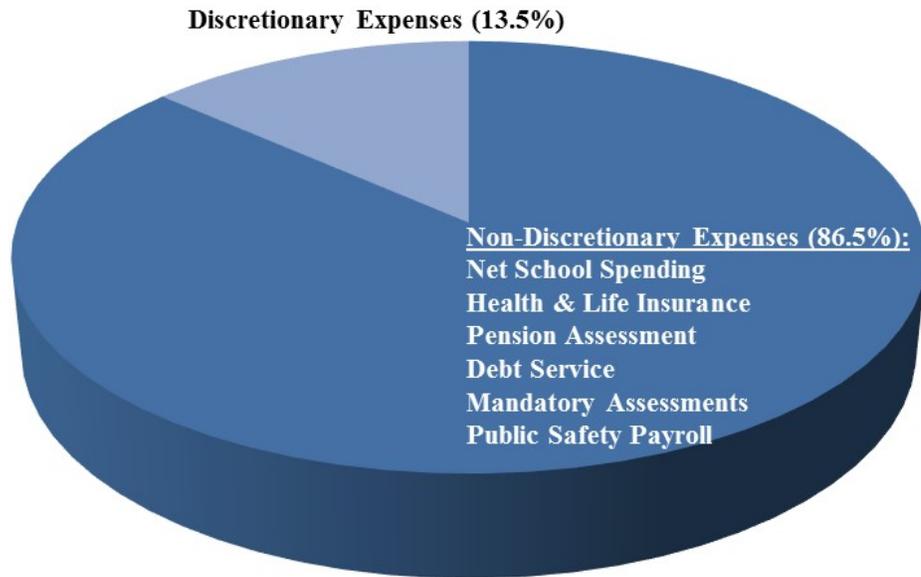
#### Overview

The major factors that have shaped recent budgets continue in FY 2020. 86.5% of the General Fund budget is predetermined by state mandates and regional agreements, and nearly 60% of the city government's General Fund payroll consists of unionized public safety positions that are subject to binding arbitration. As a result, only a relatively small portion of the budget can be considered truly discretionary, and we remain challenged to support current service levels and maintain the City's infrastructure.

As you know, I have 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. 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 fund the school system foundation budget and to 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. Nevertheless, we must continue on this path in order to move New Bedford forward.

