

ALEXANDER PRIGNANO
Finance Director



VINCENT A. CIANCI, JR.
Mayor

Finance Department
"Building Pride In Providence"

December 7, 2001

Michael Clement
City Clerk
City of Providence
City Hall
Providence, RI 02903

Dear Mike:

Please accept my Annual Report to the City Council. Last year, I submitted my Report directly to the City Council, and therefore, your department never formally received the Report. Therefore, in addition to this year's Report, I have enclosed a copy of last year's.

The Code of Ordinances requires each department to submit its Annual Report within sixty days of the end of the prior fiscal year. However, I believe it is best to submit my department's Report at the end of the calendar year due to the fact that often the budget is not acted upon and the financial results from operations are not known within the sixty days of the end of the prior fiscal year. The new budget and the financial results of the prior fiscal year are obviously an important part of my Report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Alex Prignano".

Alex Prignano
Director of Finance

Cc: City Council



Finance Department

"Building Pride In Providence"

December 7, 2001

City Councilman Kevin Jackson
Chairman Finance Committee
Providence City Hall
Providence, Rhode Island 02903

Dear Councilman Jackson;

Please accept this letter as my second Annual Report to the City Council. In this report, I will attempt to inform the City Council of major initiatives that the Finance Department has completed or has underway since my last report, which I submitted in December of 2000.

Foremost, the Finance Department balanced the fiscal 2001 budget. The anticipated budget surplus of \$400,000 - \$500,000 represents the City's twenty-first consecutive budget surplus and will increase the cumulative fund balance to approximately \$7.3 million. Higher than budgeted cost for fire callback, overtime, snow removal, a new garbage collection contract and legal claims were offset by both current and delinquent tax collections (\$4.1 million over budget) and the resulting interest on those taxes. Those were the two most significant factors in allowing the City to end fiscal 2001 with the above-mentioned surplus. The surplus could have been greater however, a decision was made to set aside \$2.0 million for taxpayer revaluation appeals and auditor adjustments that reserved funds for outstanding legal claims and doubtful receivables.

A second major accomplishment of the department was the sale/leaseback of another 546 of the City's decorative streetlights. As you are know, in fiscal 2000 the City received \$5.2 million for the sale of the lights and entered a contract with Johnson Controls for maintenance. This past year the City entered into a sale/leaseback on 546 decorative lights and at the same time refinanced the original 1,529 lights. The result of this was an additional \$1.4 million dollars of budget flexibility, all the decorative lights are now under maintenance with Johnson Controls, \$800,000 was made available for the replacement of lights at Cathedral Square and Promenade Center and the actual leaseback on the new total of 2,075 lights is actually \$97,250 less costly than the original sale/leaseback on 1,529 lights due to lower interest rates and the structuring of the transaction.

These sale/lease arrangements have provided benefits to the City in two ways. First, before the transactions, the overall condition of the streetlights was poor. Often due to budget constraints or lack of parts, lights remained broken for a long period. Now, with the lights being maintained by Johnson Controls, a national company, the City's decorative lighting is repaired in a timely manner. The overall result is that the lights are in much better condition.

The second advantage of the street lighting transaction was that the City gained budget flexibility. In fiscal year 2000, the City did not use any of the proceeds in the \$1.2 million surplus achieved that year. However, tax relief did result in the fiscal 2001 budget, as \$2.0 million from the sale was included in the budget. In fiscal 2002, the remaining \$4.4 million dollars from the sale/leaseback is available to replace the \$3.0 million budgeted for the sale of the old public safety building if it is not sold in this fiscal year. In addition, the City is earning interest on these proceeds that will offset much of the interest cost of the lease back.

Another important responsibility of the Finance Department is presentations to rating agencies and bond insurance providers. During the last year the department made successful presentations to Moody's Investors Service on the \$50.0 million new neighborhood bond issue and the refinancing of a \$35 million general obligation bond issued in 1993. This refinancing resulted in a present value savings of approximately \$700,000 without extending the term of the bonds. In addition, a presentation was made to both Moody's and Standard and Poor's on the mostly school renovations Public Building Authority Bond that will be issued later next month. After each presentation, Moody's confirmed the City's bond rating at Baa1 and the PPBA at Baa2. The Moody's report mentioned how the "trend of tightly balanced operations continues as the City addresses numerous fiscal demands", also that "strong institutional presence and development efforts continue economic growth" and "debt position was expected to remain manageable given anticipated State support for school debt construction program". I believe the above mentioned comments in the report were more positive than in previous reports and Moody's has recognized the City's effort in dealing with funding the pension system and conservative budget practices.

In addition, for the first time, another rating agency, Fitch, rated City debt. Representatives from Fitch assigned the City a rating of A- and stated in their review "the City's economy has attained a level of revitalization that was part of a visionary economic development plan. This multi-phase plan combines public and private partnerships to position the City as a regional center." Also "Financial practices and policies of the City include conservative budgeting practices which include debt affordability policies" and "debt burden is moderate and the City's economic base continues to diversify."

This was certainly a positive development for the City and combined with the Moody's comments, I believe will help in a possible future upgrade by Moody's.

