

To Approve

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**NEWPORT SCHOOL COMMITTEE**  
Special Meeting Minutes  
Tuesday, June 17, 2014, 2:00 p.m.

**MINUTES**

**1.0 OPENING ITEMS.**

**1.1 Call to Order.** Chairperson Charles P. Shoemaker, M.D., called the special meeting of the Newport School Committee to order at 2:02 p.m. at the Newport Public Schools' Administration Center, in room 924.

**1.2 Roll Call.** Attendance was as follows: **School Committee Members:** Chairperson Charles P. Shoemaker, M.D., Vice Chairperson Jo Eva Gaines, Rebecca Bolan (arrived at 2:04 p.m. and excused herself from the meeting at approximately 2:57 p.m.), Sandra J. Flowers, Ph.D., Robert J. Leary (arrived at approximately 2:22 p.m.), Thomas S. Phelan, and Robert B. Power, Ed.D.; and **School Department:** Superintendent of Schools Colleen B. Jermain.

**2.0 DISCUSSION ITEM.**

**2.1 Report of the Finance Review Committee to the Newport City Council.** (Provided, as attached.)

**Present: Finance Review Committee team members:** Louisa Boatwright, Ron Becker, and Ken Nomiyama.

Team member Ken Nomiyama reviewed, and discussion followed, each of the proposals and each of the outcomes, as listed below:

**Proposals—Reviewed:**

1. Finance Review Committee
2. City Services
3. Salaries and Benefits
4. School Department
5. Sustainable Financial Planning
6. Tax Exempt Property
7. Tourism
8. City Employees

**Outcomes—Recommendations (to bring out efficiencies):**

(Provided, as attached.)

- **Increase Revenues and Control Costs—**
  - a. **Grant Coordinator/Writer.** Establish a shared grant coordinator/writer capability in the school department and city administration. School committee members concurred.
  - b. **Career and Technical Center (NACTC).** Evaluate longer term plans, opportunities, and costs, while continuing to take steps to reenergize the program (within budgeted constraints).
  - c. **Early Education Program.** Budget constraints should be given major consideration in weighing options available for Newport's Early Learning Program.
  - d. **Professional Staff.** Consider adding professional (certified and support) staff to counter the affect over the past ten years of "cutting to the bone".
  - e. **Cost of Educating Newport Students.** An evaluation should be conducted as to why the per pupil cost of public education in Newport Public Schools is the fifth highest in the state (2010-2011) of \$20,217 per student.
- **Improve Quality of Financial Reporting—**
  - **Combine the school and city finance departments into one integrated department.**
    - Elements of the recommendations and alternatives to these approaches were cited and discussion followed, realizing the school department has established a pilot program to streamline the current school department's business office and is slated for re-assessment in December of 2014, as to its future of the possibility of integrating the financial functions with the city or continue its separate financial functions within the school district's business office.
  - **Monthly Staff Status Reporting and Reviews—**
    - Key members of the school staff, such as school principals and department heads, need to be kept apprised of financial performance.

- **Streamline the Budget Process—**
  - The city council and city manager coordinate their efforts in preparing a two-year budget for FY 2016 and FY 2017 with the Newport Public Schools.
  - Include in the budget a reserve account.
  - Capital Account.
  - Communications with city council.
  
- **Miscellaneous—**
  1. The Finance Review Committee is recommending to the city council that a standing Finance Review Committee be formed to continue this committee's work after the submission of its recommendations to the council; and
  2. Planned School Department Audit should include reviews of the (1) Newport Area Career and Technical Center's revenues and costs; (2) School Business Manager's department operations and staffing; (3) School Business Manager and City Finance Department benefits of combination; and (4) Application/registration procedures for such programs as Free/Reduced Lunch and children of government employees.

School committee members, Superintendent Jermain, and Finance Review Committee members Louisa Boatwright, Ron Becker, and Ken Nomiya agreed that the report was a comprehensive evaluation of the district, inclusive of the financial management operations of the city.

**3.0 EXECUTIVE SESSION.** No executive session was held.

**4.0 ADJOURNMENT.**

At approximately 4:10 p.m., Mr. Phelan made a motion to adjourn the meeting. Dr. Flowers seconded the motion, which carried unanimously (6-0).

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Charles P. Shoemaker, M.D.  
Chairperson

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Colleen B. Jermain  
Clerk

**REPORT**

of the

**FINANCE REVIEW COMMITTEE**

to the

**NEWPORT CITY COUNCIL**

Submitted May 14, 2014

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## INTRODUCTION

On June 26, 2013, the Newport City Council passed a resolution establishing a Finance Review Committee (FRC) tasked with developing recommendations for Council consideration for ways to increase revenues and reduce expenditures for the City (see Appendix B), with a target of May 1, 2014 to present the Committee's proposals to the Council. Subsequently, that target date was extended to May 20, 2014. The Council sought to staff the FRC with Newport residents possessing backgrounds in banking, accounting, insurance, investments and economics. Seven such individuals were selected and sworn in at an organizational meeting on November 7, 2013, at which a chair, vice chair and secretary were chosen (see Appendix C).

Since then, the FRC has held meetings of the full committee on average every ten days. The initial meetings were spent identifying and grouping areas of opportunity for the FRC to pursue. Fourteen such areas were selected at first: Capital Improvement Plan, City-Owned Properties, City Services, Delinquent Fees/Taxes, Employee Suggestions, Innovation Ideas, Navy Impact, Property Taxes, Salaries & Benefits, School Department, Sustainable Financial Planning, Tax Exempt Property, Tourism and Weekly Rentals. It quickly became evident that the FRC could not tackle all fourteen areas in the time allotted for its work; so, by combining some items and prioritizing the remainder, the decision was made to concentrate on six areas: City Services, Salaries & Benefits, School Department, Sustainable Financial Planning, Tax Exempt Property and Tourism.

To expedite work on the six selected areas, teams of two to three committee members were chosen to research the topics and develop proposals for each (see Appendix C). The teams spent the next several months gathering data, interviewing stakeholders and formulating proposals.

Stakeholders interviewed -- some individuals being interviewed by more than one team -- included all of Newport's elected and appointed officials, department heads, key employees and employee union officials. Meetings also were held with representatives of many outside organizations and communities with relevant information to contribute. These included Discover Newport, the Newport County Chamber of Commerce, the Aquidneck Island Planning Commission, the Preservation Society of Newport County, Salve Regina University, the Rhode Island Department of Education, the Rhode Island Taxpayers Association, the Newport Housing Authority, the Rhode Island Senate President, the City of East Providence Finance Department and the Town of Portsmouth Finance Department. The FRC is most appreciative of the time, effort and information generously provided by everyone contacted. A special thank you is owed to Jeff Adams, who had chaired a 1994 iteration of the FRC, for providing valuable insights.

The FRC also reached out to the Newport community and, on February 25, 2014, conducted a well-publicized public forum at which members of the Newport community were invited to contribute their thoughts and suggestions. The forum, held in the Program Room at the Newport Public Library, drew an audience of close to fifty who, for more than an hour, voiced a wide variety of suggestions for the FRC's

consideration. Several of the points made were incorporated into our comments and recommendations. Many remained after the forum adjourned to provide additional comments.

Members of the City Council had requested an interim status report and some asked if there were any proposals being considered that could be acted on in advance of the FRC's final report being submitted. Two such proposals were identified, both of which touched upon budget-related matters under consideration by the Rhode Island General Assembly and, therefore, were time-sensitive. Accordingly, the FRC submitted a "Status Report and Immediate Action Items" memorandum to the City Council on March 18, 2014 (see Appendix D). The FRC is gratified that both proposals were approved by the Council and resulted in the passage of two Council Resolutions as recommended.

The FRC members all have worked diligently during the past six and a half months to produce the proposals and supporting documentation that follows. The time constraint has been frustrating in that it limited the amount of research that could be done, resulting in many of the proposals having to include a call for further research by others before a fully detailed plan can be implemented. The FRC would have preferred to provide the necessary detail and a specific implementation plan, but such was not possible in the allotted time. Each proposal, however, does include a recommended path to implementation.

Committee members struggled with the knowledge that some of the proposals under consideration are controversial and some assuredly will engender significant opposition. Should such proposals be set aside? Consensus was reached that these considerations have to take a back seat to the primary question of whether or not the committee believes that a proposal is in the best interest of the Newport community as a whole.

This has proved to be a challenging as well as a rewarding experience. FRC members have received a humbling education in the workings of city government and have gained an admiration for the skill and an appreciation of the dedication of the people that serve the City of Newport. We are grateful for the opportunity provided us.

Finally, the committee applauds the important contributions of Laura Sitrin and Elizabeth Sceppa. Their advice and support throughout the process have been invaluable.

Respectfully submitted,

Ron Becker, Chair

John Florez, Vice Chair

Louisa Boatwright, Secretary

David Bazarsky

Hank Kniskern

Ken Nomiya

Bill Rauch

## **PROPOSALS SUMMARY**

### Finance Review Committee

Create a standing Finance Review Committee. (See page 8 for details.)

Hold a workshop with the City Council at its earliest convenience to discuss the FRC's proposals and to answer any questions the Council might have concerning the contents of the final Report. (See page 8 for details.)

Produce a report at the end of 2014 on the status of each of the Finance Review Committee's proposals and follow up reports every six months thereafter until all of the proposals have been implemented or rejected. (See pages 8-9 for details.)

### City Services

Establish procedures for a review of all City fees at least every three years to maintain alignment with actual costs. (See page 10 for details.)

Actively promote the use of City properties for special events for an appropriate charge. (See page 10 for details.)

### Salaries & Benefits

Move towards hybrid pension benefits and temporarily suspend cost of living adjustments mirroring the changes being pursued at the state level; and refrain from long term contract extensions until agreement is reached on these issues. (See page 11 for details.)

Move from employee/retiree contributions towards their health benefits being expressed as a percentage of salary/pension benefit to a percentage of cost. (See page 12 for details.)

### School Department

Create a grant writer/coordinator position that jointly serves and is jointly managed by the City Administration and the School Department. (See pages 13-14 for details.)

Combine the City's Finance Department with the School's Business Office (excluding human resources, technology services and budget development), with the Finance Director reporting jointly and equally to the City Manager and the Superintendent of Schools. (See pages 14-17 for details.)

Coordinate the budget process between the City and the Schools with both moving together to a two year budget system in FY 2016 and FY 2017. (See pages 17-18 for details.)

Include a reserve account in the School Department budget to cushion the impact of fluctuations in estimated line items over the course of the fiscal year rather than rely on up-to-the-minute actual data, usually not available until after the June budget submission. (See page 18 for details.)

Restore dialogue between the City Council/City Administration and the School Committee/School Superintendent, possibly by means of the City-School Liaison Sub-Committee, on budget and other

financial matters. (See pages 18-19 for details.)

Note: The above proposals are made directly to the City Council, because they are matters the City Council can impact directly. Appendix A is attached for the Council's information. It contains a complete list of the FRC's proposals related to the School Department, including those listed above, that will be sent to the School Committee and the Superintendent of Schools for their consideration and action.

#### Sustainable Financial Planning

Augment the current budget plan to include a fifteen year projection of major revenue and expense categories and of working assumptions. (See pages 20-23 for details.)

Initiate a Strategic Planning Committee with representatives from the Council, the Administration, the School Committee and the community; target date for committee formation would be September 2014, with completion of work by March 2015. (See pages 20-23 for details.)