## FY 2020 General Fund Expenditures



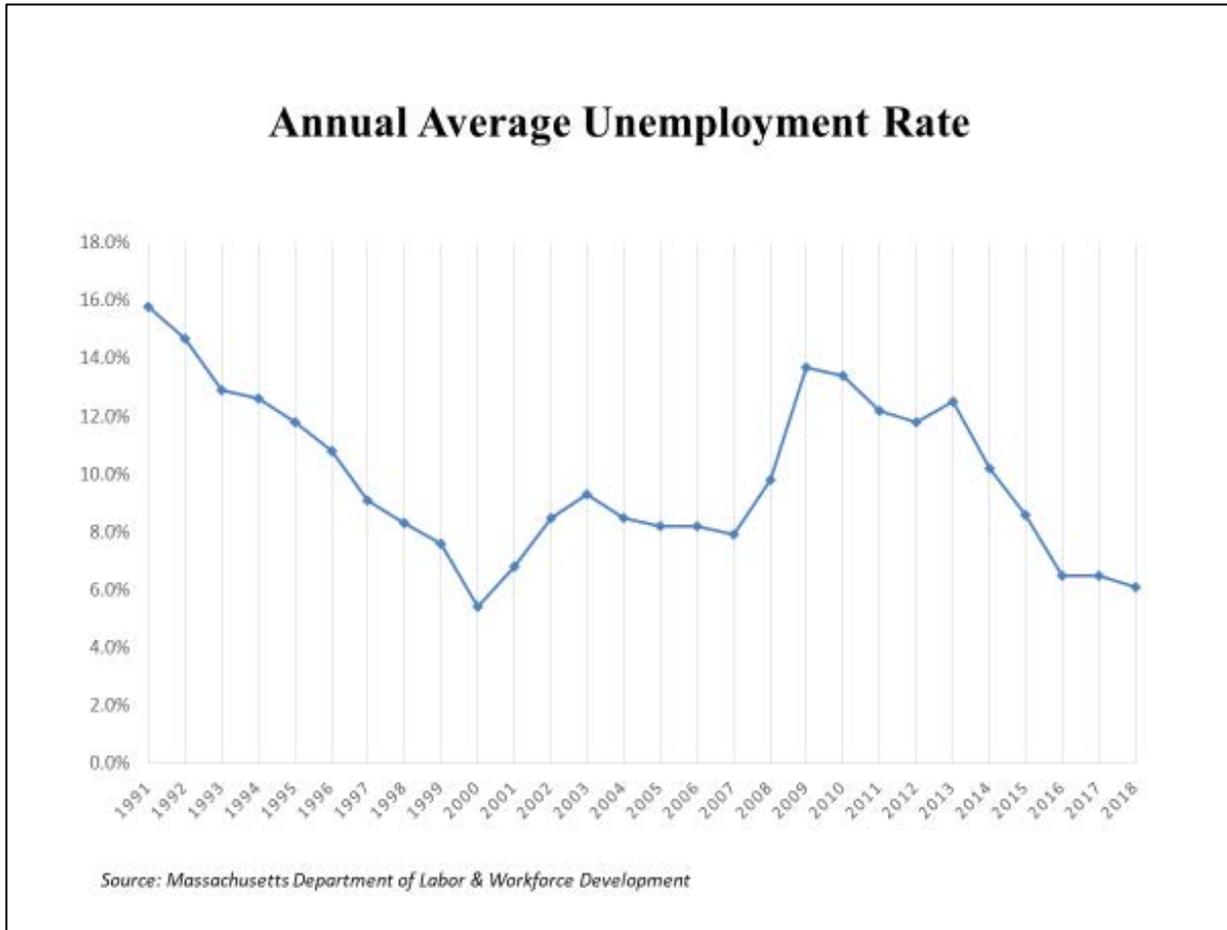
The development of a responsible and sustainable spending plan would not be possible without the active interest and engagement of the City Council. The processes and mechanisms that we have built together over the past several years are serving the City well and are helping to ensure that the City's core priorities are addressed within the current climate of fiscal constraint. I look forward to continuing this partnership as the new fiscal year gets underway.

### Economic Overview

The New Bedford economy continues to experience a period of steady growth, especially over the last several years. According to the Massachusetts Office of Labor and Workforce Development, employment in the City increased by 2,357 jobs, or 5.4%, between 2017 and 2018, and by 5,809 jobs, or 14.4%, since the beginning of 2012.