As I mentioned in my report last year, I believe once the City completes its \$16.0 million four year phase-in of fully funding the pension system, based on actuarial requirements,

an increase in the City's bond rating could occur. However, newly added debt payments that will result from these bond issues, as well as the planned PPBA Bond for two new high schools, and added pension cost that will result from contract negotiations with police and firefighters that will eliminate contract language that existed concerning 6% COLA's, but still will result in the added cost of a 3% compounded COLA all will impact the fiscal 2003 & 2004 budgets. These added costs as well as years three and four of the pension phase-in will require a combination of growth in the tax base, collection rate, tax rate, or other revenue sources. In addition, if the State of Rhode Island is unable to match its growth in state aid to Providence, difficult decisions will need to be made concerning existing school programs.

An accomplishment I am again proud of is the fact that the 2000 City Audit was issued within the six months allowed by state law and available to the City Council for the budget process. As you know the 1999 audit was the first time in my twenty-four years with the City that the audit had been issued on time without requesting an extension from the State Auditor General and again we have met the deadline. I am also pleased to report, that as of today, the audit for fiscal 2001 is on schedule. This has been no small task when one considers that as well as working on the 2001 audit, we have also begun the difficult process of converting our financial statements so they comply with GASB 34.

In addition to the City Audit, the Finance Department prepared a Five Year Financial Plan that has been submitted to the City Council in accordance with the City Charter. I believe the FY2001-2005 Plan reflects realistic assumptions concerning major items that affect the budget such as healthcare, school spending, pension contributions, salary increases and state aid.

The Finance Department is currently preparing the Five-Year Plan for fiscal years 2002-2006, and it should be submitted to the City Council this month.

The Finance department staff also prepared a fiscal note concerning Local 1033's proposed three-year contract for city employees. My initial reaction to the contract is that it does not address changes in the area of healthcare benefits, which will exceed \$50 million in fiscal 2002. It is important that future contracts address changes in healthcare in order to curb costs. In addition, the department is currently preparing fiscal notes on the recently negotiated police and fire contracts.

The Finance Department also assisted the Providence Water Supply Board in its successful presentation before the Public Utilities Commission which resulted in Providence Water repaying the City \$402,000 that resulted from the Cranston Water Main Break in November of 1996. In prior city audits, this \$402,000 was shown as a reserve on the City's cumulative fund balance. The action now taken by the PUC allowed Providence Water to repay the City from surpluses in their 2001 budget and will allow the City to remove the reserved designation that was placed on the surplus making the entire \$7.3 million cumulative surplus unreserved.

Other items mentioned in last year's report were underway but not completed. Namely the Water Board rate increase that was before the Public Utilities Commission, the selling of tax liens for the first time at a discounted rate using new 1998 legislation, and the citywide computer needs assessment.

First, let me update the City Council on the Water Rate filing. It was agreed to by counsel for the Rate Users, PUC, and Providence Water that a settlement should be reached rather than go through a prolonged and costly rate filing. Providence Water was satisfied with the settlement of a 7% increase. In addition, the settlement allowed the City to receive an increase of approximately 15.5% on payments made by Providence Water to the general fund for city services. The new payment is \$802,000 rather than the \$660,000 received in previous years. In addition, the City was seeking payments of either taxes or rents for property in the City occupied by the Water Department. However, this issue was again met with resistance from the Commission, and it was decided that as part of the settlement the issue would be set aside. This means that the issue of taxation or rent payments was not denied and can be brought back before the Commission again. I have instructed the City Assessor to calculate the real property taxes for the land and building the Water Board currently occupies on Academy Avenue and will be presenting this request for payment to the Water Board this fiscal year. In my opinion, the City must be aggressive concerning this issue and this may be the best way to achieve having the Water Board paying taxes to Providence as they do in other communities.

The second item that needs updating is the sale of tax liens we initiated last fiscal year. As you recall we used 1998 legislation that allowed us to issue a new Collectors Assignment and to discount the taxes owed on the properties. The result was that 47 tax reverted properties were assigned or redeemed and some \$157,000 was realized in additional tax revenues. I believe the program was successful and I would like to offer additional properties, but the amount of work associated with the sale of the liens was tremendous. With the number of important projects underway by the department (GASB 34, software implementation etc.), another sale of tax liens may not be possible at this time.

The last project that was mentioned in last year's report to the City Council was the software needs assessment. The study resulted in hundreds of hours being spent interviewing city and school employees and preparing a Request for Proposal that has been completed. The City received eleven bids from vendors last August for consideration of their software products and of that eleven, five met the basic requirements of the RFP. The basic requirements were vendors had to bid on the core financials, had to bid on integrating the Assessor's and Collector's Offices and have had to successfully completed a project similar in scope in a city with a total population approximating Providence. The selection process included interviews and demonstrations from four of the qualified vendors. At that point, the approximately 40+ employees who participated in the demonstrations were asked to rank the vendor's products by functionality and the ability for them to perform needed tasks. In addition,