Support the formation of a regional Council of Governments to manage areas of service consolidation and regional projects (e.g., fiber network backbone and related information technology services). Propose and approve funding for a knowledgeable consultant to recommend a multi-community model that includes processes and governance guidelines. (See pages 20-24 for details.)

Form community or municipal coalitions to propose adoption of legislation that enable local decisions responding to economic and environmental needs (possibly in conjunction with the Rhode Island League of Cities and Towns). (See pages 20-22, 24 for details.)

Increase allocation of funds for integrated municipal economic planning and implementation from .6% of the annual General Fund budget to a more appropriate level as determined by the strategic plan, perhaps 2%. (See pages 20-22, 24 for details.)

Evaluate the proportion and amount of expenditures for various budget items in comparison to those of similar communities within Rhode Island and across the nation. (See pages 20-22, 24-25 for details.)

#### Tax Exempt Property

Lease roads, or portions thereof, surrounded by Salve Regina University to the University to improve their campus while generating new revenues for the City of Newport. (See pages 26-28 for details.)

Create a Committee of Stakeholders to develop and administer a payment formula for tax exempt property owners to voluntarily contribute to the City for public services they receive, giving credit for contributions they already make to the City. (See pages 26-29 for details.)

Adopt a joint resolution with Middletown and Portsmouth to the General Assembly to create a Military PILOT payment for Navy and Coast Guard property. (See pages 26-27, 29-30 for details.)

Survey publicly owned undeveloped land -- local, state and federal -- for opportunities of sale or lease to entrepreneurs who can develop year-round quality career opportunities to broaden the local economy. (See pages 26-27, 30 for details.)

### Tourism

Initiate studies of the costs associated with the various tourism related revenues to assure that revenues are adequate; seek revenue increases where there is a shortfall. (See pages 31-35 for details.)

Undertake an integrated effort to formulate a long range plan for tourism along with Discover Newport, the Newport County Chamber of Commerce and the Aquidneck Island Planning Commission. (See pages 31-35 for details.)

Initiate the formation of a coalition with other Rhode Island communities highly dependent on tourism to lobby the General Assembly regarding tax sharing measures and other legislation favorable to tourism. (See pages 31-35 for details.)

Proposals related to parking:

- Extend the hours for downtown metered parking to 12:00 a.m. (2:00 a.m. on Friday and Saturday) and extend the maximum parking time from two hours to four hours after 9:00 p.m.. (See pages 36-38 for details.)
- Expand metered parking to additional streets in the business and tourist areas (Broadway, lower Thames, Farewell and Colonial). (See pages 36-38 for details.)

### City Employees

Establish an employee suggestion award program. (See page 39 for details.)

## PROPOSALS

### FINANCE REVIEW COMMITTEE

#### Standing Finance Review Committee

The City Council should authorize and staff a standing committee to continue the work of the Finance Review Committee (FRC).

It became very evident to all the FRC members that there are far more opportunities for revenue enhancements and cost savings for the City of Newport than could be explored by the committee in the time allotted. The time constraints also limited the amount of research and development that could be performed for the proposals that appear in this Report. A standing committee could methodically and thoroughly explore many more opportunities and present proposals for City Council and, where appropriate, School Committee consideration on an ongoing basis. The FRC is too good an idea to be a one-time event.

The City Council is urged to pass a resolution authorizing a standing Finance Review Committee to be staffed by seven to nine Newport residents with backgrounds in finance, economics, insurance, accounting or management. The committee members should serve three year terms and be eligible for up to five term renewals. Members will select a chair, vice chair and secretary. The City Finance Director will be an advisor to the committee.

The committee will meet at least quarterly with sub-committees meeting more frequently to develop specific proposals. It will provide semi-annual progress reports to the Council and submit proposals to the Council and, where appropriate, the School Committee for consideration and action as work on each proposal is completed. The City Council or the School Committee may ask the committee to explore a particular opportunity or to adjust the priority of opportunities being explored. The committee may be called upon to act in an advisory capacity during the development of the City's budget.

#### Workshop

A workshop should be scheduled at the City Council's earliest convenience to provide an opportunity for the FRC to elaborate on its proposals and to answer any and all questions the Council might have about the contents of this Report. It is imperative that the Council fully understand what the intent is of the FRC with regard to each of its proposals.

#### Status Report

The City Council should report to the public on the status of each of the FRC proposals as of December 31, 2014. Such report should be made part of the public record no later than the second regular City Council meeting in January 2015. Subsequently, follow up reports should be generated at six month intervals until such time as all of the proposals have either been implemented or rejected.

Reports commissioned by the City Council too often disappear from public view once they are received by the Council. Actions may be taken over time on matters discussed in the reports, but there is no follow through in terms providing a status update on such actions. That was the fate of the proposals made by a committee similar to the FRC that reported to the Council in 1994. Actions were taken over the succeeding years on a number of that committee's proposals, but the impression was left that the committee's report was overlooked.

The City Council should direct the City Administration to prepare a report as of the end of 2014 that gives the status of each of the proposals contained in this report. Proposals that were implemented or are in the process of being implemented should show implementation dates and target implementation dates. Proposals still being studied should describe what concerns are being reviewed and what target dates are set for decisions. Proposals that have been rejected should detail the reasons for the rejections. That report should be submitted to the City Council no later than the Council's second regular meeting in January 2015 and should appear in the docket for the meeting at which it is to be received. Subsequent follow up reports should be submitted to the City Council in the same manner at six month intervals.

## PROPOSALS

### CITY SERVICES

#### Regular Review of City Service Fees

By establishing a mandatory review of city service fees every three years, we can ensure that fee increases align with the rise in cost of providing the service covered by the fee. Although many City fees have been reviewed in the past few years, the majority have not. It is important to conduct periodic reviews to assure that all fee revenues are maintaining pace with increasing administrative costs.

The City Administration should divide all service fees into three groups and conduct a review of each group every three years on a rotating basis. The review should determine the cost of the service provided and include the cost of collecting the fee. Any fee not covering costs should be adjusted accordingly.

Many current fees have not been adjusted for over a decade. With cost of living increases and City employee salary and benefits increases, it is unlikely that these fees still are covering costs.

#### Promoting Special Events On Certain City Properties (The Rotunda at Easton's Beach)

Currently the Rotunda generates about \$140,000 in annual revenues. This occurs without any promotional activities. By partnering with local event planners, these properties can be promoted for special events, such as weddings.

By partnering with local event planners, Newport could see significant revenue generated. While no definitive number can be estimated due to lack of precedent, doubling the existing revenues of the Rotunda of \$140,000 is certainly an achievable goal and generating comparable revenues at other venues is possible.

Other City properties should be examined for similar potential.

#### Implementation

The City Council should direct the City Administration to prepare cost studies to determine and support fee increases recommended above. It then should seek authorization for those fee increases requiring State approval and authorize those it directly controls.

## **PROPOSALS**

### **SALARIES & BENEFITS**

#### Employee Pension Benefits

Until the status of pension plan provisions is settled at the state level in Rhode Island, with agreement between unions and the State and the resolution of legal challenges, the City should not commit to pension plan benefit extensions of more than one year unless agreed upon provisions include a hybrid defined benefit/defined contribution plan and a temporary suspension of retiree cost of living adjustments.

Employee pension benefits are detailed in union contracts plus individual agreements for non-union employees and officers. Those contracts have varying renewal dates and are subject to renegotiation over a number of years.

The state pension provisions currently under consideration include several forward looking changes designed to avoid costs escalating beyond the means of the State, to stabilize pension plans by reducing the danger of underfunded plans collapsing and to reduce current government outlays at the state level and the municipal level. The changes in question include moving from a defined benefit plan to a hybrid defined benefit/defined contribution plan for most current employees and for all new employees and temporarily suspending cost of living adjustments for retirees. If such provisions become part of the final settlement at the state level, that will establish a precedent which can be used in negotiations of municipal level pension plans.

Including these provisions in the City's pension plans will reduce the plans' unfunded liabilities by millions of dollars and thereby reduce the City's annual amortization costs aimed at fully funding its plans by hundreds of thousands of dollars. Due to "grandfathering" provisions expected to be included with such changes, the City's Normal Annual Contribution towards its pension plans will not change in the short run, but it can be expected to be reduced in the long run as grandfathered employees leave or retire and are replaced by new employees to whom the changed provisions apply fully.

Those charged with negotiating employee contract changes should be instructed to seek such provisions now. If no agreement is reached, they should insist on short term contract extensions until the question is settled at the state level.

## Employee Health Benefits

Employee contributions towards the cost of their health benefits should be a percentage of cost rather than a percentage of salary or of pension benefit.

Having employee contributions based on salary or pension benefit removes an important financial incentive for employees to control their medical expenditures. It encourages employees to seek unnecessary treatments, knowing that the financial cost to them will be minimal. Having their contribution linked to the cost of coverage, conversely, incents employees to seek treatments judiciously, knowing that over-usage will translate to higher coverage costs and, in turn, a higher required contribution level. Similarly, other incentives might be offered to Newport employees to live a healthier life -- eating nutritious meals, exercising regularly, limiting their intake of unhealthy products and avoiding unnecessary risks to their health and well-being -- by offering nominal rewards. Healthier employees translates to savings for the City in terms of lower contributions to the City's share of health benefit costs and less use of sick leave requiring overtime expenditures to cover the workload.

As each employee contract comes up for renewal, a change from salary/benefit percentage contribution to cost percentage contribution should be negotiated. The goal in negotiating the change should not be to achieve any immediate savings to the City. Rather, at the time of changeover, the contribution total received in dollars from the existing method should closely approximate that provided by the new method. Savings will be looked for in future years resulting from improved coverage costs compared to what would otherwise be experienced.

In the year of transition from percentage of salary/pension to percentage of cost, the percentage of cost should be calculated to result in approximately the same dollar expenditure for an employee/retiree as the percentage of salary would had that basis been continued. For retirees, the percentage that would apply will be that corresponding to the employee pay grade that most closely approximates the pension benefit being received. Therefore, a separate percentage will apply to each employee/retiree salary bracket. That would continue the current result of an employee's health benefits contribution rising as their ability to pay rises, that is, as their salary increases.

## PROPOSALS

### SCHOOL DEPARTMENT

In reviewing the School Department, we found that implementation of most of the revenue improvement and cost efficiency opportunities are the responsibility of the School Committee and School Superintendent. Therefore, most of the recommendations will be directed to them rather than to the City Council. However, there were some opportunities that will require the City Administration's involvement and direct action even though they impact the School Department. These are directed to the City Council and are outlined below. Appendix A contains the full set of recommendations, which already have been discussed in detail with the School Committee and School Superintendent.

#### Increase Revenues and Control Costs

The Newport School Department faces new pressures to control its costs and find sources of revenue -- about 27% of the City's annual General Fund expenditures are allocated to Newport's public schools. It has a new Pell Elementary School that is already near or at capacity, plans to expand its early education program to meet federal requirements, and student enrollment that is declining slightly but experiences significant costs for special education needs and out-of-district placements. The management and responsibility of these efforts are with the School Department, which has been actively pursuing ways to make its operations more efficient. There is one area where the City can play a part, and that is with the grant coordination and writing function. Because there is no centralized or dedicated grant function in Newport, departments now take it upon themselves to search, apply for and administer their grants. The City Police and Fire Chiefs and School Director of Professional Development, for example, have written their own grant requests. The ability to secure funding is becoming more difficult, with decreases in State and Federal grants and increased competition from other communities seeking the same grants. It is imperative that Newport City Administration and the School Department not lose momentum in receiving grants.

