

Budget Message FY 2017

Introduction

Mr. President and members of the City Council:

Over the years, working together we have introduced a number of innovations to city government. Tuesday night, I introduce the FY 17 operating budget for the city of Haverhill. The budget contains a new innovation, the introduction of the widely successful 311 constituent service center to the city of Haverhill.

During the council meeting, I will give an outline of the operating budget followed by a power point presentation with more details. I know that the council is interested in as much detail on the budget and I share the council's interest. There will be numerous slides and detail to be presented.

This budget does not address capital needs. In the new few weeks, I will introduce a capital budget which will.

A brief summary of the budget

The total budget is \$178 million, an increase of \$2.7 million or 1.5% from FY 16. This is the lowest increase in spending in at least six years. A lower increase in spending allows us to tax below the levy limit.

Here are some budget highlights:

1. 311 Constituent services program to provide better customer service and better government;
2. Increased money for schools—by far and away the biggest increase in our budget;
3. Continuing the Byrne grant to provide counseling for those suffering from opiate addiction;
4. Taxing below the Proposition 2 and half levy limit for the third year in a row and for one of the few times in our history;
5. No increase in water rates.
6. A summer program to employ up to 15 kids, who will be paid by the Workforce Investment Board, to clean our parks and playgrounds;
7. Increased funding for the Brightside program;
8. Increased money for economic development;
9. Budget maintains adequate reserves for a rainy day.

Financial Stability and Fiscal Discipline

The city has had a remarkable financial turnaround over the past dozen years. We started with almost no reserves of any type—very little free cash, no stabilization and no other reserves. Today, we have built our reserves to the point necessary to maintaining our bond rating. Our bond rating has been raised seven (7) times over the years and today is at its highest point in our history. Today, we are able to tax below the levy limit for the third year in a row and for one of the few times in our history.

This didn't happen by accident. It happened because we worked hard for many years to reduce our health care costs. It happened because we have had incredible financial help from Rep. Dempsey year after year to help with the Hale debt. We cannot thank Rep. Dempsey enough for his assistance with meeting the largest municipal debt in the history of Massachusetts. Our turnaround happened because while we consider every request, we did not give in to every request, even good requests, to spend every dime in the budget. It happened because we maintained strict fiscal discipline and refused to open the treasury door to unreasonable union demands. In his farewell address to Massachusetts Mayors, the late Thomas Menino said that our first responsibility was to be good stewards of taxpayer dollars. We have tried to fulfill that responsibility.

And our financial turnaround happened because we adopted innovations and changes that brought us new recurring revenue sources, streamlined government, reduced our expenditures and helped turn our city around.

Some of these measures were relatively noncontroversial—reorganizing government, cutting through attrition about 25% of the work force, sending our utility contracts out to bid. But many measures were more controversial —implementing the meals tax, charging for downtown parking, changing the design of our municipal health care system (a process that took almost a decade), changing our fee structure to more adequately reflect the cost of services and changing our municipal trash collection system which started only last week. Every one of these measures met with solid opposition, but every one of these items was necessary to help us rebuild our finances and turn our city around from the brink of receivership to where we are today. These innovative measures helped lead to our financial turnaround. It is not possible to have one without the other.

Our effort to innovate and change government continues today. Later this week or next, we will introduce some new changes in our pay for parking program that will add to customer convenience. Tonight, I introduce a new program in this budget to improve customer service. This new program, called 311, would not be possible without the changes we implemented in the past which paved the way and gave us the resources to do this.

Public Education

Although we try to hold the line on spending in all areas, the one area where spending is up sharply is our priority area, public education.

Public education is, and always has been, our top priority item. Public education constitutes by far and away the largest budget increase, an increase of 5%, or \$3.5 million. Haverhill Public Schools account for 41.4% of the total budget. When we count the school portion of retirement, health benefits, other benefits, regional school costs, and the school portion of our capital budget, **the total appropriation for education related items is 61.1% of the total budget.** In other words, more than 60% of what we spend is spent on items related public education. No other expenditure comes close and nothing should. Education is the key to our future and our top priority.

