

Bridgeport Budget and Financial Challenges



Civics 101 3/11 2017



Why Should You Care?

- Good governance requires good planning
 - Bad planning forces bad governance
- Poor financial decisions in our past limit our current and future budget
 - Underfunded budget in crucial areas
 - High and increasing taxes

Every Day Negative Effects

- High taxes and a constrained budget are contributors to Bridgeport's biggest problems
 - Increasing taxes →
 - High rents
 - More foreclosures / blight
 - Low level of investment by businesses
 - Constrained budget →
 - Underfunded schools
 - Underfunded arts
 - We are left choosing between necessities

The Basics-What do I have to know?

- Balance sheet
 - What are Bridgeport's current assets and obligations
 - What do our obligations mean for our future?

- Budget
 - Where does our money go and why?
 - Does our spending represent our values, our vision, our hopes and dreams?

- Fundamental equation of taxation
 - $\text{Mil (Tax) rate} = \text{Budget} / \text{Grand List Value}$
 - **If our budget grows faster than our grand list, taxes AUTOMATICALLY go higher**

Balance Sheet- The Ghost of Budgets Past

- Before we consider our budget, we need to know where we stand and how we got here
- Much of our budget constraint is a direct result of what we owe (our liabilities and obligations)
- Unfunded Retirement Obligations are high and growing at rates higher than budget
 - Eats resources for the rest of the budget
 - Upward pressure on tax rate
 - Both are happening and both will continue if not addressed

Balance Sheet-Unfunded Obligations

➤ Defining Pension Plans

➤ Defined Benefit Plans

- Employer puts \$ into account and promises a certain payout at a certain time
- If underfunded by employer or if investment returns fall short, these plans can cause large future obligations
- “Unfunded Obligations” occur when the value of the promised payouts is greater than the assets available to pay them