one of the 40+ employees was Ms. Gina Costa who participated in the selection process representing the City Auditor's Office. From the rankings, the selection was narrowed to two vendors and negotiations began. After weeks of negotiations, the City Project Committee, which included the Finance Director, School Controller, Data Processing Coordinator, and the MIS Director for City-State Computers, who has had previous experience with this type of software conversion at a university, made the decision to award the project to Eisner Technology Solutions and their solution of Lawson's software. The Lawson product, which is a tier one, web-based solution, will allow access to City information through the Internet and was clearly the most technically sophisticated product. It is worth noting that in all of the 40+ surveys completed by employees, Lawson's financial solution was ranked either first or second by all. Other software platforms to be implemented are "Govern" for tax assessments, collections, land records and permitting. Leading Edge's "Ticket Tracker" will be installed at the Municipal Court. "Ticket Tracker" is currently being used in eight other Rhode Island cities or towns and is fully compatible with the Rhode Island Traffic Court System. Lastly, the Board of Canvassers will have IMAS software, which is the solution they requested in their budget submission this fiscal year. These software platforms will meet the City's needs well into the future.

Eisner's original bid was over \$4.0 million and did not include hardware. However, through compressing the implementation process from 20 to 14 months, making available key city employees for the project, moving the procurement module from a "go live" date of January 2003 to July 2002 thus eliminating an interface that would have needed to be built and negotiating a general price reduction the new fixed fee of a not to exceed contract is \$2,687,000 and includes the necessary IBM hardware. Funding for this project will be included in the fiscal 2001 Master Lease which is now before the City Council.

I also want to report on some of the activity of the divisions that are part of the Finance Department (Assessor's Office, Collector's Office, Controller's Office and Data Processing).

The City Assessor's Office has implemented the citywide revaluation that was reflected in tax bills mailed out last August and the Assessor is currently in the process of reviewing taxpayer appeals, which must be filed within ninety days of certification of the tax roll. The deadline for these appeals is December 6.

Mr. Rossi and I have also worked in cooperation with Local 1033 to upgrade the qualifications for the position of appraiser. It is our goal that newly hired appraisers meet certain state certification. As of this date we are currently running ads for hiring a commercial appraiser to help review appeals.

As members of the Council are aware, because of the new revaluation, the City had specific tax legislation passed by the General Assembly. The result of the legislation is that residential homes will have an effective tax rate of \$22.71 per thousand, absentee residential will have an effective rate of \$29.52 per thousand, commercial real estate will

be taxed at a rate of \$34.07 per thousand, and the tax rate on tangible property will be \$49.96 per thousand. The legislation also requires that the tangible rate be no greater than 1.5 times the effective rate on owner occupied property within five years. Each year the tangible rate will decline until in line with the 1.5 times provision.

Excise taxes are still frozen at \$76.78 per thousand and the inventory portion of the tangible tax continues to be phased-out over ten years and is now \$53.74 per thousand.

The effect on taxpayers in the City is that the average increase in tax bills were as follows:

Owner Occupied	\$173
Absentees	\$661 (\$22/apartment/month)
Commercial	\$2,200

The Assessor has just completed criteria for taxpayers to apply for the homestead exemption, which is now 33% ($\$34.07 * 33\% = \$22.XX$) and is in the process of mailing these forms.

The City Collector has continued to employ a firm but fair approach in dealing with taxpayers. Unless an individual is experiencing a financial hardship, payment plans are not granted and interest is not waived. Also, there must be evidence, provided by the taxpayer, that demonstrates the financial hardship. Once a payment plan is allowed, the department monitors the plans in order to assure the conditions of the plans are being met.

You may recall, last year was the first time written policies were developed that dealt with payment plans, teller shortages, forgiving of interest, and penalties, as well as tax sale procedures to name some of the more important policies.

The City Collectors Office is also an area in which discussions with Local 1033 have occurred. By eliminating a position, we have added a fiscal officer in the department. This position requires a college degree and knowledge of computer applications. In addition, we agreed to small salary adjustments that allow for greater working flexibility and for individuals to take on the assignment of the tax sale. In addition, the position of auto driver was changed to a clerical/courier position with no change in compensation. This will mean that when there are no errands to run or mail to pick up, this individual will be able to do the same clerical assignments as other departmental employees. In total, all the changes resulted in about \$7,000 in additional cost and gave the department much more flexibility as well as an added professional position.

Last year was the first time we mailed one tax bill with all four quarter coupons included. Some City Council members thought it was great while others were concerned that taxpayers needed that quarterly reminder. I would like to report that we did not see any

decline in collection rates and in fact achieved a better collection rate last year (97.5% of all budgeted taxes including delinquent taxes) than in fiscal 2000 when the collection rate was 96.7%. It cost approximately \$25,000 per tax bill mailing and it seems the taxpayers are making do with the new one bill. This saves approximately \$75,000 per year, a savings equal to the City Collector's salary.

Another department under the Finance Department is data processing. The Data Processing Department has been involved with different projects. Obviously, the Data Processing Coordinator has been one of the members on the citywide software needs assessment.

