



Brockton, Massachusetts
"City of Champions"
Bill Carpenter – Mayor

June 2, 2014

Members of the City Council
45 School St.
Brockton, MA 02301

Ladies and Gentlemen:

I am writing to provide my commentary on the budget which was received by city council at its meeting on Tuesday, May 27, 2014.

The budget which I prepared was confronted with the same fundamental financial difficulties which have affected previous city budgets for the past decade or more. In essence, many of our costs, such as those for health insurance and pensions, are growing more rapidly than our revenues are growing. Most critically, the state has yet to restore the cuts made, especially in FY 2002/FY 2003 and FY 2008/FY 2009, to several unrestricted state aid accounts. As you know, most of the city's state aid is restricted to use by either the libraries or the schools. Unrestricted state aid is important to help finance the costs of other budgets. In FY 2015, total unrestricted state aid for the city will be \$10.5 million less than it was in FY 2002. Unrestricted state aid reductions of a comparable amount have plagued the city since FY 2002. There is no source of revenue which can replace that level of loss, other than to override the provisions of Proposition 2 ½. However, the unrestricted aid accounts were intended to especially help the poorer communities, with their limited tax bases. It seems there is an inconsistency in state budget policies, and the objective of property tax relief in poorer communities.

In addition, while the state has increased its Chapter 70 funding under the provisions of the Education Reform Act, the funding formula does not adequately account for the true cost of educating the population of students in Brockton. A number of deficiencies contribute to this problem. For example, the formula relies on assigning costs to specific categories of students by actual head count. However, for special education students, the formula instead, uses assumed, separate percentages, state wide, of SPED students in each district, to provide funding both for students who will receive special educations services in district, and for those placed out of district. The result is to greatly understate the number of Brockton students in each category. The formula also penalizes districts with growing student enrollment, like Brockton, because the student headcount of October 1st provides the basis for determining state aid for the following year, so at least one year or more of growth in student population may occur without extra funding to pay for the extra students. In Brockton, this shortfall,

with student growth of 300 to 400 students per year, amounts to \$3.3 to \$4.4 million per year in delayed state aid. The aid is delayed, but the students are here. In addition, while the formula provides added funding for educating "low income" students, this funding falls far short of the actual additional costs which are needed to try to meet the true needs of these students. This is particularly troublesome for a community like Brockton, with many students in the low income category. Moreover, the formula also understates the cost of providing health insurance to school employees. Finally, the state utilizes an index for calculating inflation, which at least for FY 2015, does not reflect the true growth in costs. The inflation factor for FY 15 is less than one percent, but clearly costs associated with personnel and energy, which constitute much of any school district's budget, have grown by more than one percent. On the city's Chapter 70 entitlement, an added inflation factor of just one percent would be equal to more than \$1.5 million in added funding. All of these factors will come into play when later in this letter I discuss my funding recommendation compared to the request from Superintendent Smith.

On the expenditure side of the budget, fixed costs for benefits continue to grow more rapidly than city revenues. The benefit in health insurance cost savings from the concessions obtained from active and retired employees in 2012 has now been overtaken by the basic rate of underlying health inflation, plus growth in the number of people covered. The cost of the assessment from the city's retirement system for providing pension coverage for current and future retirees, plus maintaining the funding schedule to finance the system's unfunded liabilities, has increased significantly. It is up by \$2 million, or 13 %, in the last year, and by \$5.5 million, or 40%, since FY 2012.

As a result of the convergence of these cost and revenue trends, the city has struggled to maintain services. In earlier budgets submitted by my predecessors and approved by earlier city councils, there were significant decreases in staffing for departments on the city side of the budget. For this year, in light of those impacts of prior budgets on city services, I wanted to spare most city departments from further staff reductions. However, my recommended budget for the Brockton Public Schools is about \$6.6 million less than the superintendent's request for a budget that she deemed necessary to maintain level services. However, in my opinion, that shortage in funding her request, and more, can be accounted for in my earlier discussion of deficiencies in the Chapter 70 funding.