*Recommendation:* Establish a shared Grant Coordinator/Writer function for the City and School Departments.

The recommendation is to set up a dedicated function focused on the grant process and share it equally between the City and the School Department. A newly established Grant Coordinator/Writer will take the lead in coordinating the grant writing process, collaborating with current department heads and grant seekers. The department personnel, because of their day-to-day involvement, are expected to have a better understanding of funding needs and grant opportunities. Their role in the grant process will be to identify the needs and point the Grant Coordinator in the right direction to help secure the grant. The Coordinator will then help to

process, manage and report on the grants. The Coordinator may at times also identify and write the grant proposals.

The advantages of having a dedicated grant writing/coordinator function are:

- Less risk that grant opportunities will be missed because more time could be devoted to grant searches.
- More likelihood of success because of having a more experienced person coordinating and managing the process.
- Reduced amount of time current employees are taken away from their primary responsibilities when working on grants.
- Easier task for the City and the School Department to cost-justify a shared position.

The short-term negative is the initial set-up cost -- salary and benefit (full-time hire) or other costs (contractor) -- that is required. However, there are possible cost savings by, for example, recruiting interns from Salve Regina University to assist with the grant search or administration processes, if not the actual grant writing.

Note: The Town of Westerly has a grant writer covering a combined City and School Department. The benefit, per the Finance Director, is that while some of the grant writing is still done by department heads or teachers, the grant specialist adds value and assistance by managing and administering the process once the grant application is completed. This is a time-consuming part of the grant process. The City of East Providence, per its Finance Director, does not have a dedicated grant writer but is thinking of adding one, perhaps a contractor working on commission. The shortfall with this approach is that the grant writer will go after the big ticket grants, which may not be the highest priority.

*Implementation Approach:*

1. The City and School Department will discuss and evaluate the merits of the proposal (perhaps through the City-School Liaison Sub-Committee). Specific grant targets could be identified and prioritized.
2. Determine how it is to be staffed -- full time/part time; employee/contractor -- and who will supervise.
3. Establish an amount to be budgeted and in which budget it will appear -- City or School or both.
4. Set targets, timelines and benchmarks, with progress reporting to determine the success rate.
5. After two years, evaluate the success of the program and determine whether it should be continued.

Improve Quality of Financial Reporting

Sound financial reporting is crucial for the educational system to run effectively. It is crucial for sound decision-making so that monies are spent efficiently and Newport taxpayers are not unduly burdened. At this moment, while improvements have been made, the School's accounting process is at risk,

because the School Business Manager office is short-staffed with insufficient back-up. In addition, there is a credibility issue with the City Council of the financial reports generated by the School Department. The City staff is assisting to close the gap by providing substantial and on-going accounting and processing support.

There are several ways this problem can be addressed:

1. Merge the Newport School Business Department with another school system's business department. The FRC is not aware of any precedent to this approach, and, if considered, a thorough analysis of the advantages and disadvantages will need to be done.
2. Keep the School Business Department in its present state, independent and separate from the City Finance Department. For this approach to work, the department will have to build its staff capability quickly. The current Business Manager has over the past eighteen months been able to gain experience and make improvements in reporting and internal controls. Still there are deficiencies, and an apparent need exists for an experienced accountant who could provide back-up to the Business Manager and relieve some of the pressure on her. Training will be needed for new staff and there will be a learning period required. It is likely the Business Manager will need to spend time on some of these efforts. Because of the criticality of time and the unknowns involved in implementing the changes, this option is not recommended.
3. Combine the School Business Department with the City Finance Department. This approach is recommended.

*Recommendation:* Combine the two Finance departments into one integrated department.

One overall Finance Director will have management responsibility over the School and City finances, as detailed below. Very importantly, the Finance Director will report dually to the City Manager and the School Superintendent, with both sharing responsibility for the Finance Director hiring/firing, performance review, and salary decisions. It cannot be overemphasized that in order for this combination to work, it is critical that the City Manager and School Superintendent have equal authority over the Finance Director and staff.

The functional areas to combine are: accounting; payroll; purchasing; and accounts payable and receivable (billing and collection).

Not being considered at this time are: HR and Technology.

Also, responsibility for the School's budget function – creation, management and authority – will remain totally with the School Committee and School Superintendent, but with the work performed in the combined operation. The Finance Manager and staff will prepare the School budget as directed by the School Superintendent, but the presentation and approval will be handled by the School Committee. Procedures will be put in place to ensure this.

It is suggested the combined operation be evaluated eighteen months following implementation to determine whether it should be continued. A negative vote by either the City Council or the School Committee will be sufficient to dissolve the arrangement.

The advantages of a merged department are:

- There should be no immediate need for additional staff and the associated expenses. Over time, there may be a consolidation or upgrade of functions, but no expected reduction of staff or cost savings.
- The staff shortage issue would be addressed and relief would be given to the School Business Manager.
- The School Superintendent might be relieved of some day-to-day pressures to manage the School Business Manager function.
- There will be little time required for transition and adjustment since the City and School staffs have been working closely together. City finance staff has worked extensively with UCOA and the School staff with the Lawson System.
- Operational efficiencies should result, with closer sharing of equipment, software, and training resources. Also, there should be opportunity for cross-training and for further collaboration in coverage which should result in reduced overtime expenses.
- There would be less risk of relying on one individual to be responsible for the School's books.
- These efficiencies may be offset by increased costs in other areas, such as pay-grade adjustments. (One issue to be aware of is the different bargaining contracts and salary and benefit structures that exist with the current personnel.)
- In summary, the justification for a combination of departments is to increase work efficiency and all cross-functioning of tasks in the short term without having to add staff. Cross-training is essential. Cost savings is not a justification.

Note that in 2012 the City Council and School Committee jointly requested the City Director of Finance, Laura Sitrin, to perform a review of the School Business Office. She concluded in her review that a consolidation of purchasing and human resources as well as accounting and payroll functions should be considered. We are consistent with her recommendation not to include budget responsibility in the consolidation. We are not addressing her recommendation to combine the human resources function at this time. (See City of Newport Resolutions of the Council 2012-159 and 2012-034.) None of the recommendations were implemented.

Note further that the FRC spoke to the Finance Directors of the City of East Providence (Malcolm Moore) and the Town of Westerly (Jim Lathrop, who has recently changed positions and now works for the Town of Portsmouth). Both communities have a combined School and City Finance Department, which, the respective Directors stated, have run more efficiently than when separate, and by working together a higher level of trust has developed between the School and City Finance employees than existed before. They agreed that the keys to making the arrangement work effectively are: a) the Finance team show equal loyalty and allegiance to both the City and School; b) the City Manager, School Superintendent and Finance Director maintain good communication and

work together; and c) the combined department provide a high attentive level of service to all its constituents.

#### *Implementation Approach*

1. The City and School Department discuss the proposal (perhaps through the City-School Liaison Sub- Committee) and reach agreement on the principles of the approach.
2. Proceed on the basis of the upcoming School Department audit, which should provide pertinent information regarding the feasibility of implementing the recommended combination.
3. The City and the School Department decide on the course of action and, if pertinent, establish a timeline for implementation.

#### Streamline the Budget Process

The School Department has not coordinated its budget process in an efficient manner with the City. It feels it does not have solid, factual, information early enough in the budget process to meet the City's budget review timeline. It cites significant unpredictability with school enrollment figures, special education needs, and state and federal grant awards and receipts. As a result, it has waited until it has more up-to-date information before completing its budget. The result is that the School Department has routinely not submitted its budget in a timely enough fashion to meet the City's timeline and to allow sufficient discussion and review. This has led, in part, to the School Department receiving flat-line budget appropriations. In any case, the City and School Department must work more closely in the future to avoid a disruptive budget process.

*Recommendation #1:* The City Council and City Manager coordinate efforts in preparing a two-year budget for FY 2016 and FY 2017 with the School Department so that the School Superintendent and School Committee can be prepared to also submit their own two-year budget.

For the FY 2016 and FY 2017 budget cycles, the City Council plans to present a two year budget. (See City of Newport Resolution of the Council 2013-160). We recommend that the City Council coordinate its efforts in preparing the budget closely with the School Department so that the two are in sync in planning for a two-year budget cycle.

This process will keep the School Department in line with the City budget process and should also help the School Department allocate its staff resources more efficiently.

### *Implementation Approach*

1. Recommend to the School Committee and Superintendent that they consider implementing a two-year budget for FY 2016 and FY 2017.
2. The School Superintendent and the City Manager will need to coordinate their plans for that budget process.
3. Implementation assumes that the School Department agrees to adopt the FRC's recommendations to "Streamline the Budget Process" that appear in Appendix A.

*Recommendation #2:* Include a reserve account in the School Department budget to cushion the impact of fluctuations in estimated line items over the course of the fiscal year.

The School Department should consider incorporating a reserve account in its FY 2015 budget. This approach will allow using "best estimates" based on current information and historical trends. In the past, the School Department has attempted to budget with precise up-to-date information, which has led to late submissions not compatible with the City's budget timetable. With a reserve account, up-to-the-minute precision will not be needed and greater reliance can be placed on estimates based on recent experience, trend knowledge and data forecasts. The reserve funds would cushion the impact of unpredictable and volatile swings in costs and revenues. This would put the School budget submissions more in line with the City's submission requirements, and allow time for fuller dialogue in the submission process. The initial reserve should be set at 1% of the annual budget, with a goal of increasing that to 3% over the following two years and then maintaining it at that level.

### *Implementation Approach*

1. The School Department should include a 1% reserve amount with its FY 2015 budget.
2. The City Council should acknowledge and accept the principle of a reserve account for the School Department budget and the reserve amount budgeted.

*Recommendation #3:* Improve communication channels between the City Council/City Administration and the School Committee/School Superintendent.

Ongoing dialogue should be restored between the School Department and the City Council on budget and other financial matters. The likely vehicle is the City/School Liaison Sub-Committee. It is important that the City Council have timely information and be fully aware of the scope of School Department programs, including possible increases to spending for programs such as the Career Tech Center, Early Education/Pre-K, Triplett School and Professional Hires, and also be aware of new School

funding/revenue sources and cost reduction efforts. The School Department often will need to take the initiative in these discussions.

***Implementation Approach***

**Re-establish the City-School Liaison Sub-Committee and hold regularly scheduled meetings.**

## **PROPOSALS**

### **SUSTAINABLE FINANCIAL PLANNING**

#### Recommendations

1. The Finance Department has introduced a 15-year financial projection in the current budget plan. It is recommended that the City make this long-term projection a core part of its strategic financial planning and decision making, analyzing 15-year scenario alternatives on a yearly basis.
2. Initiate a Strategic Planning Committee with representation from the Council, Administration, the School Committee and the community. Propose and approve a resolution to form a Strategic Planning Committee commencing its work in September 2014 and targeting completion in March 2015.
3. Initiate and support formation of a Council of Governments (COGS) to manage areas of service consolidation and regional projects. Propose and approve funding for a knowledgeable consultant to recommend a multi-community model that includes processes and governance guidelines.
4. Form community or municipal coalitions to propose adoption of legislative statutes that enable local decisions responding to economic or environment needs, perhaps in conjunction with the RI League of Cities and Towns or a Council of Governments. The goal is provide critical mass to influence State legislation.
5. Increase funding for Civic Investment and integrated municipal economic planning and implementation. Currently only 0.6% of the annual General Fund budget is expended for the work necessary to attract businesses, determine our economic direction, and seed private-public partnerships. A more appropriate amount, perhaps 2%, would be recommended by the strategic plan.
6. As a community, rigorously evaluate the proportion and amount of total General Fund expenditures to other Rhode Island and comparable out-of-state municipalities. Use the comparison benchmarks as a performance and productivity assessment tool in the strategic plan analysis and budget planning.

