



CITY OF NEW BEDFORD

JONATHAN F. MITCHELL, MAYOR

May 13, 2015

City President Brian K. Gomes and
Honorable Members of the City Council
133 William Street
New Bedford, Massachusetts 02740

Dear Council President Gomes and Members of the City Council:

I am pleased to submit for your consideration the Fiscal Year 2016 budget for the City of New Bedford.

The City faces a challenging fiscal reality for the coming year, chiefly triggered by mandatory increases in nondiscretionary areas and unfunded mandates that are driving up the cost of local government. At the same time, the ongoing expansion of our local economy has not yet translated into revenue growth, a situation that is not unusual during the early stages of a recovery. We therefore have been left with no choice but to reduce operating expenses across departments in order to afford increases in areas over which the City has little or no control.

The annual budget is a reflection of our community's values and the circumstances to which the City must respond in the coming year. The FY 2016 budget addresses the stark fiscal realities that we face this year with the same simple and straightforward values that have served us well to this point: (1) making funding decisions based on the merits and never shirking from tough decisions, and (2) continuing to make the most of every resource by identifying new efficiencies and cost-saving measures.

Some might question this austere approach by pointing to the continued recovery in our local economy. It is true that the City has turned the corner economically. We continue to experience significant job growth. The unemployment rate as of March 2015 was 2.4% lower than the same month last year, and construction permit revenues are 18% higher. A variety of indicators reflect broad-based growth. However, these signs of growth have not translated to higher property value, and new property growth continues to hover around \$1 million per year. In addition, State revenue will increase only slightly, by about \$2.4 million, or 1.6%.

This restrained revenue forecast required us to redouble our efforts to target those areas where increased funding was an essential need. Nearly 73% of the General Fund budget is predetermined by state mandates and regional agreements, which meant that department enhancements needed to be deferred whenever possible, vacant positions eliminated and reductions instituted across the city government in order to fund mandatory increases in pensions, health insurance, school expenditures and state assessments.

Overall, the budget cuts non-public safety operating expenditures by 1.2%. Fixed costs, such as debt service, pensions and benefits, increase by 5.7%. Funding for the School Department increases by \$2.4 million to meet net school spending requirements established by state law. Public safety operating expenses increase by about \$3 million, principally to fund costs associated with labor contracts and the upcoming expiration of the current SAFER grant.

The challenges involved in developing the FY 2016 budget were compounded by the historic winter, which resulted in the City overspending its initial snow removal budget by \$857,000 and resulted in the permanent loss of several vehicles. The FY 2016 budget includes a modest increase in the snow removal budget to reflect recent trends. Federal disaster assistance may become available in the future but at levels lower than we initially hoped.

Key Drivers

The FY 2016 budget was shaped by three significant factors that combined to produce a challenging dynamic and required us to make a number of difficult choices to ensure that the spending plan maintains core operations and meets the needs of the community:

1. **Nondiscretionary items and unfunded mandates are causing significant strain on the budget.** 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. A statewide shortfall of \$53.6 million in its charter school reimbursement account means that the City will be shortchanged by about \$1.6 million, while the mandatory assessment will increase by \$1.5 million. In addition, retirement and health insurance costs will increase by \$3.9 million and debt service and lease payments will grow by \$1.1 million.
2. **Baseline revenue growth is insufficient to offset the growth in nondiscretionary items and meet the City's evolving needs.** City departments identified \$2 million in new unmet needs and the School Department requested an \$8 million increase to its budget over FY 2015. Neither of these requests was realistic in the current environment, where general fund revenue is forecast to grow by just \$4.6 million without a levy change.
3. **The Federal SAFER grant, which fully funds 63 firefighters, will expire in mid-FY 2016.** The City initiated a comprehensive study of the fire and EMS systems in FY 2015; the final report is due in early FY 2016. The City has applied for a SAFER grant renewal that would fund 31 firefighters for an additional two years as a bridge toward implementing the study. Additional costs in the FY 2016 Budget are exacerbated by the recent JLMC arbitration award, which will increase baseline personnel expenditures by about \$1.8 million in FY 2016.

