

Newport's Troubled Financial Future

"A Perfect Storm?"

- City Manager Predicts Deficits
 - \$3.0M deficit in next year's (2009) budget
 - \$5.0M deficit in 2010 budget
- Restrictive Revenue Growth
 - State Property Tax CAP impacts 70% of city's revenue
 - At CAP maximum, expect \$3.0M per year revenue growth
- Insufficient Current (2008) Budget Foundation
 - Revenue growth only \$1.6M or 2.2%
 - \$6.0M in structural expenses not addressed

Presented by:
ALN 2007

Expense Structural Deficiencies

City Operating Expenses

- Police, Fire, and Public Works Operating Expense Budgets represent largest portion of city expenses.
 - 36% (\$27.6M) of total city expenditures
 - over 50% of non-school expenditures
- Current Expense Increase Trends – 7% to 8% annually
 - Current budget operating expense increases of \$2.0M are greater than property tax increases of \$1.2M
 - Need to reduce \$1,000,000 in annual spending increases.
- Current (2008) city budget reflects no significant expense reductions for these 3 departments.
- No scorecards (like Berkshire) developed to promote savings.

2009 Budget Goal: *Reduce expense increase trends 4%, annually. (\$1,000,000)*

Expense Structural Deficiencies

School Funding

- Improved Financial Management
 - Annual operating surpluses
 - Classroom consolidations/school closings
- 3 Years of Flat City Funding
 - Current school funding represents \$24M per year
 - School operating funding represents 31% of city's total expenditures
- Future 4% Annual Funding Increase = \$1.0M
 - Effective management of decreasing student enrollments
 - State educational funding at risk
 - New teacher contract negotiations in 2008
- Schools responsible for over ½ of \$130,000,000 underfunded retirement benefit liabilities (\$2.2M annually)
 - New 2008 teacher contract negotiations of retirement benefits

2009 Budget Goal: *Fund city school increases at 4% with any year end surpluses applied to their share of underfunded retirement benefit liabilities. (\$1,000,000)*

Revenue Structural Deficiencies

Property Taxes/Abatements

- Abatements and Tax Refunds are budgeted \$500,000 below historical trends.
 - Actual Abatements have been over \$1,000,000 per year for the last 4 years
- Current Property Tax increase of 2.6% does not cover current operating expense increases.
 - Lowest tax increase in state?
 - Generates \$1.4M below what city manager recommended
 - Does not even cover \$3.0 (13%) expense increase of Police/Fire/Public Works from prior budget.

2009 Budget Goal:

- *Increase funding for Abatements and Tax Refunds to \$1,000,000 historical trend. (\$500,000).*
- *Increased operating expenses cannot exceed increases in annual revenue.*

Expense Structure Deficiencies **Capital Expenditures – Roads**

- \$12M Road Bond Issue – More Roads/Sooner!
 - 74% voter approved
 - Manager’s Yellow Flyer/2006 Council Approval
 - Voter Trust?
- Current Budget reduced general fund commitments to roads by \$500,000.
 - Lowest general fund commitment to roads in over 10 years.
 - Next year’s budget to go back up to \$1,100,000?
- Shifting general funds from road improvements to pay excessive operating expenses.
 - Current Budget of \$600,000 is \$300,000 below the annual \$900,000 road bond payment level.

2009 Budget Goal: *Return general fund road improvement funding to \$1,100,000 per year. (\$500,000)*

Expense Structural Deficiencies **General Fund Reserve**

- Strong reserve level provides flexibility and supports higher bond ratings.
 - Helps to reduce future bonding costs
 - Anticipated bonding: roads/schools
- 2008 Budget Cuts \$500,000 from City Manager’s recommendation to maintain 10% reserve levels.
 - Lowest contribution in last 3 years

2009 Budget Goal: *Fully fund city reserves at 10% level. (\$600,000)*

Expense Structural Deficiencies **Other Post Employment Benefit Liability**

- City is over \$2,000,000 short of annual required funding levels.
 - Negotiate changes to retirement benefits.
- By delaying full funding, future required payments will increase exponentially.
 - Each year of underfunding adds 5% to 10% of shortage to future annual payments.
- This liability must be shown on the city's financial statements in 2009 and will impact bond rating.

2009 Budget Goal: *Increase annual funding to required levels and negotiate affordable future benefits. (\$2,000,000)*

Expense Structural Deficiencies **Police/Fire Pension Funding**

- 2008 Budget reflects lower Pension Funding
 - Police/Fire Pension Funding is \$5.6M in 2008 Budget.
 - \$5.6M reflects \$400,000 reduced funding from prior year.
 - \$5.6M reflects lowest funding levels in last 10 years.
- Funding reductions can lead to increases later.
 - In 3 of last 5 years, the minimum required pension contribution requirements have increased between \$300,000 and \$1,200,000 per year.

2009 Budget Goal: *Fund pensions at \$300,000 above minimum actuarial required funding levels. (\$300,000)*

Summary of 2009 Newport Budget Goals

1. **City Operating Expenses:** Reduce expense increase trends to 4%, annually. (\$1,000,000)
2. **School Funding:** Fund city school increases at 4% with any year end surpluses applied to their share of underfunded retirement benefit liabilities. (\$1,000,000)
3. **Property Taxes/Abatements:**
 - Increase funding for Abatements and Tax Refunds to \$1,000,000 historical trend. (\$500,000)
 - Increased operating expenses cannot exceed increases in annual revenue.
4. **Roads:** Return general fund road improvement funding to \$1,100,000 per year. (\$500,000)
5. **General Fund Reserve:** Fully fund city reserves at 10% level. (\$600,000)
6. **Post Employment Benefit Funding:** Increase annual funding to required levels and negotiate affordable future benefits. (\$2,000,000)
7. **Police/Fire Pension Funding:** Fund pensions at \$300,000 above minimum actuarial required funding levels.

Total Financial Impact on next year's (2009) budget is \$5.9M.

Budget Process

A basic budget process aimed at building a financial plan that recognizes limited revenue growth and establishes expense management priorities.

1. Identify New Revenue (City Administration)
 - Determine maximum additional revenue available from all revenue sources.
 - Provide broad projection of any anticipated significant, revenue or expense change impacting the current year's budget.
 - Provide the summary of any significant revenue and expense changes expected over the next 3 years.
2. Develop Budget Guidelines (City Council)
 - Identify and prioritize 3 to 5 city projects that would require spending increases or decreases.
 - Set goals for operational spending increases/decreases (goals could be set by department, for # employees or level of \$ increase or % increase).
3. Initial Budget Proposal (City Administration)
 - Identify funding options for prioritized city projects.
 - Produce budget proposal for operating expenses.
4. Budget Review (City Council)
 - React to manager's budget proposal and provide additional guidance for manager's final budget preparation.
 - Hold public hearing.
5. Final Budget Preparation (City Administration)
6. Final Budget Review/Approval (City Council)
 - Hold public hearing (after receipt of proposed school budget).
 - Make any last adjustments/approve budget.