The large increase in education funding is partly because of the increase in chapter 70 funding, and partly because we have made a commitment to education funding over the years.

Even with this increase, there is much more to do in the education field. If the council identifies additional funding (other than one time funding such as reserves) , I advocate that this funding be allocated to public education, particularly to programs that will improve education levels at the Consentino and Tilton Schools and lower the education and achievement gaps. This is critical to making certain that, truly, no child is left behind.

Public Safety

The police and fire budgets are also up. The police department budget is up by \$151,719 or 1.4%, the fire department budget is up by \$107,715 or 1.0%. There are also substantial expenditures in public safety in the capital budget which I will unveil in a couple of weeks, for police and fire capital expenses.

The major police problem right now is the opiate epidemic which has affected the entire country. A year ago, we obtained a Byrne grant from the State to provide a social worker to accompany our police and then to offer drug counseling to overdose victims. This budget includes money to continue that program until a new grant is obtained.

The increases in this public safety operating budget are somewhat misleading since neither the police patrol officers nor the fire department has settled a budget for FY 17. Wages are always the largest portion of any budget. Any wage increase for police and fire is not included in their budget. If police and fire were to settle for what the other municipal unions have agreed to then their budgets would be up 2.8% and 2.4% respectively.

We are concerned about the progress of negotiations with at least one of public safety unions which has rejected our offers and decided to go to arbitration. The financial stability of our city

depends upon being able to enter into reasonable settlements with our work force. If we are forced into an unreasonable settlement or arbitration award with one union, it trickles down to all other unions and becomes impossible to maintain the financial stability that we need. As leaders in Haverhill government one of our fundamental responsibilities is to be vigilant stewards of the taxpayer's dollars. If an unreasonable arbitration award is entered, it is the council's obligation to determine if the settlement or award is reasonable and it is the sole responsibility of the city council to determine whether to fund the award or send it back for further negotiations.

Parks, Playgrounds and Highway

Over the past several years, I have stated my vision for the city as walkable city with tree lined streets, sidewalks that are fixed, parks and playgrounds that are well maintained and make our residents proud to call Haverhill home.

To implement that vision, over the past few years, we have made a tremendous effort using our own money and State grants to improve our parks and playgrounds. That effort continues here, with money here and in the capital budget to match the money received by the State to improve Riverside Park.

New and improved parks must be maintained. This budget adds money to expand the swimming area at Plugs Pond, and a new person to the highway parks department. We have increased street sweeping and next year we will sweep more streets than at any time in our history. Although we are part of the State Greening the Gateway Cities Tree Planting initiative, that program only plants trees in the core part of the city, so we have continued our tree planting initiative in this budget. When we introduce the capital budget you will see and expanded program to fix our sidewalks.

This budget also increases the amount we give to Brightside, a wonderful volunteer organization, to beautify our city and city hall, provides a small amount of money for the Garden Club to buy materials, and provides a supervisor in the summer to supervise up to 15 kids, paid by the Workforce Investment Board, to clean up our parks, playgrounds and our downtown.

Improving the appearance and quality of life in our city is not just an afterthought or an extra. It is crucial to improving the quality of life in our city for our existing residents and bringing in new residents to our city.

Departments Inside City Hall

Over the years, the departments inside city hall have suffered deep budget cuts. The purchasing department used to have three full time people; today they have a part-time director who has other functions, and one floater a day and half a week. Other departments have had similar cuts.

While some of the cuts have made our departments more efficient, encouraged innovation and increased productivity, in other departments the cuts have sometimes made it difficult for the departments to perform their core basic functions.

As our economic situation has improved, we have made an effort to improve some of these departments.

Over the past two years we have concentrated on rebuilding our health and inspectional services department.

This year, we concentrate on bolstering our planning and economic development office. This budget partners with the Mass Technology Collaborative to add an additional economic development person to the office, makes a part time clerical person full time and adds money for planning and consulting services.

