



# FY 2013 Budget Outlook

---

*The City Financial condition, property assessments ... and your taxes.*

By  
Alderman Ross Arnett  
29 February 2012



# City's Financial Situation

---

- City still has problems – some continuing and some new ones
- Spending and cash flow issues continue and large debt is a concern
- And now ... unfunded liabilities are a looming problem and have been for a long time



# City's Financial Situation

---

- Last year the crisis was deficit spending and cash flow
- Cash flow problems persist
- Now must also worry about long-term liabilities – unfunded benefits and long-term debt



# Problems Continue in FY 12

---

- Higher taxes and fees are starting to restore fund balances
- But ... City still needs a \$10 million revolving line of credit for cash flow
- Despite this ... spending increased by 12.4%
- Property assessment decline means revenues will be down in FY 13 – FY 15
- Pressure to increase spending in FY 13



# Fiscal 13 Revenue Outlook

---

- Property reassessments are down 15%
- Means revenues will be down \$3.7 million
- Other revenue such as transfers from US and State also likely down
- A realistic assumption is that revenue will be down by \$4 to \$5 million

# Debt and Liabilities Overwhelming



---

- If ignored, the large debt and unfunded liabilities will become a massive problem
- Past budgets have focused on current spending and short-term debt
- It is time to also address long-term issues before they pull us under



# Debt Problems

---

- Existing long-term debt is \$86.4 million
- Revolving LOC of \$10 million
- Debt service is the City's fourth largest program at \$7 million a year



# Liability Problems

---

- The City is not addressing unfunded liabilities
  - \$120 million in obsolete infrastructure
  - \$44 million in health benefits
  - \$21 million in under funded pensions
- Similar liabilities are bankrupting other cities





# Problems Underground

---

- The City has an unfunded liabilities of \$120 million in obsolete infrastructure
- Sort of, out of sight, out of mind
- Repairs made on an emergency basis
- A fund needs to be established and budget to start fixing the pipes and buildings



# Pension Liability Problems

---

## ■ Police & Fire Pension

- Under funded by about \$20.7 million and growing (now 87% funded vs. 120% in 2005)
- And, with the City not contributing for years
- Police/Fire Retirement Committee: urged "a one-time payment of \$8.3 million" from the City
- Plus ... regular annual payment of at least \$2 million each from the City and police and fire employees



# Health Benefits Problems

---

- Health benefits unfunded
  - City self-insures employee health care
  - Benefits are paid out of current operating funds
- City needs to set up and fund a trust for these benefits in the amount of \$500,000 to start



# Sidewalks

---

- Sidewalks in the City are in disrepair - the City is responsible for repairs
- Public testimony was unanimous that the City needs take corrective action
- Public Works estimates that at least \$600,000 is needed to start and \$5 million is needed over the next 3 years to get up to standards



# Staffing

---

- Several City Departments are asking for more staff
- The Council decided to eliminate “contract” employees and convert them to civil service. This will significantly increase benefit costs
- These “new” staffing costs could add \$1 depending on how quickly we phase in



# Fiscal 13 Prospects

---

- Revenues could be down by \$4 to \$5 million in FY 13
- Pressure for expenditure increases - could be up by \$4 to \$5 million
- That's a swing of \$8 to \$10 million
- City can't afford this type of swing without tax increase or spending cuts



# Some Potential Solutions

---

- Reduce Costs
  - Demand that the City deliver services with greater efficiency and reduced cost
  - Reduce service levels, contract out, or partner with the county
    - and, impose a 'real' hiring freeze
- Or ... Significant tax rate increases



# Worries for FY 13

---

- Will spending go down to match the \$4,000,000 decline in revenue?
- Will the City adequately fund long-term liabilities such as employee benefits and obsolete infrastructure?
- Will the City continue restore fund balances to solve the cash flow problems?





## In Summary

---

- We are still in trouble – revenue down and spending pressures up
- We need to act now to increase control of the Budget
- You need to help by making yourself heard



# Our first 2012 Forum

---

- Thank you for your attention.



# How Can YOU help?

---

- Monitor Council meetings – attend or watch Ch 34 (Verizon) or 99 (Comcast)
- Contact your Alderman/woman and let them know your concerns
- Speak out at Council meetings
- Help ABC continue its City-wide initiatives
- For more information:

**[info@ABCannapolis.org](mailto:info@ABCannapolis.org)**



# Next Steps

---

- This presentation is meant to set the context for the new budget
- The Mayor will present his budget on Monday 12 March
- We will reconvene here on **Tuesday, March 27** to review the Mayor's Budget
- And hold a final meeting in April to offer alternatives to the Finance Committee to modify the FY13 Budget



# Questions ?

---