CITY OF BROCKTON

MASSACHUSETTS

FINANCE DEPARTMENT

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Mayor Bill Carpenter
Members of the City Council
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Members of the Brockton School Committee
Crosby Administration Building
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Ladies and Gentlemen:

I HEREBY CERTIFY, IN ACCORDANCE WITH SECTION 5 OF CHAPTER 324 OF THE ACTS OF 1990, THAT IT IS MY PROFESSIONAL OPINION, AFTER AN EVALUATION OF ALL PERTINENT FINANCIAL INFORMATION REASONABLY AVAILABLE, THAT THE FINANCIAL REVENUES OF THE CITY ARE ADEQUATE FOR FY 15 TO SUPPORT THE ADOPTION OF THE MAYOR'S PROPOSED BUDGET. THE BUDGET AS SUBMITTED IS BALANCED, WITH A REASONABLE ESTIMATE OF REVENUES TO SUPPORT THE FY 15 EXPENDITURES. HOWEVER, IT IS CRITICAL TO NOTE THAT THE LEVELS OF SERVICE WHICH WILL BE PROVIDED BY THIS BUDGET REPRESENT A MARKED DETERIORATION FROM SERVICES PROVIDED IN THE PAST, ESPECIALLY WITH RESPECT TO THE BROCKTON PUBLIC SCHOOLS. THERE, A NUMBER OF LAYOFFS OF CERTIFIED STAFF WILL RAISE CLASS SIZES. DEEP REDUCTIONS AND EVEN ELIMINATION OF MANY PROGRAMS WILL ALSO TAKE PLACE. LAYOFFS TO NON-CERTIFIED STAFF AND LARGE CUTS TO THE ORDINARY MAINTENANCE BUDGET WILL AFFECT CONDITIONS IN THE SCHOOL BUILDINGS AS WELL. IN THE BUDGETS OF THE MUNICIPAL DEPARTMENTS, OTHER ORDINARY MAINTENANCE COST REDUCTIONS WILL BE IMPLEMENTED, AND THE REDUCED STAFFING LEVELS WHICH HAVE OCCURRED IN MANY CITY BUDGETS OVER THE PAST FIVE YEARS OR MORE, WILL CONTINUE. EVEN MORE ALARMING, IT IS MY OPINION THAT EVEN THIS REDUCED LEVEL OF SERVICES CANNOT BE MAINTAINED IN FUTURE YEARS WITH THE PRESENT REVENUE BASE, AND THE HEALTHY BALANCES IN CITY RESERVES, WHICH HAVE BEEN USED IN THE RECENT PAST TO AVOID EVEN DEEPER CUTS TO SERVICES, NO LONGER AVAILABLE IN SUFFICIENT AMOUNTS, TO PERMIT THE CITY TO AVOID DIFFICULT CHOICES IN FUTURE BUDGETS.

Anyone who has read my letters of commentary on the past several years of budgets and on the public safety union contract settlements of FY 14 should not be surprised at the opinions expressed above. The most recent of those letters, which were filed with the city clerk, were dated: May 28, 2012, June 8, 2013, August 20, 2013, April 22, 2014, and May 6, 2014; and are available for the record, and for reference. The circumstances which concerned me before have continued; in fact, in some ways they have worsened. My opinion in this regard is supported by the bond credit rating agency Standard & Poor (S & P). The agency recently examined the city's fiscal position and issued a formal report, in which S & P changed the city's fiscal outlook to "negative" and warned of potential future credit rating downgrades, unless corrective steps are taken. The major concerns in the S&P report focus on a structural imbalance between revenues and expenses in the city's operating budgets, which have persisted for several years. This simply means that recurring revenues consistently have been less than recurring expenses. The report also mentions as troublesome, the value of long term pension and other benefits liabilities when combined with long term debt obligations, as a percent of both the city's operating budget revenues, and fund balances. The city's long term direct debt is almost $233.8 million. At January 1, 2013, its actuarial pension liability was $477.4 million, with its actuarial assets at $363 million, leaving its unfunded liability at $114.4 million, with a funding ratio of 76.2 %. The city's funding schedule would fully fund this liability in 2033. The city's actuarial liability for its Other Than Pension Employee Benefits (OPEB) is about $505 million. There are no offsetting assets, and at this point, the city has not adopted a funding schedule. The recent health insurance plan benefit reductions negotiated by the city did reduce this liability from almost $694 million in 2010, to the most recent estimate, valued at 6/30/12. A copy of the S & P report will be forwarded separately.