Budget Reductions & Efficiencies

Many 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. The FY 2016 budget includes a number of measures that will be implemented to maintain affordability for all residents, including: (1) the elimination of 13 vacant positions, (2) reductions to agencies' line item budgets, (3) a one-year deferral of scheduled step increases for management employees, and (4) the implementation of a long-term hiring freeze intended to maximize savings and identify additional efficiencies over the next year.

FY 2016 Budget Reductions & Efficiencies		
Department	Description	Amount
Auditor	Account Clerk	\$29,031
CFO	Collins Center Contract	20,000
Community Services	Temporary Staff	6,877
Elections	Postage	26,000
Environmental Stewardship	Engineering Services	25,000
Facilities & Fleet Management	Diesel Engineer Repair	34,772
	HVAC Technician	33,254
	Electricity Savings (Streetlights & Solar)	676,498
Health	Sanitarian to Recycling Grant (75%)	25,538
Inspectional Services	Building Inspector	40,769
	Clerk Typist	24,950
Labor Relations	Temporary Staff	13,452
Library	Temporary Staff	3,937
	Capital Purchases	53,395
Mayor's Office	Personnel & Consultants	37,386
Planning & Comm. Development	Positions Shifted to CD & ZBA	12,536
	Assistant Planner	67,842
Police	Four Dispatchers to PSAP Grant	109,848
Purchasing	Voice Over IP Savings	70,000
Recreation & Parks	Beach Parking on Weekends	16,434
Public Infrastructure	Diesel Engineer Repair	31,915
	Draftsperson	29,293
	Gardener	28,525
	Heavy Equipment Operator	31,397
	Mason	31,915
	Project Coordinator	34,960
	Working Foreman	31,915
	Electricity Savings (Solar)	3,000
	Temporary Staff	5,000
Zoo	Temporary Staff	5,762
Various	Agency Line Item Reviews	241,214
	Unit C Step Freeze	120,373
	Vacancy Savings	537,885
Total Budget Reductions & Efficiencies:		\$2,460,673

No agency was held harmless from the reduction exercise, and the FY 2016 budget benefits from our continued efforts to identify efficiencies and improve municipal operations. These initiatives

range from the identification of less expensive energy alternatives to business process improvements:

1. The combination of recent power purchase agreements for alternative energy and the conversion of the City's outdoor lighting to LED technology will reduce electricity expenses by about \$1,072,000 in the general government and the school department. Additional reductions may be expected in future years as the citywide energy conversion program is implemented in the City's offices, schools and other facilities.
2. Recently-concluded labor agreements with the City's three unions allow for biweekly pay and mandatory direct deposit. The consolidation of the City's paydays and implementation of paperless deposit advice will result in significant savings throughout the organization.
3. Thanks to the City Council's authorization of the FY 2015 capital program, the City is currently implementing a Voice over Internet Protocol telecommunications system (VoIP). This program will allow for enhanced communications services at reduced cost. The FY 2016 budget includes \$70,000 in annual savings resulting from the VoIP initiative.

Looking forward, we must continue to guard against potential risks to the City's financial health. For example, changes to the City's healthcare program have resulted in significant savings for long-term retiree benefit liabilities. Although the most recent actuarial valuation report showed a remarkable 25% reduction, the City has yet to implement a reliable program to reduce the long-term liability, which is currently estimated at \$424.8 million. The City Council's recent approval of an OPEB trust is a welcome step in that direction. However, action will be required at the state level to achieve meaningful reform to bring post-retiree benefits costs to a manageable level.

