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**
  - Mil (Tax) rate = Budget / Grand List Value
  - If our budget grows faster than our grand list, taxes AUTOMATICALLY go higher
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.
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
$1.4 Billion in Unfunded Retirement Obligations

Unfunded Pension Debt
Unfunded Healthcare
Total Unfunded Obligations

Source: 2015 CAFR
Balance Sheet – Unfunded Obligations

Debt per Household is $27,581

Source: 2015 CAFRs
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

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

Source: 2016 CAFR, page 71
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

Source: FY 2016 – 2017 Adopted Budget
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