The mayor's budget letter provides a good summary of the FY 15 budget, and it describes some of the concerns and concepts he incorporated in developing it. I will not repeat in this letter, an analysis of the budget itself. Rather, I will focus on the city's present and probable future fiscal circumstances. A number of troublesome financial trends have combined to cause our problems. Many of these trends act to amplify the adverse financial effects of others. Here is a listing of some of these. The city is experiencing budget pressure from rapidly increasing costs, especially from the rate of growth in the costs of pensions and other benefits for current and retired employees. The state's revenue assistance to the city has not kept pace with the city's growth in costs. Some of the city's residents have become quite vocal in their resistance to paying for increases in property taxes and utility fees, and that resistance has now affected the willingness of elected officials to use tax and utility fee increases to help in financing the cost increases in the city's annual budgets. In order to close the gap between revenue and expenses, in addition to some cost control measures, especially in health insurance and energy costs, the city also has recently used reserves to pay for operating budget costs. This strategy is clearly unsustainable; it has quickly reduced the reserve balances, and if the strategy continues, these balances will soon diminish to unacceptable levels.

Despite the use of reserves, the combination of resistance to taxes and the city's limited financial capacity has prevented adoption of sound plans for paying for the capital needs of the city, and for paying the large unfunded liability of the city for the cost of benefits other than pension which have already been earned. This liability is called "OPEB", and it is mentioned above and is currently valued at more than $500 million. Delaying action on these two issues is expensive; the costs only increase. Moreover, by delay the city not only has increased the long term cost, it has also unfairly transferred the responsibility for making payments to future taxpayers.

First and foremost among these trends is the failure of state aid to keep pace with the growth in costs. In fact, from the period of FY 2002 to the present, in actuality, the state deeply reduced the amount of state aid to the city which is unrestricted as to use. At its peak, a few years ago, this reduction exceeded $12 million; even now, the reduction is about $10.0 million. During this same time, the city's population grew poorer relative to the rest of the state, due to the migration to the city of new families of modest means, many of them from low-income foreign countries. According to the US Census, consider this trend in median family income in the city, compared to median family income in the state, over the past two decades. In 1990, the median family income in Brockton, at $38,544, was 87 % of that for the state; in 2000, at $46,235, it was equal to 75%, and in 2010, at $57,228, it was equal to only 70 %. The statistics for income per capita show the same trend: at $13,455, it was equal to 78% of the state amount in 1990, but it represented only 66 % of the state amount at $22,312 in 2010. Many members of this new population have arrived to the city not only needing government services themselves, but also bringing with them children to be educated in our schools. This population shift occurred while the state was reducing the unrestricted state aid categories. I am firmly convinced that the city is providing a service to the wealthier communities of the Commonwealth in receiving and serving this population of children and adults. Rather than providing adequate state revenue sharing to help compensate for the concentration of low income residents which has taken place, the state instead has reduced this revenue. For me, that fact has been the most powerful driving factor in city finances. However, at this point, I see no likely relief, and we should not plan on any.