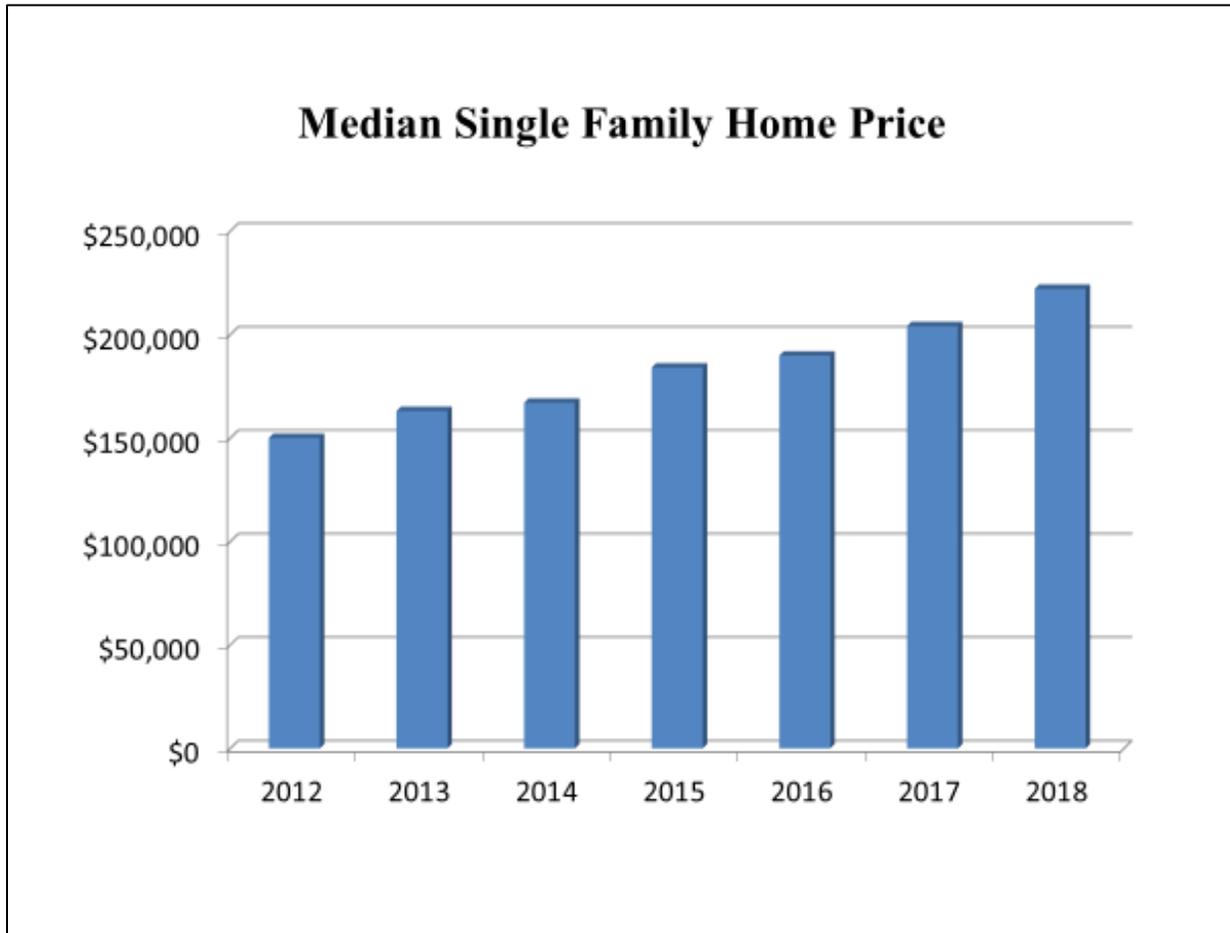
Other indicators of economic activity have also improved. The average single-family home sold for a median price of \$222,000 in 2018, an 8.8% increase over 2017. Sales volume totaled 1,235 homes in 2018, continuing the strong level of activity that has been characteristic of the past three years. In addition, motor vehicle excise tax revenue increased by nearly 41%, and the combination of meals and room occupancy revenue tax grew by nearly 46%, from 2012 through 2018. Building permit volume is also up by about 44% since 2012. Although these sources

constitute a relatively small portion of General Fund revenue, their performance is a good indicator of economic activity.



Continued growth in the economy still has not fully translated into construction-related growth in the tax base. In 2017, new growth exceeded \$2 million for the first time since 2007, a trend which continued in 2018. 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 2020 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 FY 2020 budget therefore works to restrain the growth in spending to limit the burden on taxpayers as much as possible.



