

## Portsmouth FY 2010 – 2011 Budget Letter to the Council

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### I. Introduction

- a. The Town is in the second year of a three-year revenue crisis. While the Council has taken important steps and the Town Administrator and Financial Director have kept expenditures restrained in the current fiscal year, the Town remains at risk.
  - i. Next year will be much worse as Federal Stimulus funds expire.
  - ii. This year's State budget will likely deteriorate as we proceed into the fiscal year.
    1. The Assembly has adopted a budget with a deficit of \$100 million.
    2. Unemployment is unlikely to improve in this fiscal year. Therefore, state revenue will continue at near current levels.
    3. Continued failure of RI cities will draw more State funding away from Portsmouth.
      - a. Hotel, Meal and Telephone taxes constitute about \$300,000 a year in revenue from the state and the Council should consider those funds at risk.
      - b. Major cuts in school funding have not yet been made, and therefore remain possible.
    4. We remain concerned about the fourth quarter automobile excise tax payment by the State. It appears to us that the payment will not be made in the FY 09 – 10 fiscal year. If made in FY 10 – 11 the town has legal problems in spending the funds in the wrong fiscal year.
- b. Past and current Councils have not dealt effectively with retirement obligations.
  - i. We face an unfunded obligation of approximately \$28 million.
- c. Warrants are a problem
  - i. From the cost and legal points of view.
- d. Town government is living beyond its means.
  1. While we are clearly in a state revenue crises; the cost of doing town business is just too high. Until they are reduced the Town will remain unable to return to a stable financial condition.
  2. The Town's reserves remain largely depleted at a time of need.

### II. Unfunded Retirement Obligations

- a. This problem includes the School Department.
- b. Two of the programs are being managed as pay-as-you-go operations.
  - i. Required annual payments are likely to balloon in coming years as a result of the lack of investment income to reduce costs.

- c. There is no visibility on this issue for the citizens and the Council in the budget.
- d. We request a special report by the Finance Director to the Council and the Town on this problem.

III. Use of Warrants

- a. The use of annual expenditures, supported by yearly warrants, is unwise financially. The cost of interest on the warrants is an unneeded cost and the warrants should be included as operational costs in the annual budget.
- b. The PCC believes that debt obligations in excess of \$55,000, without citizen approval, are a violation of the State constitution.

IV. Restructuring

- a. The State revenue crisis is hiding the fact that we are simply living beyond our means.
  - i. The cost of salaries and benefits remains too high.
    - 1. The decision to end the hiring freeze is unwarranted and will significantly reduce financial options during the fiscal year.
    - 2. Salaries and benefits are growing in their percentage of the total budget. ***The Council must reverse this trend.***
  - ii. Fund Balance problem remains.
    - 1. Re-defining the Fund Balance did not correct the problem
    - 2. Funds have not been deposited for the last two fiscal years.

V. Conclusion

- a. We believe that the Council's primary obligation in this recession, and the resulting state revenue crises, is to preserve the financial stability of Town Government. The prudent management of public funds in times of crises requires strict adherence to the primary obligation of local government: provide public services at levels the people can afford. Our annual operational costs are suppressing funding of retirement and reserve needs that will eventually deliver the town into a financial crisis.