



***Mayor Jon Mitchell***

***City of New Bedford  
Fiscal Year 2024 Budget Address  
[remarks as prepared]***

***Wednesday, May 17, 2023***

Council President Morad, Members of the City Council, Department Heads, and residents of New Bedford, I am pleased to submit tonight for your consideration the Fiscal Year 2024 Proposed Budget for the City of New Bedford — a spending plan that sustains services at levels our residents expect, without unduly burdening taxpayers.

The economic and financial climate in which this proposal is being submitted is defined by both undeniable, solid progress locally, and a degree of uncertainty at the global, national, and regional level--with obvious potential implications for New Bedford.

The reasons for local confidence and optimism are several. The local economy has demonstrated remarkable resilience and remains on a firm footing following the COVID-19 pandemic.

The City's unemployment rate for the first six months of Fiscal Year 2023 has averaged 5%, having fallen from an average of nearly 17% during the first six months of the pandemic three years ago.

Likewise, after more than a decade of work to establish New Bedford as a leader in offshore wind energy, this month the first turbine components are arriving in our port from Europe in support of the first industrial-scale offshore wind project in America.

In the months and years ahead, we can expect the economic impact of Vineyard Wind and successor projects to become increasingly evident, as New Bedford continues to be a focus of both public and industry investment.

Additionally, the American Rescue Plan Act (ARPA) funding has allowed us to direct critical resources toward a range of needs from housing to small business assistance, and helped the City pay for one-time costs and other budgetary expenses that we would have otherwise gone unfunded.

At the same time, there is no denying the geopolitical tensions, political impasses in our nation's capital, supply chain challenges, price inflation, and interest rate pressures, threatening the broader economy. Given these challenges, this year we are again following the careful, conservative approach to budgeting that has served us well in the past.

The City was able to successfully manage the fiscal emergency of the pandemic period through a cautious approach to expenditures that did not jeopardize public safety or decimate essential services relied on by our residents.

### Budget Overview

The approach this year was no different. In total, the Fiscal Year 2024 budget totals \$513,169,319, of which the General Fund is the largest component at \$458,910,392.

The proposed General Fund expenditures are based on very modest increases in non-school municipal aid from the Commonwealth, conservative revenue assumptions, and local receipts which are modelled on the first nine months of FY 2023 and the last three months of FY 2022 trailing.

The proposed budgets for the Enterprise Funds are based on revenue estimates that incorporate proposed rate increases. Should the proposed rate increases not be approved, the operating budgets of Enterprise Fund departments will suffer significant impacts, resulting in disruptions in operations and service delivery.

Also of note, last year, for the first time, we added funding to the operating budget to cover significant costs increases driven by inflationary trends in energy and materials like gasoline, diesel fuel, electricity, and natural gas.

To responsibly budget for the coming year, we again utilized spending projections based on unit costs and consumption data compiled from various departments for the first three quarters of FY 2023. And, as we did last year, we allocated three million dollars in ARPA funds to support eligible budget items.

Funding for the School Department is projected to increase by \$23.1 million, or 10.5% to comply with the Commonwealth's minimum Net School Spending requirements. This follows one of the largest annual increases in memory from last year.

While we are grateful for the additional state funding pursuant to the Student Opportunity Act, the matching municipal contribution that comes with it, is very significant.

Similarly, mandatory assessments, which consist of funding for charter schools, continue to consume a larger share of the City's resources. The City's contribution to Charter School Sending Tuition has risen from \$26.9 million in FY 2023 to \$29.8 million in FY 2024.

### Limitations to Our Approach

It has become clear that there are limits to our strategy of lean budgeting. Over many years, the City has pursued multiple rounds of budgetary belt-tightening. As a consequence, we are at, or nearly at, the point where we risk just not having the bodies to perform the necessary work.

---

When I took office in 2012, the City had 1,136 full-time municipal (i.e. non-school department) employees.

Fast-forwarding ten years later, in 2022, that figure was 1,029, or about 10% fewer full-time employees. In 2023, the figure likely fell further still.

Now, a reduction in the size of the organization is not necessarily a bad thing. After a decade of modernization and reform, city government today is more efficient in many service areas than it has ever been, despite the elimination of positions.