The department has four employees, with one of those being more clerical in nature, and has an opening for a programmer that needs to be filled. However, the department maintains the public safety network, a wide area network that consist of nine local area networks, as well as approximately 500 personal computers and 100 printers. Just recently, the department installed E-mail for nearly 100 City employees, as well as the City Council Office. The Finance Department, in conjunction with the Personnel Department, has developed a written policy on e-mail, all Internet activity; request for information by non-city entities, system security and the use of non-authorized software. This policy was e-mailed to users and hard copy was sent to all department heads.

Last year the department installed a firewall to protect the networks from viruses and hackers. This was necessary because of Internet activity and will now allow us to implement Lawson's web-based software knowing the city networks and hardware will be protected from Internet users.

The last department that is part of Finance is the City Controller's Office. All retiree benefits, accounting, payroll and accounts payable are the responsibility of this department.

Mr. Chiodo and his staff continue to deserve credit for completing the City Annual Audit within the six months allowed by the State, and the Single Audit and Management Letter completed within the nine months allowed. In fact, I have asked the Controller to focus on the management comments, and working with other departments eliminated eight of the twenty-two management letter comments that were present in 1999 Management Comments. It is expected that others will be eliminated from the fiscal 2000 report this year.

The major initiative the Controllers and his staff have been working on is the implementation of the new accounting standard GASB 34. This new pronouncement must be reflected in the June 30, 2002 financial statements, which means July 1, 2001 will be the opening balances that must be established. Just to give you an insight on the amount of work required to prepare our financial statements in compliance with GASB 34, Shawn Warren, partner at KPMG responsible for the City audit says, "GASB 34 is the most dramatic impact on financial reporting ever." It would take too

much of this Report to try to go into the numerous changes that GASB 34 will require, however, a few of the changes are as follows:

1. The City will need to report infrastructure assets in its financial statements.
2. Depreciation will be required on city assets similar to for profit businesses.
3. Long-term sick and vacation as well as long-term liabilities (outstanding bonded debt as well as infrastructure will need to be included with all other assets and liabilities. In other words part of the cumulative fund balance.

These are just some of the numerous reporting changes that will occur, and this has been the focus of the Controller's Office since January of 2001. The Finance Director, Budget Officer, City Controller, Deputy Controller, representatives from KPMG and finance representatives of all affected agencies (PEDC, Civic Center, Water Board, School Department, JTPA & City have been meeting every two weeks to insure we meet the June 30, 2002 deadline.

The Controller's Office is responsible for developing and monitoring internal controls, especially in an area where cash is handled. Last year the Controller's Office reviewed policies in the Courts and recommended that we use credit cards in some departments to help eliminate cash and the need for safeguarding large amounts of cash and the logistics of depositing. Currently we are implementing credit card availability at the Municipal Court, Vital Statistics, Bureau of Licenses, Fleet Skating Center, and Controllers Office (police and fire details). The cost of the hardware and supplies will be absorbed and paid for through compensating balances of checking accounts at Fleet Bank thus there will be no outlay of funds. Once our new collection software is in place, we will establish credit card capability also in Collector's Office.

Another area I had the Controller's Office take responsibility for is the financial records and checkbook of the Fleet Skating Center. The personnel at the rink had no accounting expertise and their records were in terrible condition leading to audit problems and internal control concerns. Last summer the Skating Center manager was instructed that all approval for spending must come from the Finance Department and deposits were to be made into a City account that the Controller and Treasurer are the signatures for. This will allow us to prevent the rink from running deficits by controlling expenses and monitoring revenues.

As it is now, the Controller's Office with its six professionals is understaffed. City departments and agencies that receive funds from the City are numerous and need to be monitored more directly. However, with a Controller, Deputy, and three accountants it is impossible to get involved as much as might be preferred. When you consider all the funds that exist in the City (general fund, schools, capital projects, trust funds, pension system) and all the satellite agencies (Providence Water, Public Building Authority, Civic Center, Skating Rink, Community Development Grants, Drug and Alcohol Grants, Housing Corporation are some) and all require extensive

interaction and review by both the Finance Department and Controller's Office. As I mentioned in my confirmation hearing before the Finance Committee, it was my intent to add to the professional staff in the Finance Departments. We have been able to hire some professionals; I have started that task by adding a Deputy Assessor a new Collector and Deputy Collector, as well as a fiscal position in the Collector's. Those two departments generate and collect the City's major revenue source. More needs to be done in both those departments; we are looking for professional appraisers. However, my next targeted area will be to hire additional professional staff in my office and the Controllers Office. With the delay in passing the budget this fiscal year a position that was added to my budget I believe would be better served by using those funds for outside assistance with a firm to help with GASB 34. To fill that job now would require that individual to overcome a learning curve that I cannot afford at this point of the implementation. However in the future I hope to fill that position of Audit Supervisor that will assist in the audit and monitor grant recipient activity and compliance. I also want to make sure we have the proper staff to ensure internal controls as well and I hope to find a candidate for an additional fiscal officer in the Controller's Office. The City is larger and much more complicated than it was just ten years ago and the Finance Department needs to add professional staff and compensated them as well as the Water Board, School Department and the private sector to attract and keep them. With residency requirements and competition for skilled workers, it is often difficult to attract middle management individuals to the City. It is a lot to ask of a candidate for employment that has experience and a family to move for jobs that pay \$40,000 - \$60,000 a year. This is my second time issuing this type of annual report to the City Council, I hope it is helpful and gives the City Council some insight of the accomplishments of the Finance Department.