During this same time, our student population has grown at a rate which exceeds the rate of almost any other school district in the state; the student population in Brockton has grown by nearly 2000 children in just the five years since 2009. This population is now largely "low income", as about 80 % of these students now qualify for free or reduced lunch. The mayor's budget letter contains a sound analysis, which is worthy of reading in connection with this letter, and which needs no elaboration of the adverse financial impact on Brockton of the deficiencies of the state's funding mechanisms for the Education Reform Act enacted 20 years ago. This statute was passed in response to ruling of the Supreme Judicial Court of Massachusetts in the city's lawsuit, the so-called "Hancock" case. This case established that the adequate and equitable financing of public education was a constitutional obligation of the state, an obligation which the state was failing to meet, especially with respect to the poorer communities. In my opinion, while the provisions of the Act have remedied some of the previous problems and have greatly benefitted Brockton, it is also true that there still is a vast difference in monetary resources made available to students in wealthy communities, compared to cities like Brockton. This city and its counterparts lack the revenue capacity simply to meet the challenge, let alone truly compete. In addition to the operating budget problems stemming from the fact that the student population is now approaching 18,000 students, and despite the construction of 5 new schools since 1995, the practical classroom capacity of our school buildings has been reached. Not only does this population present a major challenge in finding the resources to fund operating budgets, but also its size highlights the inevitable need for the city to find the capital to expand the number of classrooms; both challenges will collide with the same constrained revenue base. Even now, the city is paying in its Treasurer's Debt budget, from its own revenues, about $2.5 million, inside the Proposition 2 ½ limits, net of state assistance, for the annual cost of retiring bonds issued for the city's school construction projects of the past years.

The homeowners in the city in the previous decade were badly harmed by the collapse of the housing market in 2007 and 2008, and the foreclosure crisis which followed, and this also affected the finances of the city. It has been well-documented that many of the mortgages issued in Brockton in the early part of the 2000's relied on shoddy underwriting standards and were, in many cases, predatory in nature. When real estate values collapsed, the rate of foreclosure on residential mortgages in the city was one of the highest in the commonwealth. As a result, a number of properties became vacant, and the city's residential values suffered a steep decline. Even today, there are a substantial number of properties for which the mortgage exceeds the equity in the home. The home vacancy rate has also affected our utility operations, as fewer metered customers exist to pay for the increased costs of the city's utilities.

An even greater effect occurred in the property tax base. The city's taxable values for commercial and residential real estate exceeded $8.5 billion in FY 08, but by FY 14, the taxable values had declined to $5.2 billion, a decline of nearly 40 %. This trend recently reversed, but the damage was great, as property tax rates rose to compensate for the decline in values as the tax levy increased. For example, in FY 2010, the uniform property tax rate rose from $17.01 per thousand dollars of valuation to $21.77 per thousand. While the city assesses taxes with a "split" rate, the uniform rate is that rate at which all property would be taxed if there were no shifting of some of the residential share to the business sector. In both FY 13 and FY 14, the residential rate exceeded $20.00 per thousand and the commercial rate exceeded $30.00 per thousand. A uniform rate in excess of $20.00 per thousand is of concern, as it indicates that the city is approaching its absolute tax levy ceiling. Under Prop. 2 ½, the uniform rate cannot exceed $25.00 per thousand, even with voter approval. On a $5.2 billion valuation base, each $1.00 per thousand in the uniform rate equates to about $5.2 million in tax levy. However, the likelihood has diminished that the city will reach or even close in on its levy ceiling. According to statistics from the multiple listing services maintained in the Assessors' office, the more recent trend in home sales shows a substantial reversal of that downward trend. All classes of residential properties are showing market improvements, whether single family, multi-family, or condominiums. For single family homes, in calendar year 2012, the median sales price was $150,000, and the average was $156,617, but for 2013, the corresponding figures were $179,900 and $185,284. The median price increased by nearly 20%, and the average price by more than 15 %. For multi-families, the same percentage improvements were even more dramatic: an increase of 32% to $210,000 on the median price and over 31 % on the average price to $224,022. For condominiums, the improvement was not as drastic, but still substantial: 8% on the median price to $75,151 and nearly 14 % on the average price to $82,473. For the first quarter of 2014, the improvement has continued, with prices in the 02301 zip code up by 15 % and in the 02302 zip code up by 3.0%. In both zip codes, sales prices averaged about 95 % of asking price, and the number of days on the market decreased by double digit percentages. So, the market has firmed up a great deal and inventories are decreasing. All of this means that there will be a significant rise in residential assessed values and corresponding decreases in the uniform tax rate in FY

15, and this will allow much more room for property tax levy growth in the future...if the city's elected officials are willing to appropriate it. I will discuss this below.