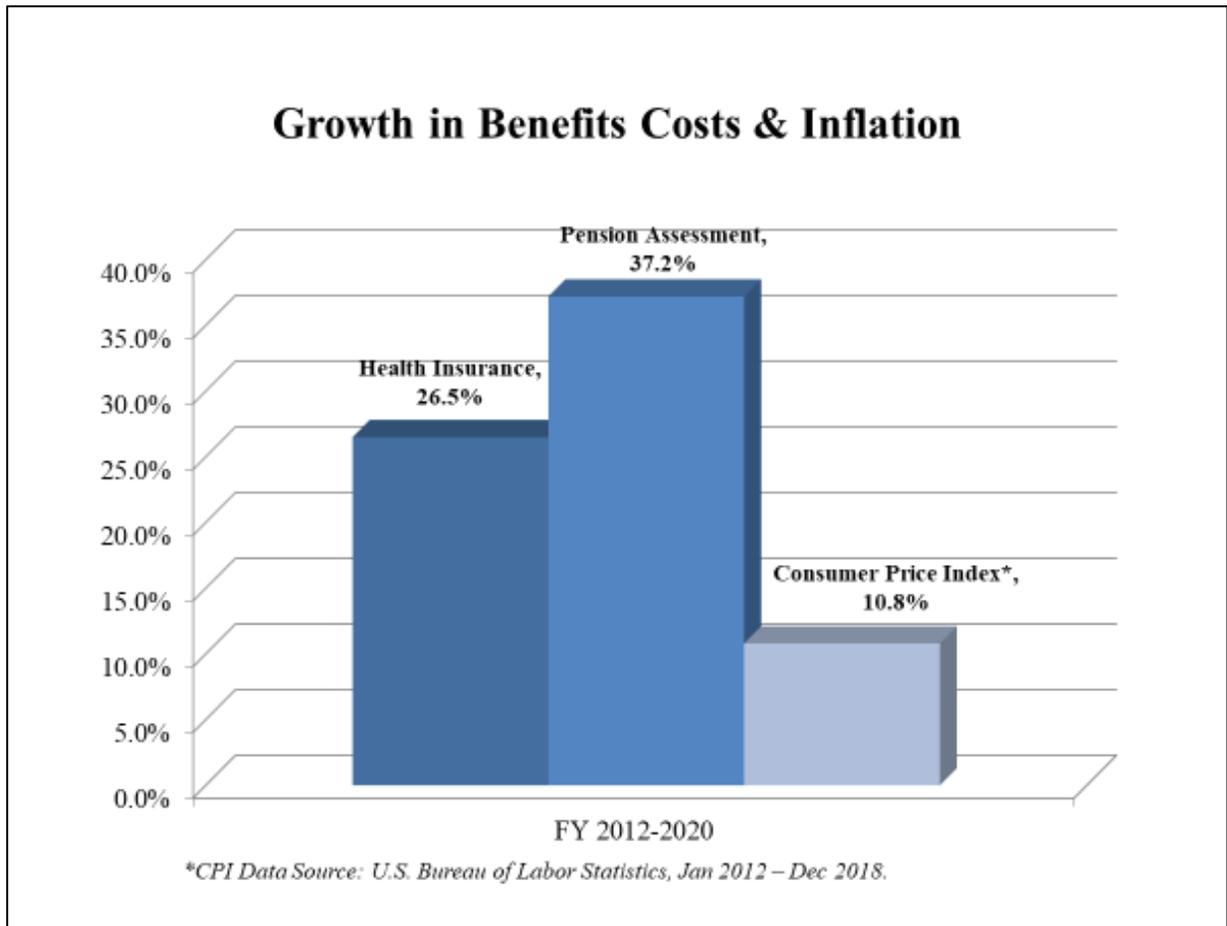
#### Key Budget Drivers

The FY 2020 budget was shaped by a number of factors that required us to make difficult choices to ensure that the spending plan will adequately fund core operations and allow the City to meet its statutory obligations. Several factors stand out above the rest:

- 1. Modest Revenue Growth Has Not Kept Pace with Costs:** Despite a growing local economy, baseline revenue growth remains insufficient to maintain pace with increases in the prices of goods and services, as well as the various other costs of doing business. As part of the budget development process, City departments requested approximately \$3.1 million to fund unmet needs. Collective bargaining agreements with the City's four bargaining units will be up for renewal in FY 2020. In addition, completion of the transfer of firefighter positions from the expired federal SAFER grant will cost the General Fund an additional \$0.5 million in FY 2020.
- 2. Mandated Education Costs:** The FY 2020 budget under consideration by the Massachusetts Legislature takes some welcome steps to alleviate pressure placed on New Bedford taxpayers to meet the mandated funding requirements for education. Nevertheless, the State-mandated level of net local support to operate the City's school system will continue to rise: the local share of School Department operating expenses

required to meet Net School Spending requirements will increase by about \$1.3 million from FY 2019 to 2020. At the same time, the City's net obligation toward charter schools will total \$15.7 million, an increase of nearly \$1.7 million.