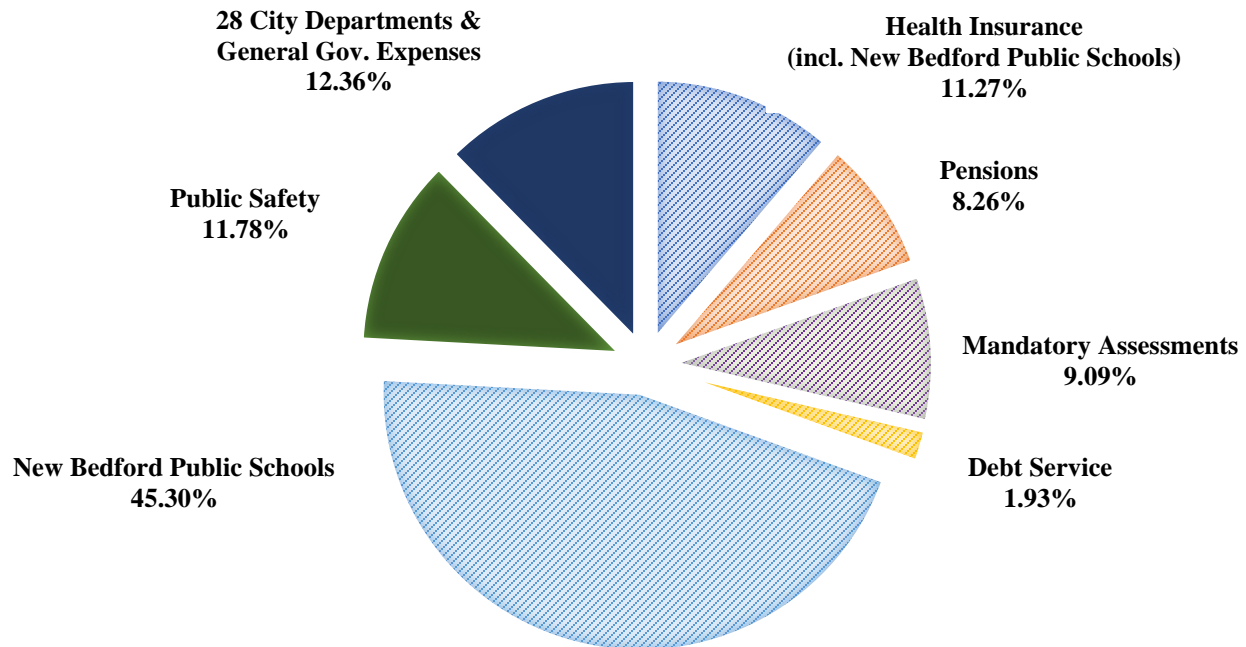
But it is also true that city government is now at risk of an erosion in its basic capacity to deliver effective services when the overwhelming share of the operating budget remains comprised of fast-growing, legally-mandated spending--while state aid and revenue growth fail to keep up.

In sum, we have acted responsibly. But we also need to do more and consider reform in the key places in the budget that can deliver savings at a scale that can make a difference.

Consider the following: Fixed costs and mandated assessments account for \$110 million of General Fund expenditures in Fiscal Year 2024, while Net School Spending requirements account for another \$238 million. These total nearly 80% of the entire budget.

As this chart illustrates, the municipal services that residents count on every day--from public safety, to trash collection, to road and park maintenance, to water and wastewater services—together make up less than a quarter of the city's budget. At this point, even modest cuts in departments can debilitate important services.

## FY 2024 General Fund Appropriations by Category



*Note: Cross-hatched sections indicate mandated expense categories.*

Given that so much of the budget is beyond our ability to control, attempts to reign in spending by reducing department operating budgets according to their number of staff vacancies are sure to backfire. The typical savings this achieves are negligible, but the loss of staffing capacity, such as for the upkeep of our parks, roads, cemeteries, or buildings, is evident to everyone. The public inevitably concludes that it's getting less for their tax dollars, and they are right.

### Health Care Costs

The path forward must include strategic action in the areas where more meaningful savings can be achieved without undermining basic services. More specifically, we must deal with the increasing costs of mandated expenses which are crowding out government operations.

Most of the mandatory spending is dictated by state policy, but some of it is within our control. As the Council has heard from me in the past, without a doubt, healthcare reform is the area of the budget that would have the most positive impact on municipal finances.

That is why I intend to refile my previous request for the City Council to vote to adopt Sections 21-23 of Chapter 32B of Massachusetts General Law, as so many other localities have done to better manage spiraling upward healthcare costs.

There is nothing particularly earth-shattering about these sections of state law. The Administration and public employee unions will continue to negotiate health insurance benefits as they have always done.

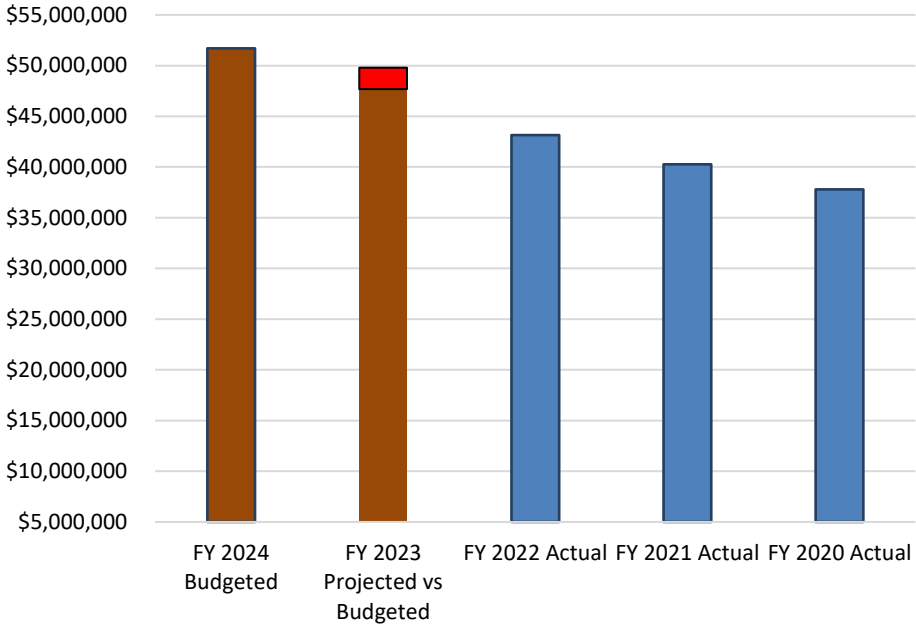
The adoption of the state law will simply restore a level-playing field and equalize the negotiating positions of the two sides by allowing an independent, neutral arbiter to resolve differences when an impasse arises during negotiations.