This budget adds an additional floater in city hall to be concentrated between the financial offices. While there may be a need for more clerical staff, we are hoping that the addition of a 311 call center will relieve the burden on city clerical staff and allow them to get more accomplished during their work day.

We are also making an effort to bolster our IT department. We have added a “fractional IT director” as our Peter Karlson of NeuEon, consultant prefers to be called. We are upgrading our water billing software, improving the software of our inspectional services department, and hiring a new firm to manage our help desk. All of these projects and all of this software needs to be integrated together, particularly with our new 311 software.

Enterprise Funds

This \$178 million budget includes budgets for our two enterprise funds, water and waste water.

The water department has reserves totaling \$4.6 million. The waste water fund, on the other hand, has reserves of only \$1.8 million. In addition, the waste water fund is about to be burdened by extremely costly unfunded Federal mandates to clean or storm water and combined sewer overflows. (See section below.)

This budget does not propose any increase in water rates, and will use some of the reserves to fund the water department. We are exploring whether or not we can combine the water and sewer enterprise funds to use some of the water reserves to fund some of the upcoming sewer projects. We will update the council on this during the budget hearings.

Reserves

The most important, and most boring, part of any budget is reserves.

For the past several years, my administration, working closely with our auditor and with our outside financial consultants, established written reserve policies. These policies are provided to the State and to our bond rating agencies and help to provide a basis for our AA bond rating. Draining our reserves or taking them down by any substantial amount would jeopardize our bond rating.

Some of our policies are as follows:

Reserve Policy 3: The amount of money to be held in 'Free Cash' shall not be less than 2% or more than 8% of the approved General Fund operating revenue, less debt exclusions and Chapter 70 (School Aid).

This translates to free cash of not less than \$2.5 million and not more than \$11 million.

Reserve Policy 4: The City shall maintain the stabilization reserve fund of at least 3% of operating revenues, less debt exclusions and Chapter 70 (School Aid). As prescribed by Massachusetts General Law, however, at no time may an appropriation into this fund exceed 10% of the previous year's real property tax levy, nor can the fund exceed 10% of the equalized value of the City.

This translates into a stabilization fund of a minimum \$3.8 million in our stabilization fund. Since the amount is a percentage of the total budget less Chapter 70, as a practical matter the minimum amount increases every year.

We also have other reserves for salary reserves, snow plowing, and a very small school reserve which should be increased if discretionary money is found. We have a very small reserve for our OPEB liability which we will propose increasing when our health care trust fund is dissolved later this year.

This budget proposes a transfer from free cash to stabilization of \$1 million bringing our stabilization account to about \$3.9 million, the highest it has been since at least 2003. This marks only the second time in our history when we have (just barely) met our stated policy on reserves. (The balance in stabilization and free cash when I took office in 2004 was 0.)

This is the only the second time since I have been Mayor that our reserves will meet our stated policies.

When the capital budget is released in the next week or two, we proposed taking \$1 million in free cash to use on long neglected capital projects. In addition, this budget uses approximately \$1.5 million in free cash in the operating budget. Altogether, the budget uses \$2.5 million in reserves, \$1.5 million in operating budget and \$1 million for capital funds. In addition, the budget proposes taking \$1 million in free cash and transferring it to stabilization, which is not using reserves, but a transfer from one reserve to another.

Reserves should always be looked upon as one time money. Using reserves for capital projects is not concerning, so long as there are adequate reserves remaining. Both Mr. Benevento and I believe that is a good use of reserve funds.

Using reserves for an operating budget is always problematic. In good times, which these are, we want to add to our reserves not use them. But, given our free cash history, we believe that the amount we are using in this budget is reasonable.

Keeping adequate reserves is critical to maintaining our AA bond rating, and is critical to being able to withstand small problems which invariably arise from time to time in running a city with a budget of over \$170 million a year. Having reserves assisted us in weathering the storm when Governor Patrick used his 9C powers to cut the \$2.4 million in Hale debt relief money which Chairman Dempsey obtains for us most years.