3. **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 \$2.7 million in additional support.

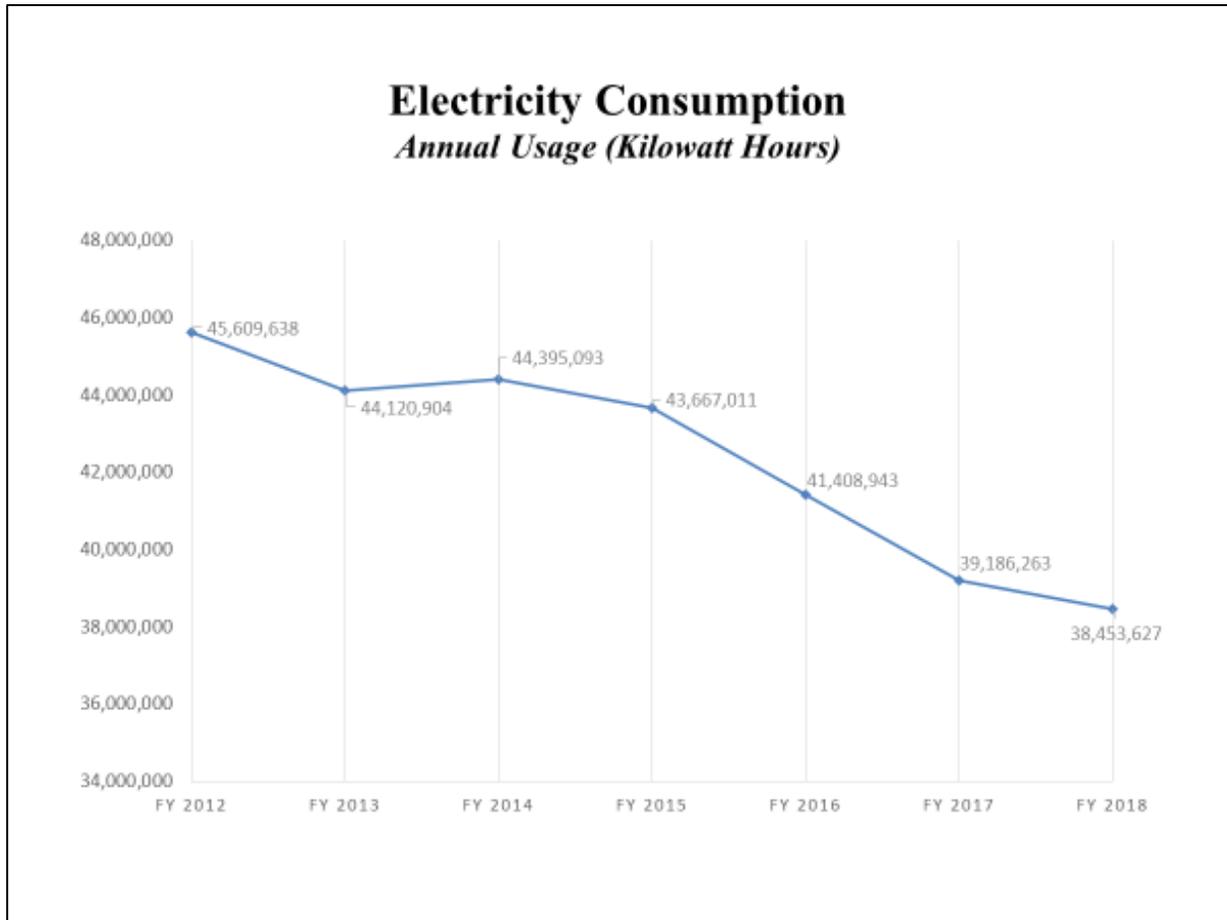


Looking forward, it will be important to ensure that sufficient funding is available to support implementation of potential collective bargaining agreements with the City's four unions. Maintaining capacity to support the CBAs, while minimizing the impact on City taxpayers, will be a central focus going into FY 2020.