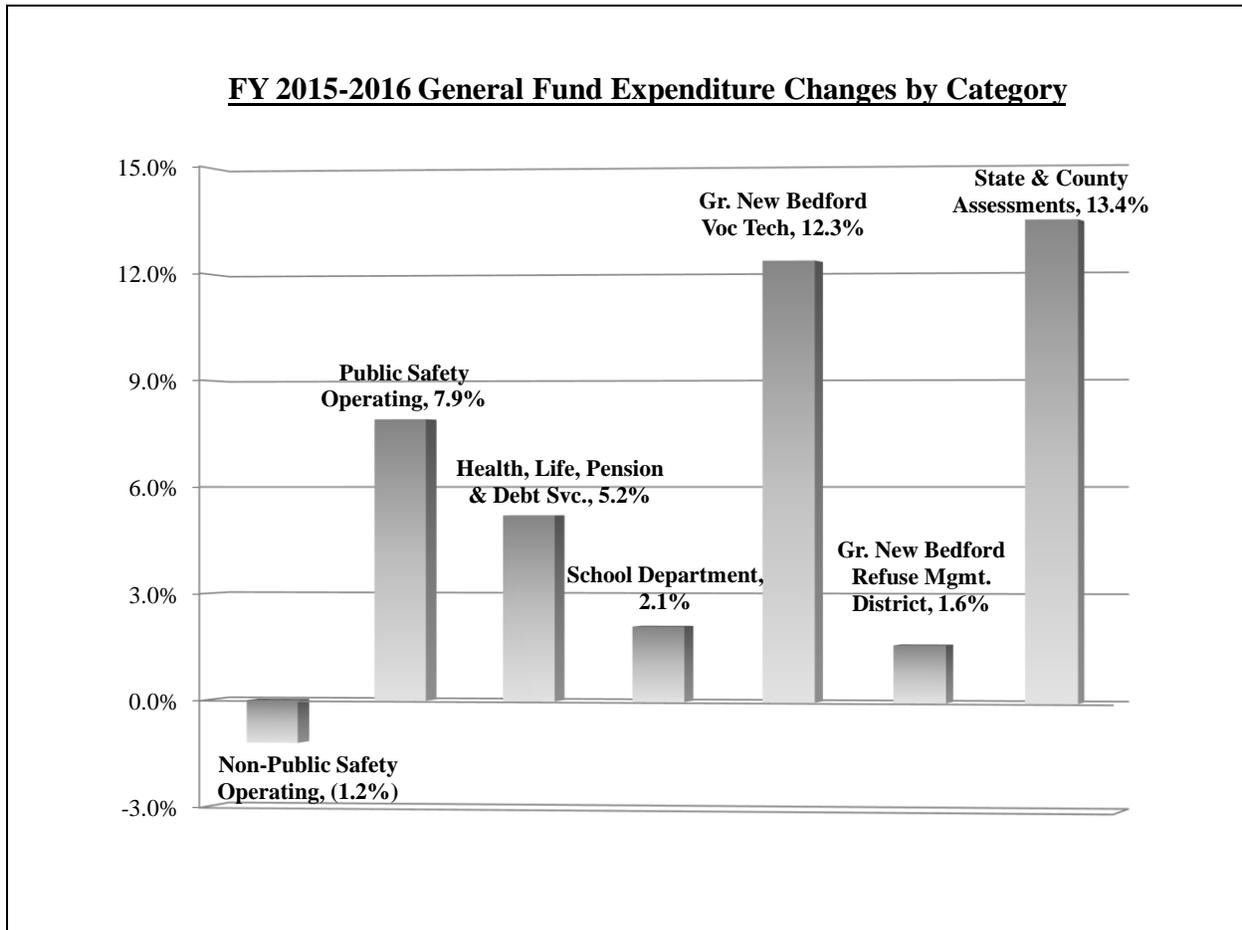
The City must also stay prepared for the unexpected. My administration has been committed to establishing and maintaining a robust stabilization reserve, increasing the fund's balance by 85% since 2012, and the City Council, for its part, has been fully engaged in adopting a strong reserve policy. This approach was instrumental in securing the City's AA- bond rating from Standard & Poors', its highest in at least forty years.

Budget Summary

The impact of reductions and efficiencies is evident throughout the budget. With little revenue available to support increased resource requirements, the FY 2016 budget targets resources primarily toward mandated expenditures.

A \$3,025,305 increase in public safety agencies' expenditures (the result of collective bargaining obligations and the expiration of the SAFER grant) was offset by a \$479,293 reduction in the City's non-public safety agency budgets and, as noted previously, funding for the school department is proposed to comply with net school spending requirements, a \$2.4 million increase over FY 2015.