In preparing my budget recommendations, I relied on several basic principles. First, I decided that I would avoid proposing total appropriations which would require that the city raise its property tax levy by the 2.5 percent allowed by the Proposition 2 ½ tax law. This decision meant that more than \$2.9 million in revenue would not be available to support spending. There were several factors to support my reasoning in reaching this decision. First, in my campaign for mayor, the issue of property taxes was one about which I heard most frequently from residents. Second, the way the current levy is allocated between businesses and residents, results in one of the highest rates of business taxation, both in the state and in our region. This creates a major obstacle to obtaining the new commercial investment which the city needs. Third, property taxation which is below the legal limit under Prop. 2 ½, is not "lost"; it is available for appropriation up until the tax rate is approved by the Department of Revenue, and after that, it is available again during the next budget cycle.

The second fundamental decision was to avoid any reduction in staffing or overtime costs in the police department budget. A deep concern about crime was the other major issue which the voters discussed with me last year. While I was prepared to recommend layoffs of the most recently hired firefighters, fortunately, with the assistance of the firefighters union, I was able to avoid this step. Those union members who were eligible to retire in FY 15, and whose contractual separation costs had to be budgeted, agreed instead to defer their retirements beyond FY 15. Accordingly, there are no public safety employee layoffs. When I secured this commitment from the firefighters, and in view of the recent budget history I mentioned above, I decided to not only avoid layoffs in other city departments, but to attempt to budget for the filling of most vacant but funded positions which currently exist. However, in making these commitments to city employee staffing, in funding the FY 15 costs of the public safety union contracts which were settled in FY 14, and in committing to avoiding a 2 ½ tax increase, the consequence is that no funding exists in my budget to pay for increases to settle contracts for the other city unions, and the contracts for all of these unions have expired. The final fundamental decision was to comply with the requirements of the law in forming the school department budget, but not to commit to a level services budget. This was a necessary result of the other decisions.

As a result of the cumulative effect of these decisions, it became necessary to search for cost reductions elsewhere in the budget requests. First and foremost, there were no capital requests granted for city departments funded by the General Fund. The capital requests not funded in these budgets exceeded \$2.2 million. In addition, I examined every budget and every line item in the Ordinary Maintenance categories for possible reduction. The budget managers had been asked to provide cost reduction ideas. I incorporated many of these suggestions, plus some additional suggestions based on an analysis of spending in FY 14.

The budgets of many departments were reduced from FY 14 to FY 15. These seventeen departments are in that category: Animal Control, Assessors, Auditor, Board of Elections, Cemetery, City Clerk, City Planner(funding reduced for the planning services contract with the BRA, but funding included for the positions of planner and junior planner), DPW Highway, Health Board, IT, Law (outside counsel cut, but funding provided for 2 part time and 2 full time assistant city solicitors plus the part time city solicitor, and the support staff), Procurement, Public Property, Treasurer/Collector, Veterans, and Weights & Measures. In addition, appropriations to reserves were slightly reduced, but the so-called "Supplemental Reserve Fund for Fiscal Stability", established by Chapter 324 of the Acts of 1990, was funded to the statutory level.

A few budgets were either level funded or received increases of not more than \$10 thousand. The following five departments are in that category: City Council, Conservation, DPW Engineering, Planning Board, and the Traffic Commission, which received an increase of \$10 thousand for painting at intersections. So, the budgets of nearly two-thirds of city departments were either reduced, or level funded, or received increases of not more than \$10 thousand from FY 14 to FY 15.

Finally, thirteen General Fund budgets received increases of more than \$10 thousand. The DPW Commissioner's budget was increased to provide separation costs as established by city ordinance for the commissioner, who will retire in August. The Emergency Management Department's budget was increased by \$11 thousand to add staff capacity. The Finance Department budget was increased by about \$250 thousand. A portion is intended for the purchase of liability insurance, but the increase is mainly to provide funding for the solar energy purchase contracts which have been approved by city council. The cost of these contracts is more than paid for in cost savings in the electricity budgets of other departments. The solar power purchased by contract creates savings which are applied as credits to specific city meters, budgeted in many city departments, and then the solar purchase bill is paid in the Finance budget at a discount to the credits. The Fire Department budget was increased by more than \$700 thousand. This reflects the net effect of: an increase in the cost of personnel from the FY 15 cost of the contract settlement of FY 14, a decrease of more than \$400 thousand in the savings from the retirement delays mentioned earlier, a decrease from leaving two vacant positions unfunded, and a reduction in the Ordinary Maintenance budget.

