

## **FAQ for August 12, 2025 Ballot Initiatives**

This document was prepared by the Financial Reporting & Fiscal Practices Task Force for consideration by the Newport City Council for the purpose of providing more detailed information concerning the Special Election Articles to be voted on by the Citizens of Newport on August 12, 2025.

### **Article 1**

***Shall General obligation bonds or note of the City of Newport in an amount not to exceed Seventy-Five Thousand and 00/100 dollars (\$75,000) be issued to fund, together with other general obligation bonds or notes in the amount of Eight Hundred Thousand and 00/100 (\$800,000) previously approved on March 1, 2022, the purchase and equipping of a fire truck for the Newport Fire Department, the total cost of which is Eight Hundred Seventy-Five Thousand and 00/100 Dollars (\$875,000.00).***

**What is it for?** \$75,000 additional needed on top of the previous \$800,000 approved by voters

- \$875,000 Fire Truck – Original Bond of \$800,000 was approved/additional \$75,000 needed.

**Explanation:**

- The Fire Truck Loan was originally approved for \$800,000. The purchase of the truck has been delayed because the first truck was unacceptable and we refused to take possession. There is now a truck that is ready to pick up, and there were additional costs due to added equipment that was deemed necessary. The new cost is just under \$875,000.
- Although the Fire Department budgeted a capital expense over the last several years in order to cover the additional costs, the City was deficit spending and this, like other budgeted capital expenditures, was not funded. In order to take delivery, the City will need to pay the entire, contracted price.
- The truck is expected to be delivered sometime around October/November.
- With voter approval, long-term financing will be arranged for the full \$875,000. If this measure fails, approximately \$75,000 will have to be cut from the Fire Department or

General Operating Fund Budget in the current fiscal year in order to ensure we do not incur deficit spending.

## **Article 2**

***Shall a general obligation bond anticipation note for the City of Newport in an amount not to exceed Three Million and 00/100 Dollars (\$3,000,000.00) be issued to refund a \$2,400,000.00 construction line of credit at or prior to its maturity in October 2025 and to refund interfund loans from the general fund to the water fund in the aggregate amount of \$600,000.00 to finance additions and improvements being made to the City's water system as approved by the voters in March 2021?***

**What is this for?** In Fiscal Year 2021/2022 the citizens of Newport voted to approve a \$4.985 million bond, less any other funding including ARPA funds or grants available, for construction of a New Eastside Water Tower. The details to borrow that money were never arranged with the VT Bond Bank. The city has managed the construction phase using ARPA Funds, grants, some funding from the General Fund, and a Line of Credit loan which expires in October 2025. This note will bridge the gap between the pay off of the Construction Line of Credit and the anticipated award for the full, originally approved bond.

### **Explanation:**

- The application for the originally approved bond was never completed and sent to the Vermont Bond Bank for approval.
- The Newport City Charter does not allow any loan to extend beyond a year unless there is voter approval. This means that we cannot extend the construction line of credit to bridge to the anticipated bond without voter approval for this short-term note.
- The Bond application will be completed with the Vermont Bond Bank asap, with the expectation that we will be able to receive that funding between April and August 2026.

## **Article 3**

***Shall general obligation bonds or notes of the City of Newport, Vermont, in an amount not to exceed One Million Eight Hundred Thousand and 00/100 dollars (\$1,800,000.00) be issued to refund a deficit in the General Fund account.***

**What is it for?** This is a request for approval to secure a long-term loan to address the cash deficit that accumulated in the General Fund over the past decade - culminating in the \$1.8 million deficit at the end of FY25. The term of the note will be between ten and twenty years.

**Explanation:**

- Beginning in the budgeting process for FY19 and continuing through FY26, the State Municipal Tax Adjustment was mistakenly counted as additional revenue, even though it was already counted as a part of property tax income. This resulted in an annual shortfall that averaged approximately \$175,000 over the last seven years.
- The total accumulated shortfall resulting from this mistake between FY19 to FY25 is \$1.29M. The impact of a similar mistake made in budgeting for FY25/26 (our current year) is addressed in Article 5 on this ballot.
- Further, there is an additional accumulated deficit (not attributable to the mistake described above) of between \$500,000 and \$600,000 which is the result of the General Fund having covered deficit spending during the past several years.
- Newport Residents should know that this bond, if approved, will be applied directly to the principle of the FY26 Operating Line of Credit Tax Revenue Anticipation Loan, thus decreasing the amount of interest paid on that note during our current fiscal year.