Having adequate reserves was also critical when special education problems caused the school department to run over \$1 million over budget two years ago. Having a school stabilization account was critical to weathering the storm when the school department ran \$400,000 over budget.

It is always tempting to use reserves to meet the constant demand to expand services and to increase compensation for our employees. I cannot stress enough that having adequate reserves and maintain strict fiscal discipline is the key to our bond rating and to our financial future.

Taxing Below the Levy Limit

Proposition 2 and a half allows cities and towns to increase taxes by 2.5% of the total assessed value each year plus new growth. Most cities and towns routinely increase taxes by 2 and half percent a year, and many towns increase by more by routinely asking for overrides or debt exclusions.

Taxing at a rate less than is allowed by Proposition 2 and half is called taxing below the levy limit. This is sometimes considered a reserve called a levy reserve. Until two years ago, we had not had this reserve since the collapse of the Hale Hospital in 2001.

This budget proposes taxing an additional \$500,000 below the levy limit.

We are saving approximately \$500,000 with our new automated trash system. In effect, this budget proposes sending all of that \$500,000 back to the taxpayers of the city by taxing at less than we are allowed to tax under proposition 2 and half.

Unfunded and pending liabilities

The council has asked to outline what unfunded liabilities lay ahead and I am happy to do so. Saving and planning for those unfunded liabilities is critical to maintaining our bond rating and to maintaining the strict fiscal discipline that has brought us this far.

OPEB—the 270 Million Elephant in the Room

The largest and most important unfunded liability is OPEB—Other Post-Employment Benefits, a liability facing every city in the country. I have talked about this in previous budget messages going back several years I addressed OPEB and sometimes called OPEB by its earlier name, GASB 45 (General Accounting Standards Bureau standard 45.)

Primarily OPEB is the liability that the city has to pay health insurance benefits for retired employees and their spouses after their retirement until their death. The General Accounting Standards Bureau several years ago asked that cities conduct an actuarial valuation to determine their liability. The city hired an actuary and as of 2014 our outstanding liability amounted to **\$270,890,482: 270 MILLION DOLLARS.**

Last year, in the budget, we set aside \$200,000 in an OPEB stabilization fund to begin at least in a token manner the process of meeting this. This operating budget does not add to that fund, however, our recommendation is that much of the money in our remaining health care trust fund be placed into this OPEB fund. Depending upon how much we appropriate, this will bring the balance in our OPEB trust to around \$1 million.

But with a liability this large, it is not possible to save our way out of this. If we set aside \$1 million a year, **it will be 270 years before we were fully funded.** Obviously this is not an acceptable means of meeting this liability.

The best way to meet this liability, or at least to plan for it, is to reduce the city's liability and to have a plan to pay the remaining liability once the pension liability is paid down.

The way to reduce OPEB liability is by plan design and by changing the contribution rate of employees and retirees. Over the past decade, we have worked hard with the unions and later with the legislature change the design of our health care plans to more accurately reflect plans available to other public employees particularly at the State level. We have worked to change the contribution rates of our employees and our retirees.