The budget for the Mayor's Office was increased, mainly to provide an extra \$125 thousand in funding for the commitment to the community cable company that it would receive 75 % of the city's revenues from Comcast. This commitment, by Memorandum of Understanding, dates to the Harrington Administration. My budget also contains funding for my present staff at present funding levels. The Parking Authority budget was increased per its request, but this budget is fully funded by existing cash balances from fees from meters and the garage. It was necessary to increase the direct subsidy from the General Fund to the Parks and Recreation Department by \$265 thousand, to the level of \$700 thousand. This was necessary because that enterprise fund's fees, mainly from the D.W. Field Golf Course, are not adequate to sustain current services. The Personnel Department budget was increased by almost \$1.8 million for the health and dental budgets, mainly from 4 % rate increases, but also for more covered subscribers, especially retirees. I have also recommended an increase in this budget of \$20 thousand to pay for a study of the city's personnel practices and procedures, compared to best practices. The Police Department budget was increased by almost \$2.3 million, due to the FY 15 cost of the union contract settlements from FY 14, an overtime increase, and the leasing of motorcycles. Current staff members are retained, and the budget provides funding for replacement from attrition, to maintain staffing. The assessment from the Brockton Contributory Retirement Board was increased by over \$2 million so that the city can stay on the present schedule to eliminate the unfunded liability by 2033. The Treasurer's Debt budget was increased in order to permanently finance the \$ 7.0 million in temporary borrowings used to pay for the school roof/boilers/ windows projects while awaiting state reimbursement and final construction cost audits. These are now completed; the permanent financing can occur, and so this budget was increased by about \$700 thousand.

Education budgets also received increases. The budget for the Southeast Regional Vocational High School was increased by \$20 thousand to fund the assessment from the district. Finally, my recommended budget for the Brockton Public Schools provides for an increase of about \$3.6 million in so-called "Net School Spending, an increase of 2.0%. The budget for "Non-Net School Spending", which

primarily pays for transportation of students to and from school, school crossing guards, and community schools, was nearly level funded, but there was a slight reduction of about \$37 thousand.

As I mentioned earlier, the budget for the Brockton Public Schools was constructed to comply with the law and to remain consistent with how the budget was created in the previous years under the Education Reform Act. Under the provisions of this act, a community must meet at least 95 % of the spending associated with its "Foundation Budget". If the community fails to meet its spending obligation by 5% or more, the shortage is carried forward and its Chapter 70 funding is penalized the next year. If it fails by less than 5 %, the shortage is simply carried forward to the next year. This creates a huge incentive to stay far away from the 5 % threshold. Each year, the state creates a "foundation budget" for each grade of students plus additional funding for SPED and low income students. This budget is financed by a combination of state aid, as Chapter 70, and what is called the "local contribution". This "local contribution" has a target amount, which is calculated by the state and varies district by district according to its wealth, as represented by property values, and according to the ability of its property owners to pay, as represented by the state's information on local income levels. For Brockton, the city's target for local contribution to the cost of educating its public school students, whether they are attending city public schools, other public schools, or charter schools, is nearly \$46.8 million. Of this, almost \$21.7 million is attributed by formula to come from property wealth, and almost \$25.1 million from the income of the city's residents.

However, many poorer communities, such as Brockton, fall short of currently being able to meet this target. Please be aware that this shortage in local revenue capacity is different from the failure to appropriate at least 95% of the foundation spending described above. For those communities which are unable to meet the target local contribution, each year the state establishes a minimum local contribution amount. It calculates a growth factor for local contribution which is intended to close the shortfall over time. While the shortfall exists, the state makes up the difference in Chapter 70 funding, so that all districts are funded at least at foundation levels. The shortfall is closed over time by a "preliminary municipal revenue growth factor" which primarily represents annual growth rates from the growth in property taxes allowed by Prop. 2 ½, plus other revenue local revenues. This factor is applied to the community's "minimum local contribution" from the prior year, thereby increasing it. For Brockton, the FY 15 preliminary growth factor is 3.26%. The city's minimum local contribution in FY 14 was \$38,545,903, so the factor increases that to \$39,802,499 in FY 15 (for all public schools with Brockton students, not just the Brockton schools). In addition, a separate increment is calculated based on the percent by which the community's "preliminary local contribution" falls beneath its target. This increment can be either 1% of the prior year's "minimum local contribution", if the community's shortfall is between 2.5 % and 7.5 % of target, or 2 %, if the shortfall is more than 7.5% of the prior year's "minimum local contribution". For Brockton, the percentage is the lower amount, 1 %, which results in an addition of \$385,459 to the Brockton's "preliminary local contribution" for FY 15, raising it to \$41,187,958, now classified as the "minimum local contribution", again for all public schools with Brockton public school students. At this point, the city is funding 18.65 % of the foundation budget, and its target is 21.71 %, so the city will be in this "catch-up" mode for a while.