#### 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 continue to receive national recognition from the Government Finance Officers’ Association, which awarded New Bedford its Distinguished Budget Presentation Award for the third straight year. The City has advanced transparency efforts through its Open Checkbook initiative, the development of our first-ever Comprehensive Annual Financial Report (CAFR), and the implementation of NB Compass, the City’s new online dashboard.



- The City is in the midst of a complete update of the fleet management program. Renovation of the Central Garage is in design, and the acquisition of new software and tracking systems will facilitate more effective management of the municipal fleet.
- The installation of the Citywide fiber loop, which is currently underway, will ensure continuity of operations and reduce telecommunications costs for municipal departments. The new Employee Self-Service portal has been implemented citywide, resulting in improved service quality at lower 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 total usage, in annual electricity consumption since FY 2014. In addition, the City will receive credits totaling an estimated \$700,000 in FY 2020 for our aggressive solar net metering program.

#### FY 2020 Budget Summary

The FY 2020 budget process continues my administration's focus on long-term sustainability. Since 2001, the number of full-time positions supported by the General Fund has been reduced by 206 employees, or about 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.

We must continue to be vigilant about risks to the City's financial health. 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.

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.

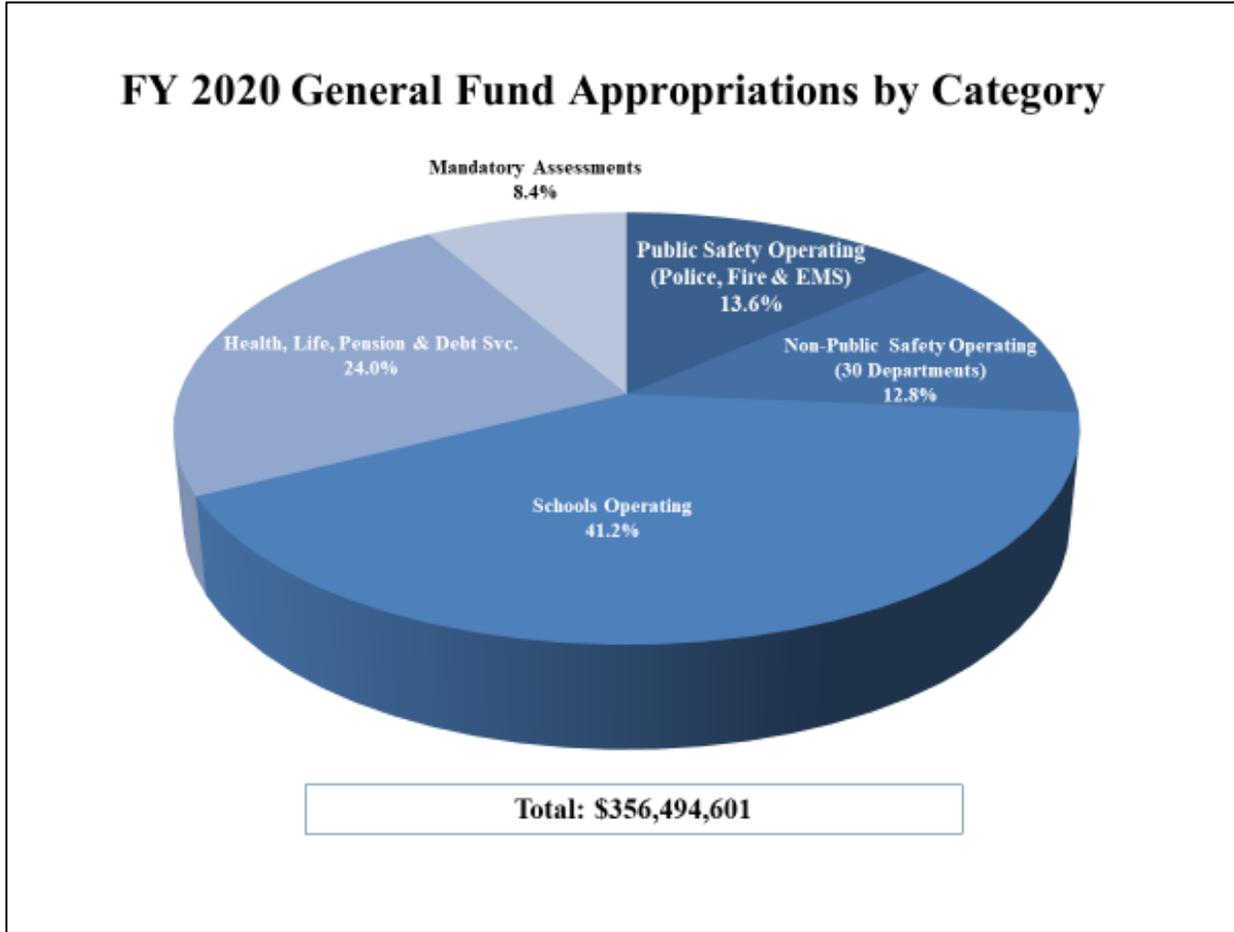
And the City must be prepared for the unexpected. My administration is committed to establishing and maintaining a significant stabilization reserve, and the City Council has been fully engaged in adopting a strong reserve policy. It is the maintenance of a robust reserve that has allowed us to address episodic needs, without placing an undue burden on the City's taxpayers, and will provide an important hedge in the event of unforeseen expenses. 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 FY 2020 budget totals \$401,037,890, of which the General Fund is the largest component at \$356,494,601. The General Fund budget benefits from a \$15.7 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 limited resources toward core priorities.