## **Article 4**

***Shall general obligation bonds or notes of the City of Newport, Vermont, in an amount not to exceed One Million and 00/100 (\$1,000,000.00 to be issued to refund a deficit in the general fund account.***

**What is this for?** \$1.0 million was used by the General Operating Budget to pay for Sewer Fund expenses and needs to be returned to the General Operating funds. With voter approval, this long-term loan, which will be paid for through an increase in Sewer rates over the life of the note, will pay the obligation of the Sewer Fund to the General Fund. The term of the note will be between ten and twenty years.

**Explanation:**

- For a period of approximately eight years, there was no increase in the water/sewer rates, which are set by City Council, to cover deficit spending. This decision resulted in extremely low rates for an extended period of time, but it also depleted all reserves and created a significant accumulated deficit that must be addressed.

- The water and sewer rates did not keep pace with cost increases (for example, due to inflation) or revenue losses (for example, the termination of a contract for nearly \$200,000 per year to treat leachate from the Landfill).

### **What is changing moving forward?**

- The Water and Sewer Task Force continues to monitor expenses quarterly & will make recommendations to the council to adjust the sewer rates as needed to ensure that there will be no further deficit spending.
- The Mayor and Council have worked with a financial consultant to investigate the problems underlying the City's financial challenges and to initiate a practice of carefully reviewing financial reports at least once a month.

## **Article 5**

***\$220,000 requested to be added to the total Tax Revenue needed to fund 2025/2026 (FY26) due to the miscalculation of the state funds as excess revenue.***

**What is this for?** We are asking to increase tax revenue needed for FY26 by \$220k to address the error in calculating tax revenue that began in 2019. (See Article 2 for a more detailed explanation of this consistent error in budgeting since FY18/19.)

## **General Questions:**

**Why is there an accumulated deficit and how can community residents be confident that deficit spending will not continue?**

Over the past 10 years there have been a combination of budgeting miscalculations, shortfalls and unrecognized spending overages that we are addressing through:

1. simplifying our accounting practices to make it easier for Council and community residents to understand our budgets and financial reports,
2. converting short-term debt to long-term debt in order to manage the repayment of the accumulated deficit,
3. adopting more rigorous expense management practices,
4. exploring options for a more transparent and participatory approach to budgeting to create greater oversight and avoid future mistakes, and
5. Developing a practice of monthly review of financial reports by the City Council.

### **Who is responsible for the deficit?**

A series of financial miss-steps that go back at least a decade have contributed to our current financial condition.

It is the Mayor and Council's responsibility to ensure that the City is following good fiscal practices, and it is clear that a combination of factors that included the EB-5 debacle in 2016, the Covid Pandemic, and a lack of rigor by previous City leaders in demanding, reviewing, and understanding financial reporting have all contributed to our current financial condition.

### **What are the roles of Mayor, Council and City Manager?**

By charter, the Mayor is the chief executive officer of the city and is responsible for seeing the laws are enforced and duties of subordinate officers are performed faithfully. With the Council, the Mayor is responsible for ensuring that the finances of the city are properly expended.

Further, It is the Mayor's job to ensure that the City Council has good information in order to make thoughtful decisions. This includes creating a respectful climate in which the Council can listen carefully to and communicate clearly with community residents regarding the decisions they have to make about both the challenges and the opportunities for our city.

It is the Council's job to ask good questions, to do whatever is necessary to find answers to those questions, and to make informed decisions regarding budgeting, financial matters, and governance policies that protect the City's interests.

It is the City Manager's responsibility to be fully transparent, to manage the day-to-day operations of the City, to support the Mayor and Council in long-term, strategic planning, to provide good advice to the Council on all City matters, and to be responsive to the requests and concerns of the Council.

The Treasurer's role is to keep the accounting of all the town's finances, including the taxes voted on, the water and sewer bills paid as well as to pay the orders drawn upon the accounts, and to provide timely information to the Mayor, Council and Department Heads as requested.

### **How much is the city borrowing?**

With the approval of all Articles, the city needs that will be covered are as follows:

- An additional \$75,000 to complete funding for the new Fire Truck. (Article 1)
- \$3 million in short-term funding to provide a "bridge" to anticipated bond funds already approved by the voters. (Article 2)
- \$2.8 million to fund accumulated deficits using long term financing. (Articles 3 & 4)

- In addition, approval on Article 5 would give Council permission to raise the tax rate for the current fiscal year to cover a projected \$220,000 deficit due to an error in budgeting that has occurred since FY 2018/2019. (Article 5)

### **How much is this going to impact taxes?**

Until financing is secure, we do not know the full impact on the tax rate. At this point, what we do know is that:

- Property Taxes will need to be increased to fund principal and interest payments over the life of the 1.8 million dollar loan to cover accumulated deficit in the General Fund,
- Sewer Rates will need to be adjusted to fund principal and interest rates on the 1 million dollar loan to cover the accumulated deficit in the sewer fund.
- The principal and interest payments on the \$875,000 loan for the Fire Truck are already included in the Budget for FY 25/26, and will continue to be appropriately budgeted going forward.
- Water rates have already been adjusted in the current fiscal year to cover the estimated cost of principal and interest payments on the proposed short-term loan that is needed to bridge to anticipated Bond Income once the long-term loan that was approved by voters in 2021 has been negotiated with the VT Bond Bank.