#### Background and Methodology

The research and recommendations used in this section of the FRC Report are intended to be within the context of the existing Newport's strategic goals:

- Continuous Improvement

- Infrastructure Investment
- Economic Development
- Community Communication

In recent years Newport has benefited from its professional financial management, operational staff, Council deliberations, community involvement, and collaboration with state agencies. The City Council has established strategic goals. In that regard, Newport is in an envious position compared to many other municipalities in Rhode Island and throughout the country.

But Newport does have challenges. Our infrastructure expenses are increasing because of CPI-related cost increases and deferred maintenance. There are significant financial liabilities associated with fire, police, education and other employee contracts. There is a pressing need to invest in economic development to prepare for the social and environmental developments of the next two decades -- our next generation of citizens.

Revenues are being out-paced by expenses. Year after year the City struggles to balance the budget as required by ordinance. However, State regulations limit the options Newport has for additional revenue generation or expense reductions.

The intractable budget dilemma is that of 70% of all Newport General Fund expenditures being spent in just three categories -- fire, police and education -- which beg the questions of proportional value. Another is that 27% of Newport's total assessed property value is classified by the State as tax exempt. There is minimal municipal tax revenue from these properties although these organizations consume a significant proportion of municipal services.

Another dilemma is that organizational leaders -- regardless of being in government, business or non-profits -- have a propensity to focus on short-term decision making, often to the detriment of long-term consequences.

The Council's time being consumed by near-term issues is entirely understandable. Many problems need resolution quickly. Short-term financial perspectives also result because the ordinance and charter budget guidelines only emphasize one-year compliance requirements. Additionally, election terms are two years while most critical municipal projects span five to ten years. Yet, research and experience clearly indicate that multi-year strategic and financial alignment is mandatory for the economic health of a community.

The recommendations for sustainable financial planning are based on the "best practices" and experiences from other communities and public policy research studies. A few references are:

- *Recommended Budget Practices – A Framework for Improved State and Local Government Budgeting*, Government Financial Officers Association (1999)
- *Budgeting for the Future – Fiscal Planning Tools Can Show the Way*, Center on Budget Policy and Priorities (2014)

## Financial Analysis

The recommendations in this section were based on data from multi-year projects, comparisons with other municipalities in and outside of Rhode Island, and the economic trends and analysis from professional organizations. These recommendations are also based on interviews with members of the City Council, City staff, regional agencies, business groups and community leaders.

Apples-to-apples comparisons to other municipalities are not easy because of differences in categorization of accounts, demographics and other structural factors. Yet, comparing Newport to similar communities' results and benchmarks provides excellent opportunities for planning alternatives.

It is recommended that as part of the City's strategic planning initiative, we continue to research comparison data and benchmarks and include these as part of formal documentation.

## Implementation Approach

The following section takes each of the Sustainable Financial Planning recommendations and offers further explanation and suggested steps for implementation.

*1. The Finance Department has introduced a 15-year financial projection in the current budget plan. It is recommended that the City make this long-term projection a core part of its strategic financial planning and decision making, analyzing 15-year scenario alternatives on a yearly basis.*

Long-term financial planning probably is the single most effective process the City can adopt as fiscal tool for the Newport community.

However, meaningful long-term planning has three mandatory aspects. The first part is to have multi-year data and projections with credible assumptions. The second part is to have formal processes and policies for assessment, deliberation and decision making by the City Council, and to communicate these to the community on a yearly basis. Third, is to have the long-term financial plan accompanied by and aligned with a multi-year strategy plan. These three aspects of responsible financial planning are inextricably linked.

There has been some concern expressed that a currently serving council cannot "obligate" future council members to future financial commitments, or that there is too much uncertainty to forecast longer-term financial projections. Embedded in these concerns is the opportunity to give Newport more directional momentum, analysis of future effects of near-term decisions, and informed characterization of our community's challenges.

The first part -- data and multi-year projections capability -- is already available in the Finance Department. What Newport does not have is a history or methodology for leadership-community discussions about the goals and trade-offs of comprehensive sustainable municipal planning.

Perhaps, most importantly, sustainable planning is most effective when it is motivated through leadership rather than mandate.

- a. The City's Finance Department already routinely provides five-year outlooks. It recently introduced a 15-year projection based on current assumptions.
- b. Develop comprehensive projection scenarios to determine the revenue gap over 5, 10 and 15-year intervals to include debt, reserves, pension liabilities, education expenses, infrastructure projects and civic investments.
- c. Include these projections in the strategic plan initiatives, addressed accordingly.
- d. Identify and implement actions to meet the resulting strategic objectives.
- e. Through resolution, ordinance or charter, require multi-year planning with corresponding yearly review in a City Council meeting.

*2. Initiate a Strategic Planning Committee with representation from the Council, Administration, School Committee and the community. Propose and approve a resolution to form a Strategic Planning Committee commencing its work in September 2014 and targeting completion in March 2015.*

- a. The Council approved four strategic goals in 2012.
- b. The adoption of these goals has benefitted the City operationally and directionally. For example, the strategic goals have been integrated in the City's budget planning process. Major initiatives, including Web-related communication, business development and continuous improvement are underway.
- c. It is recommended that the City Council propose a resolution to form a Strategic Planning Committee to commence in September 2014 and complete its recommendations by April 2015.
- d. The committee would be tasked with evolving the strategic goals into a *strategic plan*. A strategic plan would be comprehensive planning document with specific goals, initiatives, and objective milestones, closely aligned with 5-15 year financial planning.
- e. It is suggested that the Council meet to deliberate the composition of the Strategic Planning Committee, considering a member representing the Council, staff representatives (e.g., Civic Investment, Infrastructure, Finance) and community members with appropriate expertise and time to commit to this project.
- f. Funds need to be allocated for plan research and support assistance. Perhaps this project would qualify for a funding grant to accelerate its completion.

*3. Initiate and support formation of a Council of Governments (COGS) to manage areas of service consolidation and regional projects. Propose and approve funding for a knowledgeable consultant to recommend a multi-community model that includes processes and governance guidelines.*

- a. Service consolidation and regionalization efforts are under discussion, driven by potential economic efficiencies. However, the obstacles are many -- the analysis of costs and benefits, jurisdictional representation, and perceptions.
- b. The recommendation is that Newport take the initiative to establish an entity to provide a "management template" for any initiative where there is agreement to share services, such as with broadband. There are several models for this throughout the nation.

- c. The recommended goal is not to designate which services are to be shared, but rather to establish a proven operating entity that is in compliance with regulatory and jurisdictional guideline.
- d. The Council of Governments has served many municipalities around the country as they grasp the advantage of regional cooperation.
- e. A consultant experienced in COGS formation could accelerate the formation and processes of such a group. It is recommended that the Council allocate funds for this initiative in the coming budget.
- f. If there are services that are determined to be appropriate and advantageous for being regionalized, action could be initiated relatively quickly.
- g. The Aquidneck Island Planning Council or similar organization could take the lead in forming this legal entity on behalf of the communities.

*4. Form community or municipal coalitions to propose adoption of legislative statutes that enable local decisions that respond to economic or environment needs, perhaps in conjunction with the Rhode Island League of Cities and Towns or Council of Governments. The goal is provide critical mass to influence State legislation.*

- a. Municipalities in Rhode Island are constrained in their ability to generate revenue and control expenses, largely due state legislation.
- b. Since the State itself is in fiscal turmoil, it is doubtful that the opinion of one municipality can gain much traction. However, Newport in conjunction with like-minded municipalities working together has a greater opportunity to form a critical mass for change.
- c. The Rhode Island League of Cities and Towns might be the logical organization to facilitate collaborative action.
- d. Potential topics might include tax exempt guidelines and PILOT-like (Payments In Lieu of Taxes) payments, tax distribution formulas, and economic development funding.

*5. Increase funding for Civic Investment and integrated municipal economic planning and implementation. Currently only 0.6% of the annual General Fund budget is expended for the work necessary to attract businesses, determine our economic direction, and seed private-public partnerships. A more appropriate amount, perhaps 2%, would be recommended by the strategic plan.*

- a. The strategic plan should include areas for civic investment with specific benefits and implementation performance milestones.
- b. Civic investment planning should be an integral element of the strategic plan and reflected in the 15-year financial projections.
- c. Also consider options for generating all-season business activity, especially to increase the economy in the winter.

*6. As a community, rigorously evaluate the proportion and amount of total General Fund expenditures to that of other Rhode Island and comparable out-of-state municipalities using comparison benchmarks as a performance and productivity assessment tool.*

- a. Benchmarks are useful measures for comparing operations and performance with comparable municipalities.

- b. Benchmarks are especially useful for identifying expenditures and volume ratios because they often reveal best practices and superior processes.
- c. For strategic planning, benchmarking clearly signals existing areas of strength and competence, or conversely, areas of disproportionate costs relative to value.
- d. As part of the strategic planning process, benchmarks should be explicitly used for services planning.

## PROPOSALS

### TAX EXEMPT PROPERTIES

#### Overview

Of all the assessed property value (land and buildings) in the City of Newport, 27% is tax-exempt with about one-third of that being Federal property. Other tax exempt land includes City land, some State land and the rest various not-for-profit organizations who are also deemed tax exempt; such as, Salve Regina University, the Preservation Society, Newport Hospital, and the Newport Housing Authority, along with other low-income housing organizations and more than 100 smaller organizations including schools, churches, cemeteries and more. Applying the commercial tax rate to all of Newport's tax exempt property results in a figure of \$30,500,000.

An organization is deemed *tax exempt* by the Rhode Island General Assembly; and, in some cases, Federal Law classifies types of organizations as tax exempt, such as nonprofit hospitals and schools. Municipalities have little say in the matter, while it directly affects their ability to generate local property tax revenue. The criteria used to qualify for tax exempt status centers around "benefiting the public good," yet our research shows little criteria of how to assess "benefiting the public good." *Tax exempt* is sometimes equated with *non-profit*; however, some non-profit organizations can run profitable businesses and pay taxes on the profits.

The Rhode Island General Assembly has recognized the revenue-limiting burden tax exemption has placed on municipalities, so it has a provision to "reimburse" towns with PILOT funding. PILOT is an acronym for Payment In Lieu of Taxes. Currently, Rhode Island reimburses cities and towns up to 27%, or what the State can afford, of potential property tax revenue from tax exempt properties belonging to **not-for-profit higher education** (Salve Regina University and IYRS) and **not-for-profit hospitals** (Newport Hospital). For Newport, the PILOT payment last year was \$1,100,000 or 24% of foregone property taxes on those properties.

As municipalities across the nation struggle with their budgets, the PILOT concept has expanded to encourage tax exempt organizations to "voluntarily" make payments to their municipalities to offset municipal infrastructure and services which benefit the tax exempt institutions.