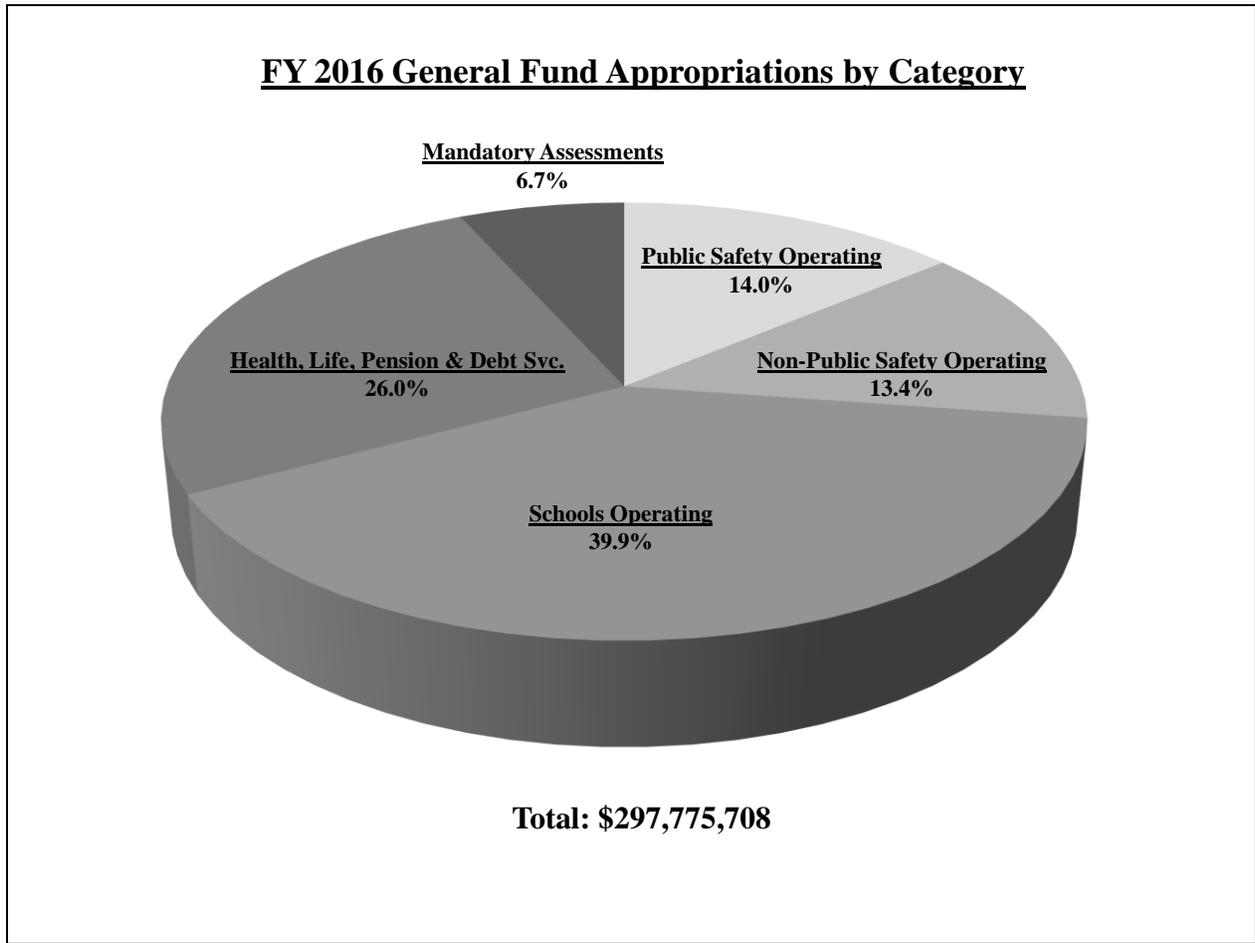
Fixed costs, such as health insurance, life insurance and pension contributions, increase by \$3,301,837, or 5.2%. This reflects the ongoing challenge involved in providing health care and pensions for the City's employees and retirees. In addition, debt service increases by \$892,801, due entirely to the maturation of preexisting short-term debt that was incurred several years previously.