Notwithstanding this recent favorable trend in property values and the hope it provides for improvement in the city's finances, it will only benefit the city if the mayor is willing to propose and city council is willing to approve appropriations to spend the available levy. I have emphasized the need to do this, but frequently, concern on the part of elected officials over the potential reaction of voters has prevented action. I believe that the recent resistance of voters both to utility rate increases and to the utilization of the 2 ½ %recovery of cost inflation in the property tax levy stems from more than the general reluctance of citizens to pay increased taxes; the motivation of Brockton residents in particular derives from a reaction to the circumstances I described in the beginning of the previous paragraph. This resistance is voiced as a claim that taxes, or fees, are too high, even though it can objectively be demonstrated that for Brockton residents compared to those in other communities, neither the utility fees nor the property tax bills are unduly high. In fact, they are comparatively low. While the tax rates are high, the property tax owner does not pay the tax rate; he pays the tax bill, which is a product of both the value and the rate. Compared to other communities, the bill is not high in dollar terms; it has not been growing rapidly, and it does not claim a disproportionate share of income. In last year's budget letter, I discussed this issue extensively, but the topic is worth revisiting because stabilizing the city's finances will require the political courage to raise revenues.

On the basis of the average residential tax bill, Brockton ranks in the lower quarter of the Commonwealth's communities. On the basis of residential property taxes as a percent of median family income, Brockton tracks the state average, with the average residential property tax bill consuming about 5.4 % of median income, compared to 5.5 % for the state average. According to statistics published in the "Enterprise" newspaper on 4/16/2014, based on a survey of 35 communities in the region, the city's average residential tax bill for 2014 was the second lowest. The percentage increase from 2011 to 2014 of the average tax bill in the city, at 10%, ranked about in the middle. In twelve communities the rate of growth was lower, and of these, the growth rate in eleven of the twelve ranged from 7 to 9 %, not much lower than the 10 % for Brockton. In seven communities, the rate of growth was 15 % or more. In a similar survey of 48 communities performed by the "Boston Globe" and published on 2/27/14, the city's average residential tax bill in 2014 was also second lowest. This survey examined the rate of growth in the average residential tax bill over a full 10 years, beginning in 2004.

Brockton's growth was 34 %. In only eight communities was the rate lower. In two, it was the same, so in 38 communities of 45, the rate of growth exceeded Brockton's. In 22 of these, nearly half, the rate of growth exceeded 50%, compared to 34 % in Brockton. In a similar fashion, it can be shown that the city's residents don't pay more for water as compared to residents in other communities. Water Commissioner Kathryn Archard, in her email to city councilors dated May 22, 2014, provided an attachment which was a report from the firm, Industrial Economics, Incorporated of Cambridge, MA. This firm compared average residential water rates in 2012 for Brockton and 17 other communities of similar size across the country. Of these 18 communities, Brockton's monthly charge was lower than all but 7. Compared to the median bill, the Brockton bill was about 95 %, and the Brockton bill compared to the average bill for all eighteen was within 3 cents per month. Compared to the average residential bill across the Commonwealth of Massachusetts, the Brockton charges were just over 72 % of the state-wide average, and the difference would amount to a savings in charges of $139 .20 per year. The firm also compared the city's average residential charges to those of 10 others in the region. The Brockton annual bill to the average resident would be just over $443. The average for the other 10 communities would result in annual charges of $525.48, and the median would result in charges of $552.96. The annual savings for Brockton residents in one case is almost $100, and in the other case, over $100 per year. Accordingly, on the basis of objective measurements, Brockton residents cannot easily obtain the benefit of lower taxes or water charges by moving to other Massachusetts communities. In most cases, the costs would be higher, and in the cases of lower charges, I believe those charges could be obtained only at the price of much poorer services. Therefore, the choice for the city is largely one of: "What services are the citizens and its elected officials willing to sacrifice in the name of lower taxes and fees?" An examination of the budget will show that the options for meaningful budget cuts can come ONLY at the cost of services.