The proposed budget features several structural revisions intended to improve transparency and to comply with State requirements. Health and life insurance expenses have been budgeted in the enterprise funds in order to carry costs directly with assigned employees. In addition, the establishment of the Cable Enterprise Fund, which is required by new State law, provides visibility regarding the disposition of cable access fees.

The FY 2020 budget is heavily influenced by increases in fixed and mandated costs. Funding for the City's health insurance, pension and life insurance programs increases by \$2.7 million due to increased claims expenses and pension funding requirements, and General Fund support for the

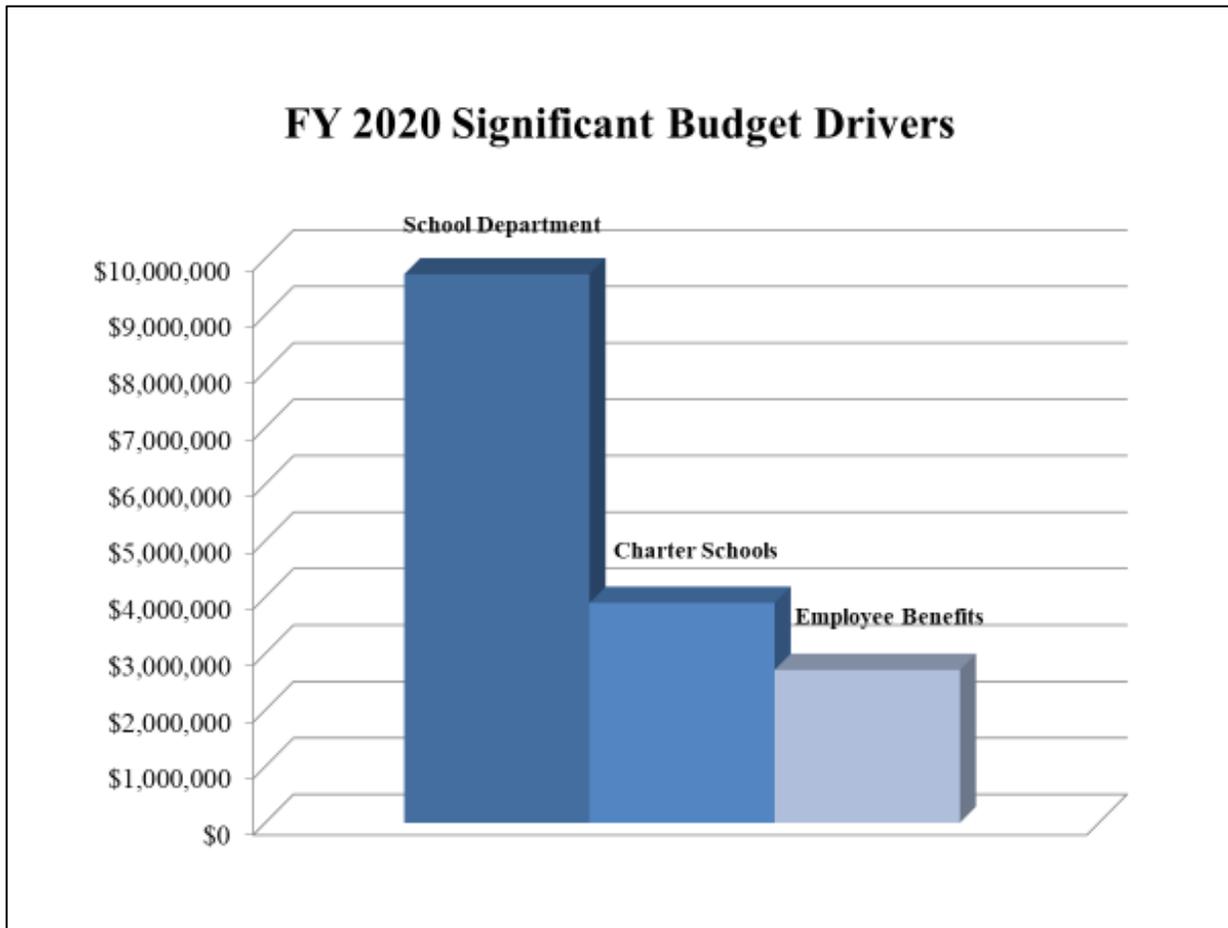
Fire Department increases by \$0.5 million to complete the conversion of 21 firefighter positions from the federal SAFER grant, which expired in mid-FY 2019. Funding for the School Department will increase by \$9.7 million to comply with the State’s minimum spending requirements.



