



CITY OF NEW BEDFORD

JONATHAN F. MITCHELL, MAYOR

November 30, 2021

President Joseph P. Lopes and Honorable Members of the City Council

City Hall

133 William Street

New Bedford, Massachusetts 02740

Re: Investment of Funds Under the American Rescue Plan Act

Dear President Lopes and Members of the Council:

As you are aware, in March of this year Congress passed the American Rescue Plan Act ("ARPA"), a sweeping piece of legislation that appropriates some \$1.9 trillion to hasten the country's recovery from the pandemic. One of the key components of the Act is the Coronavirus State and Local Fiscal Recovery Fund which commits \$350 billion to state and local governments for a variety of purposes. Under this provision, New Bedford was directly allocated \$64.7 million, along with an additional \$16.7 million, which represents New Bedford's per capita share of the funding received by Bristol County.¹

In May, the Department of the Treasury issued an "Interim Final Rule" that sets forth the eligible uses of these funds. Although it is uncertain when the final regulations will be published, the Treasury has issued an extensive set of frequently-asked-questions that offer detailed guidance. The FAQs leave open many possible uses, but certain expenditures that would be high priorities in many cities are generally not allowed, such as for road construction, relief of debt and pension obligations, and cutting taxes.

Within this regulatory framework, we have taken a deliberate approach to determining which eligible uses best fit our needs and aspirations. We have received considerable public input on federal stimulus spending through open hearings, stakeholder meetings, surveys, written submissions, and media coverage. We have had discussions with nearly every member of the Council, along with department heads and agencies that regularly interact with city government. We also have benefitted from the City's extensive planning efforts over the last several years, through which many needs and opportunities for investment have already been identified.

¹ Under a separate ARPA provision, the School Department received \$46.5 million.

Based on these inputs, I believe there are certain general principles that should guide our use of the funds. For starters, because ARPA represents a one-time infusion of federal funds, it should be spent on one-time items, rather than on the creation of new programs or the expansion of existing services that would come with future spending obligations. If we used ARPA funds, for instance, to hire more library assistants, we'd have to find another way to pay for them after the ARPA funds have been exhausted. That's not a position we should allow ourselves to fall into.

We also should stretch our ARPA allocation as far as possible. Most importantly, we should use it to leverage other sources of capital. If the City committed funds to upgrade a cultural facility, for example, we should expect the project's proponents to match our investment with private dollars. This approach will enable us to build more projects. Similarly, we should avoid committing ARPA funds to investments that may be eligible for support from one of the many sources of public funding now becoming available. The Commonwealth of Massachusetts received \$5.3 billion under ARPA, and the Governor and state legislators have proposed to deploy these funds for some of the same purposes we in New Bedford have prioritized, including water and wastewater projects, cultural facilities, housing, and port infrastructure. We should try to make the most of these state funds before investing our own funds. The same goes for funding that will become available under the "Bipartisan Infrastructure Framework," which was recently signed into law by President Biden, and possibly the Build Back Better Act, which is now pending before the United States Senate.

Whatever the sources of funding, prospective projects should be evaluated based on their projected returns on investment. The more matching funding a project receives from private or public sources, the greater the return on the City's investment will be, all else remaining equal. Proponents also will be expected to quantify projected returns as much as possible. The most favored projects would be those that confer new benefits to the City; that is, those investments that grow the pie, as opposed to those that would merely result in the maintenance or replacement of an existing asset. And as we grow the New Bedford pie, we should ensure that the benefits of growth are broadly and equitably distributed.

Investment Priorities

In light of these considerations, the following outline sets forth the priority areas of investment for New Bedford's ARPA funds. This should not be construed as a budget statement. Under the circumstances, it is impossible to predict with the precision required by an ordinary budgeting process how the funds will be spent. There are several fundamental unknowns, including which projects will be proposed for funding, how much matching funds may be available, or how much costs might increase over the next few years. Flexibility in evaluating proposed investments on a case-by-case basis for their potential returns is essential. Accordingly, the funding levels for each of the investment categories are approximations.

1. Health, Safety and Well-Being: \$8 million

The effects of the pandemic were exacerbated by public health disparities among lower income populations. Having the tools in place to deal with the causes of public health vulnerabilities will require planning, coordination, and resources. We intend to launch public health planning efforts to address health disparities, including among the city's homeless populations.

Consideration also will be given to supporting the construction of facilities that expand and enhance early learning opportunities and food security for low-income children. Proposed projects will be evaluated by a team that includes relevant city personnel and community members.

Finally, we will set aside funds to provide for our continued response to the pandemic, including funding for testing, vaccinations, protective equipment, and ventilation systems.

2. Neighborhood stabilization and housing support: \$13 million

ARPA presents an opportunity to stabilize neighborhoods that have struggled to attract investment, and to slow the rising cost of housing. First, we will tailor our existing first-time home-buyer program to increase owner-occupancy of houses in the most distressed tenement neighborhoods. Specifically, we will offer city employees and veterans grants for the down-payment on three-or-more family houses in targeted areas. Recipients will be required to live in the houses for ten years, and not charge rents above fair markets rates. By promoting owner-occupancy, we stand to increase stability in neighborhoods that need it most.