In the FY 15 budget submission of the mayor, about $164.2 million is recommended for appropriation to various purposes, exclusive of the direct appropriations in the General Fund to the schools and exclusive of appropriations in the Enterprise Funds financed by enterprise fund revenues. I've excluded the enterprise funds because these appropriations are self- financed, and I have excluded the schools because the city's appropriation requirements there are nearly all determined by legal requirements. However, in the $164.2 million in General Fund appropriations other than to schools, $13.1 million is dedicated to debt service, and most of this is to pay principal and interest on long term debt; it is not available for budget cuts. A total of $18.1 million is required for pension costs, and while a small portion of this could be reduced with staff reductions, most of the appropriation is for the cost of pensions and financing the unfunded liability for pensions which have already been earned or will be earned, assuming a continuing work force of about the same size and composition. Another $54.2 million is dedicated to benefits other than pensions for active and retired employees. The largest amount of this is for health insurance costs for actives and retirees, but it also includes dental and life insurance benefits and Medicare taxes. Again, while some of the total could be reduced with staff reductions, most could not. These three categories total $85.4 million, most of which is beyond reach of budget cuts, and this total represents more than 50 percent of the $164.2 million. Additionally, in that total of $164.2 million, $52.0 million is for salaries and $2.1 million is for overtime of employees, coming to $54.1 million, or about one-third of $164.2 million. Between all of the categories above, about 85 % of the $164.2 million is accounted for, although some of that could be reduced with staff reductions. However, salaries and overtime budgets to be paid to public safety employees in total comprise $40.2 million of the $54.1 million for city salaries and overtime, and if the public safety functions were to be spared from staff reductions, then only $38.6 million, or less than one-fourth of the $164.2 million, remain for cutting. Even assuming that some of the other three-quarters could be made available, it is still safe to assume that no more than one-third, or $50 million or so is potentially available. However, in practical terms, much of that is also unavailable as it is directed towards necessary purchases for supplies, outside service contracts, legal and insurance costs, snow removal, electricity and energy, etc. Perhaps only $25 million or so is truly available to examine for cuts, and achieving significant savings from that amount, on the order of $10 million per year, would mean gutting many of the services now offered, putting on the chopping block such services as five day a week office hours at City Hall, the Council on Aging, the library system, pot hole repair, aggressive snow and ice removal, and others. The structural imbalance in the city's budgets cannot be addressed in any practical way in the short-term with cost reductions alone without a drastic reduction in services. Cost reductions can be part of the solution, especially with labor and related costs which can be affected over the longer term, but significant revenue enhancements will be needed. I believe that these must comprise the larger share, and that to hope otherwise is to engage in fiscal fantasy.

In light of the preceding, I will discuss the city's recent audited financial statements, attempting to stay away from the highly technical terms, in order to illustrate my concerns and those expressed in the S& P report. The city prepares its financial statements according to different accounting rules, depending on purpose. Our annual budgets are prepared in accordance with the requirements of the Commonwealth of Massachusetts, in order to obtain approval by the Department of Revenue of our budgets and our tax levy. By this set of rules, revenues from the state and from the local receipts including the tax levy can be estimated for each budget year, and the use of available cash in certain reserves and designated funds can also be applied to pay for appropriations for expenditures. Most expenditures will occur in cash payments by year end, and so this budget is essentially a cash budget. It can be balanced with reserves even if the recurring revenues and expenses are not aligned. The city also prepares statements according to national standards set by the Government Accounting Standard Board (GASB). These standards apply different rules to transactions which attempt to recognize the fact that certain transactions have implications even if the receipt or payment of cash may be delayed in time. Attempting to "match" the true economic effect of particular transaction so that it is properly accounted for in time requires "accrual", or recognition, of the revenue/expense effect to the time when this effect is susceptible to some form of objective measurement, even if the cash effect has not yet occurred. There is further discussion of this issue in the annual audit of the city. In developing this accrual process, the city follows the GASB rules for two kinds of statements: government wide financial statements, which are prepared using accounting rules more similar to businesses and take a long term focus, and fund accounts, which use rules for following transactions in the various funds of the city which exist for particular, restricted purposes, but also include the General Fund. Fund accounting takes a more near term focus. Therefore, there are assets, such as capital or fixed assets, and liabilities, such as long term payment obligations such as bonds, or the OPEB liability mentioned earlier, on the government wide statements which do not appear on the Fund Accounts. This topic, and reconciliation of the two kinds of accounts, also appears in the annual audit.