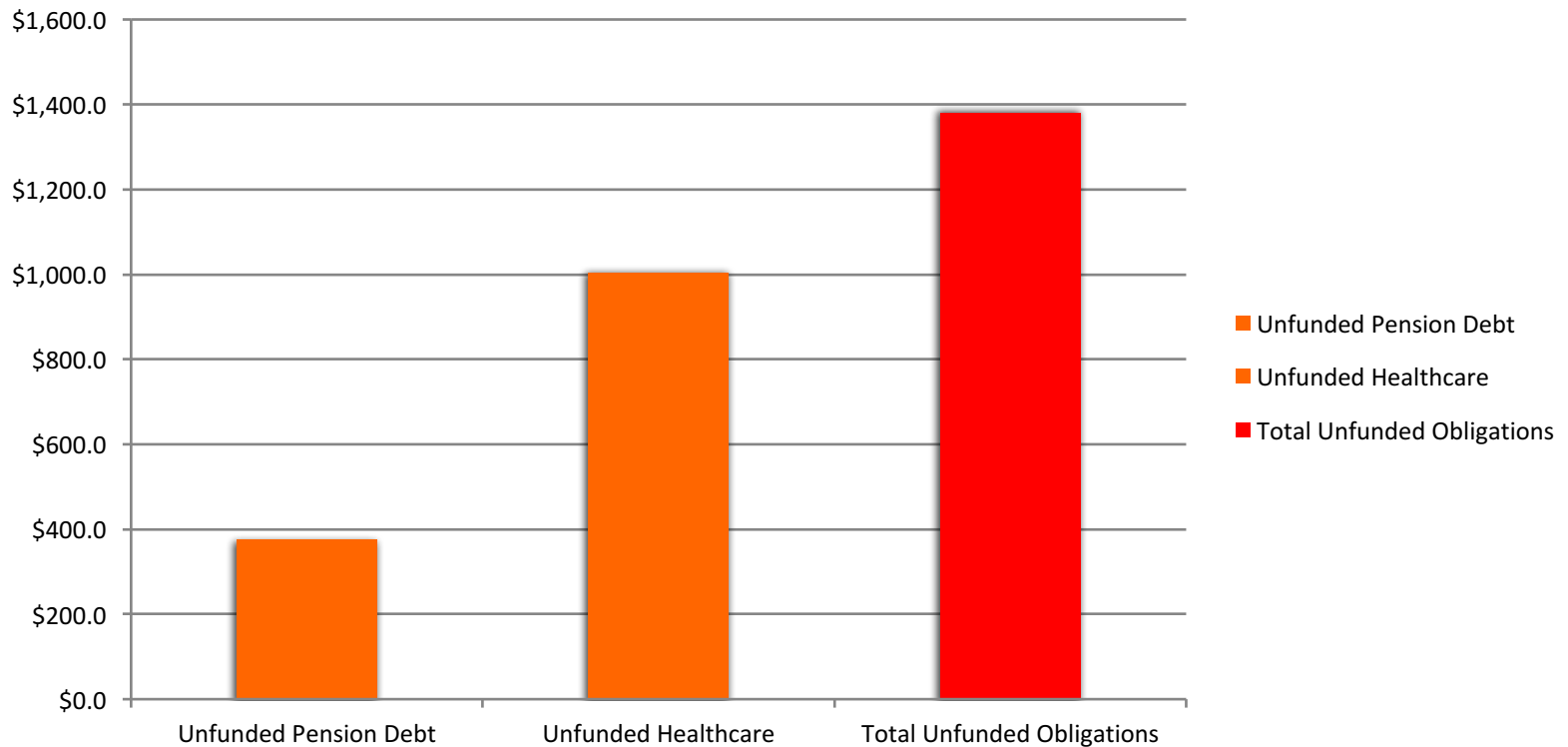
➤ Defined Contribution Plans

- Employee contributes and Employer often matches
- Money is invested and Returns are not pre-defined
- Private industry uses these less risky plans