In reviewing the most successful "voluntary" PILOT arrangements with tax-exempt properties (as outlined by the Lincoln Institute in Cambridge, MA), we found that Boston created a committee chaired by Boston University's President that succeeded in reaching an arrangement where the larger organizations agreed to a formula to make "voluntary" payments equal to 27% of their commercial property tax rate, payable to the city annually to help cover its share of city services used. The formula allows up to 25% of their "voluntary" payment to be made as in-kind services, if the city agrees that those services offset real public costs. Further, there is a provision for "ability to pay" that can be exercised if needed. In Providence, on the other hand, "voluntary" payments were agreed upon by each organization individually as a mechanism to "share in stabilizing city finances." Why individually? We think individually due to (1) ability to pay and (2) process used. Providence asked each organization to

contribute. Most of the larger tax exempt organizations -- four universities, all the major hospitals, the unions and various municipal entities -- all volunteered to contribute, while some arrangements were more generous than others. Again, the goal was to ensure continued city services as well as a continued vibrant city in the longer term. The third successful agreement was in Bristol with Roger Williams University and the city negotiating a lengthy agreement outlining many payments and activities the University would undertake to benefit the city.

The Lincoln Institute of Land Policy's report suggest many "best practices" when constructing a PILOT-like program:

- Set a feasible target for revenue needed from the PILOT program.
- Use criteria for targeted contributions that are fair and easily valuated (calculated).
- Try to use a longer term multi-year agreement and structure so parties can anticipate their budget requirements.
- Be aware that PILOT programs are not appropriate for all tax exempts.
- Attempt to negotiate collaboratively with other non-profits.

### Recommendations

The FRC has five recommendations that are pulled from the Boston/Providence agreements and the Lincoln Institute Report findings.

1) Lease roads (or portions thereof) to Salve Regina University to improve their campus while generating new revenues to the City of Newport.

2) Create a Committee of Stakeholders to develop a payment formula structure for tax-exempts to voluntarily contribute to the city for services they use and derive benefit from; i.e., public safety and public works. As this would be a "voluntary payment," we believe a similar discussion of "shared sacrifice for the betterment of the City" should take place with employee union leadership with regard to benefits agreed to in the past that are out-of-line with other municipalities and strain the Cities ability to pay now and especially in the future.

3) Work with Middletown and Portsmouth to create, adopt and garner support for a resolution to create a special Military PILOT (Payment in Lieu of Taxes) for the Navy/Coast Guard land. The State realizes significant financial benefit from military operations via income taxes and sales taxes collected. However, while the hosting towns/cities see a significant cultural and social benefit, financially they suffer significant property tax loss.

4) Tax-exempt lands that are City, State or Federally owned yet not developed for public benefit (parks, government services) or for commercial use should be leased or sold for the purpose of development of a broader economic base, beyond seasonal tourism and military.

## Implementation

### 1. Lease road-rights to Salve Regina University

- a. Identify roads or portions thereof - SRU is preparing a proposal
- b. Year-round or school year - SRU is preparing a proposal
- c. Compensation - Assessment is needed
- d. Neighborhood input - City to facilitate
- e. Set date and payments
- f. Execute agreement between parties
- g. The agreement and future negotiations should include a cost of living adjustment
- h. State requirements - We are unaware of any state law or oversight touching on this, but this should be verified

This arrangement will: (i) provide cash flow to the city; (ii) make the streets safer for SRU students; and (iii) improve SRU's campus by eliminating traffic through the campus and offering the opportunity to beautify the area with a more walkable campus.

2. Create a "PILOT Committee" of Stakeholders with several representatives of tax exempt organizations, the three members of the FRC Tax Exempt team, two City Council Members, the City Solicitor and the City Manager to review options for "voluntary" contributions by all Tax Exempt property owners to help cover their fair share of City Services costs.

These "voluntary" payments would help to ensure a financially stronger and healthier City of Newport and help to relieve some of the burden from both commercial and residential taxpayers. As these payments are not actual property tax payments, all such payments would be new revenue.

It is critical that all parties understand the financial pressures on current property taxpayers They are facing increased costs as there are limited revenue streams within the City. There is a real NEED for all to "share the cost/burden of essential city services" -- public safety, public works and basic City services. Still, the FRC believes it would be premature to outline specific proposals. This issue is complex requiring more time, involvement and effort than provided by this committee's reporting timeframe. Input from the Council, City officials, and representatives of tax exempt organizations is crucial to create fair and equitable agreements. Further, the agreement must include a mechanism for in-kind offerings to offset some of the cash payments to the City and also include some form of "ability to pay" provisions.

Key Stakeholders in Newport include Salve Regina University, The Preservation Society, Newport Hospital, the Newport Housing Authority and possibly eight to ten other smaller tax exempt organizations.

3. Establish a Military PILOT program. Work with Middletown and Portsmouth to survey the financial costs and benefits related to the Navy and Coast Guard properties. Document the financial benefit these military properties bring to the State of Rhode Island. (Capt. Joseph P. Voboril, former commander at the Navy base, said at the end of 2011 the Navy is the third largest employer in Rhode Island and adds \$1.9 billion to \$2.1 billion to the state's economy annually.) A Military PILOT payment, possibly using a formula similar to that used for other PILOT's or for the payments to Warwick related to TF Green Airport, should be considered. We estimate the payment would be approximately \$3 million to Newport alone.

The Navy and other military organizations (Coast Guard and Marines) are welcomed entities to Rhode Island, and the State of Rhode Island benefits greatly financially while the host communities benefit socially and culturally. A payment by the State of Rhode Island would demonstrate its commitment to supporting Federal operations within our communities. The funds generated by these special Military PILOT payments could be funneled into transportation funding to support local roadways - a key element in Base Realignment Commission (BRAC) evaluations.

### Implementation

a) Discuss the concept of this "Military PILOT" with Middletown and Portsmouth and determine a fair payment, possibly the same as the PILOT related to other tax exempt organizations. Identify any other Rhode Island communities with federal-owned property which benefits the State and approach them as well.

b) Discuss the concept both with local political leaders and with State legislative leaders to garner support. Present a document detailing the financial benefits the State receives from these military operations in the way of income taxes, sales taxes and other economic activity. Also, outline the social and cultural benefits each of the local communities derive as well as the lost revenue and additional costs absorbed by the local municipalities.

c) Discuss this Military PILOT with other municipalities who benefit financially, with their residents employed on military land and their businesses supplying the military with services and products (North Kingstown, Bristol and Tiverton among others) to get their support on this resolution. This action would give further incentive for the Military to keep Naval Station Newport off the BRAC list.

d) Upon completion of a financial analysis, the three towns should create a Resolution to be adopted by as many cities and towns as are willing to participate and forward it to the General Assembly urging the formation of a Military PILOT (Payment In Lieu Of Taxes) to Newport, Middletown and

Portsmouth to provide reimbursement for lost property tax revenue from Federal land occupied by the Navy and Coast Guard operations.

4. Tax-exempt lands that are City, State or Federally owned yet not developed for public benefit (parks, government services) or for commercial use should be leased or sold for the purpose of development of a broader economic base.

Currently, Newport has a fantastic tourism economy, although it is not a twelve month career opportunity for many of its workers. Newport also boasts a strong military economy, although this does not offer opportunities for many skill sets, forcing residents and young adults to work off-island or move to other States. Our recommendation is to support all efforts to expand the local economy to other year round career opportunities beyond tourism and military to ensure a vibrant, year round economy. We commend efforts such as Paul Carroll's Innovation Hub for Resiliency and Cyber Security as it leverages natural resources (our coastline, historic fabric and diverse topology). We urge support for Paul's efforts, along with any other efforts to expand our economic footprint, including Councilor Neville's work on fiber infrastructure.

## PROPOSALS

### TOURISM - GENERAL

#### Recommendation

The Finance Review Committee (FRC) discovered several issues related to Tourism costs and revenue. These areas may result in additional revenues for the City of Newport, but require in-depth analysis beyond what our committee could accomplish in its limited timeframe.

Tourism is a complex industry. Much of the revenue and income from tourism does not directly benefit the municipal budget or its revenue stream, despite the related costs it incurs. Newport's businesses and their owners do benefit significantly from tourism; however, income and tax revenue mostly bypasses the City and is captured by the State. To the extent that the businesses are successful, the City does not share in that success, but receives only the business's property tax revenue. (See Tourism Revenue summary following.)

The FRC recommends that the City determine the costs associated with various tourism revenues, establish whether the revenues are covering the costs and seek revenue adjustments where needed. If costs are not covered by revenue, the City Council should ask the State for a review of the allocation formula with the objective of Newport receiving a larger share of the revenue.

The appropriate City Departments need to assess a deeper understanding of the tourism dollars spent in Newport and determine what share of these expenditures directly affect the City's budget. Both Newport's revenue and true costs of hosting tourists need to be assessed, including infrastructure wear and tear, police and fire department support, trash removal and other related costs.

The Tourism team was not able to find an existing study that analyzed the costs from the General Fund that directly and indirectly supports Newport's tourism industry. Police and Fire expenses are often referenced as one of the tourism cost factors, but it is felt that there are many others.

The following Tourism Analysis Model is a very preliminary methodology to assess the allocated expenses associated with tourism. It also includes an allocated estimate of tourism revenues. The Preliminary Analysis-Model highlights one scenario of Newport's allocated tourism revenue and expenses. The allocated revenue and expenses are very preliminary estimates. Although tourism is Newport's primary industry, the preliminary analysis suggests that any direct financial benefit to the City's budget is marginal.

A second recommendation of the FRC is to undertake an integrated effort to formulate a longer-range plan for tourism within a larger comprehensive municipal or Aquidneck Island economic initiative.

It is recommended that the City should consider enlisting a coalition of Rhode Island municipalities who also rely on the tourism economy to lobby and influence State tax revenue-sharing policies.

#### Estimated Financial Implications

There is a population of 30 million U.S. residents within a four hour drive of Newport. There is \$640 million of tourism dollars generated in Newport annually. However, only a small portion of this economic inflow makes it to Newport's municipal revenue budget -- about \$15 million. For every ten tax dollars generated from tourism in Newport, seven dollars stay in the State budget. There are also the

embedded expenses of infrastructure and services (e.g., police, fire, trash) associated with supporting and encouraging a vibrant tourism industry.

#### Specific Implementation Steps

The appropriate City Departments need to complete a proper study to quantify and analyze the costs associated with Tourism. Some of the costs of tourism mentioned above are infrastructure wear and tear, police and fire department support, trash and other related costs.

Much of the effort to increase tourism in Newport has been very successful, largely due to the collaborative efforts of the Discover Newport tourism center, the Newport County Chamber of Commerce, the City and business groups. There also have been many individual studies on traffic flow, comprehensive planning, economic planning, urban design, and zoning guidelines. The appropriate City departments need to work with the Chamber and Discover Newport to use this information to formulate a long-range plan for tourism.

