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Fiscal Year 2020 Budget Message

May 16, 2019

Northampton City Council
City Hall, Room 3
210 Main Street
Northampton, MA 01060

To the Honorable Members of the City Council,

I submit for your consideration and approval my proposed \$116,831,202 Fiscal Year 2020 budget for the City of Northampton in accordance with Article 7, Section 7-3 of our Charter.

The budget is comprised of a \$100,462,057 General Fund together with four Enterprise Fund budgets for Water (\$7,280,000), Sewer (\$6,490,000), Solid Waste (\$602,659), and Stormwater and Flood Control (\$1,996,486). This budget proposal represents a 4.4% increase over the current FY2019 City of Northampton budget expiring on June 30, 2019.

Six years ago today, Northampton was facing a \$1.7 million funding shortfall and the FY2014 budget I proposed to City Council on May 16, 2013, recommended significant cuts to city and school services – including the elimination of over 15 staff positions in education, public safety, and public works. As I explained in the budget message that year, “the ongoing structural imbalance between increased fixed costs and a lack of sufficient revenues to fund them” did not allow the city to maintain its current level of staff or services.

In the face of these difficult cuts, we presented Northampton taxpayers with both a choice and a multi-year plan, of which I highlighted in the FY2014 budget message:

“On June 25, 2013, the residents of Northampton will have the final say as to whether these significant cuts are implemented. This City Council approved a special municipal election for that date seeking resident approval for the City of Northampton to raise an additional \$2.5 million in local tax revenue above the limits of Proposition 2 ½. If adopted, we would have the revenue capacity to close our FY2014 budget gap and restore and maintain level services over the next four fiscal years.”

The voters of Northampton did indeed have their say that June. The override passed and our city implemented what has come to be called the Fiscal Stability Plan. The original plan called for filling our immediate budget gap, putting unused override funds into a Fiscal Stability Stabilization Fund in FY2014, FY2015 and FY2016, and then using those monies to fund the FY2017 budget. Our projections at the time showed that the FY2018 budget would need either another operating override or significant budget reductions to be balanced.

We worked hard to adhere to our plan and updated it annually with revised revenue and expenditure forecasts as part of each new city budget. The good news is that we have been able to extend the original four-year Fiscal Stability Plan (FY2014 – FY2018) to a seven-year Fiscal Stability Plan (FY2014 – FY2020) due to a host of factors including greater than anticipated new growth, higher than projected building permit and motor vehicle excise revenues, and significant cost savings in health insurance through our membership in the state's Group Insurance Commission plan.

Seven years of budget stability has allowed us to both maintain our city and school staffing while making targeted staff increases to serve critical needs. Since FY2014 through this proposed FY2020 budget, we've been able to add 53.27 full-time equivalent teachers and other licensed staff in the Northampton Public Schools which has resulted in one of the lowest student-teacher ratios of any district in our area. During the same time period, we've been able to add 5.88 full-time equivalent city staff to enhance services or meet new needs in areas such as information technology, public health, senior services, and public works.

The Fiscal Stability Plan has also allowed us to rebuild vital reserve funds depleted during previous recessions, both increasing our financial flexibility and resulting in an upgrade of Northampton's bond rating to AAA which was affirmed once again late last week by Standard and Poor's. This fiscal discipline has in turn allowed us to make critical investments in our city and school buildings, equipment, vehicles, technology, paving, and other infrastructure through the five-year Capital Improvement Program.

We've also made quality of life investments resulting in new and improved parks and playgrounds; additional open space and rail trails; more affordable housing; expansion of hours and facilities improvements at our libraries; hundreds of new plantings and enhanced maintenance of public shade trees; investments in climate initiatives including renewable energy, bike share, and climate resiliency and regeneration; as well as a host of other initiatives while maintaining a competitive tax rate that allows us to retain and attract new businesses.

This is the good news about how we took control of our own fiscal destiny and were able to achieve and maintain relative budget stability for seven fiscal years. The less than good news however, is that we did so knowing that our stability was, by design, temporary and that we would one day be back facing the same decisions we faced in 2013.

A key aspect of the Fiscal Stability Plan was stabilizing our local city finances while lobbying the Governor and Legislature to address some of the major structural issues with our state funding,

particularly as it pertains to education. As the end of our fiscal stability approaches, however, we are still waiting for reforms to the Chapter 70 education foundation budget formula created in 1993 that fails to account for the true costs of special education, health insurance, and other school costs and underestimates the price tag of educating Massachusetts children by at least a billion dollars.

We are still waiting for full funding of charter school tuition mitigation as per the law that created charters. We are still waiting for larger reforms to the flawed charter school funding model that continues to drain a disproportionate amount of education funding away from local districts to educate a small subset of students at schools that are not representative of the communities they draw from.

In other areas of municipal finance, we are still waiting for long overdue increases in state Chapter 90 funds to improve our roads, bridges and sidewalks that have been level funded for nine out of the last 10 years. We are still waiting for income tax reforms like the Fair Share Amendment or “Millionaires Tax” needed to increase state revenue fairly and progressively while taking pressure off of local property taxes.

While there has been increased attention on Beacon Hill to issues like education funding reform, none of the three pending versions of the state budget offered by the Governor, House, or Senate would provide significant new education funding for Northampton or needed relief from the drain of rising charter school tuition. The House version of the FY2020 state budget on which the revenues for this Northampton budget are based, actually represents a net decrease in state aid of \$27,370 over what the city received in FY2019.