In the accounting for Fund Accounts, the city prepares an annual balance sheet which accounts at every June 30 for what is owned by the city as "assets" (including cash and amounts owed to the city). The balance sheet at June 30 also accounts as liabilities for what is owed by the city to other parties (payroll, vendors, and other claims on the city's assets). The difference between the two is classified as Fund Balances, or Deficits, if the balances are negative, and these are classified as those which have varying restrictions assigned to them, or which are unassigned. The composition of the balance sheet at June 30 is affected by revenues and expenditures throughout the year, such as by revenues exceeding expenses for the year, and by changes on the balance sheet itself, such as using cash to pay an account payable. In the General Fund, at 6/30/11, the cash balance was $79.7 million in a total asset balance of $127.2 million. The total of fund balances, after deducting liabilities, was $77.8 million, of which $18.9 million was classified as "unassigned". The fund balances reflect a kind of "equity" in the city. By 6/30/13, the cash balances had decreased to $77.9 million, as part of total assets which had also declined to $123.9 million. Total fund balances, after deducting liabilities, had also declined, by more than $10.0 million, to $67.4 million. Looking back even further, the decline was even greater. Measured against the value of total fund balances of 6/30/09, the decline was $12.7 million from the $80.1 million at 6/30/09. This is indicative of the trend referred to by S&P. It was caused as recurring expenses exceeded recurring revenues by $4.2 million in FY 11, $4.9 million in FY 12, and $9.6 million in FY 13. These shortfalls were partly offset by transfers in, largely from reserves. Also, the "unassigned" balance had increased from 6/30/11 to 6/30/13 by $4.5 million to $23.4 million. This occurred as the balance in the health insurance trust fund was deliberately drawn down over two years to help pay for health insurance costs without using recurring revenues. Multiple years of employing these "budget balancing techniques" led to the change by S&P in its credit ratings outlook for the city from "stable" to "negative". Continued use of them will result in downgrades.

In the years from FY11 to FY13, in the General Fund accounted for using the GASB rules for Fund Accounting, recurring revenues grew from $285.9 million to $309.1 million, an increase of $23.2 million. More than 100% of this increase was provided by the tax levy ($5.5 million increase) and chapter 70 aid ($27.1 million increase). The total of other revenue categories declined. During the same time, total expenses grew from $290.2 million to $318.7 million, an increase of $28.5 million. More than 100% of the increase came from expenditure increased in education ($16.9 million increase), pension and fringe benefits ($10.9 million increase), and state and county charges ($1.0 million increase). The total of other expenditure categories declined. Managing this imbalance, especially considering that most of the revenue increase was consumed by the required expenditure of it on classroom expenses, and the composition of the expenditure increases, largely uncontrollable in the short term, required the use of reserves to preserve services. The strategy was not sustainable, and it has run its course.

I have been in charge of the city's finances for nearly 24 years. When I arrived, the city's S&P rating was "B"; in other words, the city's credit was rated as junk bond status. During my tenure, the city has never received an actual rating downgrade. This new change in outlook is a most unwelcome event. The credit rating is important not just in obtaining favorable interest rates when the city borrows. A good credit rating means that the city is managing its fiscal affairs with prudence, with an eye toward long term stability and a care for the future – future citizens, future taxpayers. Improving the city's credit rating from "B" to AA- for S& P consumed most of the 24 years of my tenure and required the hard choices and stable fiscal hand of many elected officials. Maintaining the city's current AA- rating and restoring its outlook to "stable" will also require some hard choices. In fact, these choices may be even more difficult than those other than the massive layoffs for FY 1992, because for most of the years from 1990 to 2002 the state was raising its level of budget revenue assistance to the city for both unrestricted as well as restricted state aid. I do not believe we can count on that help this time.