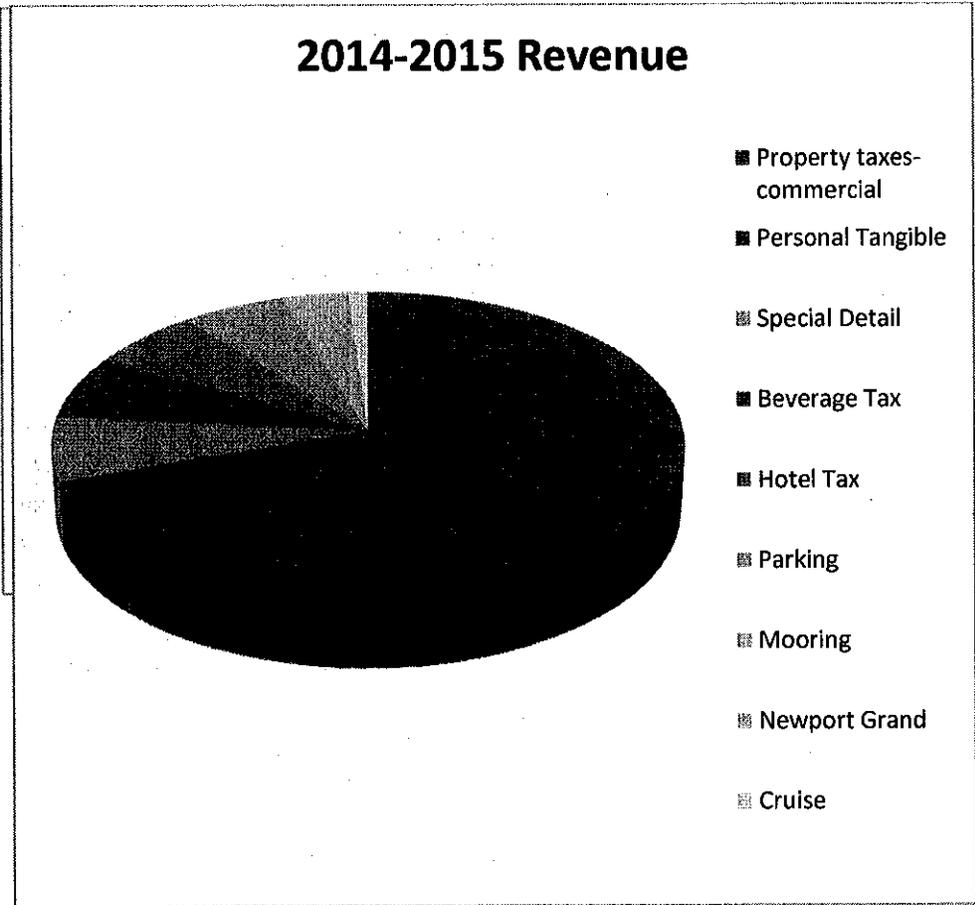
The City should hold a meeting with other municipalities who rely on tourism to encourage them to do the same exercise in evaluating costs and revenues. This will require research and outreach and will result in proposing recommendations for specific actions by the Rhode Island General Assembly.

The FRC estimates that the above recommendations will take up to nine (9) to twelve (12) months to complete.

Tourism Revenue  
Newport

2014-2015 Revenue

Property taxes- commercial	\$17,319,130
Personal Tangible	\$1,859,520
Special Detail	\$1,847,994
Beverage Tax	\$1,800,000
Hotel Tax	\$1,750,000
Parking	\$1,582,595
Mooring	\$544,500
Newport Grand	\$486,000
Cruise	\$285,000
<b>Total</b>	<b>\$27,474,739</b>



**Preliminary Municipal Revenue and Expenses Model Associated With Tourism**

<b>Tourism Financial Analysis - A Preliminary Model</b>		<b>Amount</b>	<b>% Share of Tourism</b>	<b>Rev/Exp Related To Tourism</b>
<b>Visitor Related Revenue</b>				
Commercial Property Tax		\$ 17,319,130	50%	\$ 8,659,565
Meal and Beverage Tax		\$ 1,800,000	80%	\$ 1,440,000
Hotel Occupancy Tax		\$ 1,750,000	80%	\$ 1,400,000
City Parking Fund		\$ 1,506,670	80%	\$ 1,205,336
Beach Parking Fees		\$ 487,232	80%	\$ 389,786
Newport Grand Dist		\$ 450,000	90%	\$ 405,000
Special Detail Fees		\$ 1,847,994	70%	\$ 1,293,596
Cruise Ships (Net)		\$ 200,000	100%	\$ 200,000
Other		\$ 250,000	100%	\$ 250,000
				\$ -
<b>Total GF Revenue</b>		<b>\$ 25,611,026</b>		<b>\$ 15,243,282</b>
<b>Visitor Related Expenses</b>				
Public Safety Operations	\$ 34,929,285			
Police		\$16,639,678	40%	\$ 6,655,871
Fire		\$18,289,607	40%	\$ 7,315,843
				\$ 13,971,714
Public Services	\$ 9,702,271			
PW Administration		\$ 887,605	10%	\$ 88,761
Engineering		\$ 1,089,374	20%	\$ 217,875
Street & Sidewalk Mtc		\$ 890,478	50%	\$ 445,239
Traffic Control		\$ 245,910	70%	\$ 172,137
Buildings & Grounds		\$ 2,064,047	40%	\$ 825,619
Street Lighting		\$ 595,000	0%	\$ -
Street Cleaning		\$ 202,883	50%	\$ 101,442
Solid Waste Collect/Dispose		\$ 2,215,575	20%	\$ 443,115
Recreation Administration		\$ 86,781	20%	\$ 17,356
Recreation Activities		\$ 416,630	10%	\$ 41,663
Snow Removal		\$ 183,625	0%	\$ -
Easton's Beach		\$ 824,363	70%	\$ 577,054
Clean City				
Vehicle Fleet Management				
				\$ 2,930,260

Dept. of Civic Investment	\$ 517,253			
Planning - Econ Dev		\$ 427,556	50%	\$ 213,778
Community Development		\$ 89,697	20%	\$ 17,939
				\$ 231,717
Dept. Zoning & Inspections	\$ 552,417	\$ 552,417	20%	\$ 110,483
Debt Service Payments	\$ 3,825,149	\$ 3,825,149	20%	\$ 765,030
City Administration Total	\$ 4,492,439			
City Council		\$ 134,965	0%	\$ -
City Manager's Office		\$ 403,347	0%	\$ -
City Solicitor's Office		\$ 476,682	0%	\$ -
City Clerk's Office		\$ 483,537	0%	\$ -
Finance Administration		\$ 525,964	0%	\$ -
MIS Dept.		\$ 1,378,394	0%	\$ -
Assessment/Land Evidence		\$ 359,094	0%	\$ -
Customer Service		\$ 339,856	0%	\$ -
Accounting		\$ 390,600	0%	\$ -
				\$ -
<b>Total Selected Expenses</b>		\$54,018,814		\$ 18,009,205
<b>Net Cost to Property Owners</b>				\$ (2,765,922)

Assumptions:  
 % of Allocated City's revenue and expenses by line item attributed to Tourism is based on best estimate.  
 There is more predictability of estimating tourism revenue allocation % than estimating expenses.

## PROPOSALS

### TOURISM - PARKING

#### Recommendation

The City is currently looking at ways to increase parking net revenues with lots and meters. Based on analysis of the Planning and Budgeting Department of the Police Department, there are several opportunities to increase the Parking Fund revenue. The opportunities include adding meters to areas that are not metered and extending the hours of existing meters. The estimated revenue projections from the following recommendations are \$200,000. The projections are based on the Newport Parking meter Plan 2010-2015 provided by the Planning and Budget Department of the Police Department.

Extend the hours for metered parking in the downtown area. Currently, meters are operational until 9:00 p.m.. In contrast, the municipal lots are operational until 12:00 a.m. (2:00 a.m. Friday and Saturday at Mary St.). Further, the maximum parking time should be extended from two hours to four hours after 9:00 p.m..

Expand paid parking to additional streets in the business and tourist areas (Broadway, Lower Thames St., Farewell St., and Colonial St., etc.)

Metered parking is a very sensitive area and met with resistance from some residents in the Community. However, locating meters in retail environments encourages vehicle turnover in high demand parking areas, thus creating more parking for customers. The parking meters are a revenue stream for the City and the resources generated help fund the required support of the Resident Parking program.

#### Estimated financial Implications

The Parking Fund (an Enterprise Fund) gross revenue projection for 2014-2015 is \$1.57 million. (Schedule follows below.) The detailed revenue increases from the opportunities suggested here are to be determined.

The parking-related budget is structured as a City Enterprise Fund. All the revenues and expenses associated with all parking functions are managed as a "self-sufficient" entity. However, over time the parking functions were assigned to the Police Department to manage. The parking meters (investment, maintenance and management) and the collection booth of the parking lots have been sub-contracted (outsourced) to Standard Parking of Chicago. The contract with this company is supervised by the Finance Department.

Fines from parking tickets (\$850,000), beach parking and meters (\$550,000), and parking fund salary reimbursement (\$100,000) go directly into the General Fund. This totals \$1.5 million of parking related revenue into the General fund.

**Parking Operations (Enterprise Fund)**

**2014-2015 Projected**

Revenues	\$ 1,582,595
Expenses	\$ 1,554,595
Net	\$ 28,000

**Parking Revenue**

**2014-2015 Projected**

	Revenue
Mary Street Parking	\$275,000
Gateway Parking	\$550,000
Gateway -Marriott	\$105,000
Parking Meters	\$560,000
Cruise Ship fees	\$70,000
Other	<u>\$22,595</u>
	<u>\$1,582,595</u>

**Specific Implementation Steps**

The Police Department needs to review the most recent recommendations of the Parking Continuous Improvement Committee, the Inter-departmental Traffic Committee (ITC), Team Road Rage and input from multiple department personnel. The Department should update the financial analysis on the parking revenue opportunities after incorporating this information. Parking rates for meters and parking lots should be reviewed every three years. This will ensure that the rates are aligned with any increasing costs of providing the service.

Revenue from parking goes into the Parking Enterprise Fund and parking violations go directly into the General Fund. The parking lots are subcontracted to a third party national vendor. The contact is managed by the Police Department. The Police Department should review the City's parking ordinances and regulations to further understand the potential for additional parking revenue. For example, the City has an ordinance that clearly states the seasons, times, and rates meters operate. According to the ordinances, meters can run for 12 hours per day for the 184 day season at the rate of one dollar and twenty-five (\$1.25) per hour. Currently, the estimated total revenue from one meter for the whole season is \$1,656 per season.

Comments

Parking is a complex and never ending issue. Parking affects residents, visitors, event goers, business owners and the City of Newport. It is important that the City maximize parking accessibility and revenue. The metered program encourages turnover and reduced traffic.

## PROPOSALS

### CITY EMPLOYEES

#### Employee Suggestion Rewards Program

The City should establish an employee suggestion program that encourages employees to offer suggestions aimed at reducing the City's expenses. As incentive, an employee whose suggestion is implemented will receive a reward equal to ten percent of the first year's savings resulting from her/his suggestion.

Employees, knowledgeable about the work they perform, are the most likely to spot opportunities to achieve savings. They should be encouraged to make money saving suggestions that reduce costs directly or through improved efficiency. Employee suggestion programs are run successfully across the country in private companies, non-profit organizations and government bodies. Experience with such programs show that, if they are promoted actively by management, they result in annual savings that average close to three thousand dollars per employee. They also provide a morale boost for the employees resulting from their having a sense of being listened to and appreciated, from pride when their suggestions are publicly recognized and from the monetary rewards.

There are numerous software packages available to monitor and administer employee suggestion programs. A fully integrated package, including online submission of suggestions with automated acknowledgements and progress updates, can be installed for a cost related to how many employees will be eligible and how sophisticated the automated administration needs to be. Prices range from approximately \$15,000 to \$50,000. A package adequate for the City's needs should be available for close to \$20,000. Total start up cost, including planning, selecting and purchasing software, implementation and plan rollout to the employees is estimated at \$30,000, which can be expected to be recovered by the time the program has been fully functional for a year if not before.