Mandatory assessments continue to account for an increasing share of the City's resources. From FY 2010 through FY 2015, the cost of funding charter school payments increased by \$5,031,558, or 204%. This trend continues in FY 2016, with the City's charter school assessment increasing by another \$1,521,364, or 15.2%, even though State reimbursements will decline by \$8,876. The City's assessment for Greater New Bedford Vocational Technical High School has also increased significantly, with FY 2016 support increasing by \$594,445, or 12.3% over FY 2015.

Fixed costs and mandated assessments will account for \$97.6 million, or nearly 33%, of General Fund expenditures in FY 2016, while Net School Spending requirements will account for another \$118.8 million, or 39.9%, meaning that nearly 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 forego tax increases, with 2015 representing the first year that the City increased its real estate levy outside of new growth since 2010. However, the ongoing demands placed upon the General Fund, especially by mandatory assessments and pension and benefits costs, will put more pressure on the levy. My Administration will continue working to identify ways to mitigate the impact of the City's revenue needs on our residents, including the identification of additional efficiency measures over the course of the year.



Concluding Thoughts

Over the past several years, we have instituted a number of reforms and other measures that have resulted in material improvements to the City's operations and residents' quality of life. The opening of the Custom House Square, River's End and Haskell parks have provided welcoming green spaces in the heart of our community. Last year's overhaul of our trash collection system resulted in a doubling of the City's recycling rate and less trash throughout the City. Our alternative energy and energy conservation programs are generating significant reductions to the City's utility bills. Ongoing improvements at the City's parks, streetscapes and at the Buttonwood Park Zoo are providing enhanced recreational opportunities for residents and visitors, and the implementation of the City's capital improvement program is providing long-needed maintenance and repairs to our core facilities while managing our long-term debt. Crime

is down citywide, and our efforts to bring more effective and professional management to the city government have continued to bear fruit.

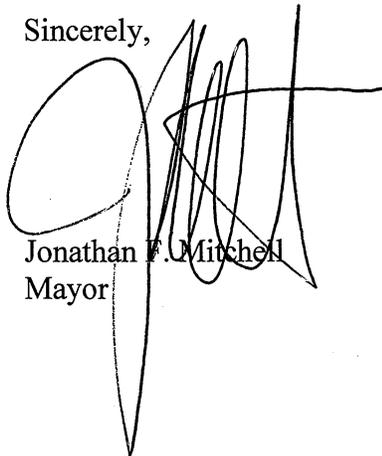
New Bedford's economy is gaining momentum. The City's major businesses have generated a rising tide of job creation, and the Massachusetts Department of Labor reports that the City's workforce has grown by 5,000 jobs since 2011. Our continued efforts to promote the City as a business destination are producing results, and the development of the City's industrial port is in full swing, with a record amount of freighter activity this past winter.

As is typical in the early stages on an economic recovery, the City's job growth has not yet resulted in significant changes to property values, which leaves the city government greatly constrained until the current dynamic changes. Although the reforms to health insurance, payroll practices and business operations have yielded enormous savings, the City will continue to face structural challenges for the foreseeable future. As I have highlighted many times, much of the problem can be attributed to the cost of retiree benefits whose terms and eligibility are dictated by the State. 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. In addition, the upcoming expiration of the Federal SAFER grant, combined with the impact of the recent JLMC arbitration award, means that the general fund's commitment to the City's fire department will increase significantly in FY 2016.

The combination of factors influencing our current fiscal outlook has required us to trim, trim more, and trim yet again. The FY 2016 budget implements a number of reductions and efficiencies, while allowing the City to continue to meet its statutory obligations. These reductions will not be easy, but they are the tough decisions that are necessary to maintain a sustainable course. We 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 2016 budget. I look forward to our work together in the weeks ahead.

Sincerely,

A handwritten signature in black ink, appearing to read 'Jonathan F. Mitchell', is written over a large, stylized, circular scribble.

Jonathan F. Mitchell
Mayor