One positive source of new local revenue has been the emerging Massachusetts adult-use marijuana industry that saw its historic launch here in Northampton on November 20, 2018. As one of only a handful of communities with a licensed retail store open by the end of 2018, our city benefitted from a significant share of the first quarter of local option excise tax.

There are now 18 marijuana retailers open statewide, including nearby Easthampton, Greenfield, and Amherst. The Cannabis Control Commission has another 97 completed retail applications under active review with more partially completed applications in the queue, so it remains to be seen what Northampton’s ultimate market share of adult-use marijuana sales will be by the time our FY2020 first quarter installment of marijuana excise tax is issued at the end of September. Based on special guidance from the Massachusetts Department of Revenue, we are using what we believe is a conservative revenue estimate of \$1.2 million in marijuana excise to build this budget.

This new local revenue source is a critical component of the \$4,464,013 in revenue needed to cover what are predominantly fixed cost increases to our General Fund. The largest single portion of that increase is the proposed appropriation to the Northampton Public Schools which will increase \$1,339,782 or 4.5% over the current year amount. This would represent the largest percentage increase to NPS in six years and is \$301,137 higher than the budget approved by the Northampton School Committee in April. I am recommending this increase above the approved

NPS budget in order to support a new collective bargaining agreement with school employees that is still under negotiation. It is important to also note that my administration is still in active collective bargaining with five out of the seven city employee unions.

While current and pending contractual salary obligations to city and school employees make up a significant portion of any municipal budget, there are other fixed cost increases in the FY2020 General Fund including required increases of \$475,143 or 8.16% to meet our retirement system assessment, a \$323,033 or 2.9% increase in employee health insurance, and increase of \$89,815 or 1.5% in debt service primarily related to a \$2.5 million investment in paving, and a \$46,251 or 5.48% increase in Medicare taxes. All told, fixed costs account for the vast majority of the increases detailed in our FY2020 budget with only a small portion of funds in both the city and school budgets targeted for investments in personnel or equipment needed to serve the needs of our residents and schoolchildren.

This budget is the second one in a row that requires us to use override revenues from the Fiscal Stability Stabilization Fund in order to balance the budget. In FY2019, we used \$277,850 from the Fiscal Stability Stabilization Fund and in FY2020 that amount almost triples to \$775,874 to meet our General Fund revenue requirement.

We have updated the Fiscal Stability Plan for FY2020 and our projections show that without major changes in state or local revenue, we will completely exhaust the remaining \$1,886,249 balance of our stability funds for the FY2021 budget but still face an estimated deficit of \$838,589. This is the not so good news I referred to earlier and it is the same “structural imbalance” catching up with us that I referred to in that fateful budget message six years ago today when we first presented our multi-year plan.

So where do we go from here? The first step is to meet our obligations for the new fiscal year that begins in 45 days by putting in place a budget for FY2020 that maintains our excellent, high-quality city and school services. The next step will be to face our financial future head on and have a community conversation about whether we renew our Fiscal Stability Plan with another general override or instead make the tough decisions that will be needed to scale down those city and school services to match revenues that cannot keep pace.

Our past practice in Northampton, like many other cities and towns, has been to put a Proposition 2 ½ override question on a special election ballot in late spring just before the beginning of the new fiscal year. This often involves presenting a recommended budget with cuts in city and school services needed to close the gap with the outcome of the override question determining whether those cuts will happen. I propose an alternative approach.

My compact with the taxpayers back in 2013 for the FY2014 operating override was the explicit understanding that our Fiscal Stability Plan would only provide a limited number of years of stability and then we would need to decide whether or not to renew it with another. I’ve made a point of reminding taxpayers of this fact in every subsequent budget message and at all of the many Town Hall Budget Meetings I’ve held every year since 2013.

After we've completed closing out the current FY2019 budget later this summer and move into FY2020, I will work with the Finance Director to develop a plan for renewing the Fiscal Stability Plan that will include a Proposition 2 ½ general override question. In early September, I will ask the City Council to place that question on the ballot for the upcoming Northampton city election on November 5, 2019. This will allow the taxpayers to make an important fiscal choice for FY2021 and beyond as early as possible to inform our annual budget writing process that begins in January each year.

Please know that I do not take this step of proposing another override lightly and have worked day and night with our financial team, department heads, employees, and the City Council to forestall it for as long as possible. I am committed to making the case that we must preserve our city and school services and will go out across Northampton this fall to explain our new multi-year override plan to voters and any group or organization that will give me an audience.

I want to thank Finance Director Susan Wright for her outstanding work on this budget and her long and trusted stewardship of our city's finances. Thank you to our city department heads and school superintendents for working to develop fiscally responsible budgets for their individual organizations. Thank you as well to my Chief of Staff Lyn Simmons, Mayoral Assistant Court Cline, and Executive Assistant Annie Lesko for their invaluable contributions toward putting this annual budget document together.

I look forward to working with the City Council over the next several weeks to answer any questions about this budget or provide additional information it may need. Copies of budget documents are available for residents to review at our two libraries and at City Hall as well as electronically on the city's website.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read 'D. Narkewicz', with a stylized flourish at the end.

David J. Narkewicz
Mayor