Balance Sheet- Unfunded Obligations

\$1.4 Billion in Unfunded Retirement Obligations

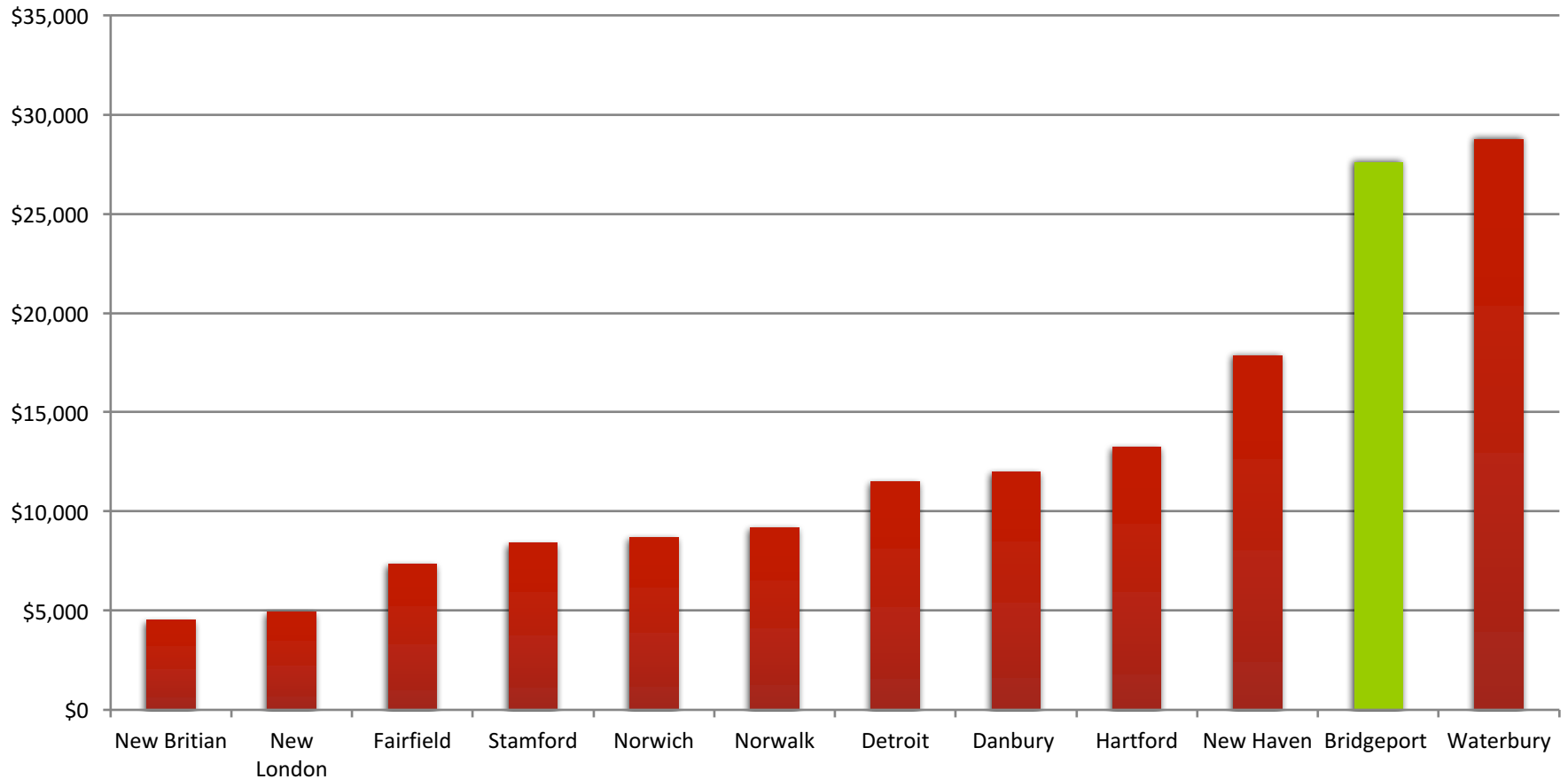


Source: 2015 CAFR

Balance Sheet – Unfunded Obligations



Debt per Household is \$27,581



Source: 2015 CAFRs

Balance Sheet – Unfunded Obligations

- Unfunded Pensions of \$367.7 million
 - Benefit is defined by contract
 - Rates of return are assumed at 7%-8%
 - These may be unrealistic rates
 - The assets invested are too small and most likely will NOT grow at the assumed rate
 - Result is an ever growing debt (on balance sheet) and ever growing expense that crowds out other budget items and upward pressure on taxes
 - Benefits and the debt service of benefits makes up >20% of our current budget and is growing faster than the budget as a whole



Municipal Budget Basics

- The Taxable Grand List is the value all of a city's taxable property
- The Operating Budget is the annual spending plan
 - Mayor proposed, city council approved
 - Education budget starts with BOE, Super and Finance committee, then revised by mayor
- Mil rate is determined by the two items above
 - The Operating budget requires revenue of equal amount
 - Tax Revenue is the Grand List Value x Mil Rate

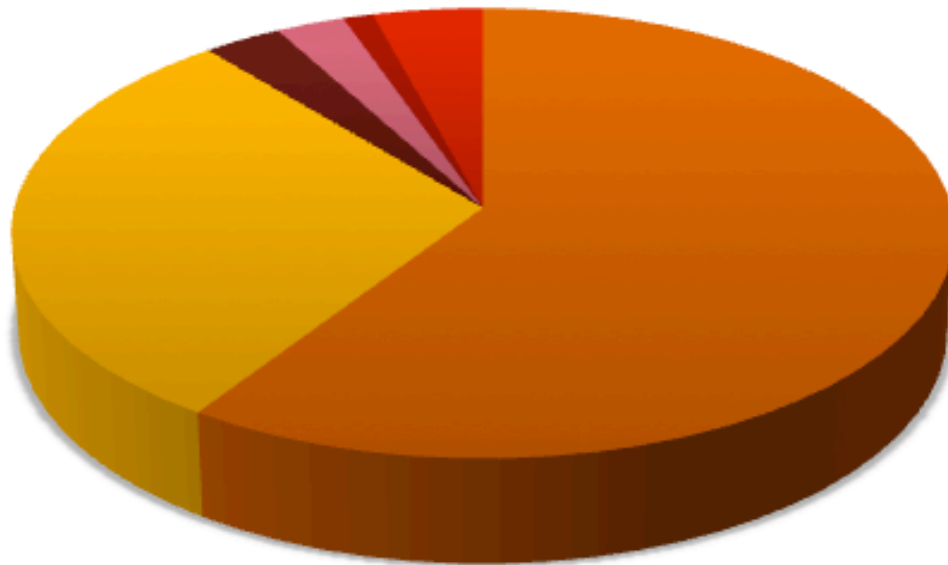
The Cities 3 Budgets

- Capital budget
 - Spending on buildings / large infrastructure
 - Non-recurring
 - Money is bonded (borrowed)
- BOE Budget
 - State & Federal funding through the city budget
 - Separate city contribution
 - Grant funding
- Operating Budget
 - Recurring annual expenditures



2017 Op Revenue: \$552.5 Million

Where do our dollars come from?