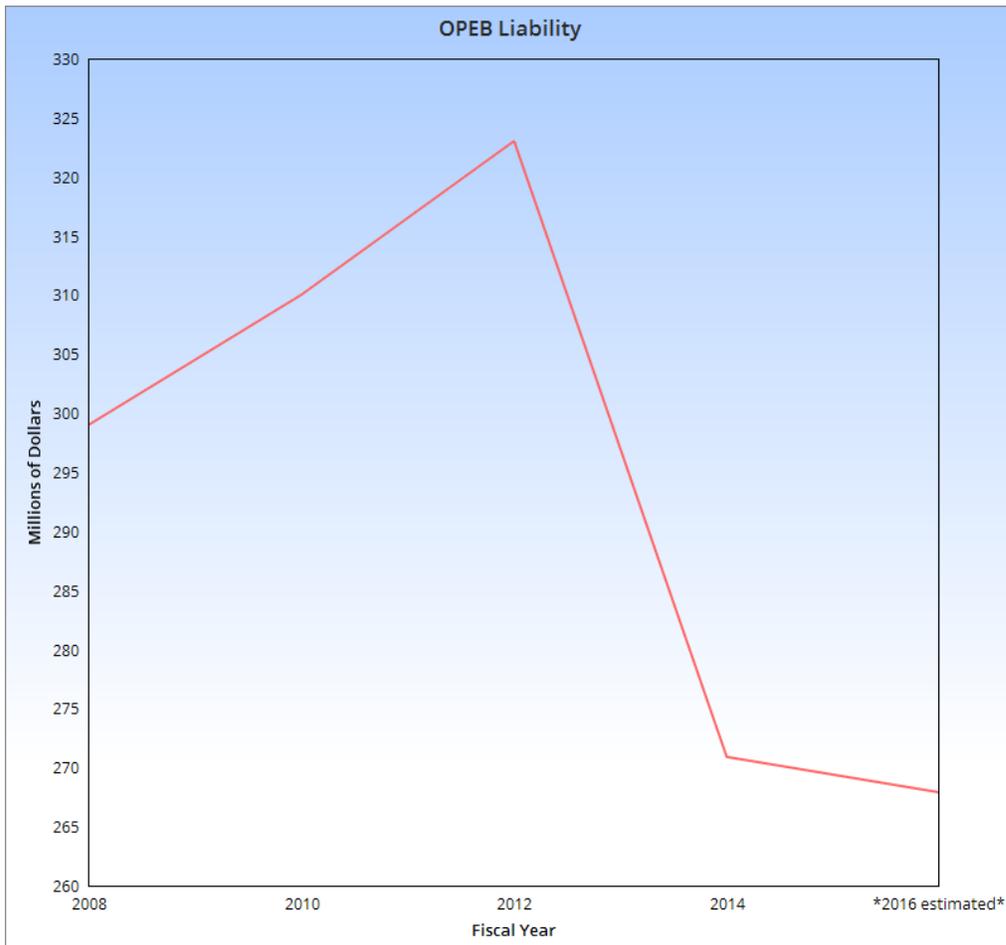
The result has been a \$52 million drop in our potential OPEB Liability.

This month, we continued this process of changing plan design to reduce OPEB liability. The city sent notices to about 300 retirees where we were still paying more than 75% of their health care premiums that, effective on July 1, we would be paying 75% of their premiums. At the current

time, we have our Medicare retirees pay 25% of their health care premiums, a small number of retirees pay 15%, and another small group pays 20%. This action evens all of our retirees at 25%.

This action will save us \$376,886 in next year's budget, and our budgeted numbers for health care include this savings. Over the long run, this action will save the city approximately **another \$3 million in reduced OPEB liability**.

The following chart shows our OPEB liability and how changes in plan design and contributions have reduced our exposure. Even small changes in plan design or contribution rates saves us millions of dollars in future liability.



Even with plan design and contribution rate changes, it is not possible to pay down the OPEB liability. The city's plan is that once the pensions are fully funded we will continue to use the money we now pay towards pension to establish a trust fund for OPEB liability until that too is fully funded.

Pension and health care

The problem area in the budget remains our health care and pension costs, as they have been for some time.

Health Care

Two years ago, we ceased self-funding our health insurance, which is always fraught with danger, and switched to MIAA, the insurance, the insurance arm of the Massachusetts Municipal Association.

MIAA has increased premiums by 12.9%. The total health care budget is \$23,604, 888, an increase of \$781,000 or 3.4%. That number is artificially low since health care did not increase by as much as we anticipated last year, leaving us with money in the health care budget to help absorb the increase.

In the long term, I continue to believe that our city, our taxpayers and our employees are best served by joining the GIC, the Group Insurance Commission which supplies insurance to State employees and retirees. This is not a perfect solution—the premiums, deductibles and co-pays in the GIC go up just like all other health insurance goes up, but it is far better solution than worrying every year if we are going to have a financial crisis if we drain our health insurance trust fund. Under the rules established by the State, it is not possible to join the GIC until July 2017 at the earliest.