### **What happens if the voters do not approve these requests?**

- Article 1: The City taxpayers have already approved an \$800,000 bond for the Fire Truck. If the additional funding is not approved, we will need to cut other spending in the Fire Department or General Fund budget in the current Fiscal Year in order to have the \$75,000 needed.
- Article 2: The City taxpayers have already approved the bond for the Eastside Water Tower. This request is for a bridge loan to pay off the current Construction Line of Credit until the Bond can be secured. In effect, this is simply a measure to ensure that we can do what the voters have already approved. If this request is not approved, it is not clear how the Council would proceed without being in violation of the Charter.
- Articles 3 & 4: If approved, these articles related to the accumulated deficit will allow taxpayers and sewer ratepayers to pay off the deficits over time. If the Articles, in whole or in part, do not pass, there are two options:
  - The Council is required by Charter to raise property tax rates and sewer rates sufficiently to pay off the entire \$2.8 million deficit in one year, or
  - Council will have to use a pre-determined formula to pay the deficit over just five years, which will significantly increase the short-term burden on taxpayers. However, this choice would put the council in an extremely challenging position

because significant city services would likely have to be cut in order to avoid renewed deficit spending.

- Article 5: If this is not approved, the City of Newport will be required to cut budgetary spending in the current fiscal year in order to ensure that there will be no deficit spending in the General Operating Fund.

### **Who are we working with?**

In March, the Newport City Council appointed a Task Force made up of volunteers who are Newport residents and who have particular skills or experience in finance to review the finances and financial practices of the city. The Council also appointed a separate Task Force with specific skill sets to work on similar challenges regarding the Water and Sewer budgets and operations. These two Task Forces, each chaired by a member of Council, have been working with the Mayor, the Clerk/Treasurer's office, the City Appraiser/Grants Manager and other Department Heads.

In April the Council also gave approval to hire a consultant from New England Municipal Resource Center (NEMRC), which is the company that developed the financial software used by the City, to assist with simplifying our Chart of Accounts and to do a deep dive into the City's budgeting and spending practices.

Chip Stearns, who has been assigned by NEMRC for this contract, has made remarkable progress in reviewing and reforming our Balance Sheet so that we have far greater confidence in the numbers we are reviewing and a more thoughtful understanding of how the City's accumulated deficit occurred. The contract with NEMRC will continue over the course of at least the rest of this fiscal year in order to support the Council and City Department Heads in implementing best fiscal practices.

We have also been working closely with the Vermont Bond Bank, the Vermont League of Cities and Towns, Passumpsic Savings Bank (a long time lending partner), as well as other potential financial partners and lenders.

### **LONG-TERM SYSTEMIC ACTIONS**

Depending on advice we receive from the Financial Reporting and Fiscal Practices Task Force and the Water and Sewer Task Force, as well as the counsel we are receiving from our contracted financial consultant and City attorneys and the support from our Treasurer's office and Department Heads, the Mayor and Council will actively monitor these situations and steer a course for a better financial future for Newport in the following areas:

- **Strengthen Financial Oversight**
  - Establish or empower an internal audit function.

- Require regular internal financial reporting and variance tracking.
- Consider appointing a Chief Financial Officer (CFO) or City Manager with that type of ability.
- **Changes in Budgeting process:**
  - Adoption of practices that will increase transparency, accountability and Council oversight in budgeting.
- **Create a Practice of regular Council Oversight to ensure that the Mayor and Council are actively engaged in taking responsibility for Financial Oversight.**
  - The Council has contracted with NEMRC to simplify our Chart of Accounts and help train the Council on how to read and interpret financial tools effectively.
  - We have already begun implementing a monthly budget review by the Council.
- **Develop a Long-Term Financial Plan**
  - Institute a practice of longer-range strategic planning that includes multi-year forecasting, capital improvement plans, and debt management strategies.
- **Engage the Public**
  - Continue to clearly communicate the causes of our current financial condition and take corrective steps to earn and rebuild public trust.
  - Continued to seek both professional and citizen engagement to provide the best possible advice to the Mayor and Council.