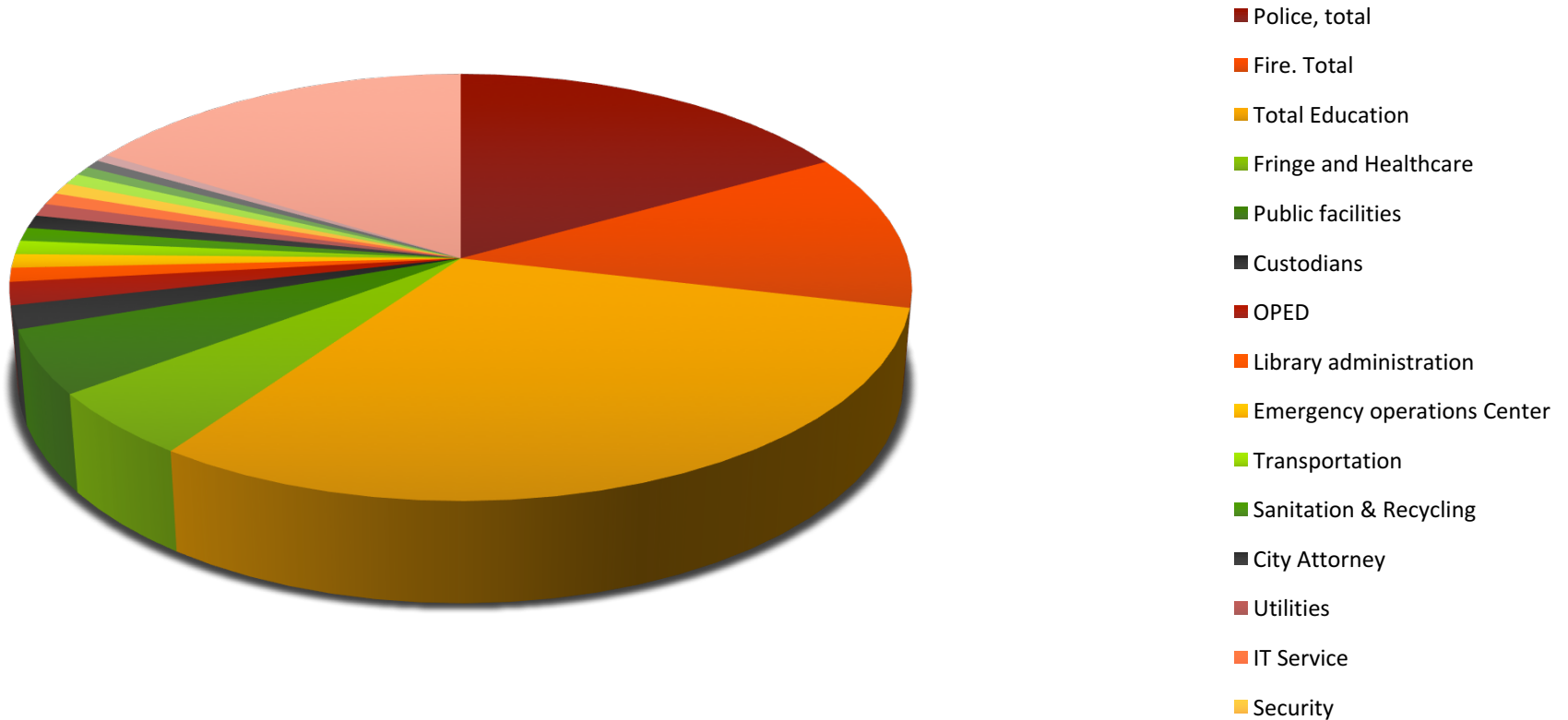


- Tax collector
- State Education cost sharing
- Tax Assessor
- Nutrition (federal grant)
- Police Admin
- Other



2017 Operating Budget: \$552.5 Million

Where Do Our Dollars Go?