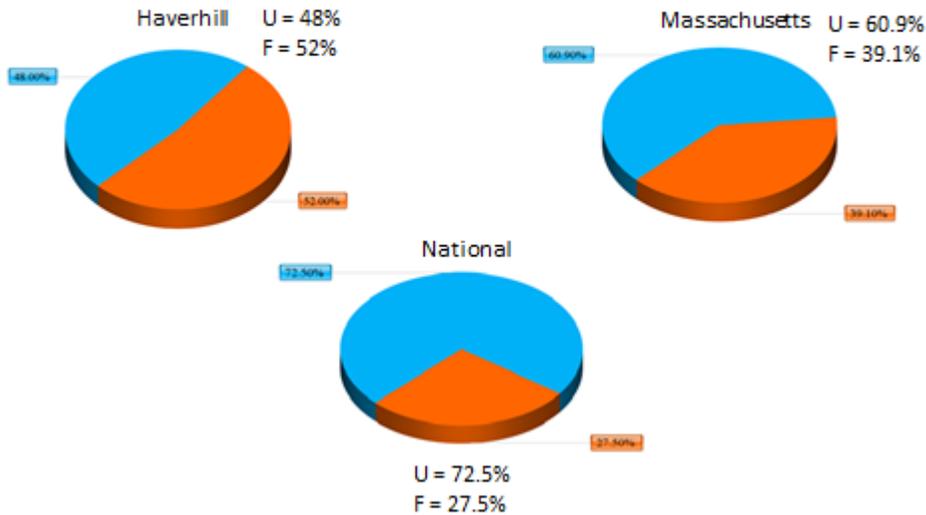
PENSIONS

The pension budget is now \$15.3 million: an increase of 6.1%. In FY 18, our assessment will be around \$15.9 million: an increase of 4.5% or \$680,000.

The pensions are now 52% funded, largely due to an increase in the stock market. Another way of putting it is that **our unfunded pension liability is about \$167 million or 48% of the total liability.** The national average for pension funding for municipalities around 70-75%. Massachusetts, where employees are not in the social security system and pays higher benefits, has a lower average. The State wide funding average for pension is 60.9%. As can be seen from the chart below, **our funding levels are below both the State and national average.**

Pension Liability

Blue = Unfunded Pension Liability
Orange = Funded Liability



Our goal and plan is to be fully funded by 2032 and then, at that time, continue to budget approximately the same amount and use it to begin funding the OPEB liability.

In total, our city has total unfunded liabilities comprised of pension and health care requirements, of \$438 million. We also have a plan, as outlined above, to meet those liabilities. (Some might call it a plan for today and a plan for tomorrow.)

Capital Needs

Within the next few weeks, we will put together a detailed list of capital projects. Our capital budget will include a five year capital plan to fund approximately \$3 million in capital projects over the next year or two.

We will have much more to say about capital needs in the next couple of weeks.

School Capital Needs

The biggest school needs are in the Consentino and Tilton area. Over the past 15 years the overall school population of Haverhill has gone down by 800 students as family size has shrunk years. But in the past four years, the school population has begun to grow again. Part of that will be dissipated in the next year or year and half as about 100 students from the northern side of the river will be relocated to the new Hunking School.

If this growth is permanent, it may be necessary to build an addition to the Consentino School to address it. Our bonds for the rehabilitation of the Nettle School come due in FY 19 (two years from now), and that would be an ideal time, if an expansion is necessary, to do this. Over the next year, we will work closely with the school department to examine the data and see if this is required.

CSO's, Storm Water, and Waste Treatment Plant Improvements

We have spoken for some time about the new unfunded Federal mandates to reduce storm water runoff and combined sewer overflows.

As the council knows, we have entered into a consent decree with the EPA that will require us to make major improvements in our waste treatment plant, and improve the water quality of our river.

We do not yet have a price for upgrading our waste treatment plant, but we estimate that the cost will be between 20 and 50 million dollars.