The City Manager should form a team with representatives from each City department to develop the details of the program; determine eligibility requirements; decide how, where and by whom it will be administered; review software packages and select one; and oversee implementation of the program. The program should be rolled out to the employees with fanfare and demonstrations of how to submit suggestions. All implemented suggestions should be publicly recognized and awards should be publicized and presented in front of the receiver's co-workers. An annual summary of suggestions received and adopted and of awards earned should be given to all employees. Managers should talk about the program at all department meetings. The program's success will be related directly to the level of Administration's demonstrated support.

A similar recommendation is being presented to the School Department.

**APPENDICES**

## APPENDIX A

### School Department

#### Report to the School Committee and School Superintendent

The Newport Finance Review Committee (FRC) has been tasked with developing proposals to increase the City's revenue and decrease its expenses. One area explored was the School Department. The committee's research has led to the recommendations that appear below. All of the recommendations require action by the School Committee and School Superintendent and are being submitted for its consideration. Several of the recommendations in each of the major sections below also require action by the Newport City Council, as noted in parenthesis below, and have been included in the body of the report submitted for its consideration.

#### **Increase Revenues and Control Costs**

1. **Grant Coordinator/Writer** -- Establish a shared Grant Coordinator/Writer capability in the School Department and City Administration. The function will be centralized with the person (and possibly team) focusing on primarily coordinating the grant process, not necessarily writing the grants. Current City and School staff will continue to be the primary source of leads and grant opportunities. The Grant Coordinator will help to secure, process, manage and report on the grants. Both the City Administration and the School Department have several grant searches underway, and this function should help to take considerable burden off of their staffs. The function should be evaluated in two years to determine whether it should be continued. (See pages 13-14 of the Report to the City Council to view the details of the recommendation to the City Council.)
2. **Career and Tech Center (NACTC)** -- Evaluate longer term plans, opportunities and costs, while continuing to take steps to reenergize the program (within budgeted constraints). It is experiencing declining enrollment of non-Newport students and associated loss of tuition revenues. Staff has been reduced from eleven in 2006 to five currently, but still the cost per student, if consistent with the general Newport system, is among the highest in Rhode Island. New initiatives are being aggressively investigated with RIDE, local businesses and institutions, and other communities. Other connections, such as with Salve Regina University's nursing program, might be considered. Grant opportunities, such as the \$1 million grant bill pending in the Rhode Island Senate to support NACTC, identified by the Superintendent, should be further explored.
3. **Early Education Program** -- Budget constraints should be given major consideration in weighing the options available for Newport's Early Education program. Important issues are the enrollment and capacity levels at Pell and the requirements for Pre-K. The School Department is actively looking at the possibilities of collaborating with Middletown, Head Start and other agencies to keep costs down and address these issues. Items of concern are the costs to renovate and maintain Triplett School and the impact of two charter schools in Newport. The analysis of options should include alternative uses of the Triplett School property and possible use of the Kennedy School in Middletown.

4. **Professional staff** -- Consider adding professional (certified and support) staff to counter the affect over the past ten years of "cutting to the bone." Certified staff hires can help to: a) stem out-of-district placements and the related high costs; b) keep further potential transfers-out from leaving the Newport public schools; and c) help absorb the large number of Newport resident transfers in from private schools. Other support staff hires (or volunteers) can help to maximize the application/enrollment process (and funding) from the free and reduced lunch program, children of military and government personnel, and Title 1-3.
5. **Cost of Educating Newport Students** -- An evaluation should be conducted as to why the per student cost of public education in Newport is so high. According to InfoWorks (UCOA data for 2010-2011, the latest data available), the total spending in Newport was \$20,217 per student. This is the fifth highest in the state (Middletown = \$14,812; Portsmouth = \$13,514). A program with dollar targets should be established to reduce those costs that are controllable.

### **Improve Quality of Financial Reporting**

1. **Combine the School and City Finance Departments into one integrated department** (See pages 14-17 of the Report to the City Council to view details of this recommendation to the City Council.) -- Elements of the recommendation are:
  - Merge the separate School and City Finance departments into one department, with one Finance head.
  - The Finance Director will report dually to the School Superintendent and City Manager with each having equal authority in hiring/firing, performance reviews, and salary decisions.
  - Combined departments will include: accounting, payroll, purchasing, accounts payable and receivable. At this time, not considered are HR and Technology.
  - Responsibility for the School's budget function -- creation, management and authority -- will remain totally with the School Committee and School Superintendent. The Finance Director and staff will prepare the City budget and the School budget (the latter as directed by the School Superintendent), but the presentation and approval of the School budget will be handled by the School Committee.
  - The organization will be reevaluated in 18 months to determine its future course.

Alternatives to this approach are:

Keep the School and City finance departments separate -- if this approach is chosen, the School department will need to quickly build its Finance staff. There would be new-hire costs -- search fees, salary and benefits, and training -- plus time required to bring the new-hire(s) up to speed.

Combine the Newport School's finance department with another school system's finance department -- as the FRC is not aware of any precedents to this approach, a thorough evaluation of the pros and cons would need to be done.

Neither of these alternate approaches is recommended.

The recommended combination of business units will help to correct the short staff issue in the School Business Manager's department, create overall work efficiencies, and improve timeliness. Cost savings are not expected in the short term. East Providence and Westerly have successfully implemented combined Finance departments, per statements by the respective Finance managers. One major result of working more closely together is the improved level of trust between the School and City staffs.

2. **Monthly Staff Status Reporting and Reviews** -- Key members of the school staff, such as school principals and department heads, need to be kept apprised of financial performance. Meetings, led by Business Manager staff, should be held on a monthly basis, face-to-face, with discussion of pertinent data, such as month and year-to-date results, department performance vs. budget and fiscal year-end forecasts. A similar face-to-face meeting should be held each month with the School Committee. Up-to-date information should lead to better understanding and decision-making.

### **Streamline the Budget Process**

1. **The City Council and City Manager should coordinate their efforts in preparing a two-year budget for FY 2016 and FY 2017 with the School Department** -- This will allow the School Superintendent and School Committee to be prepared to also submit their own two-year budget. For the FY 2016 and FY 2017 budget cycles, the City Council plans to present a two year budget. If the School and City budget process can be synchronized, this could lead to a closer coordination and, in any case, should allow the School Department to allocate its resources more efficiently. (See pages 17-18 of the Report to the City Council to view the details of this recommendation to the City Council.)
2. **Include in the Budget a Reserve Account to cushion the impact of fluctuations in estimated line items over the course of the fiscal year** -- The School Department should consider incorporating budget reserves in its FY 2014/2015 submission. This approach will allow using "best estimates" based on current information and historical trends. In the past, the School Department has attempted to budget with precise up-to-date information, which has led to late submissions not compatible with the City's timeline. With a reserve account, up-to-the-minute precision will not be needed and greater reliance can be placed on estimates based upon recent experience, trend knowledge and data forecasts. The reserve funds would cushion the impact of unpredictable and volatile swings in costs and revenues. This would put the School budget submissions more in line with the City's submission requirements, and allow time for fuller dialogue in the submission process. The initial reserve should be set at 1% of the annual budget, with a goal of increasing that to 3% over the following two years and then maintaining it at that level. (See page 18 of the Report to the City Council to view the details of this recommendation to the City Council.)
3. **Capital Account** -- Set aside 1% of budget, as has been done in the past, to cover property and capital maintenance needs. This will keep the School Department from deferring needed capital improvements.

4. **Communications with City Council** -- Ongoing dialogue should be restored between the School Department and the City Council on budget and other financial matters. The likely vehicle is the City/School Liaison Sub-Committee. It is important that the City Council have timely information and be fully aware of the scope of School Department programs, including possible increases in spending for programs such as Career Tech Center, Early Education/Pre K, Triplett School and Professional Hires, and also be aware of new School funding/revenue sources and cost reduction efforts. The School Department often will need to take the initiative in these discussions. (See pages 18-19 of the Report to the City Council to view details of this recommendation to the City Council.)

#### Miscellaneous

1. **Standing Finance Review Committee** -- The FRC is recommending to the City Council that a standing Finance Review Committee be formed to continue this committee's work after the submission of its recommendations to the Council. Many of the recommendations will require continued evaluation and follow-up beyond the May date. The same is true of the work the FRC team is doing with the School Department. We would appreciate an opportunity to discuss with you our recommendations and your reactions to them to see if there is further assistance we can provide to help improve the financial strength of the Newport public school system. (See page 8 of the Report to the City Council to view details of this recommendation to the City Council.)
2. **Suggestion Rewards Program** -- The FRC also is recommending to the City Council that an employee suggestion program be established. A similar recommendation is being made to the School Department. The recommendation is to encourage School Department staff to offer suggestions aimed at reducing School expenses. As incentive, an employee whose suggestion is implemented will receive a reward equal to ten percent of the first year's savings resulting from the suggestion. Such programs have been successful in private industry and with non-profits and governmental bodies to create cost savings. As added benefits, the program should provide a morale boost and an incentive to think "outside the box." If the City implements a similar program, the School Department might share the City's software package to monitor and administer the program. Program rules, procedures, roll out and management plans will need to be established. (See page 39 of the Report to the City Council to view details of this recommendation to the City Council.)

APPENDIX B

Council Resolution Forming the Finance Review Committee

CITY OF NEWPORT

**RESOLUTION**

**OF THE COUNCIL**                      **\*AMENDED BY VOTE OF**  
**THE COUNCIL ON 10/23/13**  
**TO INCREASE MEMBERSHIP TO SEVEN (7)**

No. 2013-109

WHEREAS, the City's fiscal wellbeing comprises a healthy mix of revenues and expenditures; and

WHEREAS, periodic review of the policies that guide these assets and liabilities is important to ensure continued balance and equity; and

WHEREAS, the Council has determined this type of review would be appropriate and should include existing and potential revenue streams as well as existing expenditure sources. NOW, THEREFORE, BE IT

RESOLVED: that the Council hereby establishes a Finance Review Committee comprised of \*five residents who shall possess backgrounds in banking, accounting, insurance, investments and economics. AND BE IT FURTHER

RESOLVED: that the scope of work of this group shall be:

- 1) Review of current revenue streams;
- 2) Review of current and known future expenditures
- 3) Review of best practices for current and new revenue sources;  
and
- 4) Development of recommendations for council consideration in the form of a prioritized policy implementation strategy for new or modified revenue sources and modifications to expenditure liabilities. AND BE IT FURTHER

RESOLVED: that the Committee shall report their findings to the Council and administration no later than January, 2014.