Sincerely,

A handwritten signature in black ink, appearing to read "Alex Prignano". The signature is fluid and cursive, with the first name "Alex" and last name "Prignano" clearly distinguishable.

Alex Prignano
Director of Finance

Cc All City Council Members



Finance Department

"Building Pride In Providence"

December 2, 2000

City Councilman Kevin Jackson
Chairman Finance Committee
Providence City Hall
Providence, Rhode Island 02903

Dear Chairman Jackson:

Please accept this letter as the Finance Department's Annual Report to the City Council. In this report, I will attempt to inform the City Council of the major initiatives that the Finance Department has either completed or has underway since the Council ratified my appointment as Director of Finance last December.

First, with my appointment as Director of Finance, a new Budget Officer, Roy Damiano, was hired. Mr. Damiano is a certified public accountant and previously worked at the Providence Civic Center. His accounting background has proven to be an asset to the department.

Since my appointment, the foremost accomplishment of the Finance Department was the balancing of the fiscal 2000 budget. In fact, the anticipated budget surplus of over \$1,000,000 will represent the largest surplus since fiscal 1994 and increase the cumulative surplus to nearly \$7,000,000. Higher than budgeted costs for fire callback (\$2.1 million), healthcare (\$2.2 million) and the unbudgeted 1033 Laborer's contract (\$.8 million) put the balancing of the FY 2000 budget in jeopardy. However, success in the collection of both current and delinquent taxes (\$2.9 million) and the resulting interest (\$3.1 million) earned on those taxes were the two most significant factors that allowed the City to end fiscal 2000 with the above mentioned surplus.

A second major accomplishment of the department was the sale/lease back of 1,529 of the City's decorative streetlights. The City received \$5.2 million for the sale of the lights and entered into a contract with Johnson Controls to maintain them.

This sale/lease arrangement provided benefits to the City in two ways. First, prior to the transaction, the overall condition of the streetlights was poor. Often, due to budget constraints or lack of parts, broken lights remained in that condition for long periods of time. Now, with the lights being maintained by Johnson Controls, a national company, the decorative lighting is repaired in a timely manner, and the overall result is that the lights are in better condition. Currently, Johnson Controls is using the \$200,000 that was set aside in the \$5.2 million transaction for repairs to bring 170 non-functioning lights back to working condition.

The second advantage of this transaction was financial. The City gained budget flexibility and the City's cumulative surplus, which according to the rating agencies should be 3% of the budget (\$13.4 million), will increase. Also, the transaction provided tax relief in the fiscal 2001 budget, as \$2.0 million from the sale was included in the budget. In addition, the City is earning significant interest on these proceeds, which will offset the interest cost of the lease back.

The Finance department made successful presentations to Moody's Investors Service on the \$68.0 million bond for the new public safety facility and the \$6.8 million Judgement Bond that was the result of litigation between the State of Rhode Island and Capital Properties in which the City had agreed to share the State's liability. After each presentation, Moody's confirmed the City's bond rating at Baa1 and commented that "Moody's expects the trend of balanced operations to continue, given management's careful control of expenditures and the implementation of timely revenue increases". In addition, Moody's stated "Recent City budgets, including the 2001 budget, have featured prudent revenue assumptions, necessary property tax increases, and tightly controlled expenditures. This formula has provided the City with a measure of operating flexibility previously lacking." I believe once the City completes its four-year phase-in plan for fully funding the pension system, based on actuarial requirements, an increase in the City's bond rating will be possible.

An accomplishment I am most proud of is that the 1999 City Audit was issued to the City Council within the six months allowed by state law, so it was available for the budget process. The deadline was met because the City Controller, the Internal Auditor and myself met on a regular basis with the auditors and the various department heads to insure that any potential delays were addressed. In my twenty-three years with the City, this was the first time I can remember the audit being issued within the six-month requirement. I am also happy to report that the audit for fiscal 2000 is on schedule as well.

In addition to the City Audit, the Finance Department prepared a Five-Year Financial Plan that was submitted to the City Council in a timely fashion. I believe the Plan reflects realistic assumptions concerning the major items that impact the budget such as healthcare, school spending, pension contributions and state aid. In addition, the Plan reflects the four-year phase-in of the \$16.0 million pension increase and, due to the phase-in, the Plan calls for no salary increase in FY2002 and modest salary increases of 4.0% in FY 2003 and 2.5% in FY 2004. These modest salary increases will help ease in years two, three and four of the four-year phase-in of funding the pension system that began in fiscal 2000. All employees will greatly benefit from a fully-funded pension system. Therefore, a short-term sacrifice with regards to pay raises should be acceptable to the labor unions and their memberships

The department negotiated changes in contracts between the City, the Providence Public Building Authority and Ogden Entertainment. These changes allow the City to realize 60% of surcharge revenues rather than the \$200,000 that was in the original documents. The surcharge revenues, which cannot be used to fund the everyday operations of the Civic Center, will expedite the elimination of the nearly \$1,900,000 the

