



MAYOR JON MITCHELL

Fiscal Year 2022 Budget Address

Wednesday, May 12, 2021

[Remarks as Prepared]

Good evening, President Lopes, honorable Members of the City Council, department heads, and residents of New Bedford.

Thank you for the opportunity to present the City's municipal budget for Fiscal Year 2022.

One of the distinct features of the annual budget address is that by tradition in New Bedford, it's the only occasion when the mayor appears in chambers before the whole Council. It is something that I, and mayors before me, have looked forward to. That this address is now being delivered remotely yet again is another marker of how long the pandemic has been a part of our lives.

One year ago, we were just beginning to understand the nature and extent of the disruption visited upon us. Although no one could have begun to predict with confidence how long it would last, it was clear that the economic consequences would persist well beyond the current fiscal year. We witnessed the City's unemployment rate leap from 5% just before the pandemic arrived, to 24% by this time last year. Businesses in nearly every industry were struggling to survive. And sources of municipal revenue abruptly contracted to a degree that the City had not experienced in a long time.

For all of us, the Council and my Administration alike, developing a budget last year was fraught with uncertainty. Together we understood that the budget process had to account for the possibility that revenues would not immediately bounce back, and that more than ever, our focus had to be on what could be sustained.

That meant that we had to make some difficult choices about multi-year spending obligations. Budget items whose costs would

recur, if not grow, in successive years, were subjected to heightened scrutiny. Our task was made more difficult by the reality that, despite the pandemic, certain non-discretionary costs like retiree pension obligations continued to expand.

With this in mind, my Administration and the City Council together eliminated 28 full-time positions and over a million dollars in non-personnel expenditures from the General Fund. We were able to do this without laying off any employees. While some services were compromised in ways that could not be endured in the long run, the City's departments were able simply to make-do last year.

I wish to thank the council for the open dialogue we've preserved along the way. It has made a big difference. I also am grateful for our city employees for the professionalism this year in maintaining their focus despite the diminished resources available to them to do their jobs.

None of this is to suggest that the pandemic is over. It obviously is not, and we need to stay the course in keeping

people safe, especially by encouraging everyone to get vaccinated. But we do have far more visibility than last year. Even with the city's lower than average vaccination rate, new cases and hospitalizations are no longer rising, and we can be confident in assuming that we are far closer to the end of the crisis than the beginning.

There is also reason for cautious optimism about the region's economy. The City's unemployment rate has declined significantly, and now sits at just under ten percent. The City also has largely dodged the national decline in the restaurant industry. In fact, at last count, there have been a net of five more restaurants to have opened during the pandemic than have closed. The fishing industry is seeing signs of rebounding, with scallop prices recently reaching all-time highs. Single family housing prices in the City are up by nearly 22% over the first three months of 2020. And just yesterday, the Biden Administration gave the green light to the Vineyard Wind project, the first of

many massive offshore wind projects that will be launched from our waterfront.

Summary of the Budget

Even though our optimism is well-placed, it doesn't mean we should start spending freely. The reality is that we need to continue to manage the fiscal fall-out of the pandemic, and we will do so by focusing on achieving long-term sustainability in the delivery of core municipal services. Although much of the proposed budget is composed of legally required spending, we have attempted to fund services at levels we believe the City will be able to afford not just this year, but in the years ahead. And we are in a far stronger position to do just that because of the hard decisions we made last year.

Long term sustainability will depend in part on our ability to deliver services more cost-effectively. My administration will continue to prioritize our efforts to upgrade and refine our data-driven management practices, which have yielded considerable improvements in the quality and efficiency of services. In

addition, the proposed FY 2022 budget directs resources for the specific purpose of securing still more efficiency in operations. Examples of these initiatives include the centralization of payroll operations, the continuation of our energy efficiency programs – which have reduced the City’s energy consumption by 16% since 2012 – and the consolidation and disposition of city-owned properties.

But improved efficiency alone cannot achieve the sustainability we seek. The combined impact of fixed costs and legacy expenses, especially those associated with pension and charter school obligations, continue to exert intense pressure on the City’s finances.

The proposed budget attempts to ensure that we can sustain services at levels our residents expect, without unduly burdening residential or commercial taxpayers. In general, the FY 2022 budget totals approximately \$431 million, of which the General Fund of course is the largest component at just over \$383 million. The proposed General Fund expenditures are based on

conservative revenue estimates, and the proposed budgets for the enterprise funds are based on revenue estimates that incorporate proposed fee increases.