However, there are some steps we can and should take on our own initiative. We can appropriate each year the annual levy increase allowed by Prop. 2 ½. Right now that value is almost $3.0 million, but it will grow with time. At this point, I believe these added revenues should be directed toward the replenishment of reserve balances. That means that new programs, or staffing increases, should be funded by other means. We can adopt utility fees which are adequate for full cost recovery, including the amounts necessary to pay costs incurred in the General Fund and costs necessary for replacing the capital assets as they age. We can increase these rates no less often than bi-annually and preferably annually, so that the city's rate payers are not subjected to large, less frequent, periodic increases. In a few years, at the end of the present health insurance agreement with employees, we can bargain to maintain adequate, market reflective co-payments and to impose deductibles, which we do not do, but as most private insurance plans do. We can examine how the city provides health insurance costs to its retiree community. Should the city's share of health insurance premiums be structured more like the pension system, where the percentage amount of salary paid as pension depends in part on years of service? Currently, a retiree who is eligible for a city pension receives the same city contribution to the health insurance premium, regardless of years of service. Should we in some fashion restrict the health coverage of the spouse's of retirees? The city has been paying Medicare taxes for its employees since 1986, and the city has compelled its retirees to enroll in Medicare if eligible for more than a decade, so such a step would not leave the spouses without coverage. In bargaining these kinds of issues, which would be contentious, should the city insist as well on labor settlements at or less than the rate of inflation, and tolerate the labor unrest which might ensue? If the city takes at least some of these kind of aggressive cost cutting steps, then I believe the city would have the credibility to ask the voters for tax revenues outside the provisions of Prop 2 ½. For example, the city will be paying in excess of $3 million in debt service for school and library construction projects. If the city's leadership were to advocate for and obtain the permission of voters to levy property taxes outside Prop. 2 ½ for as long as these bonds are outstanding; it would secure significant budgetary relief. The city has many new capital needs which have not been met in recent budgets. We should tackle these, but we should first get voter approval for capital or debt exclusions.

The city needs most of all new tax base growth, especially business growth. If the city's commercial tax rate and utility rates are impediments, then the solution, given the city's revenue constraints, is not withhold the tax levy. Instead, the city council should reduce the property tax factor to shift much less of the residential burden to businesses. The utility rates are set by ordinance. The city can adopt new ordinances, as it raises utility revenues which flatten the block rate curve so that lower users pay a rate a little closer to the higher rate blocks. Finally, the city needs to become very welcoming to proposals for business development which is consistent with the city's zoning ordinances. The city's residential economic characteristics lack the fiscal capacity to carry the city's budget needs. The city is not like Newton, which is much more capable of meeting its needs with residential taxes. The City of Brockton is starving for commercial development. The largest commercial project during my tenure, the gas fired power plant, has been blocked by legal maneuvering, even though it would be sited in a zone in which electric power generation is a specifically permitted use, even though the agencies charged with oversight have mostly granted the go-ahead. Our decision to oppose might have been understandable, despite the loss of economic benefits, in the hope that the project's proponents would become discouraged and go away. Instead, the proponents have sued the city for more than $60 million. Regardless of one's opinion of the merits of the suit, I do not believe it can be classified as baseless, in that the city is fighting its own zoning ordinances. I believe we should consider attempting to come to terms with the proponent with the view of allowing construction and obtaining the economic benefits, rather than running the risk of an unaffordable judgment.

I recognize that many of the proposals in the preceding paragraphs will be opposed. However, if the city is to obtain long term fiscal stability, it will take many unpopular steps.... If not these, then others. A slow, downward financial spiral will be even more unpopular in the end.

Respectfully submitted,

John A. Condon, CFO

attachment

Property tax bills rising

Homeowners south of Boston saw property values decline between fiscal 2011 and 2014, but the amount they pay in property taxes is higher in every community.