Providence Civic Center owes the City. In fiscal 2000, the City realized \$420,000 from these changes to the documents. It is anticipated that the ticket surcharge will generate approximately the same amount this fiscal year. The Finance Department has also negotiated with State Street Bank, Prov-Port and the certificate holders from the sale of the Port of Providence in 1994. These negotiations will result in the City receiving \$300,000 in fiscal 2001. Last fiscal year, the Narragansett Bay Commission and Prov-Port entered into a friendly condemnation that resulted in \$1,370,000 being paid by the Bay Commission to Prov-Port for the right to build an underground rainwater storage facility. According to the Port Trust Agreement, proceeds from condemnations can only be used by Prov-Port to make capital improvements or to call all the remaining outstanding certificates. However, since the City had paid approximately \$720,000 in September of 2000 to replenish the debt service reserve account that had been drawn on in fiscal 2000, the Finance Department made the case that the City should be allowed to receive a portion of the condemnation proceeds. Clearly, the certificate holders had no obligation to allow the City to recoup even a dollar of the \$1.37 million paid to Prov-Port. However, through negotiations with all parties, and with the anticipated approval of the City Council, a settlement has been reached that will allow \$200,000 for Prov-Port capital improvements, \$700,000 to retire certificates due in 2024, and \$300,000 paid to the City of Providence. It is important to note that by pre-paying the certificates due in 2024, approximately \$60,000 in interest on debt (more than \$1.3 million over the next 24 years) will be saved annually. This will reduce the City's exposure to replenish the debt service reserve account by that amount in future years.

The Finance department staff also prepared five fiscal notes concerning labor contracts. The police, fire, Local 1033 city employees, school substitutes and school clerical clerks all had labor contracts come before the City Council last year.

The Finance Department has been actively involved in Providence Water's rate filing before the Public Utilities Commission. An attempt is being made in this filing to increase payments to the City for services provided, as well as to gain the ability to charge Providence Water either rent or taxes on City building they occupy. Currently, the City receives approximately \$660,000 annually from the Water Supply Board for City services but no payments for rent or taxes. I have provided testimony on what I feel is a fair dollar amount for city services, and I have asked for rental payments or taxes. I have responded to the Public Utilities Commission and Kent County Water Authority as well as their expert witnesses on numerous follow-up questions. A formal Commission hearing should occur this month, and I will inform the City Council of the outcome.

A plan has been developed using tax lien legislation passed in 1998 that allows for a Collector's Assignment on property for less than 100% of taxes and interest owed. It is our goal to offer non-performing, tax-reverted properties for assignment to generate revenue and to get these properties back on the tax rolls. The necessary ordinance has been passed and, with assistance from the Law Department, the proper assignment document, notice to owners, and advertisements have been developed. Affidavits will be signed by those purchasing tax liens to attest that the buyer does not have relatives or associates with an interest in the property. Currently, meetings are being held with various council members to review properties in their wards, as well as with the Providence Redevelopment Agency to coordinate City needs. We are also reviewing the

list of tax-reverted properties to determine an appropriate discounted rate. This offering should occur in the third quarter of this fiscal year.

A "project team" of three staff members of the Finance Department, a member of the Director of Administration's staff, and an employee of City-State Computer Services have been assembled to work on the citywide computer Needs Assessment. In addition, the Internal Auditor has been invited to participate, as he chooses.

The City received five proposals to perform the Needs Assessment, and the team eventually settled on two finalists before recommending the award to KPMG . The study, which will get underway later this month, will determine the software needs for the various applications and departments: general ledger, payroll, tax billing and collections, tax assessors, retirement, budget, personnel, fixed assets, deeds, voter registration, purchasing, courts, public works, inspections and standards, code enforcement, traffic engineering, city clerk, business licenses, parks and human relations. Also, as part of the study, KPMG will assist the City with its software selection, as well as monitor the software vendor(s) implementation of the various applications. The study is based on a per hour fee, however, it is not expected to cost more than \$150,000. In fiscal 2002, a financing lease will be needed for \$3.0-\$4.0 million to purchase the recommended software packages. It is estimated the project will take a minimum of three years to complete; however, finally after years of discussing this initiative, the process is underway.

Another procedure that has been implemented is that all bounced checks citywide are now forwarded to the Finance Department. The Budget Analyst is then responsible for seeing that individuals who bounce checks make good on them. Copies of the bounced checks are sent to the department affected so necessary adjustments can be made to their records. I have instructed that the collecting be done in the Finance Department rather than the individual departments to insure that collection efforts are followed up on.

I also want to highlight some of the accomplishments of each of the other divisions that are part of the Finance Department - Assessor's Office, Collector's Office, Controller's Office and Data Processing.

After a difficult year, the City Assessor's Office, has settled down. The Tax Assessor and I recruited Mr. John Gelati, who had been working as a consultant on the citywide revaluation project, to join the staff as the Deputy Assessor. In my opinion, that hiring has brought stability and needed professionalism to the department.

For the first time, the Assessor's Office issued written policies with reference to the department's procedures, such as the appeal process, exemptions and special programs that are available.