READ IN COUNCIL AND PASSED June 26, 2013

*Kathleen M. Silvia*

Kathleen M. Silvia  
City Clerk

HENRY F. WINTHROP  
NAOMI NEVILLE  
JEANNE-MARIE NAPOLITANO  
JUSTIN S. MC LAUGHLIN  
KATHRYN E. LEONARD  
MARCO T. CAMACHO

## APPENDIX C

### List of Committee and Team Members

#### Committee Members

David Bazarsky  
Ron Becker, Chair  
Louisa Boatwright, Secretary  
John Florez, Vice Chair  
Hank Kniskern  
Ken Nomiya  
Bill Rauch

#### City Administration Support

Laura Sitrin, Director of Finance  
Elizabeth Sceppa, Budget & Finance Analyst

#### Teams

City Services - John Florez, Leader; Ron Becker; Bill Rauch  
Salaries & Benefits - Ron Becker, Leader; Ken Nomiya  
School Department - Ken Nomiya, Leader; Ron Becker; Louisa Boatwright  
Sustainable Financial Planning - Hank Kniskern, Leader; David Bazarsky; Louisa Boatwright  
Tax Exempt Property - Louisa Boatwright, Leader; David Bazarsky; Hank Kniskern  
Tourism - Bill Rauch, Leader; John Florez; Hank Kniskern

City of Newport  
Finance Review Committee

Immediate Action Recommendations

**Cruise Ships Harbor Landing & Boarding Fees**

**Brief Statement of the Proposal:** *The City of Newport was given Authority by Rhode Island General Law 45-2-35.1 to charge a landing fee of \$2.00 per passenger and a boarding fee of \$2.00 per passenger from every cruise ship landing and embarking from a dock in Newport. The fees have not increased since 1999. The City of Newport should seek to increase the fees to \$3.00 per passenger for landing and \$3.00 per passenger for boarding. The Newport City Council should request the Rhode Island General Assembly to amend Rhode Island General Law 45-2-35.1 to increase the cruise ship fees by \$1.00 per passenger for landing and \$1.00 per passenger for embarking with the new rates to take effect eighteen months after approval by the Rhode Island General Assembly.*

**Estimated Annual Economic Impact:** *Based on 2012 total cruise ship passengers of 75,486, there will be additional annual revenues of approximately \$150,000 to Newport.*

**Arguments in Support of the Proposal:** *Opposition to a prior proposal for this same increase was based on the lack of a time delay in the effective date of the increased fees. The cruise lines want time to incorporate the increased fee in their passenger ticket charges. The increased fee is in keeping with those charged by comparable ports along the northeast coast.*

**Supporting Data:** *Details of Cruise ship passenger activity 1999-2012 and a copy of the City of Newport Council Resolution 2013-037 can be provided upon request.*

**Implementation Plan:**

1. *Approve and resubmit an amended resolution to include an eighteen month delay in the effective date of the fee increase.*
2. *The City Council should seek support of local state legislators on the resubmitted resolution.*
3. *When the Rhode Island General Assembly amends the General Law to increase cruise ship fees, the City should notify the appropriate cruise ship lines of the fee increases.*

City of Newport  
Finance Review Committee

Immediate Action Recommendations

**Lodging Tax Expansion**

**Brief Statement of the Proposal:** *City Council should pass a resolution to support the State of Rhode Island 2014-2015 annual budget recommendation for lodging and sales tax for all B & B's.*

**Estimated Annual Economic Impact:** *The State of Rhode Island is estimating additional revenue of lodging taxes due to the expansion of the state's 5% hotel tax to operators of all bed and breakfast inns and owners of time-share properties (the present regulation applies only to those with three or more rooms). Discover Newport estimates additional annual revenue to the City of Newport would be approximately \$100,000. This would be reflected in the portion of the 5% lodging tax that the Newport receives as well as the additional 1% lodging tax that the City collects. It appears that there could be about 150 rooms added for the collection of the hotel tax. There are numerous B & B's not registered with the City. This can be confirmed by the website [www.airb&b.com](http://www.airb&b.com).*

**Arguments in Support of the Proposal:** *Passing a resolution to support Rhode Island budget change in lodging and sales tax is a plus both for the City and the State. The State will receive more revenue in sales and lodging tax and the City likewise will benefit from the change in the law. Education of the law change and enforcement are key factors in realizing the additional revenue stream to the City of Newport.*

**Supporting Data:** *A listing of Newport's hotel, motel and B & B's is available upon request.*

**Implementation Plan:**

1. *Submit a resolution to support the RI 2014-2015 annual budget recommendation for lodging and sales tax for all B & B's.*
2. *Enlist the support of local state legislatures in seeking inclusion of this recommendation in the annual state budget.*
3. *When the Rhode Island State budget passes, the City should take an active role in education and notification of the City's B & B's and time-share properties of the change in the law.*

THE  
MAGAZINE  
OF THE  
SOCIETY OF  
MUSICIANS

The Society of Musicians is a body of men and women who are united by a common interest in the art of music. It is a body which has been growing steadily since its foundation in 1845, and which now numbers over 1000 members. The Society's objects are to promote the study and performance of music, and to provide a means of communication between its members. It does this by publishing a magazine, and by holding regular meetings and concerts.

The magazine is published quarterly, and contains articles, reviews, and notices of interest to musicians. It is a valuable source of information and inspiration for all who are concerned with the art of music. The Society's meetings and concerts are held in London, and are open to all members. They provide an excellent opportunity for the exchange of ideas and the performance of new works.

The Society's membership is open to all who are interested in the art of music, and who are able to pay the subscription fee. The fee is £10 per annum, and includes a copy of the magazine. The Society's offices are situated in London, and its principal office is at 1, The Arcade, London, W.1.

1950

THE SOCIETY OF MUSICIANS

1, THE ARCADE, LONDON, W.1

**APPENDIX D**  
**Report to the School Committee**

The Newport Finance Review Committee has been tasked with developing proposals to increase the City's revenue and decrease its expenses. One area explored was the School Department. The committee's research has led to the recommendations that appear below. All of the recommendations require action by the School Committee and are being submitted for its consideration. The first recommendation in each of the major sections below also require action by the Newport City Council and have been included in the body of the report submitted for its consideration.

**Increase Revenues and Control Costs**

1. ***Grant Coordinator/Writer*** -- Establish a shared Grant Coordinator/Writer capability in the School Department and City Administration. The function will be centralized with the person (and possibly team) focusing on primarily coordinating the grant process, not necessarily writing the grants. Current City and School staff will continue to be the primary source of leads and grant opportunities. The Grant Coordinator will help to secure, process, manage and report on the grants. With many grant searches are underway, this function should help to take considerable burden off of the School and City staffs. The function should be evaluated in two years to determine whether it should be continued.
2. ***Career and Tech Center (NACTC)*** -- Evaluate longer term plans, opportunities and costs, while continuing to take steps to reenergize the program (within budgeted constraints). It is experiencing declining enrollment of non-Newport students and associated loss of tuition revenues. Staff has been reduced from eleven in 2006 to five currently, but still the cost per student, if consistent with the general Newport system, is among the highest in Rhode Island. New initiatives being investigated with RIDE, local businesses and institutions, and other communities will be helpful. Other connections, such as with Salve Regina University's nursing program, might be considered. Grant opportunities should be further explored.
3. ***Early Education Program*** -- Budget constraints should be given major consideration in weighing the options available for Newport's Early Education program. Items of concern are the costs to renovate and maintain Triplett School and the impact of two charter schools in Newport. The analysis of options should include alternative uses of the Triplett School real estate and possible use of the Kennedy School in Middletown.
4. ***Professional staff*** -- Consider adding professional (certified and support) staff to counter the affect over the past ten years of "cutting to the bone." Certified staff hires can help to: a) stem out-of-district placements and the related high costs; and b) keep further potential transfers-out from leaving the Newport public schools. Other support staff hires (or volunteers) can help to maximize the application/enrollment process (and funding) from the free and reduced lunch program, children of military and government personnel, and Title 1-3.
5. ***Cost of Educating Newport Students*** -- An evaluation should be conducted as to why the per student cost of public education in Newport is so high. According to InfoWorks, data of per pupil spending (UCOA data for 2010-2011, the latest data

available), the total spending in Newport was \$20,217 per student. This is the fifth highest in the state (Middletown = \$14,812; Portsmouth = \$13,514). A program with dollar targets should be established to reduce those costs that are controllable.

### **Improve Quality of Financial Reporting**

1. ***Combine the School and City Finance Departments into one integrated department*** -- Elements of the recommendation are:
  - Merge the separate School and City Finance departments into one department, with one Finance head.
  - The Finance Director will report dually to the School Superintendent and City Manager with each having equal authority in hiring/firing, performance reviews, and salary decisions.
  - Combined departments will include: accounting, payroll, purchasing, accounts payable and receivable. At this time, not considered are HR and Technology.
  - Responsibility for the School's budget function -- creation, management and authority -- will remain totally with the School Committee and School Superintendent. The Finance Director and staff will prepare the City budget and the School budget, but the presentation and approval will be handled at the level of the City Council and School Committee, respectively.
  - The organization will be reevaluated in 18 months to determine its future course.

Alternatives to this approach are:

Keep the School and City finance departments separate -- if this approach is chosen, the School department will need to quickly build its Finance staff.

Combine the Newport finance department with another school system's finance department -- as the FRC is not aware of any precedents to this approach, a thorough evaluation of the pros and cons would need to be done.

Neither of these alternate approaches is recommended.

The recommended combination of business units will help to correct the short staff issue in the School Business Manager's department, create overall work efficiencies, and improve timeliness. Cost savings are not expected in the short term. East Providence and Westerly have successfully implemented combined Finance departments, per statements by the respective Finance managers. One major result is the improved level of trust between the School and City staffs.

2. ***Monthly Staff Status Reporting and Reviews*** -- Key members of the school staff, such as school principals and department heads, need to be kept apprised of financial performance. Meetings, led by Business Manager staff, should be held on a monthly basis, face-to-face, with discussion of pertinent data, such as month and year-to-date results, department performance vs. budget and fiscal year-end forecasts. A similar meeting should be held each month with the School Committee. Up-to-date information should lead to better understanding and decision-making.

### **Streamline the Budget Process**

1. ***The City Council and City Manager coordinate their efforts in preparing a two-year budget for FY 2016 and FY 2017 with the School Department*** -- This will allow the School Superintendent and School Committee to be prepared to also submit their own two-year budget. For the FY 2016 and FY 2017 budget cycles, the City Council plans to present a two year budget. If the School and City budget process can be synchronized, this could lead to a closer coordination and, in any case, should allow the School Department to allocate its resources more efficiently.
2. ***Include in the Budget a Reserve Account*** -- The School Department should consider incorporating budget reserves in its FY 2014/2015 submission. This approach will allow using "best estimates" based on current information and historical trends. In the past, the School Department has attempted to budget with precise up-to-date information, which has led to late submissions not compatible with the City's timeline. With a reserve account, up-to-the-minute precision will not be needed and greater reliance can be placed on estimates based upon recent experience, trend knowledge and data forecasts. The reserve funds would cushion the impact of unpredictable and volatile swings in costs and revenues. This would put the School budget submissions more in line with the City's submission requirements, and allow time for fuller dialogue in the submission process. The initial reserve should be set at 1% of the annual budget, with a goal of increasing that to 3% over the following two years and then maintaining it at that level.
3. ***Capital Account*** -- Set aside 1% of budget, as has been done in the past, to cover property and capital maintenance needs. This will keep the School Department from deferring needed capital improvements.
4. ***Communications with City Council*** -- Ongoing dialogue should be restored between the School Department and the City Council on budget matters. The likely vehicle is the City/School Liaison sub-Committee. It is important that the City Council be made fully aware of and support possible increases in spending for programs such as Career Tech Center, Early Education/Pre K, Triplett School and Professional Hires, and also be aware of new School funding/revenue sources and cost reduction efforts.

### **Miscellaneous**

1. The Finance Review Committee is recommending to the City Council that a standing Finance Review Committee be formed to continue this committee's work after the submission of its recommendations to the Council. Many of the recommendations will require continued evaluation and follow-up beyond the May date. The same is true of the work the FRC team is doing with the School Department. We would appreciate an opportunity to discuss with you our recommendations and your reactions to them, and to see if there is further assistance we can provide to help improve the financial strength of the Newport public school system.
2. School Department Audit -- The planned audit should include reviews of:
  - Newport Career Tech revenues and costs.
  - School Business Manager department's operations and staffing.

- School Business Manager and City Finance Department benefits of combination.
- Application/registration procedures for such programs as Free and Reduced Lunch and children of government employees.