Source: Open budget at
<https://bridgeportct.budget.socrata.com/#!/year/default>

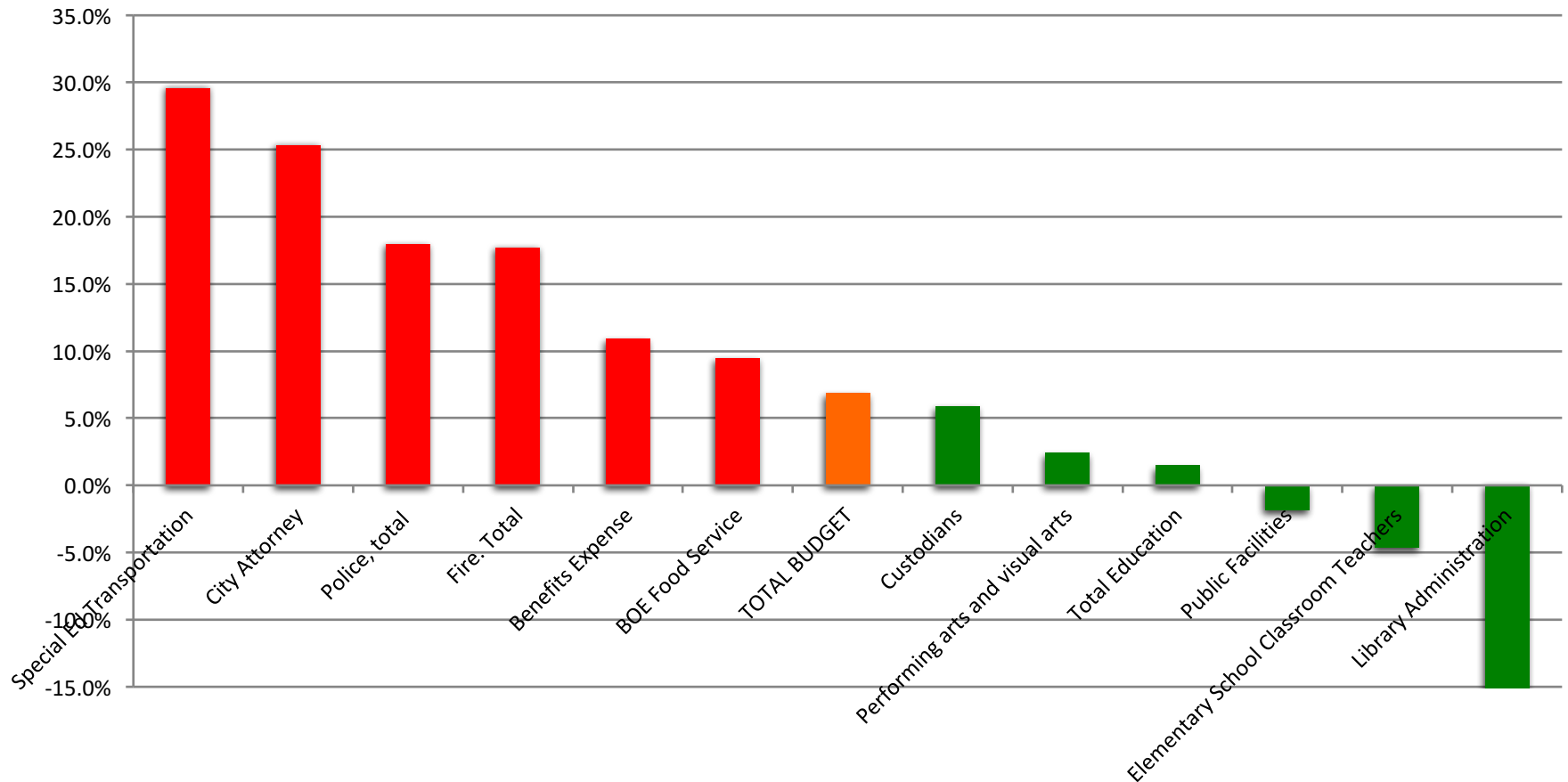
Budget Analysis

- Do we control our budget?
- Does our budget control us?
- To answer we need to look at the large and growing expenses
 - If we can't control those, they will crowd out other items and / or lead to higher taxes



Identifying the fast growing costs

Comparison of 2017 Budget vs 2014



Sources: 2015 CAFR, calculations based off Open budget at <https://bridgeportct.budget.socrata.com/#!/year/default>

Eg #1: How bad assumptions play out

- In F2016, pension investments underperformed expectations by \$19.7MM
- This will be recognized as pension expense in the budget on the following schedule:
 - 2017: \$5.5MM
 - 2018: \$5.5MM
 - 2019: \$5.5MM
 - 2020: \$3.2MM
- This is an example how “our budget controls us”

Eg #2: How bad assumptions play out

- In 2000, during Gamin 1, the city took out \$350MM in Pension Obligation Bonds
 - We have to pay back principal and interest
 - Invested in the market, suffered large 50% losses in 2007 – 2009 financial crisis

Budget Accuracy- Do we get it right?

- We are currently 62% of the way through the year
- Many overtime lines are at or above the full year budget and have been every year
 - Overtime can increase the pension obligation going forward for many, many years
- The “Patrol” budget shows \$4.8 million in dollars spent that were not budgeted
- The “Detective” budget shows \$1.65 million in dollars spent that were not budgeted

Common Budget Tricks: Red Flags

- Tapping reserves
 - We have \$13.7MM where charter calls for \$42.6MM
- Selling property to create revenue
- Transfers
 - Eg of a city park into the pension trust
- Negotiated deferrals
 - Kicking the can down the road is costly

What can you do?

- BE ENGAGED! BE A WATCH-DOG!
- Ask Questions
- Look for the large items; Look for the fast growing items
- When ACTUAL results don't match budgeted, we need to demand answers
- Show up
 - Budget meetings are coming up! Late March / Early April