Mr. Rossi and I also worked in cooperation with Local 1033 to upgrade the qualifications for the position of appraiser. It is our goal that newly hired appraisers meet certain state certifications.

The Assessor and Deputy are also serving on the City Council's Special Commission, chaired by Councilman Hassett, to study the effect of non-taxable institutions on the Providence tax base.

However, the main initiative the office has dealt with for more than two years now is revaluation. The Assessor and his staff are working with Cole, Laver & Trumble to complete the revaluation process. The revaluation is drawing to an end, and the results of the revaluation will be reflected in the July 2001 tax bills. For now, all I can tell you is that the project is nearly complete. Recommendations with regards to the future of the Homestead deduction and property values will be discussed with the City Council in the near future.

As was the case in the Assessor's Office, the City Collector's Office welcomed a new deputy from outside the ranks of City employment. The individual, Robert Ceprano, is a former Internal Revenue Service Special Agent who most recently worked for the Rhode Island State Ethics Commission. In addition, Ms. Debbie Lapatin, an honest, hard-working, long-time City employee, was promoted to City Collector. Again, just as with the Assessor's Office, I believe these hirings have improved the performance of the department.

The City Collector also, for the first time, prepared written policies for such things as payment plans, teller shortages and interest and penalties. In addition, the Collector and the Data Processing Coordinator developed a report to monitor any adjustments that are made to tax bills.

Originally, I restricted the ability to adjust tax bills to only the Collector and Deputy Collector, however, the volume is too heavy for just two people to handle without causing substantial delays. Therefore, that plan was altered and now each teller has their own PIN number, so reports can be generated to monitor the activity of each employee in the department with regards to tax payments.

In addition, the Collector's Office now enters all payment plans with taxpayers onto a computer spreadsheet to allow for easier monitoring. Also, the names of individuals with payment plans are now "flagged" in our computer system, so we can run reports to confirm that they are meeting the terms of the payment plan. In the past, payment plans were kept only on paper and were not available for review; thus many people entered into payment plans but never honored them. Payment plans are granted in the case of financial or medical hardship and every effort is made to limit the plans to a maximum of twelve months. We now check payment plans on a monthly basis, and if an individual misses a payment, they are contacted by the Collector's Office. By the end of this fiscal year, we expect to provide individuals that are on payment plans with coupon books, similar to those used by banks for car loans. We expect that these books will help individuals honor their payment plan, as well as to assist the City in keeping track of the plans.

Again, I have negotiated with Local 1033 to make personnel changes within the Collectors Office that I believe make the department more efficient and professional. I have proposed to the union that a current position be deleted in favor of adding a fiscal

officer. This new position will require a college degree and knowledge of computer applications. Also, the Auto Driver position was changed to add other clerical duties. I have agreed to small salary adjustments to allow for greater working flexibility throughout the department, especially with regards to the tax sale. Previously, Ms. Lapatin coordinated the tax sale; however, the coordination of the tax sale is bargaining unit work and, therefore, has been assigned to other union employees. In total, all of the above-mentioned changes result in approximately \$7,000 in additional cost but will provide the department with much more flexibility and professionalism.

The last initiative I want to mention concerning the City Collector's Office is the City's new tax bill. For the first time, the City issued an annual tax bill with a perforated coupon for each quarter. The approximate cost of mailing the bills is \$25,000 per quarter. Therefore, we estimate that the total savings from the new tax bill will be approximately \$75,000 annually.

The October 24th, second quarter tax payment was the first payment due without a mailed tax bill. Therefore, any taxpayer who made their first quarter payment but not their second received a reminder notice and was given a seven-day grace period before interest was charged.

Another division of the Finance Department is Data Processing. The Data Processing Department has been involved with various projects. The Data Processing Coordinator is one of the members involved in the Citywide Needs Assessment and, in fact, was responsible for preparing the bid specifications.

The Data Processing Department is responsible for the maintenance of the public safety network, which includes the implementation of a new computer-aided dispatch, crimes records management and fire records management system. The department supports various operating systems including Unix, NT, Novell Netware and OS2. The wide area network consists of more than nine local area networks, approximately 500 PCs and 100 printers.

This past summer the Department implemented e-mail, Internet access and a firewall. The City previously used twenty-nine dial-up accounts with IDS for Internet access, for City Hall, Planning and Development, Solicitor's Office, Communications and Code Enforcement at a total cost of \$520.00 per month. This was replaced with a broadband Internet solution from Choice One. The cost of the Digital Subscriber Line is \$400 per month for an unlimited number of users at the sites listed above. As of November 2000, there were ninety-two e-mail users and approximately one-hundred Internet users. At this time, no problems are being experienced with this solution. New applications, which will result from the Needs Assessment, may force an upgrade of the existing ISDN lines used for DSL as well as data transmission to and from the Data General.

Internet access without a firewall would have left the city vulnerable to viruses and hackers. The firewall was installed to protect the City's network from viruses and hackers. Part of the firewall solution included a URL and Proxy server that allows Internet activity to be monitored and controlled.