For FY 15, the "minimum local contribution" allocated to just the Brockton Public Schools is \$37,791,281; this does not include the vocational high school, which is budgeted separately. The city's Chapter 70 aid for the BPS is \$164,865,060. In addition, in FY 14 the city failed to fully appropriate its "Net School Spending" obligation; its local contribution fell short by \$1,327,684, or about .007, so no penalty for Chapter 70 funding was incurred. However, the shortfall must be added to the FY 15 obligation, so the total Net School Spending Obligation is \$203,984,025. Not all of this will be appropriated to the school committee.

The Education Reform Act recognized that not all costs which are eligible to qualify as foundation budget spending are actually appropriated in the school committee budget. Some of these are spent in other city budgets. Examples of this include maintenance of buildings, administrative services provided by city offices to the schools, such as accounting, treasury, finance, benefits administration, etc., pension costs of retired school employees other than teachers, health and dental insurance, Medicare taxes, etc. Some of the most significant of these costs are health and dental insurance for active employees at about \$23 million, the Medicare tax for \$1.8 million, pensions for about \$7.5 million, and administration for about \$3.5 million. The cost to the city of charter school tuition is more than \$5 million, partly compensated by state assistance of about \$600 thousand. All of these costs are accumulated on a report sent jointly to the state by the city and school system called Schedule 19. Schedule 19 costs are deducted from the "net school spending" obligation before determining the required appropriation to the school committee. In FY 14, the city estimated \$40.3 million in Schedule 19 costs at budget time. When Schedule 19 was actually calculated during the school year, a total of \$38.1 million was reported. This difference, the source of which is described below, contributed to the carryover shortfall mentioned above. For FY 15, we are estimating \$43.8 million in Schedule 19 costs.

Some 200 plus communities in the Commonwealth are permitted by law to count the cost of health insurance for retired school employees in the Schedule 19 accounts; another 100 plus communities are not allowed to do so. This discrepancy dates back to confusion over the original instructions from the state after the adoption of the Education Reform Act, and this discrepancy has been allowed to continue, despite the distortion to state education data and despite the inequity of the treatment. Brockton is a community which is prohibited from counting these costs. However, every year, there are indications that the legislature might correct this problem, although in the end, up until now, no corrective action has been taken. Nonetheless, for the past several years, the city has prepared its budget in the hope that it will be allowed to count costs for retiree health insurance. In FY 14, to be conservative, the city estimated \$6 million for this category, and that amount was included in the estimate of \$40.3 million in Schedule 19 costs used to develop the school committee budget. During the preparation of the actual Schedule 19 costs for FY 14, no retiree health insurance costs were included in the total of \$38.1 million reported to the state, even though more than \$8.0 million in these costs were incurred, because the state continued to prohibit the city from counting these costs. For FY 15, there again is a proposal in the Senate to allow these costs to be counted by all communities. Therefore, my budget assumes the cost of retiree health insurance will be permitted to be counted by Brockton. However, to be conservative, my estimate of Schedule 19 expenses includes only \$5.6 million for these costs. They are part of the estimate of \$43.8 million mentioned above.

With all of this as background, my recommended budget for the school committee for "net school spending" is as follows: the minimum obligation of \$203,984,025 mentioned above, minus \$43,848,836 in estimated Schedule 19 costs, including retiree health insurance as mentioned above, plus an additional \$500,000 to be provided above the minimum, to total \$160,635,189 as an appropriation to the School Committee. If the city council approves this budget, and if the state allows the counting of retiree health insurance costs, then the city will likely exceed its minimum spending by several million dollars, but the excess will occur in the city budgets, not the school appropriation. If the state does not allow Brockton to count the retiree health cost, then the city will probably fall short of its obligation, again in the Schedule 19 accounts, and the FY 16 budget will include the shortfall as a carryover. However, if the city council does not reduce my recommended appropriation, I do not believe that the city would incur a Chapter 70 penalty in FY 16 from such a shortfall.