Mandatory assessments, most of which consist of funding for charter schools, are also consuming an increasing share of the City’s resources. From FY 2011 through FY 2019, the net cost of funding charter school payments increased by \$9,827,353, or 235%. This trend will continue in FY 2020, which reflects the first anticipated wave of student enrollments at the new Alma del Mar neighborhood school. The City’s charter school assessment is expected to increase by another \$3.7 million, while state reimbursements will only increase by about \$2.0 million. As a result, the City’s net obligation will exceed \$15.6 million, significantly reducing the funding available to address the School Department’s myriad needs.

Fixed costs and mandated assessments will account for \$115.7 million, or 32.5%, of General Fund expenditures in FY 2020, while Net School Spending requirements will account for another \$146.8 million, or 41.2%, meaning that nearly 74% 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 2020 budget includes minimal position-related enhancements. The budget limits enhancements to four positions in the General Fund: (1) a foreman to improve preventative maintenance activities for the City vehicle fleet by implementing a second shift at the central garage, (2) a superintendent position in DPI to implement more effective management for the City's cemeteries, (3) an assistant project manager in Parks, Recreation & Beaches to oversee the implementation of park and CPA projects, and (4) a clerk typist to address workload issues in the City Clerk's office. In addition, the proposed budget includes initial funding for the Small Business Incentive Program, an initiative which was first proposed by City Councillors as a matching program to support new businesses' capital investments.



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 2020 budget makes it clear that our work is not finished. Mandatory assessments and benefits costs are a continuing source of pressure on the City's fiscal sustainability and limit our ability to fund initiatives that will move the City forward. Despite these challenges, the FY 2020 budget is anticipated to slow levy growth. 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.

Concluding Thoughts

The development of the FY 2020 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. The City Council has consistently demonstrated its commitment toward effective fiscal oversight, and I look forward to continuing our partnership in the weeks ahead. Thank you for your consideration of this FY 2020 budget proposal.

Sincerely,

A handwritten signature in blue ink, appearing to be 'JM', written over the printed name and title.

Jon Mitchell  
Mayor