The last initiative I want to mention concerning the Data Processing Division is the installation of the new Xerox high-speed production printer and mailing system. This system has allowed the City to create in-house items such as tax bills, W-2's, 1099's and court notices at significantly reduced cost. For example, when an outside mailing company processed the tax bills, the City paid 31 cents per piece. By processing bills in-house, we have reduced postage to 24 cents per piece. Based on the first quarter billing, the City spent \$19,838.59 on 81,160 bills, compared to \$25,159.60 when a private company mailed bills. This, along with mailing bills once a year will result in dramatic savings in postage.

The final division in the Finance Department is the City Controller's Office. As you know, the City Controller is responsible for managing retiree benefits, the City's accounting system, as well as payroll and accounts payable.

As the other divisions within the Finance Department did, the Controller prepared a written set of policies for items such as bank reconciliations, police and fire details, general ledger posting and maintenance, payroll procedures, retirement loan procedures and travel and entertainment expense procedures. Currently, the City Controller is writing a policy regarding the use of city-owned vehicles. This policy will include the tracking of the personal portion of the use of City vehicles as a non-cash fringe benefit to the employee the automobile is assigned to.

In addition to preparing written policies for the department, Mr. Chiodo and his staff deserve credit for completing the Annual City Audit within the six months allowed by the State of Rhode Island. Now, the Controller is focusing on eliminating the various management letter comments that were in the Audit. In fact, four of the seven City-related management comments were eliminated from fiscal 1998 to fiscal 1999. We hope to eliminate the remaining three comments in fiscal 2000.

One of the major accomplishments of the Controller's Office in the past year was the implementation of Direct Deposit for retirees. To date, 1,468 of the 2,897 retirees have taken advantage of this new convenience. The Controller's Office, for the first time since the late eighties, provided retirees with a Pension Benefit Manual. The manual, which was made possible through the appropriation of \$17,000 in the Controller's Office by the City Council, outlines the various retirement options and provides retirees with other important information. It is my opinion that the manual was definitely worth the \$17,000 cost.

An issue the Controller's Office needs to address is the internal controls in place in various City departments. During this past year, the Controller's Office reviewed controls and made recommendations for the handling of cash and reporting at the Municipal Court and Vital Statistics. However, more departments need to be assessed and, with the present level of professional staff, it is difficult, if not impossible, to review the many departments and agencies throughout City government. In addition to the General and School Funds, the Controller is responsible for the Providence Water Supply Board, the Providence Civic Center, the Fleet Skating Rink, all Community Development Grants, the Housing Corporation, et al. It is not realistic to expect the Controller's Office to monitor

and review the operations of City departments as often or as deeply as one would like given the present staffing situation.

Unfortunately the Controller's Office will suffer with the departure of the Deputy City Controller to the position of Controller at the School Department. Mr. D'Antuono's extensive knowledge of the City's finances and computer systems will be difficult to replace, and his departure leaves the Controller's Office with only five professionals, one of which works exclusively in the retirement office.

Therefore, as I mentioned at my confirmation hearing before the Finance Committee, I would like to add to the professional staff of all the divisions within the Finance Department. Those personnel upgrades have begun with the hiring of a new Deputy Assessor and Deputy Collector. While it is important to improve the Assessor's and Collector's staffs, it is also vital to have a sufficient level of staffing to insure internal controls are in place and are enforced. While I have added two fiscal officers in this year's budget, more professional staff is needed. Therefore, I will request additional positions in the fiscal 2002 budget. The City is much more complicated than it was just ten years ago, and the Finance Department needs to be given the ability to add positions at competitive salaries in order to attract and retain employees.

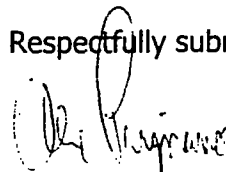
Unlike other departments, it is difficult to quantify the results of the Finance Department efforts. Therefore, I have listed below information that I hope will assist you in better understanding some of the responsibilities of the Finance Department.

Number of Vendor Checks Issued	33,548
Number of Payroll Checks Issued	203,886
Number of General Ledger Accounts:	113
Number of Retirement Loans Processed (last 12 mos.)	2012
Number of Retirees.....	2,897
Number of Active Employees	6,254
Number of Tax Bills Issued	86,000
Interest Collected On Delinquent Taxes in FY00	4,851,857
Collection Rate on Tax Levy in FY00.....	90%
Number of Computers Maintained	500
Number of Printers Maintained	100
Number of Computer Networks Maintained	9
Number of Parcels of Property	43,239
Number of Residential Parcels	34,445
Number of Commercial Parcels	6,486
Number of Exempt Parcels	2,308

As this is my first Annual Report to the City Council, I hope you found it helpful and informative in understanding the accomplishments of the Finance Department over the past months, as well as, the initiatives we are working on in FY2001.

I look forward to working with you, the Finance Committee and the City Council in the coming year.

Respectfully submitted,

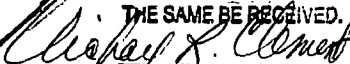


Alex Prignano
Director of Finance

Cc Honorable Vincent A. Cianci, Jr.
Honorable City Council Members
Boyce Spinelli, Director of Administration
Artin Coloian, Chief of Staff
James Lombardi, Internal Auditor

IN CITY COUNCIL
DEC 20 2001

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

 CLERK