I recognize that my recommendation is causing budget difficulties for the school committee. However, the recommendation complies with the law, and it is consistent in its construction with prior school budgets. I truly believe that the school budget difficulties are mainly due to student population growth, to grant expirations, and to problems in the Chapter 70 methodology, all as I discussed earlier. The solution from the city to problems not of its making would be to apply more city revenues to the school system, but these don't exist in my budget as submitted. My recommendation for the non-net school spending budget is also causing difficulties for the school system, especially in the transportation accounts. However, here also I believe that the state has played a big role. One of the major cuts to state aid in the past decade involves the fact that the state now reimburses only regional school districts for any portion of the cost of school transportation. In FY 2002 the city received over \$1 million for this cost, which was helpful, although it fell far short of the actual cost; it now receives nothing. The other cuts in unrestricted state aid also play a role in the city's ability to finance this function.

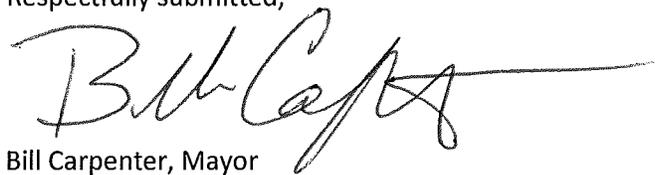
I will discuss briefly the enterprise fund budgets, beginning with the funds which are in relatively good fiscal shape. The Refuse Fund has a revenue structure which adequately pays for the costs of the fund and generates a surplus. This fund pays for staff and for the trash contract with Allied Waste. The fund periodically invests in capital equipment, mainly trucks, but none are required this year. The Renewable Energy Fund bears the operating costs of the city's solar field. The debt costs from developing the field are paid in the treasurer's budget. The energy developed by the field's solar panels is sold to Constellation New Energy, the supplier of the city's power. National Grid supplies transmission and distribution. As anticipated when the solar field was developed, the revenues are adequate to pay operating costs, but the cost of the debt service of the bonds the city issued to develop the field are paid without reimbursement by city General Fund revenues. The revenues of the Sewer Enterprise Fund budget remain adequate to pay the operating costs of the system, to pay the cost of debt service, and to reimburse the General Fund for the expenses paid on behalf of the Sewer Fund. These revenues are also adequate to continue to pay for cash appropriations for spending on capital. However, that capacity is shrinking some as inflation affects the system's costs. There has been no rate increase in several years, and while I don't see the need for one in FY 15, I do anticipate the need for an inflation recovery program in FY16 or FY17. The city would be well served in staying in front of this issue with

very modest increases as they are eventually required, rather than delaying until an increase is absolutely unavoidable, and a large one must be imposed on the rate payers.

I mentioned earlier that the Park and Recreation Enterprise Fund required a significant increase in the direct subsidy from the General Fund. This is because golf course revenues are declining even as the costs in the Enterprise Fund for parks, recreation, and golf are increasing. The subsidy increase was needed to maintain services, including summer programs, swimming pool costs, and sustained maintenance of fields and the golf course. Additionally, the costs of the Enterprise Fund as carried in the General Fund remain unreimbursed, as always. This indirect subsidy was always anticipated, but the growth in the direct subsidy cannot be sustained. The city needs to examine what is needed as investment in the golf course and how to price the services and manage the course to maximize its revenue potential. I will examine this problem carefully.

Finally, the Water Enterprise Fund remains badly underfinanced by its rate structure. This has been true for a number of years. The cost base continues to rise, especially with contractual costs for Veolia and Aquaria. Without new revenues, the rest of the budget has suffered. The maintenance work force has been reduced. The funding for the small main replacement program, including both materials and the dedicated crew, was eliminated in an earlier budget, and that funding has not been restored. There is no cash spending for other capital needs. In FY 14, the fund was unable to repay the General Fund about \$1.6 million in costs it paid on behalf of the Water Fund. While the FY 15 Water Fund budget does reimburse the General Fund for FY 15 costs, the earlier obligation remains unpaid. Like the Sewer Enterprise Fund, the Water Enterprise Fund should be fully self-sustained; all of its costs should be paid by its user fees. Delay in addressing the present imbalance does not serve the city's interest. I am open to developing a long term strategy to address this problem, but some corrective action will also be needed in the short term.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Bill Carpenter", with a long horizontal line extending to the right.

Bill Carpenter, Mayor