From top to bottom, the budget reflects a relentless effort to control costs. As the Council well appreciates, containing operating expenses, either by achieving efficiencies or eliminating services, is not a simple affair. The lion's share of the budget is fixed, and even modest cuts to the small slivers of the pie that represent municipal operations can debilitate important services.

And it's not that the City hasn't tried to contain discretionary spending. Since 2001, the City has eliminated some 235 full-time positions, more than twenty percent of its General Fund workforce. But the problem is the unrelenting growth in non-discretionary items like pension obligations, which have continued to crowd out the budget for the services that residents actually see and experience.

Again, the FY 2021 budget process resulted in the elimination of 28 full-time positions and an additional \$1 million in

non-personnel expenditures from the General Fund. A number of these reductions threatened the City's ability to provide services to our residents, but under the circumstances at the time, they may have been necessary. The improved fiscal outlook for FY 2022 has enabled us to restore items that we believe can be sustained.

Specifically, I am proposing the adding back of eleven positions in the General Fund, leaving the General Fund some seventeen positions short of FY2020 levels. The proposed positions are specifically targeted at maintaining operations, enabling city government to respond effectively to economic development opportunities, and to comply with federal mandates concerning the City's water and wastewater infrastructure. They are in the budget because, based on the input of department heads, they are fundamental to the functioning of city government.

Sources of Continuing Fiscal Pressure

It is important to emphasize that aside from the fall in revenue caused by the pandemic, the annual budget process continues to be challenged by ongoing increases in fixed and mandated costs. Health insurance, pension and life insurance programs will increase by more than \$2.7 million due to projected claims expenses and growing pension funding requirements. Funding for the School Department is projected to increase by \$5.8 million to comply with the Commonwealth's minimum spending requirements.

Mandatory assessments, most of which consist of funding for charter schools, continue to consume an increasing share of the City's resources. From FY 2011 through FY 2022, the net cost of funding charter school payments soared by 304%. With net obligation now at \$17 million, charter school expenses have significantly reduced the funding available to address the School Department's myriad needs.

Fixed costs and mandated assessments will account for \$121.7 million, or 31.8%, of General Fund expenditures in FY 2022, while Net School Spending requirements will account for another \$165.5 million, or 43.2%, meaning that 75.0% of the General Fund budget has been predetermined by state mandates or regional agreements. The share of fixed and mandated costs has increased steadily over the past several years despite our efforts to restrain these expenses, growing from 69% in FY 2014 to 75% in the proposed budget. Pandemic or no pandemic, they threaten to crowd out still more services in the foreseeable future.

American Rescue Plan Act

Part of the City's fiscal equation this year includes direct funding from the American Rescue Plan Act, known as "ARPA". The Act allocated some \$350 billion in direct aid to states and localities. New Bedford stands to receive \$64 million directly, which will arrive in two installments, one this year and one next year. I note that this figure is slightly lower than original estimates from Congress, which had not included all eligible cities in its

initial analysis in determining each city's share of the total allocation. The City also may receive additional ARPA funding that is passed through Bristol County, and the School Department is receiving a separate allocation passed through the state.

Earlier this week, we received the long-awaited Treasury regulations that will govern how cities may spend the funds. The regulations are not final, and they likely will be revised, probably more than once. While the draft regulations leave numerous open questions about eligible uses, certain assumptions can be made with confidence.

First, as a matter of sound fiscal practice, the funds should be used only for one-time expenses. We will receive this federal aid only once, and it goes without saying that it would be irresponsible to use the funds for obligations that would continue to exist after the aid is exhausted.

Second, potential one-time uses include of course investments in key areas that facilitate economic growth. Once we have a handle on what's allowed under the final regulations, we

will put in place a public process to determine which investments would lead to the highest return on the funds.

Third, one-time expenditures could include the replacement of municipal revenue lost during the pandemic. The purpose of using the funding this way would be to stabilize the municipal budget as ordinary revenue sources continue to recover. The Act makes clear, however, that the amount provided for stabilization cannot be greater than the revenue lost as a result of the pandemic, and that funds may not be used to pay for a tax cut. Moreover, because the Act allows funds to be used for sewer projects, there may be an opportunity to provide much needed relief to the wastewater enterprise fund. As the budget process moves forward, we will be able to provide more detail on how the federal funds may be used along these lines.

Concluding Thoughts

The development of the FY22 budget represented a unique challenge, given the recent turmoil in our local economy. The crafting 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 have proven invaluable in ensuring that the City's core priorities are addressed. They have put us in a stronger long run position.

I look forward to continuing this partnership as we work together to navigate the challenges ahead. Thank you.