It is hard to understate how much healthcare spending contributes to the property tax burden on our residents. Between 2012 and 2023, employee health insurance costs rose from \$35.2 million to \$45.7 million, or nearly \$1 million per year every year.

Worse yet, the rate of spending increase is growing fast this year, and there is good reason to believe healthcare spending may increase faster still in future years. It's a problem that is not going away, and could get a whole lot worse.

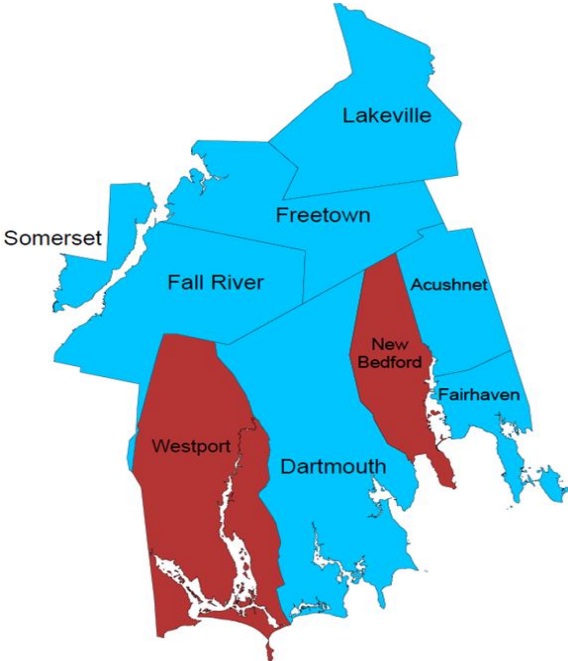
We are already long overdue in taking action on this issue. This budget includes \$51.7 million to cover healthcare costs, a full 10% increase over last year's budget. Consider this chart depicting the consistent upward trend:

### Healthcare Cost Trends



And as this map depicts, virtually every local government in Southeastern Massachusetts has already adopted Sections 21-23.

### Cities & Towns That Allow A Neutral Arbiter In Local Government Healthcare Negotiations



New Bedford taxpayers deserve relief from the outsized budget pressure caused by the current health insurance program, every bit as much as their neighbors in other municipalities.

### Pension Costs

Pension costs are another major budget item contributing to the burden on taxpayers. As you know, state law dictates that the City must make yearly payments to the retirement system sufficient to become “fully funded” by 2035. That much is out of our control.

But the Retirement Board and the City Council both possess a measure of local control that could be exercised to reduce the impact of rising pension costs on taxpayers--and, equally important, help ensure the future solvency of the pension system for today’s active employees who are counting on it to be there for them when they retire.

We haven’t always used this authority to reduce our pension costs. Our retirement system is only 52% funded. Out of 104 government retirement systems in Massachusetts, only six other systems are less funded than ours. New Bedford is near the very bottom of that list because we have been chronically unrealistic about the affordability of pension benefit expansions in the past, and that needs to change. This task was made harder by the downturn in the stock market last year, which resulted in a 12% loss to the pension fund.

And because state law requires full funding by 2035, we can anticipate sharply higher annual payments for the next twelve years to close this wide gap. In FY24, the city’s annual contribution will rise six percent, to \$37.9 million, and we forecast that it will rise by nine percent the following year, and continue to accelerate thereafter.

The notion that we can successfully restrain overall spending by trimming elsewhere in the budget, but doing nothing on health care and pensions is simply ignoring the elephant in the room.



## Conclusion

Again, the proposed budget takes a conservative approach, restoring some needs we had to forgo during the pandemic, but not all that was reduced in previous years. Caution and conservatism were the watchwords in designing this spending plan.

The preparation of any budget proposal is always a complex undertaking, and the current proposal has presented its fair share of challenges. Mandated expenses, recovering local receipts, cost pressures from inflation, and an uncertain economic environment are all significant considerations this year.

But we will meet these challenges by relying on the same cautious, deliberative approach and the effective partnership between the Administration and the City Council that has served us well in the past.

I look forward to that continued partnership in the weeks ahead as we finalize the City's spending strategy for the coming fiscal year.

Thank you.