Throughout the pandemic, many have struggled to pay the rent. We have supported them in a number of ways, including through rental assistance programs. While these efforts have helped, housing stability remains a challenge for some. We will set aside funding for emergency rental assistance in case federal or state government assistance prove to be inadequate.

We will also seek to address housing prices by using ARPA and other public funds to increase the supply of housing units. There are several pending housing developments underway right now throughout the city whose completion has been hampered by financing gaps. Some would create units restricted to low-income residents, while others would build market rate units. There will likely be considerably more state and federal funding available for income-restricted units, including through the federal HOME program as well as in the state's pending ARPA plan. In light of this, the expenditure of the City's ARPA funds will emphasize the construction of market rate units. Consistent with ARPA regulations, we will prioritize projects

located in “qualified census tracts”, which HUD defines as neighborhoods with low-income residents.

Taking control of blighted properties also can help stabilize a neighborhood. We intend to commit funding for the acquisition and demolition of residential and industrial properties that are the source of blight and neighborhood decay. Fixing up even one eyesore property can vastly improve a neighborhood. For similar reasons, we will commit funding necessary to assess and remediate brownfields, insofar as other funding for such purposes is unavailable.

We also wish to promote the availability of broadband service in qualified census tracts. We have been developing a fiber network for last three years. Our goals have been to make fiber-based wi-fi widely available in lower income neighborhoods to promote equitable access, and to provide fiber connections to the City’s small business nodes. ARPA funding can help bridge financing gaps for the project.

3. Small business support: \$8 million

Small businesses in the City have begun to rebound from the pandemic in part because of the initiatives we launched last year to provide them with short term capital and other assistance. But many are still not ready to reinvest in themselves to support their long-term sustainability. There are several steps we can take to support them further, and to nurture new business formation and growth.

Perhaps the simplest and most effective way to use ARPA funds to support small businesses would be to bolster the City’s business façade program. By increasing the size of the grants, small businesses across the city will be able to make extensive upgrades to their outward appearances, an investment many small businesses must make from time to time. Perhaps more significantly, ARPA regulations do not require the payment of prevailing wages for construction work, unlike the existing façade improvement program. This alone will make the expanded program much more appealing. Neighborhoods also stand to benefit, especially those that are centered around commercial corridors, such as Acushnet Avenue.²

ARPA funds could add further vitality to neighborhoods by fostering new business startups. Business support organizations will be able to apply for ARPA funding in support of their programs to cultivate new businesses.

² I note that like the first-time homeowner grants, this proposal would entail an expansion of an existing program, but without lingering funding obligations. Neither expansion would entail the hiring of additional staff, and once the ARPA funds have been exhausted, the size of the grants would return to levels that could be supported by existing funding.

Finally, we may use ARPA funds to facilitate planning for infrastructure upgrades at the airport. This will enable the City to compete for future infrastructure funding, which in turn would support businesses of every size that utilize the airport.

4. Enhancements to open spaces: \$11 million

Vibrant public spaces are vital to a city's quality of life. A well-kept and well-designed park or playground can make the difference between a neighborhood that thrives, and one that doesn't.

New Bedford is blessed with beautiful parks and other public spaces. Although the Administration and Council together have invested heavily in them in recent years, more work is needed. ARPA funding presents a singular opportunity to tackle open space projects that have languished for a lack of sufficient funding. Examples include not only major construction projects at certain parks like Dias Field and Ashley Park, along with the designing of the RiverWalk and a post-9/11 military monument, but also upgrades to playgrounds and courts in qualified census tracts throughout the City.

5. Water, Wastewater and Stormwater Projects: \$6 million

Like many cities in the Northeast, New Bedford is currently under an administrative order of the Environmental Protection Agency that requires it to continue separating its storm water and wastewater systems. The implementation of the order ultimately will cost the City over two hundred million dollars. This is on top of the hundreds of millions of dollars the City already has spent to separate and upgrade its system over the last thirty years.

The EPA wastewater and stormwater programs have come under withering criticism from mayors across America in recent years because they have extracted unreasonable rate increases from residents in order to achieve incremental improvements in the health of local bodies of water. Through the U.S. Conference of Mayors, I have been active in promoting reforms that would incorporate "affordability" considerations into wastewater consent decrees and administrative orders which would strike a fairer balance between the financial needs of residents and environmental objectives. The advocacy has made a difference, as it led to recent amendments to the Clean Water Act and changes to EPA regulations that give greater weight to a city's ability to pay for new wastewater and stormwater infrastructure. As burdensome as New Bedford's administrative order will be, we were spared more expensive orders imposed on other cities just a few years earlier, including Fall River, Brockton and Taunton.