	2014 average single-family home value	% change since 2011	2014 average single-family tax bill	% change since 2011	2014 state ranking for tax bill
ABINGTON	$281,104	-6%	$4,832	7%	122
AVON	$265,137	-1%	$4,218	28%	170
BRAINTREE	$346,739	-2%	$3,960	10%	192
BRIDGEWATER	$302,141	-4%	$4,910	9%	119
BROCKTON	$180,012	-7%	$3,264	10%	260
CANTON	$451,042	-3%	$5,805	9%	80
CARVER	$254,840	-4%	$4,335	10%	162
COHASSET	$860,205	1%	$10,787	9%	11
DUXBURY	$568,428	-3%	$9,180	25%	22
EAST BRIDGEWATER	$294,686	-7%	$5,119	22%	109
EASTON	$362,751	-3%	$6,040	11%	69
FALL RIVER	$206,793	-9%	$2,601	12%	308
HALIFAX	$268,321	-6%	$5,010	11%	115
HANOVER	$413,681	-1%	$6,706	14%	53
HANSON	$284,571	-13%	$4,402	12%	158
HINGHAM	$655,135	0%	$8,228	14%	33
HOLBROOK	$233,317	-3%	$4,379	4%	159
HULL	$361,398	-3%	$5,013	9%	114
KINGSTON	$325,576	-5%	$5,431	8%	92
MARSHFIELD	$376,403	-2%	$5,002	15%	116
MILTON	$516,317	2%	$7,740	8%	39
NORWELL	$538,677	1%	$8,818	19%	25
NORWOOD	$363,141	0%	$4,205	15%	173
PEMBROKE	$322,929	-1%	$4,744	8%	129
PLYMOUTH	$299,834	-3%	$4,536	13%	148
QUINCY	$320,113	-2%	$4,757	9%	128
RANDOLPH	$233,513	-8%	$4,243	8%	168
RAYNHAM	$294,058	-5%	$4,534	8%	149
ROCKLAND	$248,500	-4%	$4,557	19%	145
SCITUATE	$480,342	-1%	$6,268	14%	62
SHARON	$433,791	5%	$8,914	11%	24
STOUGHTON	$274,550	-3%	$4,321	12%	164
WEST BRIDGEWATER	$280,070	-2%	$4,618	10%	138
WEYMOUTH	$282,309	-3%	$3,755	10%	212
WHITMAN	$255,474	-7%	$4,039	10%	184

Source: Massachusetts Department of Revenue

DECADE OF RISING BILLS

An examination of changes in residential property taxes between fiscal year 2004 and this year found a wide range of increases for the average single-family home in 48 area communities, from a low of 20 percent to 73 percent on the high end.

Town	Fiscal 2014 taxes	Percentage increase since 2004
Abington	$4,832	33
Avon	$4,218	73
Braintree	$3,960	39
Bridgewater	$4,910	56
Brockton	$3,264	34
Canton	$5,805	54
Carver	$4,335	35
Cohasset	$10,787	46
Dedham	$6,217	68
Duxbury	$9,180	59
East Bridgewater	$5,119	66
Easton	$6,040	58
Foxborough	$4,243	52
Freetown	$3,484	29
Halifax	$5,010	53
Hanover	$6,706	43
Hanson	$4,402	27
Hingham	$8,228	50
Holbrook	$4,379	28
Hull	$5,013	42
Kingston	$5,431	58
Lakeville	$3,988	53
Mansfield	$5,628	34
Marion	$5,876	35
Marshfield	$5,002	50
Mattapoisett	$5,556	47
Middleborough	$3,972	38
Milton	$7,740	58
Norton	$4,341	41
Norwell	$8,818	58
Norwood	$4,205	50
Pembroke	$4,744	38
Plymouth	$4,536	40
Plympton	$5,535	33
Quincy	$4,757	31
Randolph	$4,243	52
Raynham	$4,534	64
Rochester	$4,657	59
Rockland	$4,557	54
Scituate	$6,268	55
Sharon	$8,914	37
Stoughton	$4,321	37
Walpole	$6,405	50
Wareham	$2,480	33
West Bridgewater	$4,618	45
Westwood	$9,601	44
Weymouth	$3,755	39
Whitman	$4,039	20

SOURCE: Massachusetts Department of Revenue