Meeting the new storm water regulations will cost approximately \$1 million per year.

Improving CSO's __ combined sewer overflows—will cost and 30-50 million dollars.

This is not unexpected but certainly not ideal. We have been planning this for well over a decade. Millions of dollars in work is already done, with much more to go.

311 Constituent Services Center

The major new innovation in this budget is a proposed new 311 system. Following the budget presentation there will be a more detailed power point on the 311 system and later I will address the council for a more detailed presentation.

311 is a telephone and computer system designed to improve customer service. Think of it as the constituent version of 911. By now everyone knows that if you have an emergency, you call 911. If you have a city problem, you call 311. Under a 311 system, constituents will only need to know one number—311.



Our advertising campaign will stress **one city, one number, 311**. For potholes, birth certificates, abandoned buildings,



hours of city hall, amount of the tax bill, there will be only one number. Our slogan will be **One Call to City Hall**.

311 started in Baltimore MD, a leading innovator in good city service, in the year 1996 under then Mayor Ed Rendell.

It spread fairly quickly to other major cities—New York, Chicago, Philadelphia, Minneapolis, Richmond, San Francisco, Dallas, just to name a few.

Here Mayor Bloomberg announces the New York 311 call center, which has been enormously successful and popular in New York City.



311 call centers are in use today in most major cities in the United States and Canada today.

In the past decade, 311 call centers have opened in five (5) Massachusetts cities Boston, Springfield, Malden,



Somerville 311

Somerville and Newton and is in the process of being installed in a 6th city (Everett). We had the chance to visit several of them as we have studied this over the past several months.



In every 311 center, the overwhelming numbers of constituent requests come by telephone. But, increasingly, residents are also using smart phones with mobile apps to send in requests for service 24 hours a day, seven days a week. 311 systems can capture all this data and use it to track work, measure performance, and make strategic decisions that affect services, policies and budgets. 311 can be used for performance measurement, economic development and community engagement.

We intend to have a call center staffed initially by two people, which 3 other existing employees available to help out. We also intend to have an app, and a software system that will allow constituents to easily enter requests. Those requests, today, are entered directly as work orders that go to our Maintstar program in DPW. In the future, we hope that requests go directly into

the systems we are developing in the other departments. Right now, the requests entered for other departments other than DPW are sent to them by email.

The key to a successful 311 call center is to have properly trained staff. A successful 311 call center is not a trip back to the future of switchboard operators transferring calls. In a successful 311 call center, the operators are trained to handle most of the problems and do not need to transfer the calls. For example, if the caller wants a pothole patched the 311 operator can enter the work order into the highway department's computerized work order system. (This was not possible a few years ago but is today with our new software.) If a caller wants an abandoned building repaired, the 311 call taker can enter a work order to have an inspector check it. If a caller wants to know the amount of their tax bill, a 311 call taker will, ideally, have access to the tax system and can look up the information. In Malden, only about 25% of the calls are actually handled by 311 call takers, the rest are transferred. In Somerville, whose program has been up and running for a decade, about 75% of the calls which come to city hall are handled by the call takers. Even in Somerville, some calls need to be transferred. Our goal is to handle as many calls as possible to relieve the stress of city hall employees.

Every city hall office now receives numerous calls on a daily basis with simple requests for information that could easily be handled by a centralized call center. These calls range from what are the hours at city hall, what days is my recycling, when are the fireworks this year, when is my recycling day and somewhat more sophisticated calls such as how much was my tax bill, how much is a dog license, etc. Allowing centralized call takers to take those calls will allow our staff to concentrate on other matters.

The total budget is \$140,000 which includes salaries, build-out and equipment.

CONCLUSION

This budget handles our needs today and plans for tomorrow. It taxes below the levy limit to keep our city affordable. It increases school funding by 5%, easily the biggest increase in the budget. It provides adequate reserves for the rainy day that is certain to come at some time.

The budget also provides for improved customer service for our constituents. The 311 center will tremendously improve city services to our constituents and provide for better reporting and accountability.

James J. Fiorentini, Mayor