As DPI Commissioner Jamie Ponte and the City's outside counsel Richard Davis have explained to the City Council, the use of ARPA funds to cash-fund wastewater projects under

the administrative order (along with scheduled water projects) will result in trivial benefits to rate payers. The City is undertaking a massive amount of projects, and is financing them with bonds to be paid back over many years. Spending several million dollars on projects that cost hundreds of millions of dollars will not put a significant dent in the rate levels necessary to fund our borrowing. Attempting to do so would be akin to trying to pay your lower monthly payments on an average mortgage by sending to your bank the few hundred dollars that you won on a lottery scratch ticket. It won't make much of a difference. Nevertheless, to be responsive to Councilors who asked that ARPA funds be used for wastewater and water projects, I have included a commitment of \$6 million for such projects, which will include the rehabilitation of roadway related to the project sites, an ARPA-eligible expense.

Now that the Council has approved the loan order for the City's first set of water and wastewater projects, we can pursue funding from the State Revolving Fund, which would subsidize interest and principal payments on our bonds. The level of subsidy is likely to grow significantly through the state's ARPA funding and the new federal infrastructure legislation. Getting our projects as ready as possible is the best way for us to capitalize on this funding, and that is exactly what we are doing.

6. Arts, Culture, Hospitality and Tourism: \$18 million

To address the pandemic's devastation of businesses that rely on tourism, ARPA explicitly authorizes the use of funds to improve facilities that support tourism. In Greater New Bedford, visitation represents a significant segment of our regional economy, and it is anchored by a constellation of facilities across the city. Many of these facilities have long standing expansion and upgrade plans whose implementation has been delayed by the pandemic. Because some of these projects could yield considerable new benefits to city businesses and strengthen anchor institutions, I believe we should make ARPA funding available to match private sector and other federal state funds to make the projects a reality. The City would utilize an RFP process and an evaluation team of city officials and community representatives to determine which projects should be funded and at what level.

We also will commit funding to the City's Arts and Culture Fund for purposes consistent with both the City's existing arts and culture plan and ARPA regulations. In addition, infusing our Tourism and Marketing Department with funds to complete the City's marketing plan and fund one-time items in the plan. Infusions into arts and tourism activities would energize our economic recovery.

7. Matching funds for strategic investments: \$14 million

Where possible, we should seize opportunities for strategic investments, that is, investments that confer long term benefits that are both additive and significant enough to

elevate the City's general trajectory. A great example of this approach is right in our Downtown. After Congress enacted the Community Development Block Grant Program in 1974, cities across the country received large one-time infusions of funds. New Bedford received some \$13 million, equal to more than a third of the city's operating budget at the time. Mayor Markey could have spread the funding around to satisfy many legitimate needs, but upon the advice of the City's economic development agencies, he committed the lion's share of the funds to build out the cobblestoned streets of the Historic District. Many at the time opposed the idea, citing the immediate needs that would not be addressed. But as we look back it now with the benefit of hindsight, it was clearly the right decision. The Historic District is the most photographed neighborhood in Southeastern Massachusetts, a magnet for tourists, and an emblem of New Bedford's heritage.

We have opportunities now to make strategic investments in projects that could yield long term benefits for the City and enhance its stature. These include upgrades to port infrastructure that would support the projected growth of the maritime industries, as well as marine innovation and conference center. Plans for each of these investments have been in place for a while, and there may be opportunities to fund them through a variety of potential sources, including ARPA.

8. Revenue replacement - \$1.2 million

While ARPA does not allow cities to use relief funds for tax cuts, the funds may be used to offset revenue loss due to the pandemic. The City experienced significant decreases across most of its revenue streams this past year, but at the same time, it received an infusion of Chapter 70 funds from the state as a result of the passage of the Student Opportunity Act. The net result is a revenue loss number that is much lower than we anticipated, that is, \$1.2 million. We, along with several other similarly situated Massachusetts cities, have pushed the Treasury to treat state education aid as distinct from general operating fund revenue. We lost this argument. The Treasury refused to change the rule, insisting that revenue loss should be calculated on an "enterprise-wide" basis. I believe it is prudent to commit what we have determined to be our revenue loss under this approach to the City's operating fund for Fiscal Year '22.

9. Administration: \$1.5 million

Cities across America are hiring staff to ensure compliance with ARPA's extensive reporting requirements over the next four years. We have hired an ARPA director, and we will likely need to hire at least one part-time project manager. We also anticipate that we will incur outside legal costs to support regulatory compliance and to assist in the drafting of RFPs and contracts. These administrative costs would be eligible for funding.

A generally accepted rule of thumb for grant administration is that administrative costs will equate to about two percent of the combined project budgets. That is what we have used here.

Conclusion

I am grateful for the discussion Councilors and my administration have had to determine how to make the most of the opportunity that ARPA presents. I will report back to the you periodically on the status of the City's investments and look forward to our continuing conversation.

Sincerely,

Jon Mitchell

A large, stylized handwritten signature in black ink, appearing to be 'Jon Mitchell', is written over the printed name and extends upwards into the text area.